

Single global policy outdated for big firm

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business insurance

for buyers of employe, property and liability protection/pension investments/financial services



John A. Volpe, secretary of the Department of Transportation, gave testimony on his department's report on no-fault automobile insurance problems before Sen. Warren Magnuson's (D.—Wash.) commerce committee. The report proposed no specific guidelines for the states to follow in establishing no-fault plans. See Washington Watch, page 4.

—Wide World photo

Bank had \$1.8 million embezzlement cover

CHICAGO—In what may be the largest bank embezzlement in the nation's history Cosmopolitan National Bank here has suffered a loss of \$4.2 million to \$5.2 million. Between \$6 million and \$7 million is missing but the bank's blanket bond covers \$1.8 million.

Federal investigation has revealed that Donald B. Santowski, formerly a Cosmopolitan vp and head of the bookkeeping department, and Louis Steinberg, president of the Steinberg-Baum discount store chain, were involved in the embezzlement over a period of 12 to 18 months. Both are under investigation and a federal grand jury has subpoenaed officials and records of the bank, which has \$60 million in assets.

Wilfred Gragg, president of United States Fidelity & Guaranty Co., Baltimore, told *Business Insurance* the bankers blanket bond

on Cosmopolitan consisted of the following: An \$800,000 blanket bond at the primary level written by U.S.F.&G., and a \$1 million excess cover written by the pool of the Surety Assn.

THE \$800,000 policy, Mr. Gragg said, was a "broad form" policy and covers practically every conceivable loss the bank could suffer. The \$1 million excess policy, however, covers fidelity only.

"Our total net loss will be between \$750,000 and \$800,000," he said of U.S.F.&G.'s share of the coverage. That figure, he explained, is arrived at by deducting about \$200,000 of the primary cover that was reinsured and including about \$150,000 of participation in the excess policy written by members of the Surety Assn.

The \$1.8 million policy carried
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Late news

Contaminated fluid lab covered by Home

LAKE BLUFF, Ill.—Abbott Laboratories, the manufacturer of contaminated intravenous fluids linked last week by the Food and Drug Administration to 350 cases of hospital blood infection, including nine deaths, has a product liability policy with Home Insurance Co., *Business Insurance* has learned. The firm's insurance program is believed to carry a substantial deductible and have limits upwards of \$20 million. About a year ago, according to one industry source, the drug company did shop for excess coverage above that mark, but it was not immediately known whether Abbott filled in the excess limits before the insurance industry put the squeeze on the pharmaceutical product liability market. The intravenous fluids are being recalled from hospitals. Abbott does not insure recall, a firm spokesman said.

Pan American sues insurers over 747 blown up in Cairo

NEW YORK—Pan American World Airways, which has not yet been paid by insurers for the loss of a Boeing 747 blown up by Palestinian commandos in Cairo Sept. 6, has filed suit in a federal district court here seeking \$24 million for the aircraft, accruing interest and certain other damages for loss of use. Defendants named are underwriters at Lloyd's of London, several U.S. insurers and the U.S. government.

Simmering for months in back rooms in London, New York and Washington, the dispute does not center at all on whether Pan Am was insured for the loss but, rather, on which insurers should pay for the plane that was completely destroyed by terrorists' explosives.

Pan Am is insured under two separate policies. One covers all risks. The other insures war risks, which are normally excluded from all-risk policies.

IN THIS CASE, the all-risk underwriters insist the war risk in-

surers should pay. War risk underwriters say the opposite is true. Pan Am, in the meantime, is out of pocket \$24 million and has decided to let the courts make the decision. The underwriters, apparently, agree; thus it will be a "friendly" battle, or as friendly as a \$24 million dispute can get.

The situation that has developed between underwriters and Pan Am in recent months is due to what has been termed "nebulous" language in the airline's war-risk insurance policy. Trans World Airlines, for example, had a 707 jet hijacked by Arab guerrillas the same day and later blown up in Jordan. That loss was covered entirely by the London war risk market—\$9 million was the insured value—because sources say, the TWA insurance department had worked out "more precise policy language" in its negotiations with war risk underwriters.

Parenthetically, at least one problem in the industry is expected to be worked out as a

result of the dispute. Underwriters now say that the industry is at work on standardizing policy forms. Aviation policies have been largely manuscripted for individual airlines in the past.

The complaint filed in federal court here has, nevertheless, brought to light details of Pan American's hull insurance coverage on the jumbo jets.

THE ALL-RISK cover on the fleet is in the amount of \$24,288,759 per aircraft and is split among three underwriting groups. One-third of the policy, or \$8,095,443.37, is held by member companies of the U.S. Aviation Insurance Group (USAIG). Named in the suit, they are: The Aetna Casualty & Surety Co., Aetna Insurance Co., Continental Casualty Co., Hartford Accident and Indemnity Co., Maryland Casualty Co., Reliance Insurance Co. of Hartford, the Travelers Indemnity Co., U.S. Fidelity & Guaranty Co., Zurich Insurance Co., the Home Insurance Co., the

Continued on page 2

Funds will go(-go) mutuals route

NEW YORK—The treasurer of Bulova Watch Co. declared here that increased pressures on corporate pension funds to perform could lead employe benefit plans down the same road go-go mutual funds took in the 1960s—and with the same disastrous effects.

Said George C. Sheinberg: "Yes, this will happen. . . . It's got to happen. You're bound to have this type of overactivity once you've taken a more aggressive investment approach."

Speaking at an institutional investment conference at the Hilton Hotel, Mr. Sheinberg shared the platform with two other corporate pension fund administrators. One agreed with him on the subject, while the other took a more optimistic view.

WILLIAM A. HAYES, director of pension fund investment at ITT Corp., said: "Yes, there is no question that if pension funds continue to play the go-go game (and everyone is playing it whether they admit it or not) there is very definite danger" facing pension funds in the '70s.

Answering the same question, James M. Dunn Jr., director of pension fund administration at General Telephone & Electronics, responded: "I hope we've learned from the mutual funds." However, he admitted, "we do have a

danger. I hope we can cope with it. We're big boys now. The scars show," he said of the mutuals' experience, "and we should look at them often."


The panel discussion among the trio of corporate pension fund administrators did draw out some interesting and revealing comments on employe benefit fund philosophy and management at the three diverse companies represented.

Mr. Sheinberg, whose company is smallest and perhaps most conservative in its pension fund phi-

losophy, noted that Bulova's fund has been managed since 1958 by an investment banking firm, which has full investment discretion. Prior to that the fund had been managed by an in-house investment team.

"**WHAT WE HAVE** done," he said, to the delight of some institutional investors in the audience, "has been to skip the bank trustee departments altogether." Nevertheless, he said, "performance has been good. We're quite satisfied."

Continued on page 2



pension, investment report

A special Pension, Investment Report in this issue of *Business Insurance* looks into fund asset value declines, 1971 legislative pension reforms, profit sharing, a survey of some 200 retirement plans, and legal rights in pension fund litigation. The report, pages 23 through 48, also includes tips on how to use individual policy pension trusts in the Perspective section on page 41.

Pan Am . . .

Continued from page 1

North River Insurance Co., Reinsurance Corp. of N.Y., Royal Indemnity Co., United States Fire Insurance Co. and Westchester Fire Insurance Co.

A second share of the all-risk policy, this one for 16 2/3%, or \$4,048,936.13, was written by underwriters at Lloyd's. Named in the suit are David Linton Dann and British Aviation Corp.

The third share of the same policy was for 50% of the risk, \$12,144,379.50. Named as insurer on this portion is the Federal Insurance Co., a member of the Chubb & Son Inc. Group. That company, however, is also a member of Associated Aviation Underwriters whose many member companies participate in the coverage although Federal is the only company named.

The all-risk cover written by the three aforementioned groups has three specific exclusions. They are:

- "Capture, seizure, arrest, restraint or detention or the consequences thereof or of any attempt, threat, or any taking of the property insured or damage to or destruction thereof by any government or governmental authority or agent (whether secret or otherwise) or by any military, naval or usurped power, whether any of the foregoing be done by way of requisition or otherwise and whether in time of peace or war and whether lawful or unlawful. (This subdivision shall not apply, however, to any such action by a foreign government or foreign governmental authority following the forceful diversion to a foreign country by any person not in lawful possession or custody of such insured aircraft and who is not an agent or representative, secret or otherwise, of any foreign government or governmental authority.)"

- "War, invasion, civil war, revolution, rebellion, insurrection or warlike operations, whether there

be a declaration of war or not.

- "Strikes, riots, civil commotion."

FOR RISKS excluded by the aforementioned, Pan Am had purchased a war risk policy. This cover, for a total of \$23.99 million, or somewhat less than the all-risk insured value, is split between Lloyd's and the U.S. government. The Lloyd's share on this policy is \$14,226,290.47, or about 53.5%. The balance, \$9,663,709.53, is written by the U.S. through the Department of Transportation and under the authority of the Federal Aviation Act of 1958. That act permits the government to underwrite war risk aviation coverage when the conventional markets cannot provide full coverage at reasonable rates. This was the case when the jumbo jets first took to the air, and still is.

The war risk coverage is rather simple and broadly defined. Under the policies issued by Lloyd's and the Department of Transportation, coverage is spelled out as follows:

"This insurance covers all physical loss of, or damage to, the aircraft listed and described in the schedule(s), including engines, navigational instruments, parts and equipment usually carried on said aircraft, resulting from the risks which are described in the Hull Coverage Clause contained in endorsement A."

Endorsement A provides:

"Hull Coverage Clause: War, invasion, acts of foreign enemies, hostilities (whether war be declared or not), civil war, rebellion, revolution or insurrection, military or usurped power or confiscation and/or nationalization or requisition or destruction by any government or public or local authority or by any independent unit or individual engaged in irregular warfare."

In its complaint, Pan Am revealed that the destroyed aircraft was leased to the airline. Barkers Trust Co., New York, was named

lessor and, according to terms of that lease, the airline agreed to assume the risk of loss or damage.

THE AIRLINE, says the lease, must pay the "stipulated loss value of the aircraft within 60 days after loss or replace the aircraft within 120 days after loss."

Pan Am, in its petition to the court, has said it has suffered damages by nonpayment of its claims because it has been unable to buy a replacement aircraft, which it says it could have operated profitably or could have leased at rentals of about \$550,000 a month. Moreover, it adds, to fulfill the conditions of the Bankers Trust lease, the airline has been forced to borrow money at an interstate rate of 11.25%, "substantially in excess of the statutory rate."

Of these expenses, the suit says, "damages were and are of a character that each of the respective insurers named as defendants . . . either knew or should have known would be sustained by plaintiff in the event payment under the respective insurance policies was not promptly made in the event of loss of the aircraft."

Some insurance industry sources questioned last week expressed doubt as to whether Pan Am could realistically expect to win damages for loss of use of a 747. If the airline's claim of rental fees of \$550,000 per month is sound, for example, it might mean accrued losses of more than \$3 million over the past six months that the claim has been denied. Said one aviation insurance source: "It would take some argument to show that a 747 could have been legitimately rented for \$550,000, or used profitably, in the last six months considering the passenger capacity fix the airlines have been in during that period."

The U.S. insurance groups involved in the all-risk policy appear confident of the outcome of the suit, although none are taking the case lightly. There is little doubt in their minds, in other words, that the incident in Cairo last September was indeed an act of war as described in the war risk policy.

Diners' Club had bond of \$500,000 on loss

NEW YORK—Diners' Club, a subsidiary of the Continental Corp., has charged one of its executives with embezzlement of about \$800,000 of the company's funds. Another of the Continental Corp.'s subsidiaries, the Fidelity & Casualty Co. of New York, wrote the fidelity bond for Diners' which covers up to \$500,000 of such losses with no deductibles.

Affidavits and complaints filed by Diners' in New York supreme court since the middle of February allege that Gerald Branco, vp of data processing approved bills totaling \$1.8 million, of which about 60%, or \$800,000, represented false or blown-up

charges. Further, the legal papers allege that Mr. Branco took \$250,000 in kick-backs from officials of the two companies that submitted the bills. The companies involved are Action Temporaries Inc. and Action Computers Inc., New York firms which supplied temporary employees and key punch operators to Diners'.

R. Newell Lusby, president of Diners' Club, told *Business Insurance* the apparent loss should not affect 1971 earnings; "between the amounts tied up by court order and our bond with Fidelity & Casualty Co. it is inconceivable that Diners' Club assets should be affected."

Bank . . .

Continued from page 1

by Cosmopolitan is not an abnormally small amount of insurance on a bank with \$60 million in assets. In fact, it is somewhat larger than that recommended by the American Bankers Assn. That group suggests that banks in the \$60 million range carry blanket bonds of about \$700,000.

Donald D. Magers, president of the bank, said that Mr. Santowski, who had been with the bank for 24 years, voluntarily confessed his role in the embezzlement but maintained that he received none of the money. He said that Mr. Steinberg wrote checks on Cosmopolitan for deposit in another bank in which his firm had an account. When the checks returned to Cosmopolitan he intercepted them and they were never posted against the Steinberg account.

The scheme came to light on Feb. 25 but investigators still have not traced the bulk of the missing cash. They are checking Mr. Steinberg's business ventures, including some involving the late Illinois Sec. of State Paul Powell. Sec. Powell had mysteriously amassed a fortune during his public career and his estate has been under investigation. Packets of money, totaling \$15,000 and bearing the initials of Cosmopolitan National Bank, were part of the estate.

Funds will . . .

Continued from page 1

fied. The fund has not required a contribution since 1963."

The Bulova pension fund, which is invested 25% in fixed income products and 75% in common stocks, is not under pressure from management to improve its performance. "We're not looking at it (the fund) as a profit center," Mr. Sheinberg commented. "We're still looking at it for the little people in the factory who are going to retire in 10 years."

The Bulova executive did reveal, however, that the company is considering splitting its fund and giving a portion to another investment manager.

If Bulova does split its fund a new manager would likely get only fixed income money to work with, Mr. Sheinberg said. In addition, a new investment advisor retained by the watch company would not likely be a professional money manager type. "I'm not convinced of the money manager's future," he said.

MR. SHEINBERG did say there are certain disadvantages to splitting Bulova's fund at this time. "The biggest negative," he said, "is that such a move might put unnecessary pressures of competition on our present investment advisor. It might force him into a different style."

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Probe N. Y. pensions

The majority leader of the New York senate, Earl W. Brydges, called last week for a probe of "skyrocketing" public employee retirement benefits to see whether such funds should be regulated by a bipartisan pension commission. Sources close to the influential Republican said he is particularly disturbed with the situation in New York City, where uniformed city employees are demanding even more liberal benefits than they now receive. (A story on the situation is on page 23.)

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Rain insurance covers the blahs on vacation

NEW YORK—"Locked in the lobby" translates as "a fate worse than death" in the parlance of the travel industry. The words apply to vacationers cut off from sight-seeing, shopping, golf and other travel plans by the uncontrollable caprices of the weather. Now vacationers can do something about the problem.

Now an insurance agency with the tantalizing name of Good Weather Inc. has come up with a vacation weather insurance policy that it markets through American Home Assurance Co. The policy is a simple one assuring travelers that three out of every four days during their entire vacation will be rain-free. Coverage is \$25, \$50, \$75 or \$100 per day at the choice of the insured, who pays a corresponding premium of \$1, \$2, \$3 or \$4 per day.

On Jan. 28 Pan American Airways announced the availability of the vacation rain insurance to their passengers.

HENRY L. FOX, president of Good Weather Inc., revealed quite a bit of enthusiasm about the program to *Business Insurance*. "Pan Am has vision," he said. "This is the last frontier of insurance we have come upon that affects the public to a large extent. Fifty years ago auto insurance was a new thing, 20 years ago it was homeowners coverage and now it's weather insurance. Other specialties, such as directors and officers liability, are new but affect only a small area or group. We feel that we're on the verge of a multimillion dollar thing, and have drawn the inquiries to prove it."

The first response came from Pan Am passengers who picked up American Home's brochure at airline terminals or aboard their planes. Good Weather has found that all kinds of people are buying the insurance, from the super-wealthy traveler on a luxury trip to the relatively modest vacationer on a low-cost tour. "There's a lot of experimentation involved in the plan right now because it's so new and we're flying blind," Mr. Fox reported.

"The range of price is proving to be good—it opens the coverage to a spectrum of economic types. On the other hand we were off in our estimate of the most popular vacation spots. Our prime thrust was the West Indies, but Hawaii is drawing a larger percentage than we had thought, and a lot of people are going to Europe now in the winter."

But Good Weather is also getting inquiries from hotels and

motels, cities, travel wholesalers (charter and tour operators), travel agents and a group Mr. Fox called "the kooky questioners." Some of the plans the agency is contemplating in response to these inquiries go so far as to include coverage of temperature and minutes of sunshine—"anything that can be measured by government weather stations," as Mr. Fox put it.

EACH OF THE various groups has something to be gained by weather insurance. For individual hotels and motels, city chambers of commerce and hotel associations it represents a chance to promote tourism in the off-season, according to Mr. Fox. "In essence, they put their money where their mouths are," he said. Of course in some cases the insurance might simply

be made available to vacationers who would then buy it or not, at their own expense. But Mr. Fox has spoken to city organizations who contemplate allocating promotional funds for the purpose to save the public the expense.

For travel wholesalers, who care for every detail of their clients' vacation needs, weather insurance seals the last opening in the cocoon of service they weave about their trusting customers. Travel agents, who are generally involved with individual trips, apparently hope to encourage more people to travel more frequently and spend more money with the enticement of insured weather. Mr. Fox's "kooky" inquiries are coming from such sources as banks interested in vacation loan promotion, and companies that use employee trips as

incentives and awards.

He said that boat travel coverage would be offered only at ports of call.

Mr. Fox pointed out that the policy is geared to reports of the government weather bureau nearest the traveler's vacation spot. This is to the advantage of the policyholder because government weather stations grind no axes."

MOST MAJOR cities in foreign countries have government weather stations or, at the very least, the nearest airport has one. The policyholder can collect on his policy if as little as .01 of an inch of rain is recorded at the nearest station between 10 am and 4 pm.

"Those are the critical daylight hours for tourist activities," said Mr. Fox, "but we can tailor policies with regard to hours covered

and other factors. If a group wanted coverage, for example, we would obviously save on overhead and there would have to be a saving for the policyholder, although the program is too new for me to have figures on such arrangements now."

Weather data comes into Mr. Fox's agency continually, enabling it to pay claims rapidly. A claim kit, consisting of a very simple form to be filled out on each day of rain, comes with each policy. The policyholder simply sends in the form at the end of his vacation to receive payment.

Good Weather Inc. has offered rain insurance to outdoor musicals, sports events, drag races and movie companies for 14 years. Mr. Fox is obviously optimistic about its entrance into the multibillion dollar travel industry.

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Calls guard incompetent

ORANGE, Tex.—Gulf States Utilities Co. has filed suit in district court here against the William J. Burns International Detective Agency based on a claim that the agency had "incompetent help" on duty at the time GSU property was damaged by unknown persons.

The company wants a total of \$18,248 in damages, the cost of repairing a bulk station here that was damaged last June 11. GSU was in labor negotiations with striking International Brotherhood of Electrical Workers Union members at the time.

The petition stated the detective agency was hired to provide guard service but that "third persons" came on the property while the guard was off duty and drained oil from GSU circuitbreakers.



washington watch

DOT's \$2 million study of auto insurance problem says there is one

WASHINGTON—Almost three years ago American taxpayers plunked down \$2 million for a two-year study by the Department of Transportation of automobile insurance problems. The study has finally been completed—many months behind schedule—and basically for their money the taxpayers were told that, yes, there certainly is an insurance problem.

The study recommended virtually no definite solutions, nor did it even strongly support any possible solutions. The only concrete suggestion to come from the study was that some form of no-fault insurance is the answer and that the states should be required to begin experimenting to find out exactly what form is best.

DOT didn't even so much as draft a proposed no-fault model

bill to help the states along. Instead, it set forth the "principles of reparations system toward which the states should strive."

THE PRINCIPLES are so general they could apply to virtually any no-fault proposal. And, even then, DOT felt it necessary to stress that states don't need to go by them.

Suggested possible approaches

to a number of highly important questions concerning no-fault plans were not even alluded to in the final report. For example, it gave the states no advice at all as to what might be the best way to handle insurance of commercial vehicles under no-fault plans.

Apparently this problem costs more than \$2 million to answer, one observer has quipped.

DOT intimated that such details could be handled by the states any way they wished. This, of course, raises the question of how states can come up with a reasonable approach to the problem within the two-year deadline given them to act when DOT itself couldn't do it with \$2 million in special financing.

DOT says the states can do it because they can experiment. "We have gone as far as we can without observation of actual experience," the department said.

For risk managers handling

large fleets of interstate vehicles this approach raises the specter of dealing with 50 different "experimental" methods of handling their culpability in accidents.

DOT also gave the states no guidance on how to handle another touchy question from the corporate risk manager's standpoint—that of integrating no-fault auto insurance with workmen's compensation. And it made no suggestions as to how to handle corporate liability to injured employe drivers.

The department did recommend that state plans afford a "relatively high percentage of earned income of the insured or deceased auto accident victim." There should be a short permitted waiting period at the option of the insured for the start of benefits and a permitted monthly benefit ceiling set by the insurer of perhaps \$1,000, DOT said.

The study was a little clearer on its suggestion for integration of corporate health insurance programs into no-fault. It said the goal of the "ultimate system" should be to provide full coverage for all medical benefits with a relatively small deductible per accident but with a very high mandatory limit.

"**PAYMENT** of benefits by a carrier under this coverage should automatically remove the obligation of any other insurance carrier to pay benefits to the extent that the costs are covered by auto insurance," DOT said.

The final report was released, and testimony concerning its highlights was given, by Transportation Sec. John Volpe before Sen. Warren Magnuson's (D.—Wash.) commerce committee.

The general feeling throughout Washington insurance circles is that DOT's rather innocuous stand on auto insurance reform came straight from the White House and that Sec. Volpe was unhappy about the whole situation. According to Washington sources, Commerce Secretary Stans was the key man in getting proposed stronger recommendations from DOT watered down by direct White House intervention.

Sec. Stans did arrange two White House meetings in February and March for leading representatives of corporate opponents of no-fault insurance, including the Illinois firms Kemper, Allstate and State Farm; Philadelphia-based Insurance Co. of North America and Liberty Mutual of Boston. The secretary is from Chicago and is a close personal friend of James Kemper Sr., of the Kemper firm.

DISCUSSION of the Administration's stand on auto insurance reform and the politics behind it is highly interesting. But, almost everyone on the scene admits that consideration of its merits is really only academic.

This, they point out, is because, since it would delay any real reform for at least two years, it stands little chance of being seriously discussed at all on Capitol Hill, where "insurance reform now" is shaping up as a major issue for 1971.

Sen. Magnuson, who with Sen. Philip Hart (D.—Mich.) will be carrying the ball for auto insurance reform in the Senate, late last year predicted that auto insurance and health insurance reform "are going to be two great federal responsibilities in the next Congress."

As chairman of the commerce committee, Sen. Magnuson is in a position to make certain there will be a great deal of action on auto insurance. The committee is in the process of scheduling extensive hearings into the matter. ■

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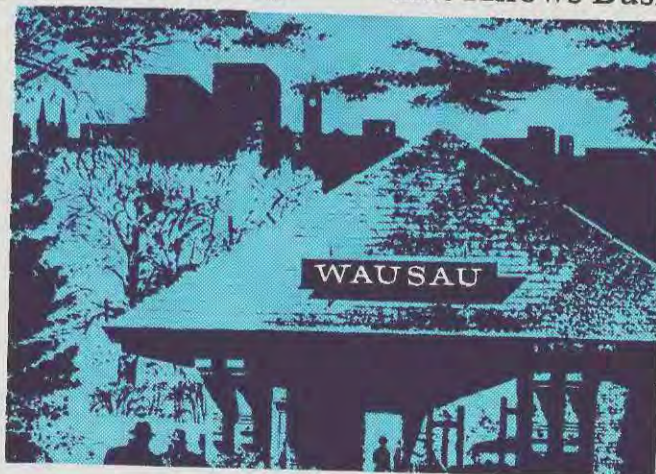
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london line

Creation of captives criticized at management seminar in London

LONDON—Creation of captives was attacked by Eric Orbell, general manager of the major Commercial Union group, at a management seminar in London organized by the Financial Times.

He told his audience of businessmen: "How any responsible industrialist can consider setting up a captive, provide the background finance and face the deplorable deterioration in claims experience, I do not know. I suppose I would be impertinent to

try to ascribe the motive for setting up captives. Presumably one factor is the possibility of reducing or controlling expense of operation, but if the captive is to be firmly based and properly run by experts, precisely the opposite is the case.

"Everyone regards insurance as a simple subject—a form of do-it-yourself exercise—but there is no firm in Britain today capable of establishing its own captive to undertake all its own insurance

commitments.

"THE RESULT IS they wish to participate in the good business and farm out the hazardous risks."

Defending his own company's position on this topic, he said: "Surely the job as established insurers, and my firm has been doing this for more than 270 years, is to spread the load over the whole of the community, its industry and commerce.

"Any move away from this concept can only weaken the market for we cannot operate on an imbalanced portfolio of business. Large composites have to have a full share of the whole market so as to survive."

After claiming that any businessman who wanted to take part in "the fortunes of insurance" could do so by buying into the equity of established companies, he said: "We have to attract new investment to allow us to provide adequacy. Capacity is a problem. We are accused of restricting capacity because of mergers, which are usually necessary because one side or the other needs rationalization. But as a result of merging, capacity should increase if correctly handled over a period."

* * *

FIRE DAMAGE in Britain dropped to \$260 million last year. This was the first fall in the rising toll of fire damage since 1965.

But as 1969 had the record total of nearly \$300 million, it is not felt to be particularly encouraging as an omen for the future. Insurance companies are currently spending nearly \$2.5 million a year in a national campaign to cut fire perils in factories and business premises.

* * *

TROUBLE suddenly hit the Excess insurance group, of London, when it made a \$20 million takeover bid for a big Lloyd's broker which has been in existence for many years.

For the committee of Lloyd's stepped in and banned the deal on the ground that its members must be left completely free to choose the best market for their clients. This step has caused controversy in British financial circles, but Lloyd's justifies its action by declaring: "It obviously cannot be in the interest of the Lloyd's market that its underwriting agencies should be allowed to fall under the control of any insurance company.

"As many Lloyd's brokers have considerable financial interests in underwriting agencies, it is important that there should be no confusion between the operation of Lloyd's and the insurance companies. There is healthy competition between Lloyd's and the companies which makes the London insurance market pre-eminent in world insurance affairs."

The firm which was forced to stay independent is C. E. Heath and Co., which manages several Lloyd's syndicates as well as acting as brokers.

* * *

THE BLAST that killed five people at an oil storage tank in east London while it was being demolished by contractors was probably caused by oxy-propane cutting tools used for the "hot cutting" method of demolition. This set vapours alight in the empty tank, and the city's worst explosion since wartime blitzes followed.

* * *

DEMANDS BY American maritime authorities for full pollution cover were queried by A. Henry Chester, chairman of Lloyd's Underwriters Assn., when he discussed future trends in marine insurance.

He accepted that one of the main points for discussion in the past few months had been the requirement of the American Federal Maritime Commission that vessels entering American territorial waters should provide evidence of adequate insurance against risk of oil pollution.

But he told major Lloyd's underwriters: "The U.S. Government requires that there shall be no loophole in the operation of their laws and have produced regulations which owners feel can best be operated by underwriters themselves. Underwriters are quite willing to put themselves in a position that continuity of cover is guaranteed, or that they accept the responsibility of advising the authorities that cover has lapsed.

"It may be some time before a practical solution to this problem can be found." He said that capacity to absorb marine risks created by the growth of world trade would be an important problem in the Lloyd's market this year.

* * *

INSURANCE cover on pop stars Tom Jones and Engelbert Humperdinck has been raised from \$2.4 million to \$7.2 million by the show business firm Management Agency and Music which owns most of their services. Their manager Gordon Mills, the company's chairman, has hiked his own cover from \$2.4 million to \$3.6 million. Annual premiums reach \$70,000.

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Computer Protection/Insurance Workshop draws early registrants

CHICAGO—An opportunity to discuss computer protection and insurance with experts has drawn a number of early registrants for the *Business Insurance*—Computerworld Computer Workshop.

The one-day session to be held Monday, June 14, in Chicago's Pick Congress hotel, will include question-and-discussion periods. At these sessions risk managers, security-safety supervisors and other registrants can ask experts about their insurance and loss prevention problems.

Faculty members for the workshop will include representatives of computer manufacturers, fire prevention authorities, property liability insurers, industrial safety men as well as officials of companies that operate or lease computer equipment.

They will cover such subjects as:

- Effective computer fire protection systems.
- Security against intrusion

- and theft prevention.
- Prevention of computer damage through power failures.
- Safety and psychological security for computer room workers.
- Liability and property insurance for computers.

The registration fee for those who enroll before June 1 is \$90, a saving of \$15 from the regular workshop fee of \$105. This fee includes admission to all sessions, a continental breakfast, two coffee breaks, lunch and a complete workshop notebook.

Companies may enroll additional personnel for only \$75 each when the registrations accompany

the first registration form before June 1.

Publishers of *Business Insurance* and *Computerworld* launched the June 14 Computer Workshop in response to widespread interest in computer protection and insurance among the management personnel of a burgeoning number of companies that employ costly and fragile computer installations.

The workshop will be a practical one-day school designed to provide participants with a maximum number of useful ideas.

Register now by completing the coupon on this page and return it with the low-cost advance registration fee.

Send to: Computer Protection/Insurance Workshop
Business Insurance/COMPUTERWORLD
740 Rush Street, Chicago, Ill. 60611

Please enroll me for the Computer Workshop to be held Monday, June 14, 1971, in Chicago. The advance registration fee of \$90 is a saving of \$15 from the regular price, \$105, if postmarked before June 1. If my plans change and I can't attend, I will get a complete refund (less \$15) by notifying you before June 14.

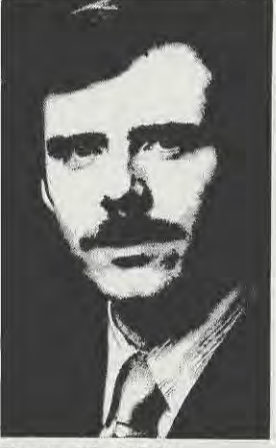
Name _____ Title _____
Company _____
Address _____
City _____ State _____ Zip _____

Note: The fee for additional registrants from the same company is only \$75 each when accompanying first registration. 3-29

White is named at Canada Dry

NEW YORK—Roger M. White, 26, has been named corporate manager of compensation and benefits for Canada Dry Corp. here. He will be responsible for benefits administration, pension plans and group insurance, reporting to Alexander D. Smith, director of personnel.

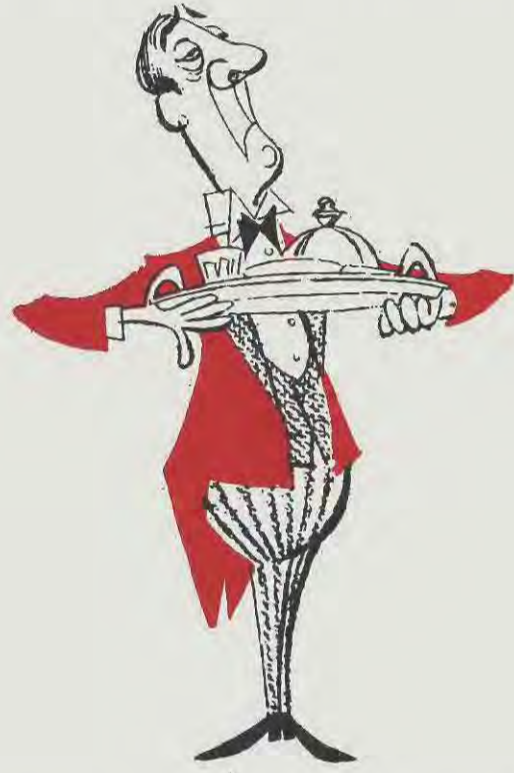
Mr. White came to Canada Dry after one year with Monsanto Co., where he was involved with employment and wage and salary



administration. Mr. White said that one of his problems is Canada Dry's diversity of insurance carriers. "We are covered by four companies, which is an asset at times and a defect at others," he said. "In some ways it is a cost-saving feature, but having the coverage spread around means a lack of directness."

With regard to the company's pension fund, the new compensation and benefits manager said that Canada Dry, like many other companies in recent years, has had some problems and is in the process of making a decision about possible basic changes. Mr. White said that the consulting firm of Towers Perrin Forster & Crosby Inc. has devised a program for Canada Dry that could overcome their problems through a new concept. "Actually the concept has been used before," he said, "but it is new for the bottling industry." Irving Trust Co.'s administration of the fund would not be affected by the new program, he said.

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Michigan Millers Mutual Insurance Company

Michigan Mutual Liability Company
The Millers Mutual Insurance Company
Northwestern Mutual Insurance Company
Pennsylvania Lumbermens Mutual Insurance Co.
Pennsylvania Millers Mutual Insurance Company
Utica Mutual Insurance Company

info for buyers

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

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

- The American Appraisal Company, 525 E. Michigan St., Milwaukee, Wis., 53201, has released a brochure dealing with **Property Records And Insurance Valuations** for schools, institutions, and municipal buildings. The publication covers property accounting for public investments and specific requirements for property data and the various services of the firm. For a free copy write the Public Relations Dept. of the company.

- With today's outlay for benefits already averaging 30% of pay, what's in the future? **Up Employe Benefits** by Johnson & Higgins takes a long look at the future of benefits. The booklet urges a fresh look at benefit plans, their design and funding. Send requests to Donald R. Marcy, Consultant, 95 Wall St., New York, N. Y. 10005.

- Harlan Inc. has released **We Have People Where You Have People** describing its services which includes all lines of insurance as well as automated employe benefits programs for corporations worldwide. For a copy write Joseph G. McCorkle, Vice President, Harlan Inc., Production/Marketing Div., 500 Jefferson Bldg., Houston, Tex., 77002.

- Thieves and robbers take \$1 billion from businessmen every year, mostly from small businesses according to **Ten Tips That Could Save Your Business Or Your Life**. The booklet offers several tips to help business owner and managers reduce the danger of loss or injury from the growing crimes of robbery and burglary. It also includes a cutaway diagram illustration of good crime prevention measures to be incorporated in your business. For a free copy write W. N. Menser, Sales Promotion Manager, American Hardware Mutual Insurance Co., P. O. Box 435, Minneapolis, Minn., 55440.

- **A Handbook Of Pinkerton's Insurance Claims Investigations** is a booklet describing the various types of investigations Pinkerton's Inc. perform related to corporations, insurance companies, banks and the legal profession. The booklet deals with investigation, surveillance, liability, workmen's compensation, life, accident and health, malpractice, fidelity bond, fire losses, inland marine, and internal losses. Direct requests to Gus R. Carlson, Vice President, Sales, Pinkerton's Inc., 100 Church St., New York, N.Y., 10007.

- **Guide To Eye Safety** is a pamphlet offering helpful hints on detecting risks, reducing injury, what types of eye protection to look for when performing certain jobs, what to do in the first aid area, and a list of do's and don'ts

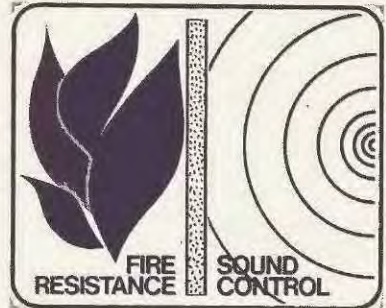
for eye safety. For a copy write, J. Quentin Kline, General Scientific Equipment Co., Limekiln Pike & Williams Ave., Philadelphia, Penn., 19150.

- Continental Insurance Cos. has released, free of charge by writing Barton B. Zabin, Continental Insurance Cos., Advertising Dept., 80 Maiden Lane, N.Y., 10038. **How To Abandon A Burning House.** The brochure lists suggestions for families to follow in case of fire and provides a diagram for a family to preplan an escape route.

- **Records Retention Timetable** is a booklet by the Electric Wastebasket Corp. describing retention periods as allowed by government authorities, and how to dispose of important papers safely without loss or worry. For a copy write Morris Golde, Vice President, Electric Wastebasket Corp., 145 West 45th St., New York, N.Y., 10036.

- The International Division of Chubb & Son, 90 John St., New York, N.Y., 10038, has made available new brochures listing its overseas facilities. For copies write the company.

- The Gypsum Assn. has made available free information on the following subjects: **Application of gypsum base for Gypsum veneer plastics and application of gypsum veneer plaster, Design data**



poured gypsum roof decks, **Design data fire resistance/sound control 69-70 Ed.**, and information on their film, **Beauty—With Safety**. Direct requests to David R. Elwing, Gypsum Assn., 201 N. Wells St., Chicago, Ill., 60606.

- The Mosler Safe Co. has published a **Condensed Insurance Manual** describing construction of and how to identify fire resistive and burglar resistive safes, vaults and lockers. The publication also gives comparison of Underwriter's Laboratories Labels and money and securities broadform and merchantile safe police base premiums. For a free copy write William R. Needham, Dir., Advertising & Public Relations, 1561 Grand Blvd., Hamilton, O., 45012.

- CNA Financial Corp., 310 S. Michigan Ave., Chicago, Ill., has released a booklet discussing the problems of self-insurance. **Self Insurance: The Problem Solver?** also describes the services CNA offers to firms that self insure, such as claim, information and engineering services. For a free copy direct requests to CNA's communications department.

- American Home Assurance Co.'s new 12-page brochure on **Directors And Officers Liability Insurance** speaks to the directors, officers, or trustees of any kind of public, private or family-owned corporation, a bank or savings and loan association, or a non-profit and/or charitable organization. It is free to agents, brokers, and buyers by writing the firm, Dept. A 14, 102 Maiden Lane, New York, N.Y., 10005.

• **Workmen's Compensation And Self Insurance—A Dialogue For Decision Makers** is a comprehensive discussion of self-insurance as it pertains to workmen's compensation. This in-depth study is designed to give the corporate decision maker or his broker a clearer understanding of the concept of premium retention plans and the advantages such programs have to offer to the sophisticated insurance buyer and/or broker. For a copy write R. P. Hewitt, President, Hewitt, Coleman & Associates Inc., P. O. Box 3665, Greenville, S. C., 29608.

• **General Fire Extinguisher Corp.'s Fire Extinguisher Selection Guide** is a foldout containing color illustrations of the company's line of hand portable and wheeled fire extinguishers including models in dry chemical, CO₂, water type, Freon 1301, soda acid and foam. For a copy write G. N. Shields, 1685 Shermer Rd., Northbrook, Ill., 60062.

• **Mardix Security Systems** has published **Personnel Entrance Control With Videoguard Entrance Model VG-300** explaining the advantages and cost savings derived from use of their system. The system enables one operator-guard to control several entrances from a single location with a remote-control console. For a copy write R. C. Hix, 900 Stierlin Rd., Mt. View, Cal., 94040.

• A booklet dealing with **The 10 Commandments Of Executive Compensation**, has been released by Towers, Perrin, Forster & Crosby Inc. It deals with today's environment, taxation, cost effectiveness, reward equals risk and individualization. For a copy write Joseph A. Banik, Three Penn Center, Philadelphia, Penn., 19102.

• The W. H. Brady Co. has published **Catalog No. 520** which includes product descriptions covering industrial identification systems to promote safety and protection of property such as wire markers, pipe markers, accident prevention signs, reflective marking, warning stripes and aisle markers. For a free copy write R. W. Kuhr, 727 W. Glendale Ave., Milwaukee, Wis., 53201.

• The Highway Safety Foundation Inc. has released a brochure listing films available on the subjects of highway safety and security, crime prevention and training. **Motion Pictures That Tell It Like It Is** gives a synopsis of each film, including specifications, time and purchase price. For a copy of the brochure write Earle J. Deems, Highway Safety Foundation Inc., 890 Hollywood Lane, P. O. Box 1563, Mansfield, O.

• **National Compensation Services Inc.** has available to prospective self-insurers a brochure describing the firm's services, cash flow charts depicting a comparison between self-insurance and insurance, a loss pay-out chart showing the cash advantage to a self-insurer and a sample feasibility study comparing the new cost of an insured program with that of a self-insured program. For more information write the firm at P. O. Box 2345, Pleasant Hill, Cal., 94523.

• **Protection For Any Building Starts Here** is a booklet describing methods of preventing forced entry through narrow stile (glass and metal) entrances by using the Adams Rite Manufacturing Co. lock. For a free copy write Jack Buzard, Advertising Manager, Adams Rite Mfg. Co., 1425 Grand Central, Glendale, Cal., 91201.



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George Shattuck is a vice president in Johnson & Higgins' Boston office. One specialty there is novel forms of casualty insurance. These cover the builders of the huge new projects, from airports to offices to residential communities, which are transforming whole regions today. “In New England or anywhere,” George says, “offering every last workman coverage in one insurance program demands the specialist.”

What's true for the construction industry is true for every industry. Your own included. Johnson & Higgins has offices in major cities here and abroad. Call us.

We'll make your insurance work for you. **Johnson & Higgins**
the construction industry's insurance broker

Florida insurance department takes control of First American Insurance

MIAMI—A small Miami insurance company amassed debts exceeding \$1.4 million before the Florida insurance department stepped in to assume control of the firm, the department has charged.

Asking the court for authorization to liquidate First American Insurance Co., the state insurance department characterized further rehabilitation efforts as "futile."

State Insurance Commissioner Tom O'Malley stepped in Feb. 4 to conserve the firm's assets until the court could determine whether it should remain in business. Commissioner O'Malley's office warned then that First American was in such financial jeopardy that it might have to be liquidat-

ed "in short order."

DEPARTMENT investigators estimate that the company would owe creditors more than \$1 million even if all its assets could be converted into cash immediately.

Twice, the state sought to rehabilitate the company. Former Insurance Commissioner Broward Williams insisted the firm was in sound financial shape right up until the final week of his administration, when he moved against it.

First American formerly was controlled by former State Sen. L. A. "Skip" Bafalis, who stepped down as president only when he made an unsuccessful bid to become Florida's governor. (Busi-

ness Insurance, March 1.)

Mr. Bafalis, who assumed its presidency after the firm was "rehabilitated" the second time, defended it as "financially sound (with) a stock portfolio that is a good one." He voiced that defense after State Sen. Gerald Lewis of Miami had told a special insurance investigation committee that the firm was in trouble.

NOW, THE insurance department contends that First American owes \$239,960 as a result of 10 court judgements and 40 settled and processed claims, and has 164 other unpaid claims which have been settled but not fully processed.

It said the firm lacks the

\$100,000 surplus required by state law and is \$135,475.21 short of the required \$500,000 capital.

First American attorneys have acknowledged that the company is financially "impaired" under state law and has not paid its claims.

More than a year ago, it was disclosed that the company had ignored insurance department warnings by hiring a man indicted for fraud in the collapse of a Minnesota insurance company.

MR. BAFALIS then defended the employment of Phillip Kitzer Jr., saying he had been cleared of all charges stemming from the failure of American Allied Insurance Co. of Minnesota. Mr. Kitzer was retained by First American as a consultant.

Mr. Bafalis' name also was linked with that of defunct State Fire and Casualty Co. He served for about six months as a \$250-a-month consultant to the failing

company and his adjustment firm did extensive work for State Fire.

The legal action that placed First American in Commissioner O'Malley's control came from Circuit Court Judge Gene Williams in Miami. Judge Williams heard insurance department attorneys warn that an uncompleted audit of the company's books had left them "very pessimistic."

First American's attorneys earlier mentioned Gene McFerrin of Baton Rouge, La. as a "prospective buyer" for the firm, but said any sale had been delayed pending determination of who actually owns the company's stock and where it is held.

Court rules on religious jobless pay

LITTLE ROCK, Ark.—The Arkansas supreme court issued a decision that apparently makes it mandatory of nonprofit, self-supporting, religious organizations to pay unemployment insurance contributions for employees.

The court's ruling came in a case involving the Shiloh Trust, a nonprofit, self-supporting religious organization, which operates a service station at Sulphur Springs, Ark. The trust contended that it was not liable for unemployment contributions because the station attendants did not perform services for wages and that no employer-employee relationship existed.

The trust was organized in Sherman, N. Y., in the 1950s and moved its members and families to 118 acres of land near Sulphur Springs in 1968. The members grow and sell natural foods to supplement incomes of the \$150,000 trust of real estate and stock.

SHILOH HAS 20 to 25 members in Arkansas and several others in New York. The court described the clan as "a comparatively small, self-sufficient organization, apparently having some interdenominational religious aspects."

Shiloh members of pre-school age receive \$3 every four weeks and adults are paid \$28.60 every four weeks whether they work or not. Because of this arrangement, Justice John A. Fogleman dissented, saying that the four service station attendants didn't receive "wages," the payment of wages being a prerequisite to the making of unemployment contributions.

The court's majority, in a five to two vote, said they could find no validity in the trust's claim of being a religious organization. "To the contrary, the main aim of its commercial activities appears to be that of providing the living expenses of a small group of persons who have banded together as a self-supporting community."

JUSTICE George Rose Smith concluded in the majority's opinion: "We cannot disregard the fact that, even though Shiloh is a comparatively small group, our decision serves as a precedent in other cases."

"Here we have a self-sufficient colony whose members are earning a livelihood in competition with others. If Shiloh is exempt, the same exemption might be claimed by larger cooperative groups engaged in substantial business ventures and paying their members much larger sums than those involved here."

"The end result would be to cast upon the competitors of exempt organizations an unfair share of the tax burden that is needed to combat unemployment."



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In talking with insurance people these days, you hear a lot about their problems — capacity problems, rate problems, exclusion problems, etc. Certainly they are real enough, only they aren't necessarily your problems. You already know your problems. But are you getting solutions?

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tive risk protection, whether through insurance or self-insurance. We help you conserve your cash where possible through judicious deductibles or loss control. We'll even set up your own insurance company if that's feasible.

Talk to A & A about your protection problems. We'll not burden you with ours.

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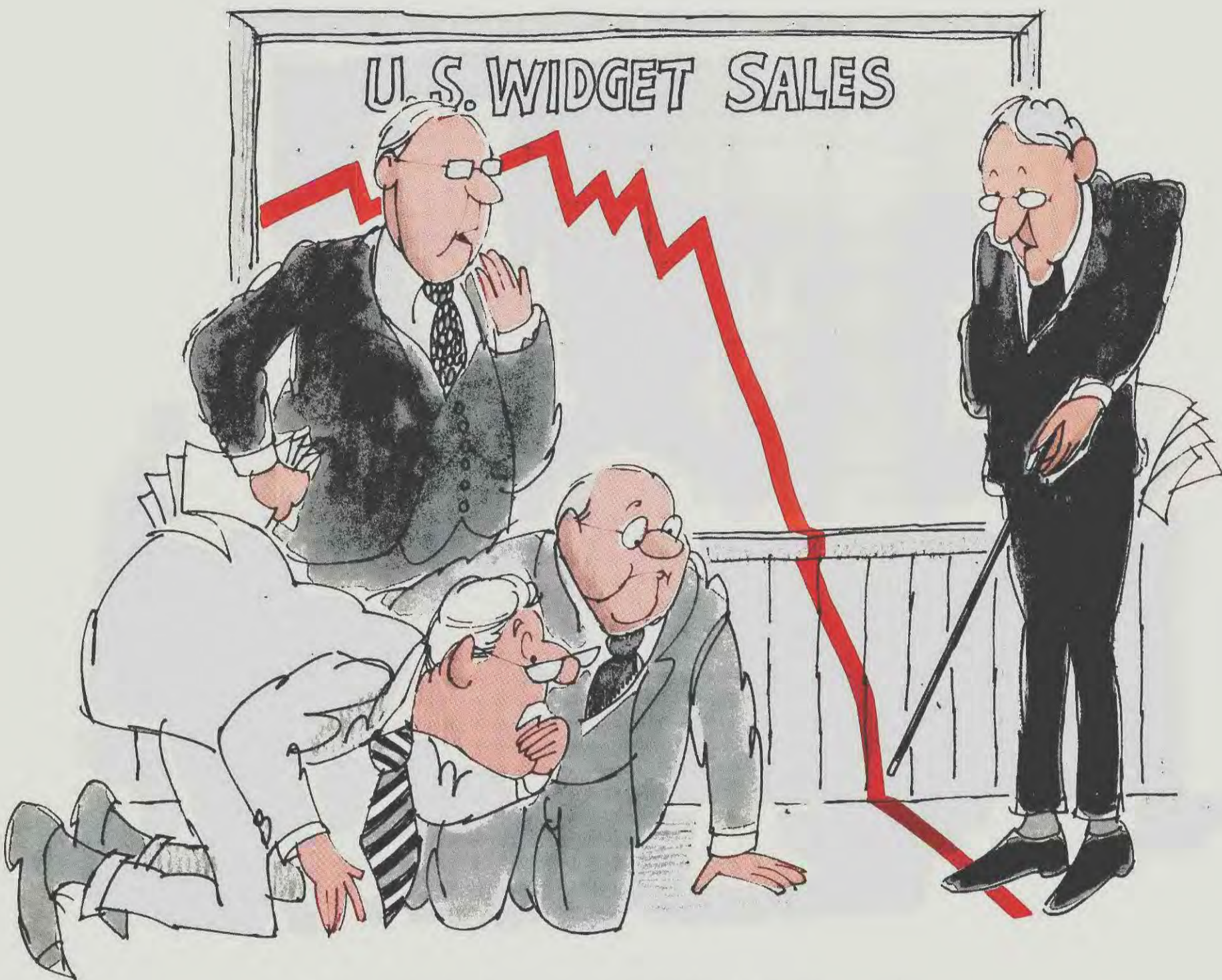
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Personna 74 blades get nicked in promotion; company 'well insured'

NEW YORK—The American Safety Razor Co., a division of Philip Morris Inc., has said that if repercussions from a newspaper promotion for Personna 74 blades swell to unexpected heights, they are "well-insured."

The company's liability coverage is written by Aetna Casualty & Surety but, according to a source, "Aetna won't cover this particular instance. This is a special project situation and Aetna does not cover it."

The whole strange situation came about when American Safe-

ty Razor ran a promotion for its Personna blades in Sunday supplements of newspapers in at least 10 cities around the country. The promotion consisted of a packaged razor blade, inserted in the newspapers to run in conjunction with an advertisement. The news media, particularly in the Los Angeles area, were deluged by phone calls from outraged parents, who felt that the blade inserts were a danger to children. The sample blade was wrapped in three protective coatings and bore a warning to keep

away from children.

The Federal Trade Commission attacked the promotion under a law prohibiting "misleading, deceptive and unfair acts in commerce."

AMERICAN SAFETY Razor has since decided to stop the promotion even though it felt that it had "developed the safest packaging method ever used to distribute razor blade samples." One official of the company popped one of the samples into his mouth to demonstrate his confidence in

the packaging. The promotion was halted, in the words of another official, "because of our desire to still any fears, however unfounded they may be."

Though there have been reports of at least two children receiving lacerations from the samples, the company said that there have been no substantiated claims and one official has charged that the rash of injury complaints may well have been inspired by competitors.

A spokesman at American Safety Razor pointed out, "The complaints we have been getting are two-fold. Those who thought the samples were unsafe and those who were mad because they did not get the blade."

He said that the samples did not appear in all the newspapers

the company had originally contacted. "Fifty papers were contacted but 11 turned the promotion down for various reasons—one being that they did not like the idea of razor blades appearing in their papers."

He also noted that "hold harmless agreements" were signed between the company's advertising agency and the newspapers that requested them. "The agreements were all encompassing and were signed between the agency and the papers but the agency was just the middleman. The buck stops at Philip Morris."

The cost of promotion was in the \$1 million-plus range. The spokesman at the company said he "tended to doubt" if the money could be recovered now that the promotion had been halted. ■

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We can't show you a picture of the Ansul System because it's an idea—a total fire protection concept. It includes professional hazard analysis, precision engineered equipment, training for employees and a nationwide service network to take care of the equipment.

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It's a unique idea—but as we said, it's only part of the Big System. Ansul makes fire extinguishers, but we sell fire protection . . . and there's a big difference. It's a difference that can take a lot of the risk out of risk management.

The Ansul Company,
Marinette, Wisconsin 54143

The Ansul System

Sun Oil well explosion destroys rig

EL RENO, Okla.—A drilling rig valued at \$350,000, was destroyed when a Sun Oil Co. well 12 miles southwest of here had a gas blowout and fire on March 9.

The rig was owned and insured by the O'Neal Drilling Co., which was drilling the well, with P. H. Wagoner & Co., Dallas Tex. No other equipment was destroyed.

The fire occurred when a line below the blowout preventers broke after they were closed. Red Adair's wild well control specialists, Houston, Tex., were called by Sun Oil, who will pay for their service. John Sidney Smith of Sun Oil said that there was no way to estimate the cost of the specialists because they are still working to control the fire. Mr. Smith also said that since a gas blowout on land is rare the Sun Oil company did not carry insurance against it.

The Askew Adjustment Co., Oklahoma City, Okla., and the J. W. Walker Co., Dallas, are handling the loss adjustment. ■

VW blaze covered by Century

SAN ANTONIO, Tex.—Century Insurance Co. Ltd. is the major carrier involved in the \$9 million fire at the Volkswagen complex here.

The fire gutted the six-building complex of the auto maker's south central distributorship on Feb. 26. Approximately \$4.5 million of the loss was in auto parts, the remainder in building and computer equipment damage. Volkswagen has a special multi-peril package policy, according to a company spokesman, that covers buildings, stock and contents. The policy has blanket limits and no deductibles.

The company has extra expense insurance but no business interruption cover.

Volkswagen distributorships throughout the country are providing parts for the five-state area serviced by the south central office, which will not be operational for about a month. ■

Suburban fringes

In West University Place, a Houston suburb city employees will begin to receive free hospitalization and life insurance. Under new fringe benefits, the city will pay for group insurance providing hospitalization and \$2,000 in life insurance for each employee.

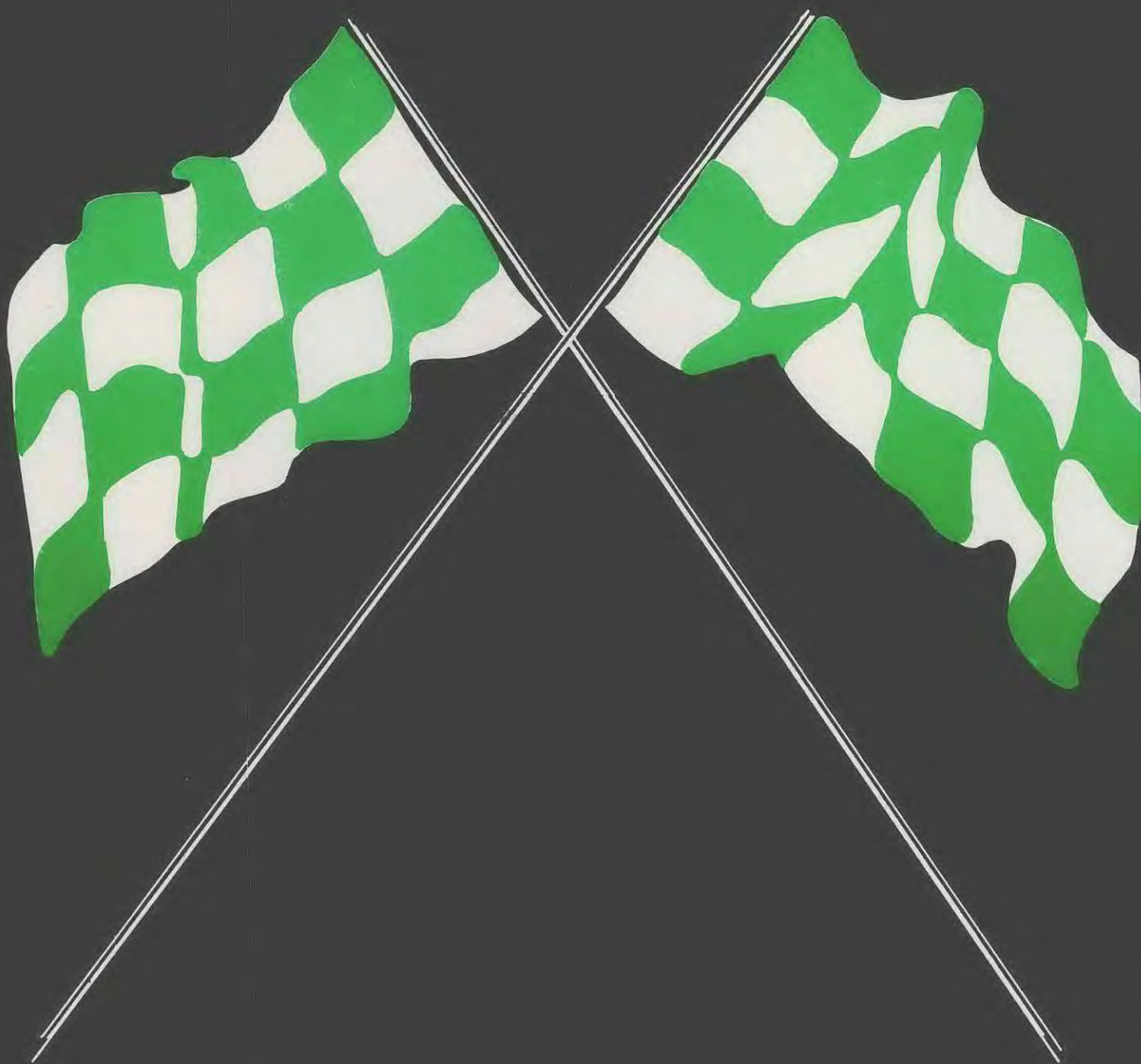
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DuBain tells ASIM the capacity's there if they know how to reach it

SAN FRANCISCO—"Any time someone can't get insurance," according to Myron DuBain, "whether it's a motorist unable to get automobile coverage or an industrial insurance manager unable to obtain full limits coverage on multimillion dollar exposures, it is a capacity problem."

Capacity problems and possible solutions were reviewed for the insurance forum of San Francisco by Mr. DuBain, senior vp, Fireman's Fund American Insurance Cos. The subject was a matter for considerable "in the hallway" and seminar sessions during the American Society of Insurance Management's annual meeting here.

In the context of money resources, the capital and surplus required to support a given premium base, Mr. DuBain insisted "there is adequate capacity to properly service world insurance markets in total and to sustain writing any single insurance risk we have today. Strictly in the financial sense, there just isn't a single risk anywhere that we cannot write, even though unique situations such as natural catastrophe might push us beyond our limits."

"WHILE WE HAVE adequate capacity," he continued, "it is not always willing capacity. Underwriters are taking a more con-

servative stance and it has become difficult to place the marginal risks."

Mr. DuBain, who recently returned from a trip to England, reported that "London underwriters are taking a more critical look at the American market. They feel their losses are attributable to experience on U.S. business and they are now feeling the pains of several years of unsatisfactory results."

"It is the position of the London underwriters," Mr. DuBain pointed out, "that if they can do better with their capacity in other world markets, they shouldn't bother with American business. London is not just arbitrarily

abandoning the U.S. but neither is it going to stay on a losing basis." He asserted the end result is that capacity that once was freely available in the U.S. is now "unwilling to expose itself to consistent underwriting losses and that will not change until the business can be put back on a profitable basis."

Mr. DuBain also warned that "the unwilling capacity of today may well become the nonexistent capacity of tomorrow. There is not much of a cushion, "to absorb continued premium growth of the magnitude required by expanding world economies, technological change and rising values."

INCOME FROM the investment side of the insurance business, he said, has in past years offset losses and permitted continued writing of insurance. "Some mutual companies," he said, "have been forced to curtail their writings because their surplus posi-

tion was impaired when the securities market took a downturn. The situation has now eased a bit.

"If the next prolonged period of underwriting losses is accompanied by a severely depressed securities market," Mr. DuBain said, "I believe we will be faced with an upsurge in the flight of capital from the insurance business into other, more profitable, enterprises."

"If that happens," he warned, "today's capacity problems will pale in comparison. The only sound solution is to put underwriting on a profitable basis. We cannot continue to rely upon investment income."

"We need revenue from our insurance operations," he noted, "not only to build up our capital and surplus base and to retain the base we now have, but also to free the available capacity for use in the market."

AT FIREMAN'S Fund, he reported, "we increased our net retention on property lines by 25% last year, the second such increase in the past five years. And I know other companies are doing the same."

A lot that is said about the capacity problem, in his opinion, is the result of "fuzzy thinking" and he cited an example of a broker who submits a risk to the company.

"The underwriter says, 'No thanks, I can't take it at your price and terms.' The broker and his client scream capacity problem. The real problem is that the insurance buyer is trying to equate the availability of insurance with the availability of insurance at his price and at his terms. They are not the same."

"I can't fault a buyer for shopping low price and favorable terms," Mr. DuBain continued, "but when the buyer's idea of proper rates and terms is below the level at which the underwriter can hold a reasonable expectation of profit, there can be no sale—and no capacity."

MR. DUBAIN cited a recent instance in which Fireman's Fund received a submission from a company that designed and engineered chemical processing systems, manufactured the parts for the systems and built the installations.

"We were asked," he said, "to write the entire package; architects and engineers, errors and omissions, all-risk builders cover with virtually no exclusions, product liability and the whole works."

"Under those terms, Fireman's Fund would have been in the position of insuring that the entire chemical process would work from raw materials to finished product. We would have been insuring a business risk. We declined the terms and this was called a capacity problem."

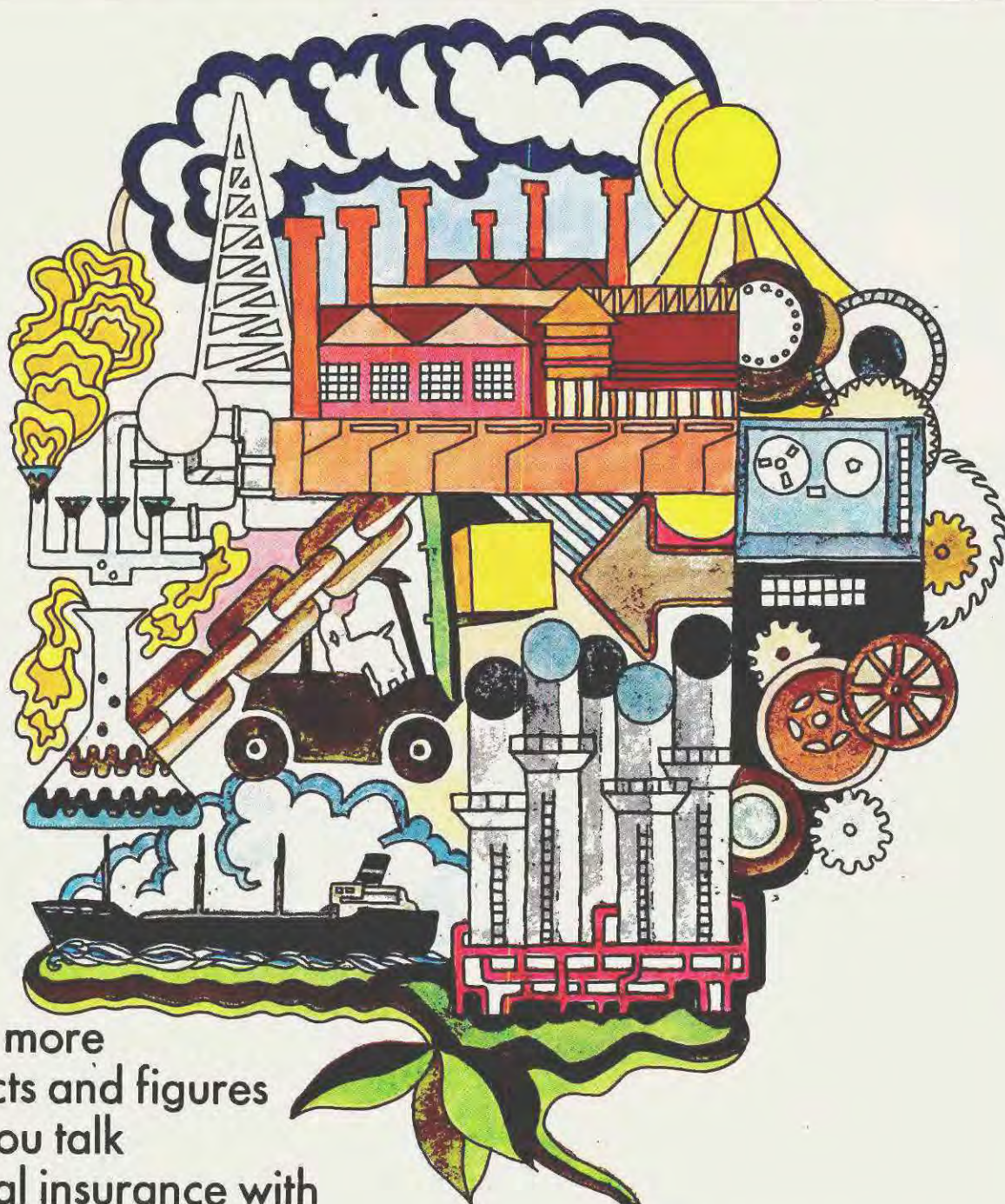
"However, by revising the terms, we were able to write the risk. It was not a capacity problem at all."

RATES ARE GOING up, he warned, "in some cases substantially. The one word I heard in London more than any other was 'Inflation.' Underwriters there feel that the American market was slow in recognizing the full significance of inflation and reluctant to accept higher rates and higher deductibles to combat inflationary pressures, no matter how justified."

Many deductibles now in use, Mr. DuBain claimed, are unrealistic.

"A risk that was willing to absorb the first \$100,000 of a loss ten years ago," he said, "probably should be thinking in terms of a \$200,000 deductible today, just to

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War vet rehab crisis led to new medical specialty

PORTLAND, Ore.—It is one of the great ironies of history that modern warfare, despite its destructive nature, stimulates the necessity to find answers to the military and human problems it creates.

The medical specialty of physical medicine and rehabilitation is an outstanding example of this point. Fortunately, knowledge gained largely in efforts to rehabilitate disabled American war veterans is being used to help many people whose injuries and diseases are totally unrelated to military service.

The Rehabilitation Institute of Oregon in Portland, the only facility of its kind in the state, provides physical and vocational rehabilitative services to the disabled from Oregon, southwest Washington, Idaho, Montana, northern California and as far away as Louisiana. About 90% of the patients, however, come from Oregon.

DR. LELAND L. CROSS, executive medical director of the institute, is a physiatrist, a physician who specializes in physical medicine and rehabilitation. He was director of physical medicine and rehabilitation at the Los Angeles County Harbor hospital and a member of the teaching staff at the University of California medical school in Los Angeles before coming to Portland. Dr. Cross is presently an assistant professor of neurology in rehabilitation at the University of Oregon medical school.

"Physical medicine and rehabilitation as a medical discipline are less than 25 years old. Historically, the role of the physician and the general hospital has been directed toward curative medicine, which in laymen's terms means dealing with the patient's immediate medical problems and restoring him or her to a state of good health or as close to it as possible," said Dr. Cross.

After World War II, the nation was faced with thousands of young men returning home with missing arms and legs as well as spinal cord and other injuries leaving them paralyzed, the doctor noted. "These men could have been pensioned off and forgotten but Congress decided the nation owed them much more and as a result the Veterans Administration launched a heavily financed program to see what could be done to help prepare them for a meaningful and useful life.

"This action by Congress provided the major impetus and financial support for the rapid development of physical medicine and rehabilitation and is largely responsible for the existence of facilities such as ours across the country," Dr. Cross said.

In 1969, the institute admitted 301 patients who received almost 10,000 days of inpatient care as well as nearly that number for outpatient treatment and consultation. The average stay for inpatients was 32 days. Those served included post-stroke patients, amputees, paraplegics and quadriplegics, and these with hip fractures, severe back injuries, head injuries and other problems. The institute has 38 beds for inpatients.

"Twenty years ago, because of kidney infections, paraplegics and quadriplegics seldom lived more than a few years. But today, due to the discovery of antibiotics, their life expectancies are nearly those of normal people," Dr. Cross stressed.

"We get many young people with spinal cord injuries caused



J. H. Kennedy, M. D.

by auto accidents. These young people could spend their lives in a wheelchair in some nursing home or we can try to bring them

up to their highest level of personal function in the physical, psychological, social and economic aspects of life.

"If a young fellow spends the rest of his life in a nursing home the cost will run between \$150,000 and \$500,000," he said. "But if we can help make him economically independent or semi-independent this cost to society will be reduced and at the same time his personal life is going to be more enjoyable and worthwhile."

THIS IS WHAT physical medicine and rehabilitation is all about, according to the doctor and the field is going to be even more important in the future because continued advancement in science and medical technology will increase the life expectancy of everyone, particularly the disabled.




Doris Olds

The U.S. has been far behind most of the Western European nations in this field. The Scandinavian countries, England and Germany had such programs be-

fore the 20th Century. Canada has also made much progress in this area. The hospital for the industrially injured in Vancouver, B. C., is considered the most advanced type of facility of its kind in North America.

"I think part of this can be attributed to our frontier heritage as a nation. America became industrialized and urbanized so rapidly there were many new and complex matters to be solved and somehow this was overlooked," Dr. Cross contends.

Because the specialty of physical medicine and rehabilitation is relatively new, there are only approximately 600 physiatrists in the country. Presently, about 60% of the nation's 104 medical schools offer training to students in this field. The University of
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opinions

Writing a livable benefit act

Corporate pension and profit-sharing plan executives, as well as plan counselors and advisers, are being urged to help write a "livable" federal employe benefit security act. The bill (H.R.1269) to revise the Welfare and Pension Plans Disclosure Act is in its second season of hearings before Rep. John H. Dent's (D.—Pa.) House general labor sub-committee and the Senate has recently approved a \$475,000 allocation to study the subject. Last year it received \$265,000.

The House bill would provide federal standards for fiduciary responsibility and disclosure, mandatory vesting formulas, prescribed funding schedules, insurance of unfunded vested liabilities through the Pension Benefit Insurance Corp. (to be created by the act) and investigatory, enforcement and penalty powers for the Secretary of Labor. It has been termed by business as "antagonistic in part" and as requiring disclosure of unnecessary information to the government. Drafters of the bill maintain that it is highly flexible and that business has not studied the proposal or provided the feedback needed to reach a realistic solution.

Those who may someday be regulated by the proposed legislation have raised many pertinent questions about it but, according to the law makers, they haven't been asking them in a loud enough voice. One corporate executive compared the proposal to the truth-in-lending legislation that resulted from credit scandals. "Truth in lending makes it mandatory to inform people of what they are getting into," he said, "but it does not fix interest rates." Why, then, should a bill to establish disclosure of pension and profit-sharing plan status to participants also dictate vesting and funding requirements," he asked.

Plan advisers and investment counselors have also asked for a clearer definition in the proposed law of those who fall into the category of a fiduciary. Since everyone subject to the fiduciary provisions of the act would have to be bonded, an absolute distinction is necessary between those acting in an advisory capacity only and those empowered with the discretionary function of investment. The question has also arisen, within the committee itself, of whether a court appointed neutral, employed to resolve labor-management disputes, should be considered a fiduciary.

H.R.1269 limits pension fund investment in the sponsoring employer's corporate affairs to 10% of fund assets but places only a "prudent man" limitation on profit-sharing fund investments. Those who view profit sharing as a retirement benefit concept have voiced doubts as to the advisability of a "double standard for fiduciary conduct."

The pressure is definitely on to end instances of unemployed 15-year men, as has happened in the aerospace industry, who find themselves without a dime's worth of vested pensions. And there have been recommendations to expand H.R. 1269, or other similar legislation, to cover union-sponsored welfare plans to eliminate such scandals as those in the barbers' and mine workers' unions.

If reforms are to be made, those who question them haven't much time left to raise their voices.

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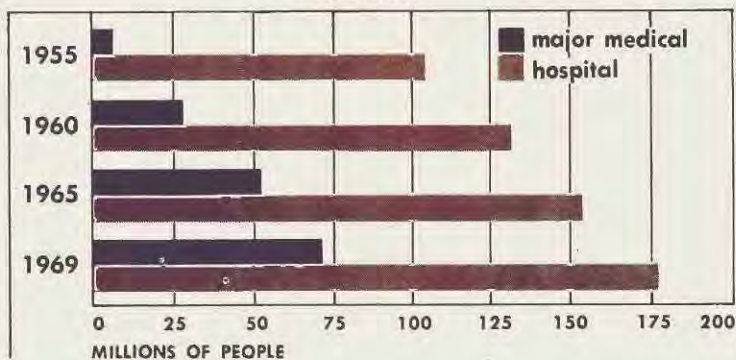
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PERSONS WITH HEALTH INSURANCE (by type of coverage) 1955-1969



The chart illustrates the wide gap between the number of people with hospital expense coverage and those with major medical expense coverage that President Nixon and other national health insurance advocates are attempting to close. The major medical category represents insurance company coverage only. In 1969 162.1 million Americans had surgical coverage and 134.9 million had regular medical coverage. Long- and short-term disability insurance covered 9 million and 57 million Americans respectively.
Source: Health Insurance Council

A fresh backdrop

Business Insurance's annual review of safety and security developments will be written this year against a fresh backdrop that emerged from some striking changes in safety and security areas in the past year.

A key safety innovation was the passage of federal legislation governing safety in work places, a law that goes into effect next month. The special safety-security report, to be published June 7, will include early reactions to the federal program from safety supervisors, corporate risk managers and "safety establishment" professionals who are putting the program into operation.

The past year has been a time of testing for security techniques and technology developed to meet social unrest and mounting crime rates in urban, suburban and even rural areas. Installations never before threatened by violence or crime now require stringent, sophisticated protection. Our report will tell what new security measures are being adopted on campuses, at industrial installations and in retail stores, with devices that would once have baffled Buck Rogers.

Other articles in the June 7 safety-security report will answer these questions among others:

- What do buyers think of contractual safety services now offered by some insurance companies?
- What innovations in protection against occupational diseases have been developed by industrial hygienists?
- How effective will outside personnel screening services be after the Fair Credit Reporting Act takes effect next month?
- How does a major security system afford protection for commercial establishments in high-crime neighborhoods?
- What's new in fire protection, especially those advances now applied to exotic industries that may become part of our general fire-fighting arsenal?
- Where stands the proposed Federal Fire Council, whose appropriation was denied by a House of Representatives committee in December?
- How does a company organize and operate an effective industrial fire brigade?

Our 1971 safety-security report will reflect the dynamic character of loss prevention, which has met and, for the most part matched, unexpected challenges in the past few years. Readers are encouraged to offer material or article ideas to Richard C. Bjorklund, Editor, Business Insurance, 740 Rush St., Chicago, Ill. 60611.

Misconception

Our journalistic colleagues of the general press are called upon more and more frequently to write on insurance topics, especially health coverage and auto insurance, rated by the Nixon Administration as the top consumer concerns. Most often newspapers and general magazines handle insurance articles most competently, especially when one considers the gobbledy-gook that afflicts the expression of those in the industry and the usual unwillingness of insurance industry sources to tell the whole story straight.

An exception to this good press performance was a recent syndicated newspaper article that made a strong case for no-fault auto insurance.

"With crowded roads and high-speed driving, it is often difficult to tell for sure who is at fault," the article said. "And if both are wrong, neither may get paid" (under current auto insurance policies).

Then the writer missed his mark by adding:

"Most other forms of liability insurance don't work that way. If you drop a cigaret and start a fire that burns down your house, you still collect even if the fire was your 'fault.' If you are injured on the job, workmen's compensation pays off without a court battle over who caused the injury."

What the newspaper writer ought to know is that fire insurance is not third-party liability insurance but rather first-party property coverage that operates without regard to fault. Moreover, workmen's compensation—for humanitarian reasons—denies employers the right to allege fault on the part of workmen who suffer job-connected injuries.

Letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, 740 Rush St., Chicago, Ill. 60611.)

Sheraton insurance

To the Editor: In the Jan. 18 issue of Business Insurance there was an interview article on the placement of Sheraton's new blanket insurance program.

Although much of the article dealt with Sheraton's previous experience, American Mutual was the only former insurance company's name mentioned in the article; and although it is pointed out that they carried the liability portion of the program, we believe the fact that they were not property insurers for Sheraton should be emphasized.

The desire to initiate a new blanket program was the main reason for the changeover of liability insurance from American Mutual. A review of the American Mutual program indicated that their coverage was responsive to the needs of a hotel corporation, which I thank you for pointing out in your article. Sheraton's association with American Mutual has been not only long but pleasant. Furthermore, they have never carried our property insurance coverage.

We request that you point out these facts to your readers so that they will not be left with any erroneous impressions about the role played American Mutual or other insurers in Sheraton's former insurance placements.

Richard P. Ackerman

Director of Insurance, ITT-Sheraton Corp. of America, Boston, Mass.

Council address

To the Editor: Your March 1 issue, page 20, showed a table entitled, "Ups and downs of workmen's compensation costs." This information was obtained from the National Council on Compensation Insurance, and I would appreciate it if you would furnish me with the address of this council.

Donald R. Forritter

Vice President-Finance, Endicott Johnson, Endicott, N. Y.

Editor's Note: The address of the National Council on Compensation Insurance is 200 E. 42nd St., New York, N. Y. 10017.

INA on work comp

To the Editor: I am writing in reference to the article on page 50 in your Feb. 15 issue, the spotlight report on workmen's compensation. This is not a complaint but it seems unfortunate that I am quoted in a way that could be misinterpreted. We would like to clarify Insurance Co. of North America's position.

The point we would like to make is that many companies, including INA, are interested in increasing workmen's compensation benefits. In many states the indemnity benefit is so low that injured employes are unable to meet their monthly obligations even when the medical expense is fully covered. There are suspicions, with little or no proof, that some permanent disability awards are inflated to compensate the injured employe for an inadequate weekly indemnity benefit.

Your front page article in the same issue, "For the injured: \$50 a week," is a good case in point. Such stories bring out the humanitarian in all of us. Who

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War vet . . .

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Oregon medical school plans to offer the training in 1972.

BESIDES Dr. Cross, the Rehabilitation Institute of Oregon has on its staff another psychiatrist, Dr. J. Halisey Kennedy, a graduate of Ohio State University medical school. Before joining the staff at the institute, Dr. Kennedy was a regional medical director for an insurance company and was also a medical examiner for the Social Security Administration. He believes society's views in regard to the economics of physical disability need to be re-evaluated.

"We pay people to be disabled," he said, "instead of paying them to be productive with a disability."

"When I was with the Social Security Administration, we had

a case involving a severely mentally retarded young man who worked for his father, a plumber. He was too retarded to be employable on his own but because his father employed him and took a personal interest in the boy, his claim for Social Security benefits was rejected.

"Technically he had a job but only because his father wanted to be a good parent and provide his son with some kind of activity and feeling of accomplishment. But as a result, the boy was financially penalized.

"I THINK the same concept applies with workmen's compensation. If the injured worker makes a real effort to rehabilitate himself, his chances of getting a fair financial settlement for the injury received are lessened. The injured worker seeking a financial settlement of his claim has to appear as disabled as possible to get fair compensation," Dr. Ken-

nedy said, adding that, "this is also often the case in personal injury litigation.

"You really can't blame these people too much because society rewards disability and usually penalizes the disabled when they try to help themselves."

Dr. Kennedy has some strong views on employe health insurance programs as they affect handicapped workers "The humanitarian employer who hires handicapped workers soon discovers his group health insurance rates have gone up. This discourages employers from hiring the handicapped.

"In England, the government assigns handicapped workers to the various industries in a city and the employer has no choice in the matter. But neither does the employe so this isn't the answer either," he said. Freedom of choice should be available to both.

While private physicians and

general hospitals direct their efforts at curative medicine, the institute views not only the patient's medical problems but also his human problems.

Mrs. Doris Olds is one of two medical social workers at the institute. She has a master's degree in social work administration from the University of Chicago and has been working at the institute with patients and their families for the past two years.

"A patient here isn't just a physical entity with a particular medical problem," she said. "Each one is unique as a person with a specific psycho-social situation. But one thing every patient needs is hope.

"The psychological impact of a serious injury or illness can be tremendous. One man told me that all he saw in front of him was a black hole. Our job is to help him find the light at the end. The common reaction for many patients is 'I'm no good any more.'

"IN SOME CASES this depression requires treatment by a psychiatrist," she said. "Sooner or later every patient must face his moment of truth. We try to get them to face the truth with hope. An institute such as ours isn't a miracle factory but all people have some inner strengths that can be drawn upon and even the most serious disabilities leave the patient with some physical or mental resources.

"You must be honest with the patient at all times or you'll lose his trust and confidence. Strangely enough, I've had cases in which the patient's family needed psychological support more than the patient," she smiled.

Contrary to much public misunderstanding, the institute is not financed by voluntary donations nor is it subsidized or a division of either the state or federal government. It is a private, non-profit corporation and receives the bulk of its financial support from patient fees, including payments by insurance companies and Medicare. The crippled children's division of the University of Oregon medical school also pays for the care of a number of young patients each year.

Secondary sources of income include funds allocated by the United Good Neighbor drive, amounting to about 3% of its \$700,000 yearly operating budget. Payments from the Oregon department of public welfare account for about 1% of its revenue and the institute receives payments from Oregon workmen's compensation carriers and the Oregon state division of vocational rehabilitation for services provided to patients referred for treatment or evaluation.

DESPITE efforts by public and private agencies, Oregon has not been one of the most progressive states in regard to the financial support for programs designed to benefit the physically disadvantaged, said several staff members.

Successful rehabilitation does not come in great leaps but instead is a day-by-day, inch-by-inch battle. This forward effort is usually a frustrating and difficult one. Many of the male patients previously worked in the forest products industries and find it difficult to adjust to a life style that limits their physical activities. It is particularly frustrating for a man who has worked in the woods or on some other job requiring great physical ability to suddenly find himself with an artificial leg or in a wheelchair.

Mrs. Sue Sakai, the institute's other full-time medical social worker, pointed out the importance of a sound follow-up program for the patient after he or she returns home. "Almost all the patients here are referred by their personal physicians. The physician is given a full report on the patient. In this sense, the institute helps inform the physician so he can better understand the patient and all of his needs including those beyond what could be considered strictly medical.

"The patient who returns home to a good family situation in a community that has resources for a continued program of rehabilitation under the guidance of a physician," she said, "had a substantial advantage over the one who doesn't have this kind of supportive help.

"THE PROGRAM here is concentrated and comprehensive but it has its limitations in time and what can be accomplished. A good part of medical social work involves the linking together of all social resources to give the patient the best possible chance to

Continued on page 20



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speaking of safety

Safety program at Tennant based on skill of well-trained employes

MINNEAPOLIS—Safeguarding equipment and having a well-planned fire protection program is not the entire answer to sound plant safety: The real answer lies in making employes consciously aware of the need for strong safety practices.

With this underlying thought the Tennant Co., manufacturer of sweepers and allied specialized maintenance equipment, has developed its safety and fire protection program.

According to Tom Larson, plant engineer, "The success of your safety program depends a great deal on the foremen and supervisors." He contends that these people have the most direct contact with the employes and consequently the most influence on them.

AT TENNANT, the foremen comprise a safety committee that meets once a month to talk out problems, review accidents and inspect work areas. Prior to each meeting two members make a general housekeeping inspection tour to check for unguarded machines, unsafe practices and unclean work areas.

During these inspection tours, said Mr. Larson, "we check to be sure all employes are wearing their safety glasses. Because of the nature of our work, all employes and visitors to the plant area must wear safety glasses."

Mr. Larson posts announcements of forthcoming safety committee meetings on bulletin boards to give employes a chance to air complaints or discuss suggestions with their foremen. The foremen then bring these complaints or suggestions to the committee meetings.

AS A CONSTANT reminder for employes the company's safety rules are conspicuously posted on bulletin boards. A brief glance at these rules every so often reminds the worker of what the company expects. The highly mechanized nature of Tennant's plant operations makes it necessary for employes to develop safe work habits in order to prevent injury.

"We stress to our employes that any injury, no matter how minor, should be brought to the attention of the company nurse," Mr. Larson said. He added that most injuries are of the cuts-and-bruises type but even these should be checked by the nurse to prevent any additional complications. In most cases the nurse fills out an accident report explaining the nature of the injury and how it occurred. These are reviewed by the safety committee to determine whether any additional preventive measures can be taken.

Workmen's compensation for Tennant is handled by the North Rivers Insurance Co. through Marsh & McLennan Inc. Periodically, North Rivers sends a man to make a safety check of the plant and "so far we've maintained a good record," Mr. Larson said.

With the assistance of its fire insurer, the Factory Mutual, Tennant has organized fire-fighting crews for both shifts. First of all, according to Mr. Larson, "we give to all employes a set of fire instructions including a two-color map showing location of alarms and exits and explaining the duties of each member of the fire-

fighting crew.

WHEN AN ALARM sounds in the building, crew members grab their extinguishers and meet at the control board area. The control board contains a panel of lights, each one corresponding to a particular department. By noting which light is blinking, the crew can readily determine the exact location of a fire.

Other members of the fire crew have special duties: to see that the alarm is sent to the local fire department, that the plant is evacuated, that the dock area is cleared for the fire trucks, that the fire department is properly directed to the location of the fire and to monitor the sprinkler control valves. In most cases fires can be located and extinguished before the department ever arrives.

Each crew member knows what his specific job is and as soon as he hears the alarm he puts his knowledge into action. To keep the crews on their toes "we get together once a year to review responsibilities of team members and to practice using fire extinguishers," Mr. Larson explained.

As safety checks, fire alarms are sounded once a month, sprinkler valves are checked every Monday morning, and monthly inspections are made to be sure the fire extinguisher seals are intact.

"YOU NEED to have check lists and you need to have responsible employes in charge of making the inspections," Mr. Larson contends. "In this way you can be sure that everything is in

good working condition and ready for use when the emergency arises."

The company, also has an employe ID system and requires visitors to register with the receptionist. "This kind of protection is almost mandatory today," said Mr. Larson, "to guard against theft of product ideas and even the theft of products themselves. As we have become more sophisticated in our product ideas we have seen the need for increased product security."

Mr. Larson makes some use of safety slogans and safety posters but for the most part he prefers to go the route of supervision. Personal contact between employes and the foremen and good training of all employes "has been the most profitable course for us."

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elect attractive options, including permanent cash value coverage at less than individual rates. Something new in retirement programs, too: *The Answer Plan*. This concept of Continental Assurance, of CNA/insurance, allows small employers to start a plan preapproved by the Internal Revenue Service, almost as easily as buying fire insurance. And through the same man—a local independent agent!

Continental^{Life} Assurance:
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School board sues firm over excessive premium

MIAMI—Miami's school board has gone into court to protest what it calls "excessive" premiums for life and health insurance coverage of the board's 17,500 employees.

The Dade County school board filed suit in circuit court against Connecticut General Life Insurance Co.

School board attorney Robert C. Lane Jr. called the case "a classic controversy" over what a reasonable premium should be.

"WE'RE SIMPLY asking the court to decide that question," said Mr. Lane, an attorney in the law firm of George Bolles. Mr. Bolles' firm filed the action, which culminates two months of

unproductive negotiations between the school board and Connecticut General.

The suit mentioned no specific dollar figure.

But school officials say they are seeking to recover, with interest, some \$250,000 in dividends and a \$640,000 premium increase demanded by the company.

The five-page suit also calls for "a full accounting" of the more than \$4.1 million in premiums received by Connecticut General over the past 16 months, as well as a report on all claims paid.

IN NOVEMBER, Mr. Bolles and school insurance experts charged that the insurance firm had utilized about \$250,000 in life insur-

ance dividends to pay off losses incurred under the health plans. Mr. Bolles argued that the money should be returned to the schools.

The dispute dates back to April 1969, when a school board majority awarded Connecticut General its insuring functions, over the objections of school insurance officials and a consulting actuary. The actuary said then that a bid by Prudential Insurance Co. was lower, but it was tossed out by four board members because of an irregularity.

In November, Connecticut General asked for a \$640,000 premium increase, indicating that it would cancel coverage if it didn't get it. School officials contended that their policy required a 120-day advance notice of a rate increase.

Connecticut General provides health insurance, which is underwritten by the board, and optional life insurance, whose costs are divided by the board and individ-

ual school system employees. It also provides optional health and additional life policies for those employees.

After the school board brought suit, an attorney for the Dade Classroom Teachers Assn. said his group will join in the action. The CTA will seek to recover what it called excess insurance premiums paid by school employees.

The CTA attorney, Tobias Simon, said the association will ask that the money be refunded to the school board as trustee of the employees' contributions.

Increase vetoed

Mayor Ann Uccello, Hartford, has vetoed a city council-passed ordinance for cost-of-living increases in teacher pensions, contending that the provision for automatic boosts would also be demanded by other retired city employees. She said she is preparing a substitute ordinance.

War vet . . .

Continued from page 18

attain his maximum level of human functioning," Miss Sakai said.

"In some cases, it may mean the patient will be able to be fully employed. In other instances it may mean he will be able to perform only limited personal functions, such as dressing himself."

Occupational therapy in a rehabilitative sense covers a much wider range of activity than the words normally imply, according to Jean Haase, chief occupational therapist. "The very fact a person has been away from normal social relationships for a considerable time creates a certain amount of emotional or mental confusion, or both, with most people.

"Normal daily living requires thinking and decision making. Shopping, for a woman, may seem very elementary, but it requires thinking in regard to numbers and decisions. The post-stroke patient, or one with some kind of neuro-muscular disease, may not be able to perform many routine duties associated with daily living without re-educational help.

"WE CONDUCT all kinds of tests," she said, "to determine the patient's physical and mental capacity. The games they play are designed to evaluate eye and hand coordination, independent thinking and many other factors of a therapeutic and evaluative nature.

"We work with the Oregon division of vocational rehabilitation closely but occupational therapy isn't limited to job placement," she emphasized.

A major concern of the institute is the difficulty many younger patients have finding suitable housing after their discharge. A drive is now under way to secure funds for the establishment of a Wheelchair Halfway House to bridge the gap between hospital care and independent living for disabled youngsters.

The Rehabilitation Institute of Oregon was founded in 1948 by a group of private citizens who were concerned about the well-being of the physically disabled in the state. After an up-hill effort for several years, the institute moved into its small but reasonably adequate present facility in 1962.

THE REHABILITATION Guild is composed of women across the state who render a wide range of volunteer services, with emphasis on fund raising. The current leading project of the guild is the Wheelchair House Fund.

Because physical medicine and rehabilitation is a relatively new field, its social acceptance has been gradual. Insurance companies were at first reluctant to include this coverage. Private physicians today, however, are more aware of it and refer patients far more often than in the past.

Dr. Kennedy thinks statistical data relative to the economics of rehabilitative medicine can readily be misunderstood. "While I was in training, one of the men from the bureau of vocational rehabilitation told us frankly that they preferred to work only with patients whose potential for a rapid vocational adjustment was good. It looked better to the legislators when the bureau could show successful results in 18 out of 20 cases handled."

Dr. Cross's views are similar to Dr. Kennedy's. He believes agencies of state government evaluate rehabilitation from biennium to biennium when a long-range outlook would be the realistic and more fruitful course to follow. ■

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Coke is the real thing— and so was that mouse

FALLS CHURCH, Va.—George Petalas, 76, paused for a bottle of Coca-Cola in 1969 and, well, he definitely was not refreshed by the action. In fact, he was just awarded \$20,000 by a jury here after a suit alleging that the bottle contained the remnants of a mouse.

Mr. Petalas sued the Coca-Cola Bottling Co. of Alexandria, Va. and Safeway Stores Inc. His suit, asking \$100,000 in damages claimed that he was "permanently sickened" by drinking from the bottle that contained the parts of a dead mouse as well as syrup and carbonation. He testified that he was hospitalized for three days following the incident and that he has since been unable to eat meat. He said he had lived on a diet of grilled cheese, toast and noodles.

A spokesman for the bottling company said that his firm was covered by products liability insurance "but I didn't think we'd ever have to use it."

The spokesman told *Business Insurance*, "This is the second time someone has sued us for a mouse in the bottle in my memo-

ry. We run into a lot of false claims but this is only the second one like this. The first time the judge almost locked up the claimant and his lawyer. That's how trumped up their suit was. I mean, these things just don't happen. If he really did find a mouse in that bottle, I'll guarantee you somebody got to it before he did."

Mr. Petalas said he took two swallows from the bottle in the presence of a store employee before he noticed "a strange taste." He and the employee then went outside the store, poured out the remainder of the bottle and discovered the half-mouse.

The suit, which demanded medical expenses and payment for "past and present mental anguish," is being appealed. ■

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letters

Continued from page 16

wouldn't be liberal in determining percentage of disability for those who survived that tragic accident? Under the law, nothing can be done for the widows and dependents of those who were killed. Given a choice between a 25% disability and a 35% disability award for the survivor under these circumstances, no one would be conservative.

We prefer proper levels of indemnity benefits. This would remove the temptation to inflate permanent disability awards to compensate the insured for indemnity benefit levels that are so low it is impossible for the disabled employee and his family to exist. We would like these employees to receive up to two-thirds of their pre-injury earnings but this would increase workmen's compensation premiums to a level many would reject, if at the same time we didn't act on another serious problem. A large amount of workmen's compensation dollar loss goes to injured employees with minor disabilities and little or no loss of earnings. On the one hand, the system denies those with real needs while it rewards some with none.

In the second paragraph of your article I am quoted in a way that suggests the only reason INA provides assistance or rehabilitation is to keep employees away from lawyers. This is not the point I wanted to make. We provide financial assistance through our rehabilitation program to relieve the financial burden a totally incapacitated workman encounters. By doing this, we hope to remove the anxiety barrier that could prevent rehabilitation and the return to work. We make it easier for the injured workman to become properly motivated to gain the full benefit of vocational rehabilitation.

Thanks for hearing us out.

Robert St. John

Assistant Vice President, Insurance Co. of North America, Philadelphia, Pa.

This ancient mariner found a safe port in Savannah.

Savannah Machine and Shipyard Company has played an important role in world shipping for forty-three years: building, converting and repairing ships. And the company's 540-foot dry dock generally accommodates modern merchantmen.

Recently, however, a three-masted square rigger put in for repairs. The *Cruz del Sur*, star of the film "A High Wind in Jamaica", required work on its hull and top hamper (15 yardarms, 25 sails, and 9 miles of rigging).

The Savannah Machine and Shipyard Company "snapped to", and, today, the 174-foot craft is a floating exhibit at a Savannah maritime museum.

Keeping things shipshape.

The Savannah Machine and Shipyard Company, and its associate Ductile Iron Company of America, employ 1200 people during peak periods. Sheet metal, pipe fitting, wood working, and machine shops — backed by an engineering staff — makes it the largest marine facility in Georgia.

The heavy equipment, involved rigging, and Federal and Maritime exposures create a high risk classification in workmen's compensation insurance. Their insurance broker, William H. Brown of the John D. Carswell Company, recommended Argonaut Insurance with its background in handling large workmen's comp risks, safety engineering, and experience in Federal and Maritime coverage needs.

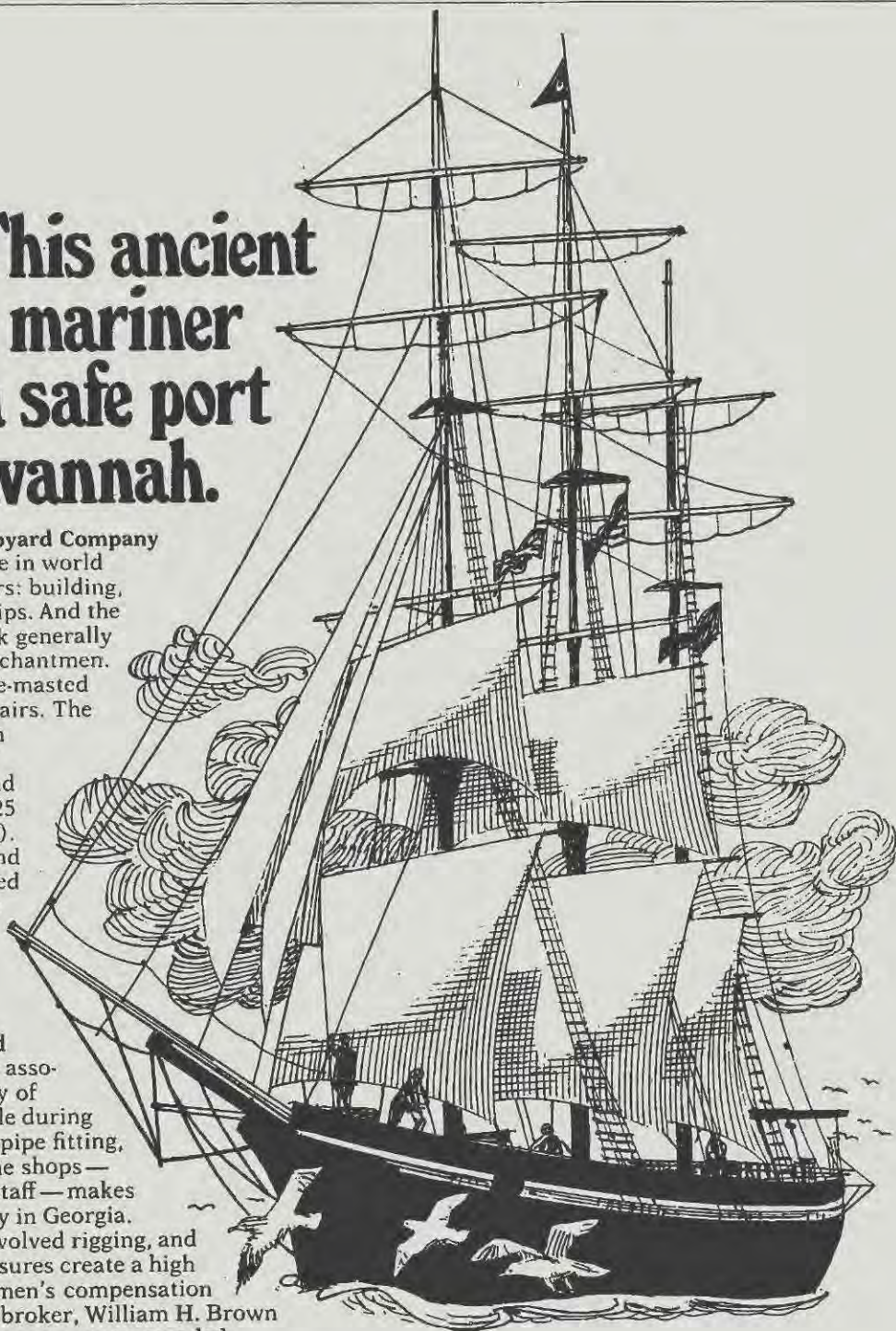
Argonaut comes aboard.

W. Ballard Powell, who heads Insurance and Safety for the Savannah Machine and Shipyard Company reports progress: "Since signing on with Argonaut in March 1969, we've instituted monthly meetings between safety committees and an Argonaut safety engineer. Every quarter, company, agency, and carrier representatives meet to review claims and to spot potential problem areas. It's working out fine. Together we've been able to effect a sizeable drop in time-loss accidents and expedite the handling of involved claims."

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More liberal pensions could spell 'disaster'

NEW YORK—The New York Chamber of Commerce, in effect, has asserted that exorbitant pension fund costs could lead to the economic destruction of the nation's largest city.

In a disturbing report to Mayor John V. Lindsay, the chamber has urged city officials to "hold the line against further costly adjustments" in the pension benefits granted uniformed city employees.

Police and firemen in this city may now retire at half pay after 20 years of service, without age limitation. There is a percentage increase for each year of service beyond 20, up to about 85% of pay after 40 years of service. Under present contract demands, the uniformed employees—including sanitation workers—are seeking retirement at half pay in less than 20 years and full pay at 25 years.

THE DEMANDS, described as "outrageous" by one chamber official, "would result in substantially increased taxes in the city, which would in turn prove powerful factors in forcing both businesses and individual taxpayers to question the merits of New York City occupancy. As business firms and residents depart," the report notes, "a spiraling of taxes would inevitably result—since the tax burden would be increased even more sharply on remaining businesses and individuals, as the tax base narrows."

The report was delivered to Mayor Lindsay by three chamber officials: J. Wallace Bates, president of the chamber and a vp and general counsel of New York Telephone Co.; Gilbert H. Fitzhugh, chairman of the chamber's executive committee and chairman of Metropolitan Life Insurance Co., and Thomas N. Stainback, exec vp of the chamber.

At a news conference after he had met with the trio, Mayor Lindsay said that the chamber officials had "made a strong presentation." A Lindsay aide later told *Business Insurance* that he thought the same presentation should be made to union leaders representing the uniformed employees.

In a covering letter accompanying the report to Mayor Lindsay, the chamber officials warned that the city's pension funds were in bad financial straits even without further liberalization of benefits.

"FOR EXAMPLE," the letter points out, "Mr. Jesse Feld, the city's actuary, in his annual report of the New York fire department pension fund, has, since 1960, consistently warned the fund's board of trustees of the sizable deficit existing in this fund. As of June 30, 1969, the deficiency amounted to \$165 million, which represents a \$12 million increase in the deficit over the 1968 figure.

"This deficit," the letter continued, "involved approx-

imately 54% of the funds in the system. With this deficiency increasing each year, the ability of the present fund to meet its future payment obligations is highly questionable from the actuarial point of view. Any reduction in the length of service requirement will be extremely expensive. These added costs will increase very sharply as more men will retire earlier and earlier at full pay. Any further liberalization of pension funds would compound the pension payments solvency problem to the point where drastic action should be taken to avoid the exhaustion of the fund," it adds.

In noting that "it is not only imperative for the city to refuse further liberalization of the existing pension plan, but (that) benefits should be modified in other respects to reduce the overall cost to the city," the chamber report said that the uniformed employees' pensions are far more generous than those in either the private or public sector.

Referring to a Bankers Trust Co. survey of more than 200 representative private pension plans, the report says 98% of these are predicated on a normal retirement age of 65, with the remaining 2% at age 60 or 62. Moreover, the report states, employees must generally be at least 55 to 60 years of age to be eligible for early retirement.

Continued on page 44

AT&T moves some of its pension money to independent managers

By STEPHEN G. LENSON

NEW YORK—The American Telephone & Telegraph Co.'s pension fund—or, to be more precise, the combined funds of the Bell System companies—is not the most typical of employee benefit funds. (See related story on page 39.)

In combined assets alone, for instance, the AT&T funds are a powerhouse to boggle the minds of most fund administrators. Assets are approaching \$8 billion. The guy working with a fund of \$1 billion probably surmises that his problems are only one-eighth those of AT&T. But this is not necessarily the case. For AT&T's funds have faced the same problems and challenges others have faced in the last decade.

How has the company, with more than a million employees, faced those problems and challenges? The answer, in a word or two, is "head-on."

THE BELL SYSTEM'S pension administration has changed dramatically in the last decade. It has, for one thing, become a little more aggressive than it was in the conservative '50s. Its assets, for another thing, have been spread from the management by a single New York bank to more

than 50 banks countrywide. Then, as if to say that 1971 was a year for even more dramatic ideological change, in January a portion of Bell System pension money, albeit a small portion, was transferred from banks to the custody of a new breed of financial cat: the professional money manager.

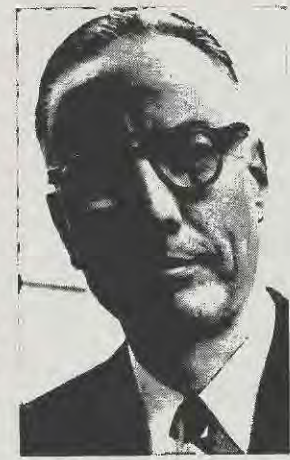
J. F. Thompson is director of pension fund administration at AT&T. He is closely connected with any ground rule changes in fund administration philosophy for the Bell System's parent company and also carefully observes investment reports as they come in from the many Bell companies scattered around the country.

Mr. Thompson is a rather precise gentleman, tall and straight, and impeccably groomed. In the manner and appearance of AT&T's top fund administrator is any indication, the company's pension monies are in similar condition.

In an interview with *Business Insurance*, at the company's corporate headquarters in lower Manhattan, Mr. Thompson discussed a decade of pension fund investment philosophy changes at AT&T in detail.

AMERICAN Telephone & Telegraph is made up of 24 Bell Sys-

tem companies, including the Bell Telephone Laboratories and Western Electric Co. Each has its own pension fund and until January, 1960, the combined assets of these funds were held and managed by Bankers Trust Co. in



J. F. Thompson

New York. Combined assets then totaled about \$3 billion.

"Starting in 1960," Mr. Thompson said, "because of size—and that was the compelling reason—we decided to diversify. Five AT&T subsidiaries transferred

Continued on page 48



pension, investment report

Fund asset values decline; managers grin—and bear it

By ANNETTE DUFFY

NEW YORK—The problems faced by pension funds as they trudge into 1971 are rooted not only in the bear market of the last two years but also in the destructive effects of inflation.

The bear market, in fact, served to underline the increasing dangers of inflation as asset values declined and demands on funds from retirees and labor unions representing active employees increased. And the co-existence of the two problems laid to rest the long-standing myth that an inflating economy is good for common stocks.

Although there are a few examples of pension funds that made out very well during the last two years, most corporate treasurers and employee benefits managers report erosion in asset values pretty much in proportion to the fall in the stock market. On the other hand, most of these same people are reporting comebacks in equal proportion to the market's rise, and point to the expanded time horizon natural to the long-term pension fund as the umbrella protecting them from serious problems due to a mere two years' slide. Some experts, however, especially private money managers, warn against taking shelter under the time umbrella.

In terms of actually dealing with the bear market corporate pension fund overseers surveyed by *Business Insurance* generally expressed a grin-and-bear-it attitude although many were obviously worried and some spoke of the possibility of splintering their funds. A source at IBM, who reported that their pension fund money is already divided,

commented that "when the Dow Jones goes from 1,000 to 650 anybody who hasn't had asset erosion is telling a lie. Every manager has taken a loss to some degree. But I also tie the rise of our asset value to the market, which has gone from 650 to something like 880. Draw your own conclusions."

Similar performance was described by a source familiar with the pension fund at Continental Can Co. Inc. He reported that their money is divided between two banks and referred to the protective effect of the time element. "The impact of the bear market on our fund has not been greatly different from other funds. We suffered quite a down turn in market values by the middle of last year; I'd say we hit the low point towards the middle of last year. But now we're on the upturn again. These cyclical trends are to be expected when you're dealing with the market, and we certainly have not changed our long-term philosophy to any extent. After all, pension funds have, by nature, wide time horizons."

AN OFFICER at one of the largest New York banks said, "We're in the same boat with everyone else. The first half of '70 was difficult—it made '69 look easy—but the second half of '70 was surprisingly good. The problem was that we had two bad years next to each other. But nobody has gotten too upset except, perhaps, some of the smaller funds which weren't exposed to the bear markets of '62 and '66. They might have had some sleepless nights. But the major, sophis-

Continued on page 45

Pension plan structure for AT&T salaried employees hasn't changed much since 1913. See story on page 46.



Legislators cool toward pension reforms in '71

WASHINGTON—Every year about this time trade papers with pension interests begin cranking out stories calling it the "year for pension legislation," and predicting congressional "action" on a variety of proposals.

Many are doing it again, but insiders on the Washington scene are advising caution, some predicting not only that the 92nd Congress won't pass pension legislation this year, but that it won't pass any next year either.

This change in outlook, which follows no less than four years of contrary predictions, stems from a slow, but distinct cooling toward pension legislation by union leaders.

SPECULATION on why union support appears to have waned centers on two basic ideas.

First, the unions have come to realize that with a Republican in the White House, they have faint hope of getting federal vesting, funding and reinsurance standards passed that exclude multi-employer plans. During the Johnson Administration, they felt this was a definite possibility.

Second, and probably more important, union leaders realize that there is no longer any hope of getting a vesting, funding and reinsurance bill of any kind without also accepting a companion proposal tightening fiduciary standards for pension fund administrators.

A great deal of rhetoric to the contrary, topside union officials have never really favored a fiduciary responsibility bill, since the entire power structure of most of them is built on their tight con-

trol over the multimillion dollar pension fund purse strings. As a host of recent scandals indicate, not all union pension fund administrators are acting as "prudent men."

THE STRONGEST recent indi-



pension, investment report

cation of labor's coolness toward pension reform came out of the AFL-CIO's February annual meeting in Bal Harbour, Fla. The powerful executive council of the union issued 40 resolutions on almost every subject imaginable, including the treatment of

Jews in the Soviet Union. But, not one resolution called for legislation on private pension plans.

The push by labor for strong vesting, funding and reinsurance requirements has always been billed as "assuring the workingman his just due at retirement time." The AFL-CIO council's answer to this problem this year was a call for a 15% across-the-board hike in Social Security, followed by a 20% increase next year. It also wants a number of other changes in the program, including the use of general revenues to finance benefits.

Leading laborites in Congress are of course talking loudly of making 1971 a big pension year. There seems, however, to be little question that plans for any real significant action are—at best—on the back burner. Rep. John

Dent (D.—Pa.), head of the general labor subcommittee and the traditional ball carrier in the House for omnibus pension reform, has placed coal mine safety and an investigation into the Administration suspension of the Davis-Bacon Act ahead of a pension act.

The subcommittee, which held hearings on pension legislation in 1969 and 1970, has not even scheduled hearings for 1971 yet although an aid to Rep. Dent told *Business Insurance*—as he did last year—that the congressman is definitely going to press hard for action this year. One problem is that Rep. Dent is not even certain of wholehearted support from his full committee chairman, Rep. Carl Perkins (D.—Ky.). Rep. Dent tried to get extra funds to finance a full pension study last year, but Rep. Perkins turned him down. Among other things, Rep. Dent reportedly wanted to go to England and Sweden to study their pension systems.

ON THE SENATE side, it is almost certain that no legislative action will take place until at least February, 1972. The senate labor committee, chaired by Sen. Harrison Williams (D.—N.J.), just received a \$475,000 special appropriation to continue its investigation into the United Mine Workers' election and of welfare and pension funds in general. The amount voted for the same investigation when it started last year was \$265,000. The new appropriation will cover 13 months, a one-month longer period.

The current appropriation is to fund the investigation through February, 1972, and Congress has yet to see a funded investigation halted for the sake of legislation. Among other things, the investigation is to place "special emphasis on the need for protection of employes covered by" private pension plans.

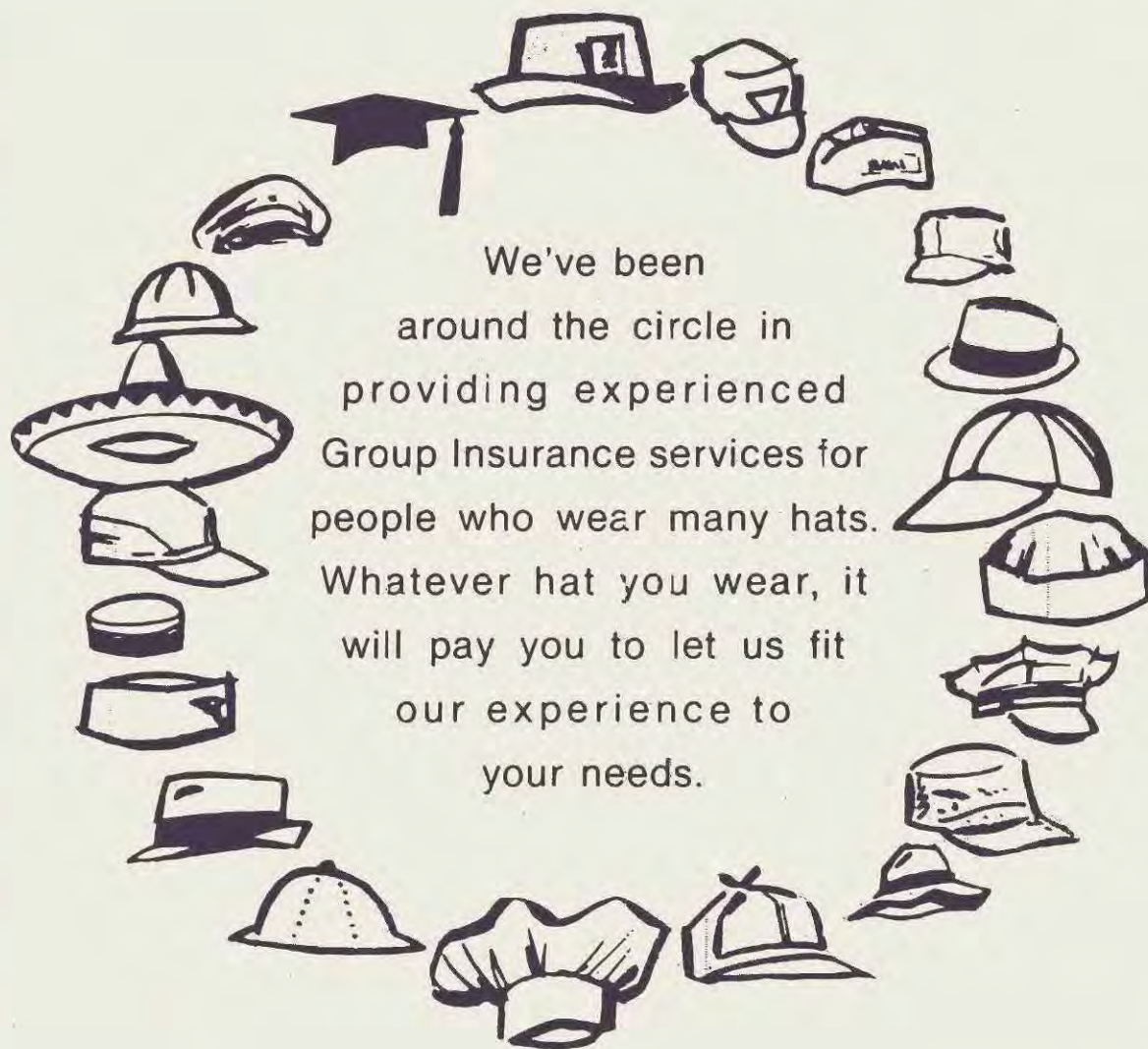
The labor subcommittee, also chaired by Sen. Williams, is handling the investigation. It also has another pension project going. Last year it sent out 1,500, 31-page questionnaires to pension funds. The answers to the 40 questions are still coming in and a staff member told *Business Insurance* it would probably be at least six months before any conclusions are reached from the study.

Sen. Williams was quoted in a national news publication as saying he thought it would be at least two years before a vesting, funding and reinsurance bill would stand a chance for passage. He said a bill tightening the fiduciary responsibilities of pension fund administrators could pass this Congress, but close observers point out that he could hardly have said less.

THERE IS ONE school of thought that Sen. Williams, Rep. Dent, Sen. Javits (R.—N.Y.)—another big pusher for pension reform—and others in the same camp do not want a fiduciary bill without vesting, funding and reinsurance. For one thing, this is the way labor wants it. Also, the reasoning goes, passage of a fiduciary bill would take the steam out of all other pension legislation for some time.

Senators Williams and Javits and Rep. Dent have gotten too much political mileage out of the issue to let it go with the simple passage of a fiduciary bill. Support for this theory was offered during the final days of the 91st Congress when a heated floor debate broke out between Sen.

Continued on page 25



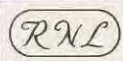
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Legislators . . .

Continued from page 24
 Vance Hartke (D.—Ind.) and Sen. Javits over Sen. Hartke's attempt to add an amendment to the Broker-Dealer Insurance Bill that would require mandatory reinsurance for private pension plans. Sen Javits opposed the measure saying that while he was, of course, in favor of mandatory federal insurance of pension funds, he felt that reinsurance would be a mistake without also providing minimum federal standards for vesting and funding and enacting stronger fiduciary standards.

The debate got so hot at one point that the presiding officer in the Senate had to rule on which senator had the floor. The entire matter accomplished little except giving an indication of Senate concern over private pension reform. Besides his own, Sen. Hartke got three votes.

WHEN ALL IS said and done in the various labor subcommittees and full committees, proponents of legislation affecting private pensions still have to face one very formidable foe—Rep. Wilbur Mills (D.—Ark.), chairman of the powerful House ways and means committee. By statute all tax legislation must start in the ways & means committee and there is a large school of thought that says pension reform bills are indeed tax legislation since they deal directly with the tax benefits afforded private pension plans.

Rep. Mills has had little to say on the matter, except that other committees can study anything they like, indicating, however, that when legislation progresses to the floor, he will want to have a look to see if his private domain of many years is being violated.

Some observers hold that when the Administration comes forth with its pension reform package, which reportedly will include new vesting requirements, meaningful action will begin in Congress. Others doubt this, pointing to the Administration's rather poor track record so far in coaxing Congress to work on its domestic proposals. The Democratic Congress will be especially reluctant to trumpet the Administration's suggestions with the election coming up, they hold.

John Nolan, the Treasury Department's top man in the pension area, has been sending up trial balloons via a series of speeches and interviews recently, testing reactions to various proposals. He cautions they are his own "personal views" not those of the Administration. This disclaimer has become especially relevant since Democrat John Connally recently took over as secretary of the Treasury.

SEC. CONNALLY will have to approve any proposed legislation coming from his department, and no one seems to know how he feels about private pension regulation.

Mr. Nolan's most recent publicly revealed "personal views" holds that a key desire is the elimination of the disparity between the retirement benefits open to corporate employees and the more limited benefits allowed the self-employed. This would involve placing a maximum limit on the tax deduction allowed for contributions to all retirement plans, both for the self-employed and for corporate employees.

The maximum would be set considerably higher than is currently allowed the self-employed, but much lower than the allowed corporate executives.

Another way would be to place a flat limit on the amount of pension any person could build

up via tax deductible contributions.

MR. NOLAN has also spoken of possibly using the "rule of 50" as a vesting guideline. This would require that at least half of an employee's benefits become vested whenever his age plus years of service equals 50. Virtually everyone on the pension scene agrees that Congress could be moved to take quick action on pension legislation by a sudden, loud outcry for such a move by the general public.

While no one really anticipates this happening any time soon, there is question that the public could be stirred by the bankruptcy of one, or a number, of the major pension funds. This apparently is a distinct possibility among some large aerospace manufacturers on the West Coast, and of course, in the current economy, could happen almost anywhere. ■

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UAW official says union favors some type of pension reinsurance

DETROIT—According to a United Auto Workers official, the huge labor organization faced "twice as many" pension fund terminations in 1970 as the average in the previous nine years.

"And that," said Melvin Glasser, who is manager of the UAW's social security department here, "is in an industry that is the most profitable in the country." As a result, he noted, the UAW "is extremely interested" in any form of pension fund reinsurance legislation being talked about in Washington.

In discussing such legislation on the floor of the Senate late last fall, Sen. Philip A. Hart (D.—Mich.) noted that in his own home state on July 1 Gulf &

Western's Metals Forming Co. folded, forcing 170 members of a UAW local to seek employment elsewhere, or to go home to retirement sans pension.

"THE COMPANY'S pension plan," Sen. Hart declared, "was 11 years from full funding and thus there are not enough funds to meet all obligations for workers either presently retired or soon to be retired. And the pension rights for younger workers are entirely wiped out," he said. Sen. Hart further noted that between 1955 and 1965 some 4,000 pension plans were terminated.

"In the company I have just cited," the Michigan Democrat told his Senate colleagues, "were a

man and a woman, both of them 52 years old, each with 37 years of service to this company. Because of their age their pension benefits were wiped out. Something is seriously wrong when in-



pension, investment report

stances like this are permitted," Sen. Hart said.

Another UAW shop that closed last year, Mr. Glasser told *Business Insurance* was Fulton Foundry Co. in Cleveland. Affected by the shutdown were 173 UAW em-

ployes.

"Full benefits were paid to 25 workers age 65 and over. Forty-one percent of full benefits were paid to five workers 65 and over, with average credited service at 24 years. No benefits were paid to 143 workers under 65, including 96 workers with 10 years or more of service. The average pension credits accrued by the 96 was 17 years," Mr. Glasser said.

RECALLING the most famous pension termination case, that of the Studebaker auto division, Mr. Glasser noted that 10,500 persons were covered under that pension plan. "In that case," Mr. Glasser said, "it was especially bad because it was an old work force."

In the Studebaker situation, full pension benefits were paid to 3,500 workers 65 years of age and over. About 4,000 workers between the ages of 40 and 60 received 15% of full benefits. The average length of service in this group

was 23 years, Mr. Glasser said, adding that 3,000 other workers under age 40 "got nothing."

Asked if the Studebaker situation wasn't an exceptional case and not at all typical, the UAW official responded:

"My answer to that is, 'Has anybody ever heard of the Hudson or Nash Motor Companies?' We keep getting hit with, 'You don't expect GM (General Motors) to go out of business, do you?' No, of course we don't. But each year some auto related companies do go out of business. And that is in an industry that is the most profitable in the country. Our experience is better than the rubber or garment industries, for example."

Of the "half dozen or so" pension reinsurance measures proposed in recent months, Mr. Glasser said the UAW has no particular favorites. The powerful auto union just wants to see some legislation enacted. "It's a very minor price to pay," the UAW spokesman said of pension reinsurance schemes that would be supported by employer-employee contributions. ■

Curtis gets pension post

WASHINGTON—James A. Curtis, executive vp and national director of pension operations for Milliman & Robertson Inc., consulting actuaries, has been elected the new president of the Assn. of Private Pension and Welfare Plans Inc.

One of his first acts as president was to announce the associa-



James A. Curtis

tion's schedule of Congressional conferences, designed to provide a forum for association members and key members of Congress to exchange their views on proposed legislation affecting private pensions and issues involved in national health insurance.

"I see the association in a continuing role of focusing attention on the issues involved in pension and welfare legislation," Mr. Curtis said, "so that our membership is adequately prepared to inform their Congressmen of their individual points of view."

Mr. Curtis, who succeeds Richard A. Van Deuren, is a member of the advisory board of the National Foundation of Health, Welfare and Pension Plans, past president of the Western Pension Conference and a fellow of the Society of Actuaries. ■

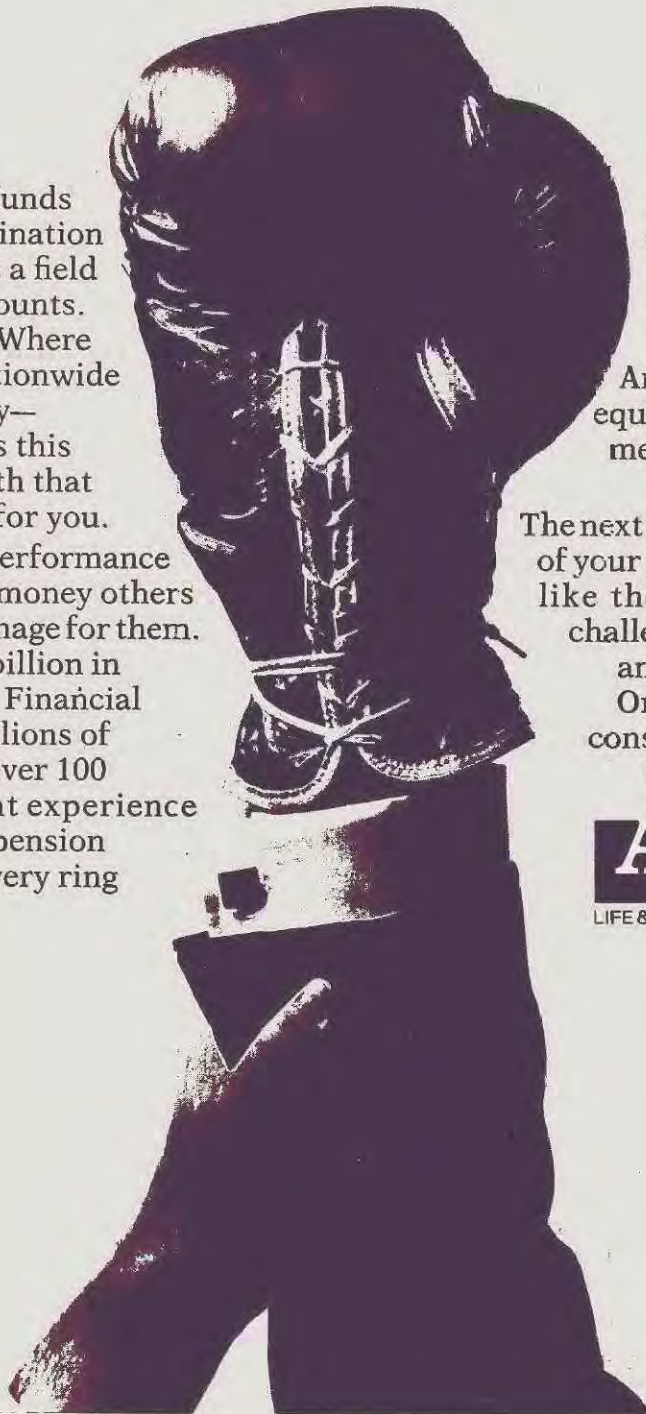
Job injury rate down

The state department of industry, labor and human relations has reported that Wisconsin's job injury toll for 1970 ran about 2% behind 1969's record pace. According to the agency, 33,566 injury cases involving time lost on the job in excess of four days were recorded in 1970 through Nov. 1. That was compared with 34,331 in the corresponding period for 1969. Another 6,300 were reported to the agency during November and December of 1969.

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The next time you review the record of your pension fund, Aetna would like the chance to step in as a challenger. Call an Aetna Group and Pension representative. Or have your own broker or consultant contact us. Get the heavyweight on your side.



LIFE & CASUALTY

OUR CONCERN IS PEOPLE

Hyatt's profit sharing cuts down on pilferage, absenteeism, turnover

BURLINGAME, Cal.—Let's face it . . . some people are stable and remain on their jobs and some are restless and flit from payroll to payroll, just as some people are honest and some possess sticky fingers.

How then does a big \$100 million-plus hotel chain, such as Hyatt Corp., which has its world headquarters here, cut down on labor turnover, reduce employee absenteeism and control pilferage?

The answer—from Donald N. Pritzker, president; Allen L. Appell, marketing-research manager; and Calvin S. McGillis—is to offer "the kind of profit-sharing that provides employees a vested

and went public, with Mr. Pritzker controlling 40% of the stock.

"Financing and sound management," the Hyatt president con-

\$ pension, investment report

tends, "are without question of vital importance to the success of any business. But we feel we really began to take off after Jan-

Continued on page 36



Donald N. Pritzker

interest in the success of the company for which they work."

EVERY HYATT Corp. employe, from foreign-born chefs down to pot wallopers, is eligible to participate in the Hyatt Employees Profit-sharing and Retirement Investment Trust, including Mr. McGillis, who is director of the plan.

Hyatt, as is by now well known to anyone who has slept in one of its 22 hotels or 43 motels, is a rapidly expanding, profitable chain, with more than 11,000 guest rooms and six major new convention hotels planned or under construction.

Physical evidence of the Pritzker-written success story are such properties as the 22-floor Regency Hyatt House in Atlanta; the O'Hare Hyatt House, Chicago; the 420-room Knoxville Hyatt House; and the 32-floor Union Square Hyatt House now under construction in San Francisco.

The financial evidence is in the tripling of sales in three years and a five-fold jump in net income, to \$5 million. Hyatt House sales last year rose to nearly \$60 million, with earnings at \$3 million. Even in a year admittedly "tough" for hotels and motels everywhere, the Hyatt House occupancy rate continues to hover above 70% substantially higher than the industry average.

SUCH SUCCESS, however, did not come from the start when, in 1962, Hyatt Corp. of America was established to operate the hotels of the Chicago-based Pritzker family. At that time, initial stock was issued at \$10 and soon dropped to \$4 a share.

Mr. Pritzker blames the poor initial performance financially on "heavy depreciation charges and high costs that cut earnings."

Reorganization took place in 1967 when the original company was re-named Hotel Equities Corp. Hyatt Corp. was spun-off to operate the family owned units

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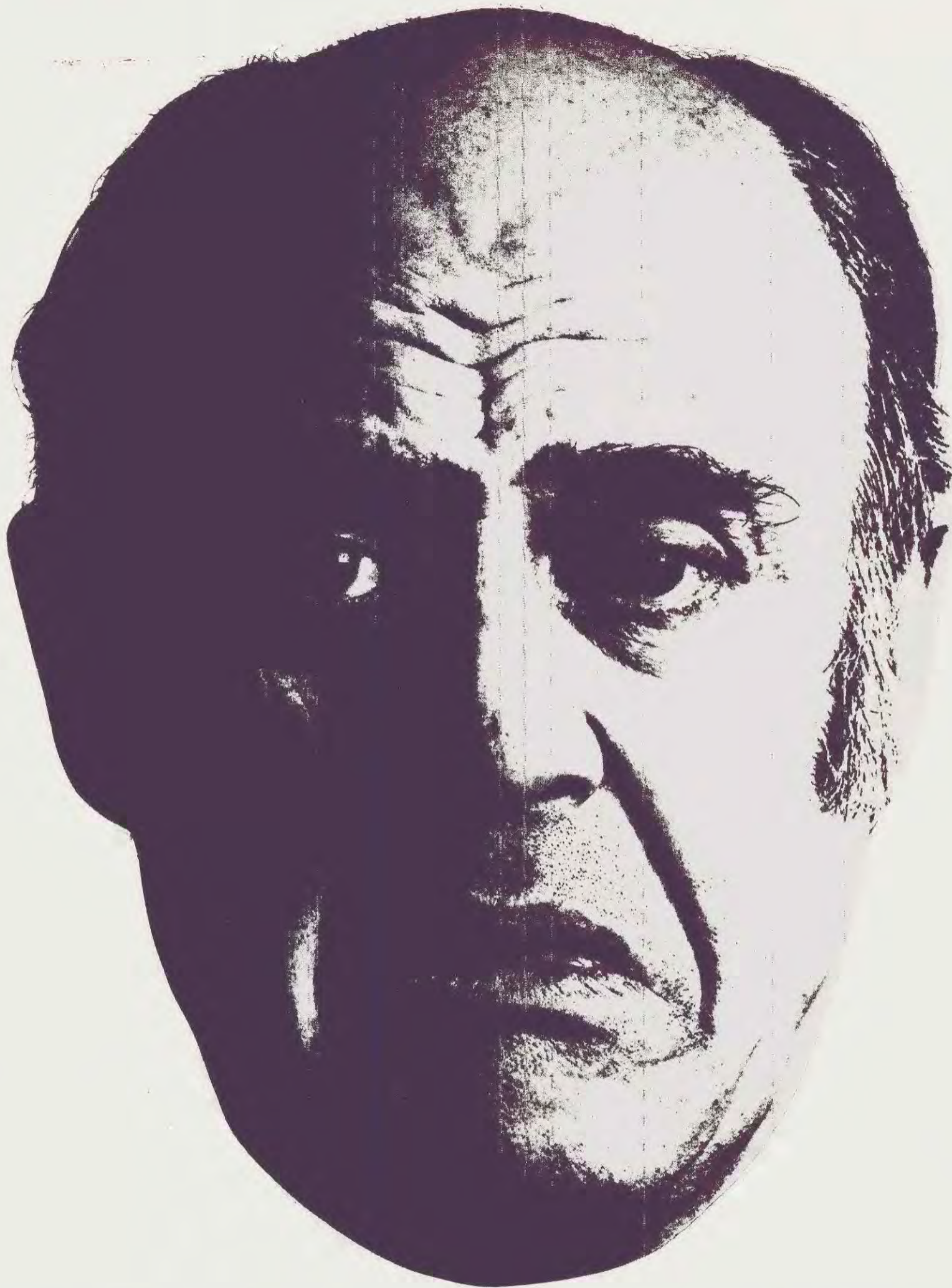
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Bankers Trust study

30% of firms surveyed have two formal plans

By JOSEPH S. ROBINSON

NEW YORK—Substantial changes have evolved in qualified retirement plans over the past several years. This is revealed in a recent Bankers Trust Co. survey of the pension plans of some 200 selected companies covering almost eight million employees.

Actually, the companies range in size from those that employ as few as 200 workers to giants with many thousands on their payroll.

It is interesting to note that roughly one in three companies included in this study has at least two formal pension plans in operation. One plan may cover all employees including hourly work-

ers, while the other may provide supplemental benefits for salaried employees earning in excess of a certain figure; or one plan may be union negotiated, the other may cover non-union employees.

SINCE THREE quarters of the plans covered are of the conventional type (non-negotiated bargaining plans), we shall limit the summary here to general pension practices and trends of these plans. Here is a run down of what the Bankers Trust survey revealed:

Who is eligible? Nine out of ten of the larger companies cover all employees. While some plans allow an employee to participate as soon

as he commences work, two-thirds of the conventional plans still have a waiting period or other eligibility prerequisite. However, there is a gradual tendency toward the relaxation of these

\$ pension, investment report

rules. For instance:

- In plans with both age and service requirements, the trend is toward lowering from age 30 combined with one year's service to age 25 and two year's service.

- In plans with only an age requirement, there is a noticeable drop from age 30 to age 25.

- In plans with only a service requirement, the typical current plan calls for one year of service.

What about employee contributions? More than half of conventional plans are currently non-contributory. Among those with contributory requirements, employee contributions are made mandatory in only 17% of the cases. In the majority of cases, however, they are voluntary. Here, the employee will often receive some benefits even when he makes no contributions at all. Plans that call for voluntary contributions by employees usually

take on one of two forms.

FIRST, THE voluntary employee contributions complement company contributions to provide a definite additional benefit, or, second, the voluntary contributions are not made in conjunction with employer contributions, and the plan does not state a definite benefit that the additional contributions will provide.

Vesting: The right of an employee to leave the company without sacrificing his accrued benefits is usually provided in one of two ways: directly, through a special provision in the pension plan, or indirectly, through an early retirement provision at the employee's election.

Practically all conventional plans have some form of vesting. For example, one out of five contain provision for full vesting on completion of ten years of service; one in ten guarantees full vesting after 15 years of service; one in 12 after 20 years service with the company.

Another combination permits full vesting on completion of a specified number of years ranging from five to 25 years plus attainment of a certain age. For instance, an employee age 40 with 15 years of credited service would be fully vested in 48% of the plans surveyed in this particular study.

PENSION BENEFITS had to be revised in recent years to cope with the inflation problems. Companies had to assure employees they would retire on an income that related to their standard of living in the years just before retirement. What's more, the compensation base for coverage under Social Security continues to increase and the Internal Revenue Service issued new integration rules. The impact these developments had on normal retirement benefits is summarized as follows:

- Benefit rates were increased.
- Benefits that had been accrued on compensation levels of prior years were recalculated at current compensation levels.
- Benefit formulas based on career average compensation were either changed to formulas based on final average pay or else supplemented through the adoption of final pay minimum pensions.
- Benefit formulas based on final average pay shortened the final pay period used for benefit computations.
- Pensions of those already retired were directly increased by management, usually by extending to them benefit improvements made for active employees.
- A few plans adopted the variable income approach, but no plan in this study related benefits to the level of the cost of living.
- Social Security offsets became more prevalent, replacing to a degree step-up formulas.

THIRTY-FIVE percent of the plans studied relate the benefits based on compensation over the entire career of the employee. Thirty-nine percent relate the benefits to the employee's compensation in the final years of service.

The following figures indicate the typical pension income (exclusive of Social Security) which an employee can expect to receive upon retirement under a career-average plan:

Continued on page 34



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Profit sharing was one

Late J. C. Penney had a few cardinal principles

NEW YORK—"I believe in adherence to the Golden Rule, faith in God and the country. If I were a young man again, those would be my cardinal principles; those and profit sharing."

So spoke James Cash Penney, founder of the numerous and successful J. C. Penney store chain, a few years ago. Mr. Penney died Feb. 12. He was 95. A man who practiced what he preached, he started the first profit-sharing

plan in his organization in 1907. The plan is still in affect.

then, the firm has used many different plans but a combined pension and profit-sharing plan started in 1966 is still operating. "Under this set-up," Mr. Messenger pointed out, "the company makes an 8% contribution to the plan, before taxes, based on projected profits. This contribution is first used to fund pension costs. The balance from the pension plan is then allocated to all participants in the profit-sharing plan."

There are now approximately 1,660 J. C. Penney stores throughout the nation which employ about 45,000 persons.

pension, investment report

plan in his organization in 1907. The plan is still in affect.

"Basically," said Jim Messenger, manager of pensions and profit-sharing for the firm, "that first plan was a cash profit-sharing plan determined at the end of each year. When a new store would open, it would be financed by three people, including the store manager. These three would then share in the profits, each of them receiving one-third."

"THEN," he continued, "the manager would cultivate an assistant until he (the assistant) had enough capital to open his own store with two other people. It was a pyramiding type of plan and it is still in operation."

This type of plan gave each store manager the virtual autonomy of a partner. Mr. Penney felt that the opportunity to share in the company profits was an important motivating factor in the success of his stores. He felt that the profit-sharing plan was important because it created incentive and made employees "associates," which is what he called all his employees.

The company instituted a profit-sharing plan on a retirement basis for employees in 1939. Since

Airline adopts four-day week

SAN FRANCISCO—The four-day work week will be adopted April 1 by nearly half of the 2,350 employees of Pacific Southwest Airlines.

The change, according to president J. Floyd Andrews, is "calculated to improve the leisure time opportunities of our employees as well as their morale on the job."

The change to four 10-hour shifts a week will affect only the maintenance, accounting and other office personnel as well as 50 mechanics at PSA's maintenance base here at San Francisco airport. Mr. Andrews said the airline also hopes to add its 550 reservations and station personnel to the four day schedule but that details must be worked out with their Teamsters Union.

Flight crews and stewardesses will not be included because of scheduling procedures and regulations governing on duty hours.

PSA is the second largest firm in the U.S. to adopt the four-day week. The largest is Reader's Digest.



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Pension fund attempts to 'muscle' firms in which it has common stock

LOS ANGELES—The Los Angeles City Board of Pension Commissioners appears to be changing the phrase "money talks" to "money muscles."

The board, which sets policy for the police and fire pension systems, has used its financial muscle on corporate interests twice in the past 14 months. The first time, the board protested remarks made on a Merv Griffin television show. The board owns

8,000 shares of stock, worth \$496,000, in a drug firm that has a subsidiary which partially sponsors the tv talk program.

A comedian on the program made remarks comparing the health dangers of marijuana to those of alcohol, which offended one of the pension commissioners. He persuaded the board to write a letter of protest to the drug firm in which the stock ownership was prominently mentioned.

THE PRESIDENT of the drug firm, Richardson-Merrall Inc. (a subsidiary produces Vicks Nyquil), replied that he did not like the remarks either but that the firm had no control over what was said on the show.

Now, the ire of the board, which manages an investment fund of over \$100 million (\$42 million of which is invested in stocks), is directed against the Atlantic Richfield Co. The board

owns 12,000 shares of Atlantic Richfield common stock and 4,000 shares of preferred stock worth a total of approximately \$1,040,000.

Another of the commissioners said he had heard "rumors" that the firm was planning to put money into local election campaigns and he felt "the using of stockholders' funds to influence political elections is, at best,

managers is running for a position on the community colleges board of trustees. Running for a different office on the same board is the wife of the commissioner who filed the protest. Atlantic Richfield reported that the sales manager was receiving no campaign funds from the company.

The commissioner, John T. LaFollette, told *Business Insurance* that he felt that a "company's assets belong to the stockholders, in this case, the widows and children of the policemen and firemen of Los Angeles. The assets should be going to them rather than to some political candidate.

"We are in a fiduciary position," he went on, "and that makes it a shade tougher. Where a pension fund is involved, it's different than if I had stock in the company myself. It's tougher."

Mr. LaFollette noted that Ralph Nader had questioned the proposition that corporations should contribute to political candidates "and so do we." He is vp of the board.

He said that companies should get involved but in "nonpolitical matters. We all contribute to the Red Cross, getting rid of smog and whatever. If it's for the public good, everyone should contribute."

He pointed out that the board had received Atlantic Richfield's reply and that "they say they are not backing any candidates and we will take their word for it." ■

pension, investment report

highly questionable and quite possibly a serious conflict of interest."

A letter of protest, again mentioning the stock ownership, was sent to the president of Atlantic Richfield. In their reply, the company noted that corporate funds were not being used to finance any candidate for the upcoming elections but that "the letter seemed to challenge the right of the corporation to contribute to local campaigns.

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Town seeking insured pension plan proposals

NEWINGTON, Conn.—Town Manager Peter M. Curry here has reached agreement with union representatives on a retirement plan for the several hundred employees of this suburban Hartford community, a move designed to phase out employee participation in a state pension plan (Connecticut Municipal Retirement Fund), which has not been completely satisfactory to union spokesmen.

Mr. Curry said that the town will now withdraw its funds from the state program and undertake a contract with an insurance company.

Proposals for an insured group approach would be solicited, he said.

REPRESENTATIVES of various insurance companies, he added, helped to draft the new retirement plan, which calls for an employee contribution of 2.25% of the Social Security base of \$7,800 plus 5% of all earnings in excess of that amount. The town itself would contribute the remainder.

Normal retirement would be at age 65, although employees could retire at 60 with reduced benefits.

At age 65, the retiring employee would receive 1.25% of final average earnings for each year of service up to the "covered compensation level," plus 2% of final average earnings for each year of service in excess of the "covered compensation level" (\$7,800).

As an example, Mr. Curry cited an employee, who, after 30 years of town service, had earned an average annual salary of \$7,500. He would receive about \$2,800 from the projected retirement pension plan plus Social Security in the amount of \$2,900 (current level) to make a total annual income of \$5,700.

The pension program would serve all town and board of education employees except teachers, who have their own pension plan. It would also include the police department, with some exceptions. ■

Rates more competitive?

Rep. Edmund E. (Sonny) Jones has introduced a bill to eliminate state-fixed car insurance rates in Texas. The bill would replace the present system with a competitive rate system, but would require standard policies and issuance of guidelines by the state board of insurance suggesting what rates companies should charge. The guidelines would be based on the number of claims in preceding years and on other states' rating scales.

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Pension, profit-sharing plans aid auto dealers

SAN FRANCISCO—Employee pension and profit-sharing programs operated for franchised automobile dealers have developed into "powerful tools" for the recruitment and retention of "high quality" workers.

Dealers attending the 54th annual convention of the National Auto Dealers Assn. (NADA) here were urged to "use this tool" by

employees as well as key workers.

"In the past," he added, "automobile dealers throughout the nation have complained of losing good workers to all kinds of other business activities only because of promises of greater security. The fringe benefits, including a company retirement plan," he continued "have been taking the pick of the crop of younger men away from careers with automobile dealers."

Mr. Parren reported that the NADA trust funds "have done well in terms of earning income, in spite of an almost disastrous economy in 1970. The unit values for the specified plans now stand either at or above their early 1970 levels."

pension, investment report

Joseph S. Parren, director of the NADA Retirement and Insurance Trusts and by John H. Wood, of Merrill Lynch, Pierce, Fenner & Smith, New York.

A 30-year-old automotive mechanic, Mr. Parren declared, can work 35 years for an auto dealer and will pay \$5,600, or 2% of an \$8,000 annual income.

"BY THE TIME that mechanic is ready for retirement at age 65," Mr. Parren said, "his accumulation, including the matching 2% paid by the car dealer, will amount to \$29,650. This," he said, "under the NADA Retirement Trust, will pay that worker a \$197.60 monthly income for the rest of his life. Added to the mechanic's Social Security benefits of \$365.70, he and his wife will have a total monthly retirement income of \$563.30."

The non-profit trust, founded in 1957, now covers 2,900 U.S. automobile dealers, or slightly more than 10% of NADA's 21,000 dealer members. Mr. Parren said NADA will soon conduct a survey to determine just how effective the pension and profit sharing idea is in recruiting workers.

"We know, from those to whom we have talked," he noted, "that the program has kept those dealers from losing many qualified

Work comp premiums reduced

MADISON, Wis.—Workmen's compensation insurance premiums charged to Wisconsin employers were reduced \$2.2 million March 1, according to Stanley C. Du Rose, state insurance commissioner.

Mr. Du Rose said the new rates, based on an annual safety review of Wisconsin industry, are 3.3% lower than last year's premiums. The decrease for this year comes to 5.6% for manufacturing employment, 3.6% for contractors and four-tenths of 1% for all other classifications, he said.

The state department of industry, labor and human relations reported that January 1971 was the safest January in at least 25 years in terms of workmen's injuries.

The agency said there were 19.5 job injury compensation claims filed in January for each 10,000 nonfarm employees in the state.

The previous January low was a rate of 20.1 per 10,000 in 1960 and the high was 34.5 in 1947. Agency officials said they were unable to explain the January reduction in accidents this year. ■

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30%...

Continued from page 30

Average compensation	Median benefit
\$ 6,000	\$ 2,200- 2,400
12,000	5,500- 6,000
20,000	9,200-10,000
40,000	20,000-22,000
Average compensation	Median benefit
\$ 6,000	\$ 1,560- 1,800
12,000	4,400- 4,800
20,000	7,200- 8,000
40,000	16,400-18,000

A COMPARISON of the figures in the tables may indicate that retirement benefits under final pay plans are lower than that of career average plans. However, that is not necessarily true because the determining factor is the relationship of a participant's final average pay to his career

average pay and, of course, final average pay is usually higher.

Here's another trend to remember: Employers are awarding higher salaries today and pension plans are being amended to shorten the period over which final pay is averaged. For example, assuming that a participant's salary increased each year until retirement at a 5% compounded annual rate, benefits computed on average pay in the employee's final five years are roughly 12% greater than if they were based on the average of the final ten years.

The principal methods of funding a pension are through the pension trust and an insurance contract. The latter method takes a number of different forms but the most common are the deferred group annuity contract, the deposit administration and the individual policy.

There is considerable interest in variable income plans as a

means of keeping pace with inflation. However, in this particular survey only a limited number of plans have adopted this approach; only 7% of the conventional plans to be exact. A more common means of adjusting pension benefits for the already retired employee, is for the company to issue

\$ pension, investment report

supplemental monthly checks without amending the plan.

NORMAL RETIREMENT AGE is the term used in the typical pension plan to define the date on which an employee is expected to retire from active service. However, the present trend is to allow a participant to retire earlier than

the specified normal date without sacrifice of his full accrued pension. Of course, it is also customary for an employee to meet a minimum service requirement as well. For instance, the plan may require either a specific minimum period of accredited service at retirement or it may indirectly create such a period through eligibility provisions, in other words five years of employment and age 60 as a maximum entry age.

During the past five years, conventional plans had a few significant changes with respect to normal or compulsory retirement. Age 65 continues to be the standard for both men and women among four out of five companies.

With regard to service requirements for normal retirement benefit, the majority of the companies—six out of ten—either do not impose any such condition whatever, or require less than six years service for a normal retire-

ment benefit.

What about early retirement? Three out of four conventional plans now permit an employee to retire before normal retirement age if he so elects. Ages 55 and 60 are usually acceptable ages for early retirement; more than two-thirds now contain an age 55 option.

FURTHERMORE, a large percentage of plans permit early retirement before age 55 where the employee entered the plan at an early age, or age 25. The median service requirement for age 55 retirement, ranges from ten to 15 years.

More striking than the liberalized age and service requirements is the increase in early retirement benefits. The majority of plans call for retirement payouts in excess of the actuarial equivalent. In some cases, for example, the participant can receive the full accrued benefits at 60 or 62.

Disability retirement provisions are found in 70% of current conventional plans. Only about 13% of these plans require both an age and service requirement. Among plans with a service-only requirement, ten years of credited service has now replaced 15 years as the most typical requirement. Most plans call for a credited service requirement of some years whether it be ten, 15 or 20 years. Only about 12% of the plans will give disability retirement income at any time.

THERE HAS BEEN little change in the practice of offsetting disability benefits by public benefits such as workmen's compensation or Social Security disability. Twenty-eight percent of the companies in this study utilize such an offset.

Pre-retirement death benefits have been one of the most important developments in recent years. There is now a firmly established trend toward providing a spouse's benefit. Fifty-seven percent of the companies have such a provision (paid out either in a lump sum or in installments to the death or remarriage of the spouse). Some plans continue the pension only for a stipulated number of years. Quite often, the beneficiary is not the spouse.

In most instances, the employee must meet certain requirements in order for his beneficiary to collect. Age 55 after 15 years of credited service is the typical requirement. Death benefits are usually related in some way to the pension the employee had accrued while alive and take one of the following approaches:

- 26% provide a stated percentage of the full accrued benefit.
- 17% provide a stated percentage of the early retirement benefit.
- 44% provide a pension based on the factors used for a joint-and-survivor benefit.

With regard to those plans that offer lump-sum payment, the pattern varies. For instance, one plan gives eight times the full accrued benefit, another gives five times. In another case, the payment is 150% of the employee's compensation at date of death; other plans relate the payment to aggregate company contributions.

In so far as post-retirement death benefits are concerned, only one in five plans have made provision for this contingency. ■

Loss vs. gain

Commercial Union insurance group incurred a \$17.2 million loss on its underwriting results in the U.S. in fire and accident cover last year, but its home market in Britain was profitable by \$6 million.

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An inflating economy is a still worse problem facing pension funds

NEW YORK—Splitting a fund's assets is one response to the inroads made by inflation, a problem which seems to be wrinkling more brows than did the '69-'70 market.

A man involved in the investment operation at General Electric, one of the few companies with in-house management, commented that "down markets are just a point in time that can be overcome. The chart goes up and down. Hopefully over the long term it goes up. But inflation is a different thing; we have no control over that. It is definitely the worst problem we are facing, and it looks like it is here to stay."

In an interview with *Business Insurance* Darrell J. Croot, chief actuary of the eastern division of A. S. Hansen Inc., cited three effects of inflation on corporate costs of pension plans.

pension, investment report

"THE NEGOTIATED increase is partly due to inflation," Mr. Croot said. "Unions demand higher pension payments because money won't go so far anymore. Improving benefits always costs the company money.

"Secondly, most companies determine pensions by a salary percentage say, 50% of your pay at the time of retirement, or a percentage of the average of your career's five best years. Inflation makes pay go up, so the pension goes up too. This is an automatic added cost.

"Finally, you can't overlook the corporate profit squeeze resulting from the inflated economy. This squeeze makes any increase in pension costs undesirable."

Mr. Croot emphasized the value of good investment performance in helping pension funds overcome inflation, commenting that pension fund assets should be able to keep pace with the market as a whole. But he noted that the rate of return on the equity portion of many pension funds persistently lags behind such indicators as the Standard & Poors 500 Stock Index. "Every dollar of improved earnings eventually saves the company more than a dollar in contributions," he said.

FIGURES QUOTED by William Prime, executive vp Stuyvesant Asset Management Corp., supported Mr. Croot's views.

"Pension funds during the 1960's under-performed the market," Mr. Prime said. He referred to a study of the median performance for 50 large pension funds for the 10 years 1960-1969. The annual rate of return was 5.2% for total funds and 7.3% for the equity portions only. "The figures for the 10 years through 1970 will be somewhat worse," he said. "And this is one reason why inflation is such a problem. Obviously, if your rate of return is 5.2% and inflation is up in that neighborhood, then your pension fund is just about where it started."

A source at The Prudential Insurance Co. of America said that "a touch of inflation is good for the market but too much is not; it's a common misconception that inflation is always a good sign for a bullish market." When asked

about the possibility of continued inflation the Prudential source commented, "This is just personal opinion now, but I don't think the President can go into an election year with five million unemployed. He'll continue to pump money into the economy so that temporary good results will get him the election. But we're going to suffer for it; inflation is a murderous factor."

In the final analysis the success or failure of a pension fund is measured by its ability to make its payments to retirees on time.

Continued on page 46

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Hyatt . . .

Continued from page 27
uary, 1968, when we started the Hyatt profit-sharing plan.

"I'M POSITIVE," Mr. Pritzker adds, "that it was the opportunity to participate in our profits and thus gain a sense of sharing in management and success that stimulated our employees into helping us."

The timing would seem to substantiate Mr. Pritzker's point of view.

Enrollment has reached 2,500 employees, with that number expected to double within the next two years. And the Hyatt profit sharing plan has had probably the best growth earnings pattern of any profit-sharing program in the nation.

All employees are eligible after one year of employment to contribute from 3% to 10% of their salaries for deposit in their individual accounts in the trust.

THE CONTRIBUTIONS, in addition to Hyatt's contribution, which is determined each year by the board of directors, the forfeitures and the income from management investment of funds, has produced a "substantial growth" for the employees.

During the fiscal year ended

Jan. 31, 1970, for example, employees enjoyed a 31% return on investment for every single dollar they put into the trust. "This is comprised," explained trust director Mr. McGillis, "of a 13% return on funds invested by management, with the balance being earned from the company's contributions and forfeitures."

To show what this means to an individual Hyatt employee at retirement, Mr. McGillis prepared for *Business Insurance* a projection based on past trends. Assuming only a 2% increase in wages each year, at the minimum contribution of 3%, an employee who enrolls in the program at age 25 will have \$250,000 in his account by retirement at age 65.

"Of course," Mr. McGillis pointed out "this amount would be substantially greater, if a larger percentage of salary were contributed."

The plan provides that the trustee may invest the trust funds in stocks, bonds, buildings, Hyatt Corp. stock with approval of Internal Revenue Service and any other authorized investment. Investments are directed by an administrative committee appointed by the Hyatt board of directors.

ALL INCOME taxes, of course, are deferred on the employee account share of company profits, trust earnings and forfeitures.

The plan permits withdrawal or borrowing if employees need money for a financial emergency.

The plan also pays out according to its terms at normal retirement, early retirement, disability, death or withdrawal by an employee from the plan.

Trust funds cannot be used or invested for any purpose other than for the exclusive benefit of the participants. Hyatt contribu-



tions cannot be returned to the corporation.

THE EMPLOYEE'S share of the Hyatt profit is based on total covered service since January, 1962, and the minimum 3% contribution from earnings. Each participant receives a proportionate share based on these two factors in relationship to the total for all participants, with a limit of \$18,000 of earnings per year. Earnings beyond that limit will not increase the employee's share of the company contribution.

Ownership of the account, by the employee, is earned at the rate of 10% of the total account for each full year as a participant. Thus employees are fully vested after 10 full years.

Participants who withdraw before the end of the 10 years always receive 100% of their contributions but forfeit a portion of the company's contribution.

"If a Hyatt Corp. manager or cook or waitress left after only five years in the plan," Mr. McGillis explained, "the employee would have earned 50% of the

amount. Hyatt contributed. The remaining 50% would be re-distributed, as a forfeiture, to other plan participants."

An employee account is automatically 100% vested at normal retirement, at early retirement, at death and for permanent disability and after 10 years in the plan.

TO BE ELIGIBLE, after one year, an employee must work regularly more than 20 hours a week at least five months of the year for a Hyatt company that subscribes to the plan.

Trust losses on investment, should any occur, are first charged to each participant's company contribution account, but are not to exceed 8% of the total. The balance is then charged equally to all accounts, including the company contribution accounts. "As a result of this division of trust earnings or losses," Mr. McGillis pointed out, "the employee's contributions account is the first to receive earnings and is cushioned or favored against losses."

The plan also permits the trustees to increase the vested interest in the company contribution account to make up any difference in amount contributed and amount received if it were to be less than the amount actually contributed.

Any 10-year member of the plan may apply for early retirement at age 50. With company approval, he also may continue to work and continue participation in the plan after age 65. Retirement benefits may be taken as a lump sum, in installments, as a lifetime income guaranteed for life or as a combination of the three methods. By taking a lower lifetime income, the employee also can guarantee a retirement income for his wife for as long as she may live.

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Pension fund lesson learned from Rolls-Royce fall

LONDON—Pension fund operators in Britain are studying the lessons of the Rolls-Royce collapse, which has had American repercussions because of its connection in contracts with the Lockheed aviation group.

A total of 47,600 employees are in the pension plans that Rolls-Royce has run for its workers for the past 40 years. Exactly half the plans cover white-collar employees and half protect shop-floor personnel.

But they will not be affected by any moves to rescue Rolls-Royce from its loss predicament because long-standing arrangements make the pension funds completely untouchable even in case of complete bankruptcy, which in any case is unlikely. Trustees run them under specially-designated rules that protect the funds from involvement in any corporate dilemma.

PAYMENTS are comparatively small, and are intended to supplement the retirement benefits granted by law under Britain's welfare state to all men of 65 and women of 60.

To date it is not known how many redundancies there will be in the Rolls-Royce group, since the British government now plans to take over the headaches of the aviation side with its RB-211 engine commitments. The world-renowned car division is likely to stay in being separately, as it is a profitable plant.

Workers who are made redundant can get their own stake out of the pension fund up to the time they quit either in a lump sum or by leaving it in a "frozen account" so that they can get a small residual pension when they are 65. This is basically because management and employees pay in matching contributions to the fund every week. The trustees invest the case over the years to provide pensions based on length of service at retirement.

This is a local plant agreement, and not part of any national wage scheme for the auto or aviation industry, as Britain's social security benefits are planned to cover everyone in the nation when they retire through a government-funded plan. These provide \$600 a year for single men at 65 and \$1,000 a year for a married man at 65, and \$600 for single women at 60.

DETAILS OF the Rolls-Royce pension funds have been supplied to *Business Insurance*. Investments in securities listed on the stock exchange total \$130 million and are earning a 6.7% yield on their initial cost. About \$80 million of these investments is in

CNR ups its pensions

OTTAWA—About 32,000 retired employees of the Canadian National Railways or their beneficiaries will get bigger pension checks beginning next month.

According to Canadian Transport Minister Donald Jamieson, retired workers receiving benefits under the 1959 pension plan will get increases of 2% for each year of retirement. Beneficiaries will get similar increases. The increases are retroactive to Jan. 1.

Pensioners enrolled in the CNR 1935 plan now receive \$25 per month. They will now get \$50 if they retired before 1965. Those who retired in 1966, 1967, 1968 or 1969 will get increases of \$20, \$15, \$10 and \$5 respectively. ■

publicly-quoted corporate stock and the rest is in British government, county and public boards stock.

Pensions were hiked by 10% last year because of successful investments. They now rate an average \$600 a year for white-collar employees and \$320 for the shop-floor staff, with pensioners' ages ranging from 60 to 90. But there are also a large group of pensioners, representing about 12%, who are under 60, having left work voluntarily, so that pensions for the older age groups are substantially higher than the average.

In addition, many employees have chosen to amortize their pensions and take cash sums instead. Amortizations totaled \$3 million in 1970, compared with

\$2.5 million drawn in pensions that year. Management's fund contribution share was \$7.5 million last year and employees was \$6.5 million.

The main lesson learned from the collapse, is the value of not



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investing corporate pension funds in the stock of one's own company. The Rolls-Royce pension fund is safe because only a very small proportion of its assets have been invested in its own corporate stock, for at the moment that is at a near-worthless price of two

cents, compared with its high-flying rating of \$3 only a year ago.

BUT NATURALLY pension funds of other major corporates in the U.K., who in the past have felt it safe to include blue chip Rolls-Royce in their investments, have been hit.

Dryden Gilling Smith, planning manager of Legal and General Insurance, has revealed in the London Financial Times that 10 big pension funds, such as Unilever, British Petroleum, and Imperial Chemical Industries, held three million stock units in Rolls-Royce among their investments before the crash.

Mr. Smith commented: "A final lesson to be learned from Rolls-Royce, or from the fate of the

many loyal employees who held their own company shares, is that no employee should put all its savings in his employees' basket. Even the safest of houses can fall, and if you invest your career with a company, that is enough. Savings should be spread around the market."

Naturally there are in Britain many corporate pension funds whose trustees invest in long-term insurance policies rather than directly in investments that are at the peril of market fluctuations. Leading insurance companies who offer this service to corporate managements are now quite obviously ready to assert, in the light of the collapse of Rolls-Royce stock, that this is a far more effective way to invest pension funds. ■



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Pension benefits aren't asked at U.K. Ford

LONDON—Thousands of Ford workers in Dagenham, England, struck for higher pay, but pension rights were not included in their demands, even though U.S. auto workers regard them as a vital part of plant contracts. The reason is mainly that the British welfare state casts an umbrella over retirement benefits which are still, therefore, left out of industrial demands by employees.

The government will announce plans for restructuring social security pensions this year, and corporate pension schemes are on the increase all the time. But as in the case of Ford's, shop floor employees still tend to concentrate on higher pay rather than on extra fringe benefits such as pen-

sions. They will get some benefit if wages rise as pensions are geared percentage wise to their earnings, but that is all they usually achieve at the moment.

Keen watch is being kept on

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successful demands abroad, however, and the move towards major pension benefits in U.S. industry will be followed in Britain some day.

Ford's already operate a company pension scheme for their employees in Britain on a moder-

ate scale, with both management and workers making contributions to the pensions fund. Moss Evans, union chief for the company's auto workers, told *Business Insurance*: "We are not seeking any major extension of this scheme in our wage demands, as employees are going all out for higher pay at the moment."

"But we strive all the time to get minor improvements in the pension arrangements, and are pressing the management to increase their contributions so that there can be more benefits for widows and other members of the fund who are in need of improved facilities."

Dean named

Dr. William T. Fisher, assistant dean of the University of Connecticut's school of insurance, has been named chairman of the Connecticut Insurance Purchasing Board.

Funds 'dwarf' all other institutional investors

NEW YORK—Increased pressure on pension funds to perform had a profound effect on New York Stock Exchange trading last year, according to a report issued by the Big Board's research department, which makes a point of noting that pension funds "dwarf all other types (of institutional investors) in importance."

At the close of 1970 corporate and other private non-insured pension funds held \$54.7 billion of NYSE-listed stock, up from \$49.7 in 1969. Continued net purchases increased the value of their holdings to a record 8.6% of all NYSE-listed securities. (By contrast, state and local government non-incurred pension funds owned \$5 billion in NYSE-listed stock, up from \$4.6 billion the year before.)

"The growth in institutional holdings over the past ten years can be largely attributed to pension funds and mutual funds," the report stated.

"FOR EXAMPLE, in an effort to improve the rate of return on their investment portfolios pension funds have shifted an increasing proportion of their assets into common stock. This, coupled with new money flows available each year for investment, has led

pension funds to dwarf all other types in importance."

In a broader sense, however, major institutions—including the funds, as well as insurance companies, colleges and foundations—also increased their NYSE-listed holdings. The figure rose from \$154.1 billion at the end of 1969 to \$161.9 billion last Dec. 31. The \$7.8 billion increase in the value of these institutional holdings, the report explained, lifted their proportion of NYSE-listed stock to an estimated 25.4%, which is an all-time record.

Not included in these totals, however, are a number of institutional categories for which figures are not available. These include bank-administered personal trust funds, mutual funds not registered with the SEC, investment partnerships (hedge funds) and non-bank trusts.

The report included the latest figures available on some of the institutional investors. They are:

International Business Machines, held by 1,215 institutions; General Motors, 1,025; American Telephone & Telegraph, 989; Standard Oil of New Jersey, 953; Texaco, 884; General Electric, 766; Eastman Kodak, 742; Xerox Corp., 609; and Mobil Oil Corp., 573.

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following the funds

'Gunslinging' fund counselors aren't making bankers leap out windows

By PAT THOMAS
NEW YORK—Gunslingers of the Old West held up a lot of banks but never really got away with much. Today, gunslinging investment counselors have ridden into many corporate pension fund offices but apparently they haven't gotten away with much either. Bankers, in other words, are not jumping out of windows high over the financial district. Nevertheless, there is a trend

developing. Pension funds are splitting assets among several different money managers, with independent investment counselors getting a piece of the action. It started years ago and continued into the teeth of the bear market. The New York investment counseling firm of Rogers, Danburg & Co. completed a study a few months ago that did indeed confirm a developing trend. But, although funds are splitting their

assets, banks still clearly control the bulk of the \$125 billion held in employe benefit trusts.

THE INVESTMENT counselor is getting pieces of the funds but, in most cases, the pieces he is getting could be considered scraps. The survey pointed out that while the investment counselors were gaining a number of new accounts, the amount of money they gained was quite a bit less than the amount switched from one bank to another. The money is obviously there, but so is a reticence on the part of many companies, particularly those with smaller funds (less than \$50 million), to split at all or to give a portion of their pension fund assets to an independent counselor. There are four main reasons for

splitting a pension fund, according to the survey, which was based on 143 corporate responses. Many companies showed a reluctance to break off the relationship with their old money manager (relationships averaged 15 years in length) and splitting the fund gave them a chance to ease into a new relationship without severing old ties. Companies felt that splitting a large pool of assets into several smaller ones would make the overall management of those assets more simplified and created a potential for better results. Other corporations felt that all their managers would

vey: desperation. "There was no performance any place during the bear market," said the pension fund manager at a manufacturing company. "Pension funds took a shellacking and people were literally desperate. Funds being managed by two banks were suddenly being managed by three, or an insurance
Continued on page 40

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keep on their toes if a sort of inter-manager competition were created. Finally, some companies thought that splitting off a small chunk of the pension fund and giving it to a firm to manage was a good way of testing the new manager.

For all those reasons, funds are being split. But there is another reason, not mentioned in the sur-

BREAKDOWN OF 11 BANK-MANAGED FUNDS SPLIT IN 1969

Fund size (millions of dollars)	Pieces split into	Management (millions of dollars)
\$700	3	\$350/250/100 Bank
\$ 16	2	\$16/plus new money Bank
\$100	2	\$50/50 Bank
\$120	5	\$53 Bank \$20/17/17 Investment counselor \$13 Mutual fund affiliate
\$380	2	\$190 Bank \$190 In-house
\$200	6	\$150 Bank \$10/10/10/10/10-Investment counselor
\$ 4	3	\$2/1/1 Investment counselor
\$520	3	\$360/80/80 Bank
\$250	5	\$150 Bank \$25/25 Investment counselor \$25 Mutual fund affiliate \$25 In-house
\$120	2	\$60/60 Bank
\$ 60	3	\$20/20/20 Investment counselor

Chart prepared for a study by Rogers, Danburg & Co. Inc., New York investment counselors, shows that while some pension money has been moving to independent money managers—banks are not exactly losing their shirts.

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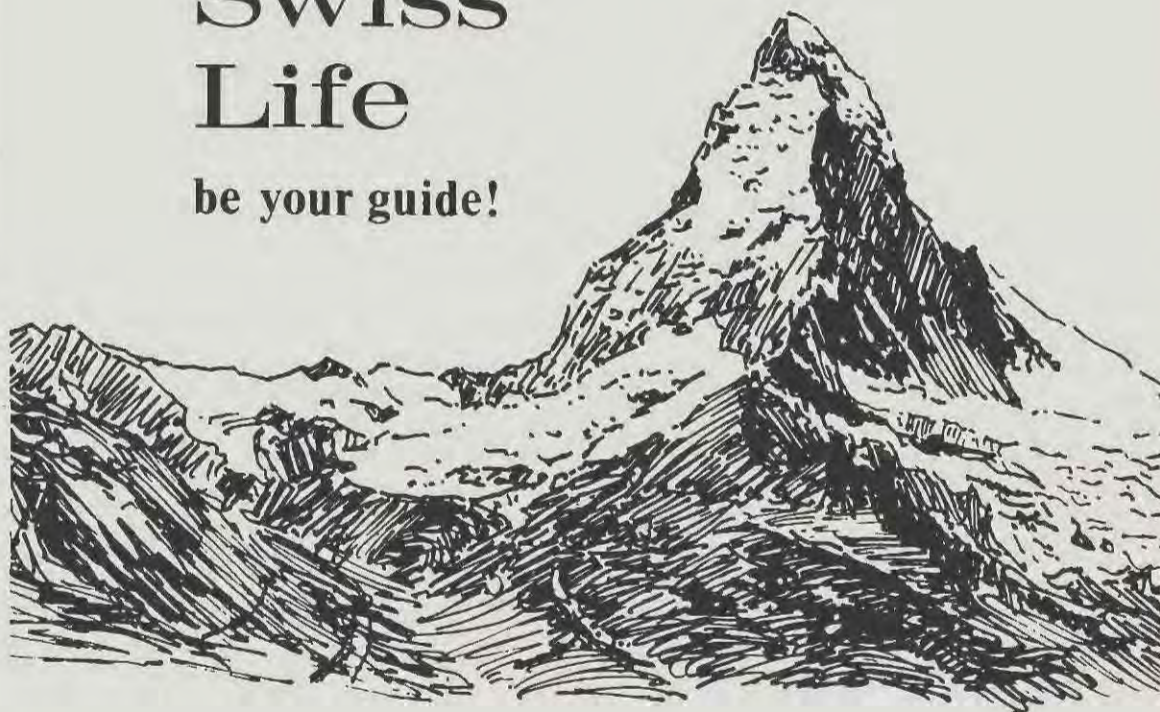
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Funds . . .

Continued from page 39

company or investment counselor was added, and so on."

And what are the investment counselors doing about it?

"There are a lot of advantages in split funding," said an assistant treasurer at a large fabrics concern. "At least you're running some kind of horse race. And this is precisely the pitch we're getting from investment counselors—'Give us just a piece, give us \$10 million or so, and see what we can do with it.'"

There appear to be many companies that have followed that advice, though few of them surfaced when *Business Insurance* took its own informal survey. Only one of those firms, a huge corporation headquartered in New York, was using investment counselors.

The director of pension fund administration for the company said, "Eighty percent of our pension money is with banks. The other 20% is split among 15 different advisors. I like to give them a full market cycle to perform—bull, bear and in-between. It usually runs around three to five years. However, I reserve the right to change managers if some guy goes berserk with our money."

He reported that results, since switching to the investment counselors, had been "so-so, pretty close to Standard & Poor's last year."

Others queried on the subject expressed varying degrees of skepticism toward the independents. Phrases like "gunslingers" and "hot-shots" were used commonly. However all the respondents felt that the entrance into the pension fund management arena by the investment counselors would eventually improve

the overall way in which funds are managed. Some of them went so far as to say that they would consider giving a portion of their funds to the counselors if their present managers, usually banks, failed to perform well.

"In the long run, their presence is bound to improve fund management. When the wheel gets squeaky, sooner or later, everyone hears it and something gets done," was the observation of the employe plans administrator at a manufacturing firm.

ANOTHER EXECUTIVE agreed, saying, "The competition will improve fund management because if these guys do well, there is something definitely wrong with the banks if they don't take notice and try to respond in kind."

One of the main obstacles facing the investment counselors seems to be their image. Everyone knows about them and hears

from them but attitudes toward them are very diverse. They are referred to as "gunslingers" by some people and "stars" by others. Most of the respondents to the *Business Insurance* survey took the former approach.

"The problem with those guys is that when everything was rosy, that's all you heard from them. Then, when performance dropped in '69 and '70, they took a bath. The thing is, we're still hearing success stories. Who are they trying to kid?"

It was generally agreed that the investment counselors were more aggressive than institutions. "Don't say aggressive," mused one of the respondents, "say overbearing."

THE MANAGER of employe benefits at one corporation noted that his company, which managed its pension and profit-sharing fund in-house and with banks, was somewhat aggressive but was

interested in long-term results.

"As far as we are concerned," he said, "nothing that has happened over the last two years can justify even the existence of investment counselors. They grew so fast they got fat and overextended themselves. I think they will probably continue to grow, only at a slower pace, and they will become a larger part of the pension fund scene. But the bear market will settle them down. It's no longer 'anything goes.'"

The counselors themselves try to point out, in their pitches, that they move faster than institutions because they are not tied down by committees, that they pay closer attention to individual portfolios and that they have better personnel than do banks.

Another employe benefits manager partially agreed.

"I THINK IT'S true that they can give you more personalized service and they usually do have pretty good people in their shops. But they're small. If they lost some people, it could really hurt them. Today I say they give good personal service with good personnel. In six months, I might not be able to say the same thing."

"And remember," one respondent demanded, "most of their personnel come from banks in the first place."

Still, investment counselors are getting the pieces of funds from many sources. American Telephone & Telegraph is one of the more substantial companies to split its pension funds—though only a small sum of total assets—and give four independent managers a chance to perform.

The investment counselors face problems in other areas, some arising from within their own ranks. E. F. Hutton & Co., one of the major securities houses, has charged that a conflict of interest is present at all brokerage firms that manage money on a discretionary basis. Many of the counselors demand full discretion over the funds they manage. Hutton felt that the conflict of interest could arise when a brokerage firm could increase its commission revenues by making transactions for one of its accounts even though the transactions would not necessarily benefit the account.

MANY OF THE broker-counselors receive a fee for making investments for the account's beneficiaries. They also receive commissions on any transactions they make for the account.

Hutton has urged that money managers and brokers divorce to remove the temptation "to garner profits beyond management fees in the form of commissions."

To add to the problems facing the counselors, the New York state insurance department is thinking of writing a letter to all welfare funds in the state telling their trustees that, under the law, they may not give discretionary authority to investment counselors in the management of the funds. Banks, however, would retain discretionary authority.

Investment counselors would have to get permission to make any trades in the future if the authority were stripped from them and one of their strongest selling points, speed in the fast-moving market, would be lost.

The insurance department feels that the move is necessary to "encourage long-term investments and discourage wheeling and dealing."

So, there may be a moment of truth approaching for the investment counselor, if, indeed, it has not already passed. The obstacles are mounting in front and the past two years have certainly not been helpful. ■



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Individual policy pension trusts and how to use them

by James L. Athearn,
Professor of Insurance,
University of South Carolina,
Columbia, S. C.



James L. Athearn

More than 30 million people in the U.S. are covered by private pension plans. About 10 million are covered by plans for which the benefits are insured with private life insurance companies through group annuities, group permanent life insurance, individual policy pension trusts (IPPTs), and other plans. At the end of 1969, more than half the insured plans were funded with IPPTs. These trusts covered about 12% of the persons included in insured plans.

The IPPT is most commonly used in small firms. Retirement income for participating employees is generally provided by means of an individual annuity, a straight life policy or a retirement income policy. Under the latter, in addition to the provision for retirement, life insurance is provided on the life of the employee during his working years. The term "individual policy pension trust" arises from the fact that the individual policies are owned by a trustee who received all contributions, pays premiums to the insurer, and administers the operation of the pension plan in accordance with a trust agreement.

The IPPT method of funding was apparently used first during the 1930s and saw its period of most rapid growth between 1940 and 1950. Since 1950, IPPTs have been overtaken by deposit administration (DA) plans in their growth rate. From 1955 to 1965, the number of DA plans increased on the average of about 22% per year as compared with an increase of 13% per year for IPPT plans. Since 1950, there has been a steady decrease in the number of persons per IPPT plan. In 1950, the average was 45 persons whereas by 1969 the average number of persons per plan was nine. Moreover, among plans established during 1969, the average number of persons per plan was less than five. Clearly, other insured methods were serving employers whose plans involved larger numbers of employees. The number of new DA plans established during 1969 was less than one-tenth the number of IPPT plans but covered more than twice as many persons. Nevertheless, more than half the insured plans in existence at the end of 1969 were IPPT plans and nearly half the insured plans established during that year were IPPT. Nearly 23% of the people covered

'The growth rate of IPPT plans is understandable when one considers their . . . simplicity and guaranteed cost.'

by new insured plans during 1969 were covered by IPPT.

The growth rate of IPPT plans is understandable when one considers their advantages. The first is simplicity. It has always been relatively easy to establish an IPPT and the Internal Revenue Service has simplified approval of such trusts by approving prototype plans submitted by insurance companies and trust departments of banks. Second, the cost of both the death benefit and the annuity benefit is guaranteed. This enables the employer to project the cost per employee and easily maintain a record of his expenditures for the plan for each employee. Third, the death benefit is not includable in the estate of the insured when payable to a named insured other than the estate of the insured.

All IPPT plans have several significant disadvantages. For any benefit other than flat, there is a high unit cost because a new policy is required each time the benefit increases. Most policies sold today have a premium rate per \$1,000, which is high for small amounts and reduces as the

policy size increases. A popular method is to establish a premium rate for each \$1,000 and add a constant, called the policy fee, such as \$5 per \$1,000 with a maximum of \$10. With a basic rate of \$17 per \$1,000 plus such a fee, the actual rate per \$1,000 varies as follows:

Policy amount	Premium	Rate per \$1,000
\$1,000	\$22.00	\$22.00
2,000	44.00	22.00
3,000	61.00	20.33
5,000	95.00	19.00
10,000	180.00	18.00

Many, if not most, IPPT plans relate retirement and death benefits to employee compensation. Since most policies issued as the result of increases in pay vary from about \$1,000 to about \$3,000, it is not unusual for the policy fees per employee to reach \$50 to \$100 per year because of the large number of small policies in force for each participant.

A second disadvantage of the IPPT lies in the fact that there is a large variation in the true cost (considering the return on

the investment element) of virtually the same policy issued by different life insurance companies. This, of course, is a problem for any purchaser of life insurance but it is particularly difficult for a small firm whose pension plan is funded through an IPPT. First, the individual small employer usually cannot evaluate such cost. Second, once the plan goes into operation, everything is automatic from then on. As new employees are added, new policies are purchased automatically. As pension benefits for individual employees increase, new contracts are purchased automatically. Such an arrangement is a life insurance agent's dream come true, especially if the firm is growing and prospering. Many such plans have, in the past, been rather immune to the erosion of competition because of the reluctance of the employer to make any change that would require requalifying the plan.

A THIRD DISADVANTAGE of the IPPT stems from the high cost of employee turnover. In the typical situation in which cash values grow not at all during the first year a policy is in force and rather slowly thereafter for the first few years, the employee pays a whole-life (or higher) premium for what is essentially term insurance if the employee leaves during the early years. Some pension advisers make a virtue out of this defect by suggesting immediate vesting because surrender values are so low that such vesting doesn't cost much. This, of course, overlooks the fact that the employer has been subjected to an expense from which neither he nor the employee gains any benefit.

Most IPPTs are funded with policies that provide a death benefit that is advantageous from the point of view of both the cost to the employee and his estate tax. Because such policies are issued on an individual basis, however, those that include a death benefit are available only to

Continued on following page

A new mix of education and work to stave off retirement

by Bion H. Francis,
Manager of Benefits Planning,
Colt Industries, N. Y.



Bion H. Francis

This is the third of a series of eight thoughtful columns by Bion Francis on the subject of retirement, which he dissects into a series of provocative questions for the employee, the employer, society and, most of all, for those responsible for planning employee benefits programs and compensation schedules.

In a society in which the sum of human knowledge is increasing—exploding—as rapidly as is the situation today, what we learned 20 or 30 years ago may be useless or even harmful. To be a good worker and citizen in the world of today, we must bring to bear on our work and on our daily life the knowledge made available within the last year—or month, or week, or even day.

Our education must therefore extend throughout our lifetime. The idea is not new. Every large corporation in the U.S. is spending substantial amounts to send executives to seminars, conferences, briefing sessions and courses of every variety. But what is done affects only a small proportion of employees. It is not enough. The billions of dollars spent to provide early

retirement, and even retirement itself, are a partial measure of the inadequacy of the education of workers and citizens of the U.S.

Our medical and educational techniques are being improved sharply. We are learning to transplant organs at will, to use chemicals and drugs to keep our minds and bodies young. We are learning new methods of teaching and study that could be used to increase productivity during the longer periods of useful life within our reach. For remember that in all these areas, in medicine and health and education, what we know and what we can do is part of the immense growth of human knowledge and technology that is doubling every ten years. And even that rate of growth, great as it seems, is accelerating. Consider the way in which our medical and educational systems are being stretched. It is only a question of time before it will be possible to keep our minds and bodies active, healthy and productive to ages 70, 80 and beyond.

Increased productivity and length of working life could be used to increase

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Individual...

Continued from preceding page
 employees who are insurable. Moreover, it is necessary to calculate the cost of pure insurance (the difference between the face amount of the policy and its cash value) for each policy for each person insured under the plan, because the cost of this protection is considered current income to the employee for federal income tax purposes.

A final disadvantage with the IPPT as originally created is that the funding mechanism lacks investment flexibility.

Originally, IPPT's were funded with individual annuities, which provided no death benefit other than cash values, and/or retirement income policies, which did have a larger death benefit; in either case, the policy accumulated the full cost of an employee's pension by his retirement date. Later, whole life policies were used along with a separate investment fund. Such an arrangement is referred to as a combination or split-funded plan. It has the advantage of making possible a higher rate of return on the investment element in the total pension plan. Furthermore, turnover and the loss on a whole life policy is less than that on a retirement income policy, especially for policies terminated in the first ten years.

SPLIT-FUNDED PLANS have a number of advantages for the small firm. First, death benefits may be substantial and are estate-tax free when the employee names a beneficiary other than his estate. Second, the premium for the death benefit is guaranteed on a level basis for each employee. Third, the insurer provides necessary actuarial calculations with regard to the separate investment account. Fourth, the cost for a given benefit is predictable when the separate account fund is invested in fixed-dollar investments, because the annuity cost at retirement age is guaranteed. Fifth, because the costs are allocated to each employee owners of the firm can easily communicate benefits of the plan to employees.

Unfortunately, split-funded plans do not eliminate one of the major defects of the IPPT, namely, the excessive cost involved when the benefit to which an employee is entitled increases. When this occurs, a new

policy is added for the employee just as if he were newly entering the plan. As time passes and his pension benefit rises, the plan accumulates numerous individual policies on his behalf—each additional policy at the premium (including policy fee) applicable to small policies. Moreover, it is necessary to establish insurability every time a new policy is added.

A variation of the IPPT split-funded plan is the group whole life or group fully insured plan. For the small firm, however, many of these are group only in contractual form but operated the same as those using individual policies. That is, they are really a conglomeration of individual policies under a group label. Thus, they have the same disadvantages as IPPT.

Another alternative for the employer who is dissatisfied with IPPT is the depos-

will continue to be high. Many employers with IPPT's have been reluctant to consider new funding methods because they do not want to undergo the requalification process. Present plans may have been approved when the IRS was more liberal. Now, however, all plans that are integrated with Social Security (perhaps the majority are) must fulfill new integration requirements by Jan. 1, 1972. Thus, many old plans must be requalified. Between new plans being established and old plans being requalified, the total number of firms that will be selecting the IPPT or some alternative during 1971 is enormous. Armed with prototype plans that make it easy to adopt (and sell), insurers may be expected to push it even more vigorously than in the past. In view of the disadvantages of the IPPT, one wonders why a

increase in the deposit required for the cash surrender value. There would be no need for the issuance of another policy, as in present IPPT's.

Account A would not accumulate enough cash surrender value at age 65 to pay for the required pension, so account B—similar to a DA fund—would be created for the accumulation of the balance. The immediate effect of an increase in pension benefit would simply be an increase in deposits to Accounts A and B.

The group term rate, interest rate on the cash surrender value in account A, and expense charges could be guaranteed to each employee's normal retirement age. The annuity purchase rate at retirement would be guaranteed for a pension benefit related to an employee's amount of death benefit. Investment results for account B could be guaranteed or not, depending upon the preference of the employer. Those who so desired could give up some guarantees in order to permit the trustee to pursue a more aggressive investment policy.

This package would avoid the high per unit cost of insurance inherent in the IPPT but preserve all, or the bulk of, the IPPT guarantees. It would reduce turnover cost and achieve investment flexibility, thereby reducing total costs for the small firm. It is not quite as simple as the pure IPPT, but surely no more complex than the usual split-funded plan. With all its advantages it would appear that such a package could be created and sold successfully. It would certainly appeal to the informed buyer or informed broker. ■

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'A better package for small firms combines the advantages of split-funding and true group without losing IPPT advantages.'

it administration (DA) plan, which was originally designed for larger firms in order to enable insurance companies to compete with self-administered trustee plans. For the small employer, however, DA plans have some serious drawbacks. First, they are not easily understood because they do not allocate funds by participant and are based on assumptions rather than guarantees concerning mortality, expense, turnover, and future annuity costs. There are some guarantees with regard to the latter, but they are usually limited to annuities purchased within a specified period from the inception of the plan or applied only to deposits made during the first few years. Second, there is usually no death benefit provided. The fact that individual policies are not purchased for each participant, of course, makes possible significant saving but the uncertainties involved are a serious deterrent, especially to an employer who does not appreciate the significance of the defects in the IPPT.

AS NOTED EARLIER, about half the insured plans established each year are IPPT. With the approval of prototype plans created by insurers and banks, establishment of such plans is even more simple than in the past. Thus, their birth rate

better package is not created for the small firm.

A better package for the small firm would combine the advantages of split-funding with the advantages of true group life insurance without sacrificing the advantages of individual contracts. Such a package would reduce the cost of insurance per unit by eliminating multiple small policies for individual employees. It would reduce turnover cost for those who terminate during the early years because the bulk of the death benefit during such years would be provided by term insurance at term rates. The contract could be so constructed that cash surrender values accumulated rapidly.

Such a package could be provided by a multiple-employer trust that establishes two accounts for each employee of participating employers. Account A for each employee would provide the usual IPPT death benefit stated as a multiple of expected pension, such as \$1,000 death benefit per \$10 monthly annuity. This death benefit could be provided through decreasing term insurance plus a cash surrender value equal to that found in whole life policies. The immediate effect of an increase in death benefit would simply be an increase in the amount of decreasing term insurance plus

A new mix

Continued from preceding page
 greatly the time available for leisure. This increase in leisure, in itself, would also be one of the factors that could be used to bring about lengthening of the working lifetime. For when business is ruled by the four-day work week and beyond that by the three-day work week additional work would be within the possibility, and desire of an increasing proportion of older people. Age 65 is now commonly taken as the termination for a working lifetime. But, if medicine and education are used to keep us healthy and productive beyond age 65, there are many advantages in an extension of our working lifetime. It would conserve skills, promote a feeling of purpose and encourage a sense of values.

But these are things that are needed by more than the aged. Youngsters, too, need a sense of values and personal worth. For most of us such values and sense of personal worth are provided by our work. The clamor and violence that fill our streets and schools stems in large part from the search by children and young people for the purpose of life in a society in which they are forbidden to work and forced to spend their time in an educational system that they may feel, sometimes with justice, has doubtful value and little relevance.

An increase in the period of required schooling from age 14 to 18 does not promote the welfare of teenagers if it

means four more years of unwanted leisure, idleness, drugs, street corners and violence. It is one of the serious defects of our society, that this is the result for too many of our children.

Some may object that the real purpose of lengthening the required period of schooling is to keep the youngsters out of the job market, where they would compete with older men. If this is so, the youngsters are justified in their suspicions of education. Let us state it as a principle that if youngsters are required to spend their time in school, the education they receive should be a good one. The period of schooling should be limited to the period during which society can provide a good education.

BUT THERE IS ANOTHER possibility. In earlier columns I have discussed the fact that an education should continue throughout life. If this is done, we may each have the opportunity to collect the equivalent of several college degrees. Then what difference if the first degree comes at 22, 26, 30 or even 34, as long as the first degree arrived in early life and was followed by two or three more. The net result could well be advantageous as compared with a system in which boys and girls are forced to spend years in schools they do not want, and leave school with a permanent prejudice against further education of any kind—even though continued education is what they need most to fit themselves to a world of exploding knowledge.

In order to make the proposal more

clear, let us put present and proposed practice of work and education into two parallel columns. I have assigned specific figures in places that would actually be subject to wide variations. However, the table will help to clarify the proposal:

	Present practice	Proposed practice
Average age entering work force	19	14
Age leaving work force	65	76
Years of work	46	62
The proposal assumes 25% of work years are used for education	—	15.5
Net years of full-time work	46	46.5
Years after age 14 devoted to education (at beginning of working life and sub-ject to extreme obsolescence)	5	15.5 (spread out through- ing life)

Work from 14 to 76? Do I hear some shocked voices rising to dissent? Before you object too violently let us consider what we are talking about. We are certainly not talking about a lifetime of hard, grueling work in a dirty factory. I have seen estimates that there will be approximately 3 million factory workers in the year 2000, or less than 1% of the population. Suppose we double this to allow for the fact that they may work only three

days a week.

If all youngsters put in one or two years in a factory, this would take care of the number of factory workers that will be needed. But that is not the way in which it will be done. Factory workers will be highly paid. There will be real competition for these jobs.

TO USE SPECIFIC figures, let us suppose that 10% of each year's class of boys and girls (remember, we can't discriminate against the girls, and machines will supply the muscle anyway) enter factory work. To provide an average of 6 million workers, they must work an average of, say, 15 years (meaning that some will work only a few years and those who rise to the top may work as many as 25 or 30 years.) The work may be limited to a three-day week with another day or two a week devoted to the college studies that will prepare the worker either for the developing demands of his current job or, if he prefers, for his next one.

As for continuing to work until 76, communication techniques will be so improved that you may never have to leave your home. Picture phones, television, tape recorders, all connected with a score of computers, will enable the businessman, salesman and professional man to be far more productive than his counterpart of today without even leaving his home.

No, sonny, you can't disturb Grandpa. He's up in his office working—or, more probably, using his teaching equipment to keep up the skills he needs in his business or profession. ■

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Your way to beat the Lags



More . . .

Continued from page 23

IT ALSO SAYS that none of the private plans relies exclusively upon the last year's pay in establishing the base, as do the present uniformed employe pension plans. Rather, it points out, 35% of them use a career wage or salary average, 10% at final 10-year pay average, 29% at final five-year pay average, and the remaining rely on other combinations.

The base of the uniformed employes' pensions in New York City includes overtime during the past year in its computation, as well as base pay on the date of retirement.

"The inclusion of overtime in the salary base increases pension costs substantially," the report says. "Since employes can accumulate large amounts of overtime during their last year, its inclusion in the base substantially in-

creases the final pension.

"One example illustrates this point graphically," it continues:

"EVEN UNDER the present contracts, if a fireman retires at age 45 after 20 years of service and in his last year he works only one eight-hour day of overtime at time-and-a-half overtime rate, his pay for that day's overtime would be \$76.08. At the half pay retirement rate this one day's work would provide the man an additional \$1,141.20 in pension payments over a period of 30 years normal life expectancy for a man of 45.

"When considering the number of uniformed personnel retiring each year and the amount of overtime they work in their final year, it is easy to envision the substantial increase in pension benefits that would result," it adds.

The chamber report compares the New York City pension plans

with those in 20 other major cities and notes that none of them give half-pay pensions after only 20 years of service, nor do any base their computation on the last year's salary exclusively or use overtime earnings in the base.

In declaring that "the city's



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pension plans must not be liberalized," the chamber report cites eight reasons why liberalization of plans "would be destructive of the interests of the city and its citizens." They are:

- The difficult financial situation facing the city. For fiscal 1970-71, the report notes, the city's contributions to existing pension plans are budgeted at \$619 million. One recent report, it

adds, notes that these contributions will rise to \$750 million by 1974, "without any further liberalization of the plans and without any increases in wage scales."

- The fact that uniformed employes' pensions are already more generous than practically all others in both the private and public sector. The report calls attention to the fact that uniformed employes also get Social Security benefits—with no offset—as well as a \$1 per day contribution from the city to separate funds maintained by each of the three unions representing policemen, firemen and sanitationmen. These contributions are used at least in part to purchase annuities.

- Changes in existing pension plans "could well cause a large diminution in the tax base." Private employers in New York city, the report argues, are finding it increasingly difficult to attract or retain employes. Unions in the private sector "have already made stern demands seeking to match existing retirement provisions of the city's plans." Furthermore, it adds, increased costs of pensions "would result in increases in city taxes, which could force both businesses and individual taxpayers to leave," resulting in spiraling taxes. "For the city to retain its pre-eminent position as a world financial center and as the headquarters capital for industrial corporations, it must halt the accelerated movement of businesses from the city to other localities."

- "It is unreasonable to compel residents of the city to pay taxes to support city pension plans far more generous than the pension plans provided for the resident taxpayers," it asserts.

- Because police and fire department personnel can now retire after 20 years, regardless of age, New York may lose many of these men when they are at the height of their productivity, experience and ability.

- "It must also be emphasized," the report says, "that pensions are not established for the purpose of paying people in the prime of their productive lives to enable them to remain idle, or to pay them while working full time for another employer."

- Even more liberal pensions

would create similar demands from other public employes, the cost of which would be "astronomical."

- Possible future sources of revenue for the city might be endangered if plans are liberalized. For example, the report notes, referring to federal revenue sharing, "Congressmen from other states could well be reluctant to authorize money for New York city to provide wages and pensions for city employes in excess of similar" plans in their states.

WHILE THE chamber's arguments for holding the line on pension improvements are indeed strong, it also makes a case for modifying existing plans for future employes.

"As a practical matter," the report says, "we are not suggesting modification in the plans with respect to employes now on the payroll." However, it does urge that for future employes a "minimum age requirement" should be set, pensions should be based on average base pay of the last five years, overtime should not be included in the computation, and that "there should be some recognition of Social Security benefits and of any other annuities or pensions financed in part by city contributions."

"We believe the economic well-being of the city and its citizens requires that no further liberalization of the city's pension plans be granted, and less liberal benefits should be provided for all future employes hired," the chamber told Mayor Lindsay in its report.

"Those involved in these negotiations," it says of the labor discussions now going on, "have a far greater responsibility than merely finding a solution for a labor dispute that may result in peace now—only at the expense of disaster later. All involved in these negotiations have in their hands the continued viability and financial solvency of this community as the ranking city of the nation and the world."

Mayor Lindsay said that thus far "the city has not made any concessions on pensions in the negotiations with the uniformed services." However, he would not say whether the city would adhere to this position. ■

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Fund . . .

Continued from page 23
ticated accounts know pension funds are a future thing and a few bad years can be covered by some good years."

A broker who has worked closely with several pension funds commented that "typically, pension plans look to five year cycles. If '66 through '68 were good enough they could offset '69 and '70. The last two years have been bad, but no plans have gone under."

In an interview with *Business Insurance*, an officer in the common stock department of a large insurance company outlined his company's investment strategy for the '69-'70 market. Their pooled equity account, with a total value of about \$400 million, was down 19% in 1969. Last year, from May on, it rose 24% from the '69 low, making for a net rise of 1% in unit value. It is indicative of what was considered "good" and "average" in these two years that such a large loss was considered acceptable when followed by gains making for a 1% overall rise. "Our general strategy from '69 through the first half of '70 was very defensive," said the insurance officer. "We went heavily into cash. Starting in May we turned more aggressive, and by year's end the portfolio was fully invested—we weren't so abnormally heavy in cash. And 1969 was a transitional year and very bad for everyone," he concluded.

Ahead of this pooled equity fund in performance were the accounts at a New York investment management firm. But the story told by a young broker there still reveals how bad the market has been. "We've been lucky," he said, "we've done well. In 1969 we lost less than most and in 1970 we made money in the neighborhood of 7%." It is fairly common these days to hear performance measured in terms of how small the losses were.

BUT THERE ARE always exceptions. The same broker described his firm's best pension fund for 1970, which was up 17%. "It's an \$18 million pension fund, and we have all of it. When we got the account we cleaned it up; we reduced \$8.5 million of common stocks, sold \$3.5 million of that. We were going to buy others but for one reason and another we didn't. We held the cash, and then the bottom fell out

of the market. At that point we put the cash into bonds. In fact, we didn't buy a stock for this account till the middle of June, when we committed \$2 million to stocks. And then they did well. By the end of 1970 this fund's stocks were up 11.18% as a package, and the ones that were down within the group were the holdings the fund had from before they came to us."

But he also told a not-so-rosy story about a fund on the other side of the performance coin. "With this fund," he said, "we were influenced by the decision of its trustees to go for broke. They wanted performance and weren't concerned about steady growth. They wanted high appreciation, so we put them in high risk securities. They were down 20% for the year."

He concluded that "timing has a hell of a lot to do with it. Anyone highly risk-oriented last year had to get killed."

Case histories like that of the fund up 17% are leading some

corporate fund managers to consider splintering their assets.

A SOURCE AT a corporation headquartered in New York whose pension fund is worth more than \$100 million said they had considered hiring a money manager at various times over the last two years. At present all this corporation's pension assets are managed by a relatively aggressive insurance company. "In '69 we made out pretty well," the source reported. "Last year we were hurt a bit at the beginning

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but most of our losses have been recouped." Although he expressed some cynicism about money managers—"you only hear about their success stories"—he would still like to see his corporation choose

one to manage a portion of their fund assets.

"I think we should make the move," he said. "There are a lot of advantages in dividing your assets, now at least you're running some kind of a horse race. And this is precisely the pitch we're getting from investment advisors. 'Give us just a piece,' they say. 'Give us \$10 million and see what we can do with it.'"

The treasurer of a company headquartered in Akron tells a similar story. His company's pension assets are also in excess of \$100 million, and the company is pleased with the performance of the bank that manages their fund. "We feel the bank did decidedly better than most institutions did for their clients last year," the treasurer reported. "Although everyone had substantial losses we were affected less than most." At the same time he said the company periodically considers splitting their assets.

"With labor unions demanding increases and retirees asking for

cost-of-living adjustments you've got to try something. That's one reason why we're going to review the possibility of splitting." ■

Lloyd's to enter life insurance field

LONDON — Efforts by Lloyd's to buy Lifeguard Assurance, life company, for \$2.4 million have collapsed as their offer price was too low. So Lloyd's will go ahead on their own with their plan to enter the life insurance field.

The life cover venture caused surprise in insurance circles when it was reported in *Business Insurance* (Dec. 7) as it creates a new concept for the traditional Lloyd's activities.

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AT&T's 1913 pension plan has hardly changed

NEW YORK—American Telephone & Telegraph Co.'s salaried employees are covered by a pension plan that has changed little in structure since it went into effect in January, 1913. Benefit levels, of course, have changed markedly. But hasn't everything?

AT&T retirement age requirements are as follows: Men and women 65 with 15 years of service; women 55 and men 60 with 20 years of service; women 50 and men 55 with 25 years of service may retire with benefit committee approval as may any employee with 30 years of service. Disability pensions are granted after 15 years of service and with regard to the extent of disability and ap-

proval of the benefit committee. Deferred service pensions are granted to both men and women: 40 years of age with 15 years of service.

The regular formula for service pensions is as follows: Monthly benefit equals 1% for each year of employment and is based on the employee's average monthly earnings for the highest five consecutive years of employment. For example, an employee with 40 years service and an average monthly wage of \$600 is entitled to 40% of \$600, or \$240 per month.

THE REGULAR formula for disability pension is 1% for each

year of employment (again, the highest paid consecutive five years are used.) The minimums set are \$85 per month while under age 65 and \$125 a month 65 or older.

Vested employees who leave the company before retirement age



pension, investment report

are eligible for an amount equal to 1% for each year of employment based on the highest paid five consecutive years of employment.

The most recent change in AT&T pension benefits came in 1969 when the company stopped using a Social Security offset. ■

Funds will . . .

Continued from page 2

At General Telephone & Electronics the prudent thing to do some time ago was to split its fund and swing with several outside money managers, including bank trust departments and independent investment counselors. "We split for several reasons," Mr. Dunn said, counting the defensive, or "too many eggs in one basket", as one theory. Another, he added, was as an offensive move.

"We hope to do better," he said of performance." He did note, however, that it is "foolhardy" to give huge chunks of money to "one-, two- or five-man" investment shops. On the future of splitting funds, he commented: "We'll have better money management right across the board. The competition will build a bet-

ter mousetrap. It's the American way, if you will."

ITT CORP., on the other hand, uses a combination of investment advisors, including "the very best bank trust departments," money managers and an in-house investment team. Furthermore, Mr. Hayes said, ITT does look at pension funds as future profit centers. "Creative competition," he said, is the phrase used to describe the multi-management of ITT funds.

Mr. Hayes said that while in-house money management works well for ITT it may not work at all for other companies. ("Modesty," he said, bringing a chuckle from the audience, "prevents me from disclosing how much is managed in-house.") From ITT's standpoint in-house management has given corporate management, "at no great cost, a very important window on the world" of finance and economics, he said.

Not surprisingly, there was at least one point on which all three pension fund administrators agreed—that the growth of funds in the next decade will be substantial. Moreover, someone is going to pay for it, as was pointed out most succinctly by Mr. Hayes.

"We live in an era of affluence," he said. "Simple, dignified retirement is no more. People want to go out and have fun. And one way or another corporations will be paying for it." ■

Inflating . . .

Continued from page 35

And while the financial problems of the last two years have hurt, there seems little danger that funds will go bankrupt, even though they may have to increase funding in some cases, and scramble to beat actuarial estimates of decent performance. But the other and sharper edge to the financial sword is inflation, which drives union demands up, increases the drain on corporate profits, and leaves retirees living on fixed incomes in ever-straitening circumstances.

"**EVEN 3% OR 4%** annual inflation is death to someone living on a fixed income," H. Hayes Hendricks said in a recent interview. Mr. Hendricks is assistant director of product development, equity and retirement plans for Continental Assurance Co. in Chicago.

"I think we're now forecasting 5.5%," he commented. Mr. Hendricks said his company recommends that retirees take part of their payments in the form of variable annuities with payments geared to the rise and fall of a specific portfolio of stocks. "The problem is to do the best for the retiree," he said. "The variable annuity idea is at least a chance for him to beat inflation, but we find that most pensioners are unwilling to assume the risk. It is sort of a gamble."

Thus corporate pension funds are caught between investment performance difficulties on one hand and inflationary pressures on the other. In this situation, warn some experts, fund managers cannot afford to take refuge in wide time horizons.

Said partners at Newberger & Berman, a long-established Wall Street investment firm: "Pension funds do have time to rectify mistakes. But on the other hand if a fund is hurt it loses a year there and then takes time to recuperate; it may have lost two years in the process. In the meantime with luck and good, intensive financial management the fund might have gone up 15% each year. Losses like that may not be fatal, but they can never be recouped." ■

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Giles on the law

Legal rights are most troublesome question in pension fund litigation

By JOHN W. GILES
Attorney at law

WASHINGTON—C o n s i d e r a b l e litigation has arisen out of the adoption of pension plans and more may be expected. The most troublesome question arising out of the adoption of private pension plans is the determination of whether an employee has any legally enforceable rights, or whether the employer's undertaking is entirely voluntary and the benefits mere gratuities that may be discontinued at will.

at the firm's main office and explain the situation, he was discharged.

Plaintiff was subsequently convicted of grand larceny in dealing with a customer. Embezzlement from his employer was not involved. Plaintiff sued to secure his interest in defendant's non-contributory retirement plan earned year by year as part of his compensation, and of which he could be deprived under the plan only in the event that he left voluntarily, or was discharged for dishonesty.

ploye's dishonesty was not known to the defendant at the time of his discharge, and that he had been discharged solely for his failure to appear and furnish an explanation of his request for a leave of absence, the court held he was entitled to receive retirement plan credits he had accumulated prior to his discharge. (*Gitelson v. DuPont*—248 N.Y. Supp. 2nd, 604.)

WHEN PENSION fund was financed entirely by employer contributions, and the plan provided

that employees who qualified as participants were entitled to retirement at age 65 (or in the discretion of the board at age 60) with annual retirement allowance computed in accordance with terms of plan, but that if participant ceased to be an employe for any reason whatsoever his participation should thereupon terminate, discharged employes who had not reached ages 60 or 65 at time of leaving were ruled to have no interest in the fund. (*Schneider v. McKesson-Robbins Inc.*—254 Fed 2nd 827.)

WHEN PENSION agreement was for the benefit of all employes and contained no reference to specific master agreement, under which employe was employed and which came into existence long after pension agreement, and master agreement made no reference to pension agreement, the

employe was not required to resort to grievance procedures provided in the master agreement, as a prerequisite to bringing an action to enforce his rights under the pension agreement. (*Rakness v. Swift & Co.*—147 N.W. 2nd 467.)

WHEN THE interpretation of both employer and employe, shown by their course of conduct for 18 years, conclusively demonstrated that a unilaterally established non-contributory pension plan was revocable at employer's will, the employe was not entitled to benefits thereunder, especially in view of his having joined another plan, benefits from which were expressly subject to condition precedent that he not be a member of any other plan to which the employer contributed. (*Stilfin v. United Whelan Corp.*—290 N. Y. Supp 2nd—417.)

\$ pension, investment report

When the employe authorizes deductions from his wages, it seems clear that he is furnishing good consideration for the employer's agreement to contribute the balance.

When a pension plan is announced, it has some tendency to induce employes to remain in the employment and this reduces labor turnover. The courts have agreed that the benefits so derived by the employer constitute sufficient consideration to support a reciprocal undertaking by the employer to pay pensions. When the employer has not clearly disclaimed any intention to become legally bound, it has usually been held that an employe, having satisfied the announced conditions necessary to render him eligible for pension benefits, acquires a legally enforceable right, either on the ground that the employer's unilateral offer was accepted by completing performance, or under the theory of promissory estoppel.

Voluntary pension plans have usually contained such explicit disclaimers of any intention on the employer's part to become legally obligated for the payment of pensions. The courts have been forced to the conclusion that under the express terms of such plans, the pension benefit was merely a gratuity that the employer could grant or withhold at his pleasure.

When the pension plan is held to have given rise to legally enforceable rights, it appears that the general principles of contract construction govern the rights of the employe to recovery of his contributions upon termination of his employment.

Under a gratuitously and voluntarily promulgated private employe pension plan to which an employe makes no contribution, the employer is privileged to grant or withhold benefits at his pleasure and to terminate or withdraw making of contributions or to amend or terminate the plan itself, especially when the claimant in question did not enter original employment under any expectation of pension benefits. (*Neuffer v. Bakery & Confectionery Workers International Union*—193 F.—Supp. 699.)

THE PLAINTIFF, a branch manager of one of defendant's brokerage firm's offices, requested leave of absence to take care of matters that did not concern the firm and on which he had been subpoenaed to appear before the Securities Exchange Commission. When plaintiff failed to comply with requests to appear

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FENWAL

AT&T ...

Continued from page 23

their pension funds to other banks, generally in their own areas." The five companies, he said, were Michigan Bell Telephone Co., New England Telephone & Telegraph Co., Ohio Bell Telephone Co., Southwestern Bell Telephone Co. and Chesapeake and Potomac Telephone Co. in the District of Columbia.

Since then other Bell companies have followed the lead of those five, transferring either all or a portion of the funds under management by Bankers Trust to

other banks. Pacific Telephone & Telegraph Co. was the most recent AT&T subsidiary to do so. On Jan. 1 it moved a major portion of its funds to several California banks, including the Bank of America.

Mr. Thompson emphasized, however, that there has not been a fleeing of Bankers Trust by AT&T money. To the contrary, he said, taking an annual pension fund growth factor of 8% to 9% into account, Bankers Trust still manages more Bell System funds than any other institute.

ONE DEVELOPMENT that influenced the growth and investment philosophy changes at

AT&T occurred in 1964. That year the company decided to begin funding death benefit payments to workers who died before retirement age. AT&T had previously treated those payouts as current expenses.



pension, investment report

As a result each Bell company now has two employee benefit funds. And in most cases the funds are in the hands of different trustees. The Bell Telephone

Co. of Pennsylvania, for instance, has its larger pension fund with Bankers Trust, but the death benefit fund has gone to the Philadelphia National Bank.

While the more dramatic changes in philosophy did not come at AT&T until 1960 when funds began being shuffled into hands other than those at Bankers Trust in New York, other changes had been blowing in the winds since 1958. It was then that AT&T pension fund trustees began investing in common stocks in addition to the more stable pension fund investments.

"It's hard to believe now," Mr. Thompson reflected, "but it wasn't until the early 1950s that people began considering common stocks as suitable investments for pension funds. We got in in 1958. Some companies got into common stocks in 1950 and with better results than those that started later. We weren't the pace-setter in this, but we weren't the last to go into stocks either."

AT THE MIDDLE of last year, the combined AT&T funds had about 40% of their assets invested in common stocks. The balance, of course, was in the normally more stable investments—long term corporate bonds, government insured mortgages and conventional mortgages, straight real estate investments, some royalties and a small amount of preferred stock.

In terms of investment authority, Mr. Thompson explained that until 1966 trustees were limited in certain areas. Investments in common stocks, for instance, were set at a certain percentage. Mortgage investments were also limited to government insured mortgages. In 1966 these limits were removed and from 1967 on the trustees have had full investment discretion.

As far as investment performance goes, it has not gone well in recent years, although Mr. Thompson does not explain it quite that candidly.

To be sure, other pension funds have done worse than AT&T. Many others, however, have done better.

THERE IS, nevertheless, ample reason for this less-than-desirable return on the Bell System's \$8 billion portfolio.

For one thing, Mr. Thompson explained, the AT&T funds are among the oldest in the country and, as everyone knows, the oldie-but-goodie pension funds are more likely to have fixed-income investments made years ago when interest rates were low than the younger, more spritely funds.

AT&T established its pension plan in 1913 and began funding it in 1927. "By starting to fund in 1927," the AT&T executive explained, "we invested exclusively in bonds and notes during the '30s, '40s and early '50s when interest rates were quite low. In fact, we still hold 30- and 40-year bonds that are yielding only 2.75% to 3%, so our performance is influenced partly by these old investments. I suppose this does make our funds appear unfavorable when compared to some of the newer pension funds."

Since AT&T companies began spreading some of the wealth around in 1960 the home office and, indeed, every Bell System company treasurer for each individual fund function rather autonomously in their particular corners of the country. They have been carefully watching the various banks managing funds.

"WE HAVE FOUND that in fixed-income investments, such as bonds and mortgages, performance doesn't vary much from bank to bank. But," he added, "in common stock investments we

find quite a range of performance." Each bank (there are now more than 50 managing 34 AT&T pension funds and 31 death benefit funds) is measured for performance on AT&T computers twice a year. This, Mr. Thompson said, "very definitely" influences what banks get what. Investment criteria used for comparison on stock performance are Standard & Poor's 500 averages.

The most recent change in the direction of the wind blowing on AT&T pension money occurred Jan. 1 when three Bell companies appointed four investment advisers to manage a portion of fund investments. It was the first move away from banking investment management in the 44-year history of the AT&T funds.

The move may be construed as a bad omen for the American banking community. Whether the omen holds true, of course, only time and performance will tell.

"As our funds have continued to grow at the rate of 8% to 9% a year some have gotten to the maximum size for good performance from any one investment adviser," Mr. Thompson noted. "We are working with 53 banks now and, really, there are not too many large, qualified banks left that don't already have some of our funds."

ANOTHER REASON for the move, which the AT&T exec described as "still very much an experiment that will be watched closely," is past performance.

"With some banks we have had disappointing performance. You certainly don't make a move on the basis of one bad year but even on the basis of three- to five-year performance records, some of the banks managing our funds have shown disappointing results."

Concerning the four money management firms chosen for the AT&T experiment, Mr. Thompson said, "We saw all kinds" of prospects. "Some were younger and more aggressive—go-go operators. Others were older and a little more conservative. The firms we've selected so far are well-established."

The professional (the italics are not Mr. Thompson's) money managers called in by AT&T will be watched carefully. Mr. Thompson is not making any predictions but he does say that the new investment advisers will be given adequate time to prove their worth. Decisions will not be based "on one bad year." But, he added, "if we're still getting poor performance in the second half of the second year, then we are going to be concerned." In the meantime, he noted, actual securities under money manager investment will continue to be held by custodian banks. "We can get out fast if we must," Mr. Thompson said. ■

Pensions up in Quebec

QUEBEC—The Quebec revenue board has reported that, from 1967 to 1969, it paid \$42 million in pensions and allowances.

The report said that the number of persons receiving monthly benefits during 1970 almost doubled from the 1969 figure of 38,511 recipients. Those receiving payments in 1970 totalled 71,221. In comparison to those figures, there were 15,502 beneficiaries in 1968 and only 2,969 in 1967.

Old age pensions accounted for the largest share of the money paid out with 36.5% of the total. Widow's allowances received 29.9% while orphans' allowances accounted for another 17.1%. The remaining 15.6% was made up of payments for death allowances. ■

WHY FOUNDRIES COAST TO COAST INSURE THROUGH

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Help reduce your risks. Save you money. ICI's people provide truly personal service backed by an in-depth organization using the latest techniques and equipment. They are skilled technicians offering the broadest range of insurance counseling and management services. Our experience and skill can find the right answers for you. Ability and teamwork are the qualities that stimulated ICI's remarkable growth. We have just added a new insurance "center" in Pittsburgh—and we plan to grow even more—to at least 15 new "centers" by 1975. The growing list of insurance companies represented by ICI will give us even more depth and versatility in meeting your every insurance requirement.

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Polycarbonate, tougher than glass, gets 10% discount by rating board

NEW YORK—Window-break theft is a problem common to retail stores in high-vandalism areas. So is an inability to get crime insurance coverage. Installation of a new, virtually unbreakable, glazing material called polycarbonate, however, is changing all that and even qualifying some users for a 10% rate discount.

Polycarbonate is a transparent plastic extruded under heat and pressure from resin in a delicate process developed by Rowland Products Inc., Kensington, Conn.

The plastic looks exactly like glass but, being rather soft and flexible, it bends when pressure is applied to it. According to its developers, it will withstand 300 times more impact energy than glass, although it weighs less than half as much.

POLYCARBONATE meets test standards of Underwriters Laboratories and has been approved as burglary resistant since October, 1970. The Insurance Rating Board manual allows a 10% discount when all glass installed on the grade-level floor of a premise is of approved, burglary-resistant type.

The advantages for retail stores and other highly vandalized buildings are many, the developers note. A store's losses when windows are smashed come not only from theft but also from the high cost of glass replacement. Glass itself is not as expensive as the cost of labor and, although polycarbonate generally costs twice as much as glass, Rowland spokesmen say, the initial investment will result in a saving of replacement costs.

Polycarbonate also justifies its cost in terms of insurance. Owners of buildings in high-crime areas where coverage has been cancelled often are able to get insurance after installing the plastic. If they are given lower rates because of a decline in losses they can afford to buy more insurance if they want it.

Another extra for store owners is lower fuel cost: Polycarbonate conducts only 1/3 as much heat as glass and is therefore a better insulator. The material is highly fire resistant because it is self-extinguishing.

BUT THERE IS a fly in the ointment. Polycarbonate's surface scratches easily and the optional glazings that have been developed to prevent abrasion are expensive. A spokesman for Rowland Products told *Business Insurance* that the best plate glass does have a more perfect surface than polycarbonate. But the plastic is almost as transparent as high-quality glass, transmitting only about 1% less light.

"Polycarbonate is being used more and more in schools," the Rowland spokesman said. "The New York Times reported \$2.5 million in damage to city schools last year from vandalism in window breaking. We're getting orders from schools in problem areas

as in New York, Baltimore, Chicago, Los Angeles and Boston.

"The prison riots six months ago in New York have resulted in some business too. Prisoners were smashing windows and using jagged glass for weapons. They just can't do that with the plastic."

Some thicknesses of the substance are bullet proof and are being used in taxi-cabs as protective dividers between driver and passenger. Polycarbonate is also used for windshields on snowmobiles, because it won't break in the cold, for railroad car windows and for the plastic covers on car lights. When made opaque and molded it is used for aircraft interiors because it is lightweight and heat resistant.



Dick Ostop, regional sales manager for Rowland Products Inc., pounds his fist against the Rowland polycarbonate window of a liquor store in a high-vandalism area in Hartford, Conn. Even a hammer blow will not break Rowland polycarbonate.



Fight of the century insurance highlight

SAN FRANCISCO—Although Joe Frazier and Muhammad Ali each had \$2.5 million worth of inspiration for their World Heavyweight Championship bout, both of them together had less than half as much financial interest in the fight as did Fireman's Fund American Insurance Cos.

In addition to Fireman's Fund's \$10 million liability coverage for New York's Madison Square Garden, the company also provided \$1 million of the insurance covering a possible breakdown in the closed circuit television system which relayed the fight to audiences in the U.S. and in Canada and signals to Telestar and other satellites.

Through Reid & Carr, New York, Fireman's Fund has provided liability coverage on Madison Square Garden for several years.

Check our follow through. If you are not getting the proper distance out of your ball perhaps it's your follow through, but don't take our word for it — see a pro. And it's the same with insurance — if you want to be sure you won't be wiped out by a high liability claim see a pro, an independent insurance agent. Chances are he will recommend a Chubb Personal Excess policy. It provides broad catastrophe coverage of a million or more above your regular liability limits at a very reasonable cost.

We offer a quality service that meets both personal and business requirements. When it comes to getting proper protection, check our follow through.



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for the record

Tanker premium rates scheduled to be raised

NEW YORK—The goings-on at the annual meeting of the American Hull Insurance Syndicate could provide a timely tip for tanker owners: premium rates for such vessels are about to go up.

Allen E. Schumacher, chairman and manager of the syndicate, told the meeting that tanker accidents had claimed two-thirds of insurance payments for partial losses to shipping during the year and that losses to large tankers had climbed to 112% of premiums during the past five years. He pointed out that these losses were

partially offset by the fact that total loss payments had stayed at a low level.

Acknowledging the fact that insurance costs for large tanker owners are their heaviest operating expense today, Mr. Schumacher felt that losses had been, and continue to be, so severe that the premiums are still not adequate to meet the underwriters' risks.

He outlined three approaches to the problem:

- Further increases were essential.

- Discourage tanker owners from going the self-insurance route, which narrows the spread of risk.

- Closer cooperation between the tanker industry and underwriters.

\$5.5 million painting major insurance risk

LONDON—Insurers face a major risk after the purchase by New York dealer Alex Wildenstein of a Velazquez painting for \$5.5 million at Christie's of London recent auction sale. It was a world record sales room price, though there are claims that other paintings have been sold privately for even costlier deals.

Security was stepped up on the painting after it was bought by Mr. Wildenstein, vp of Wildenstein and Co., as it has to await British Government approval for export as it is an historic work of

art.

John Herbert, public relations director for Christie's, confirmed to *Business Insurance* that insurance had been taken out, but refused to give details.

HE DENIED ONE press report that it was "automatically covered with Lloyd's for the full price" as soon as the saleroom bidding ended. But he agreed that special cover had in fact been obtained, and said: "It was not automatic—it was a special case."

As for details on whether it was placed with Lloyd's and whether it was jointly covered on behalf of both Christie's and Wildenstein and Co. until it finally leaves Britain, he said:

"These are company matters which we don't want to discuss. Every insurance policy always has special aspects, but I'm sorry I'm unable to divulge them."

The picture, a portrait by Velazquez of his assistant Juan De

Pareja, was on view at the sale but was speedily put in a safe place as soon as it ended. The auctioneers refuse to give details of where it is being kept, but one suggestion is that it has been taken from Christie's strong-room to a London bank vault for security reasons.

Legally it may have to stay in London for up to three months before the British Government's art experts decide whether it should be bought for the nation or passed over to Mr. Wildenstein so that he can take it to New York. It was valued at \$100 when it was sold at Christie's 150 years ago, and reached \$450 ten years later. The Earl of Radnor has now sold it to pay estate death-duty after it had been in his family ownership for more than a century, and it topped all known saleroom records in price.

Texas bill questions work comp process

AUSTIN, Tex.—The state senate labor committee has approved bills forbidding a company from firing an injured employe if he claims workmen's compensation, and allowing the man to choose his own doctor.

State Sen. James P. Wallace, sponsor of the bills, charged that forcing an employe to consult with a doctor hired by the industrial firm's insurance company does not speed the getting-well process and all too often the employe is fired if he consults an attorney to advance his workmen's compensation claim.

Tony Koriath, a member of the industrial accident board, charged that the practice of firing an employe if he files for workmen's compensation is not an unusual one. "For example, Mosher Steel of Dallas has as its written policy if a man hires an attorney to press his workmen's compensation claim, he is fired," he said. "This hurts rehabilitation. How do you get a man rehabilitated if he has no job to go back to?"

Mr. Evans said that while firing can be a problem, in plants with strong unions a grievance can be filed and usually won.

Rottman is named Nevada commissioner

RENO, Nev.—Richard L. Rottman has been named Nevada insurance commissioner, succeeding Louis T. Mastos.

The state legislature recently adopted a bill to change certain qualification requirements of the insurance post in order to permit the appointment.

The new commissioner is the first holder of the Nevada Insurance Education Foundation's Chair of Insurance at the University of Nevada. Prior to that Mr. Rottman was an associate professor of finance in the school of business and public administration, University of Missouri.

On April 13, he will conduct a day-long risk management seminar at the University of Nevada conference center, Stead, Nev. Speakers will be David Warren and Lee Fisher.

Florida school system faces insurance loss

MIAMI—In Florida, the Broward County School Board has been threatened with cancellation of fire and vandalism insurance on its schools unless it accepts a policy that pays damages only above the first \$50,000 for each incident.

School Insurance Administrator J. C. Underwood asked the board

Continued on page 54

What happens when citizens take the law into their own hands?

When the citizens of San Diego did it, some of our best insurance men backed them to the hilt.

Not long ago crime flourished here. Theft. Arson. Vandalism. One outrage after another had everyone talking. But nobody was acting.

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Thus the San Diego Stamp Out Crime Crusade began. Sponsored by the Independent Insurance

Agents Association of San Diego, the crusade went straight to the people. Roused them into directly a ding police by reporting crimes or suspicious circumstances. Got them involved in crime prevention on a day-to-day basis by showing them how to remove opportunities and temptations. And publicly commended those who personally intervened to stop a lawless act.

Talks were given to hundreds of civic groups. As the idea grew, more than 100 California communities launched similar programs.

This resurrection of citizen concern has gotten results.

Arrest and conviction rates have risen 31 per cent,

while incidence of crime has dropped 26 per cent below San Diego's former 3-year average. Meanwhile, city and state police report encouraging signs of citizen cooperation on all fronts.

Best of all, the participating communities have become better, safer, more decent places in which to live.

A lawless society is not only intolerable. It is uninsurable as well. However, lawlessness can hardly be cured by raising rates and cancelling policies. For the Atlantic Companies and its agents, social action is the real answer to society's problems. Not because what's good for people is good for the insurance business. But because helping people is what insurance is all about.

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Can agreement follows National Can contract

NEW YORK—The fat fringe benefits and the 27% wage increase granted in the February agreement between the National Can Corp. and the United Steelworkers Union are closely paralleled by the March 14 contract signed by the three remaining can manufacturers.

Pat Fagan, a union spokesman contacted at the steelworkers' Pittsburgh office, told *Business Insurance* that the package agreed to by Continental Can Co. Inc., American Can Co., and Crown Cork & Seal Co. Inc. is economically very similar to the National Can package (*Business Insurance*, March 15).

"The medical insurance program, the pension increase, the Medicare premiums agreement, the wage settlement—they're all the same," Mr. Fagan said. He also indicated that the all-important cost-of-living adjustment, the keystone union demand in the National Can negotiations, was included in this package. The clause provides that union members will receive an increase of 1 cent an hour for each consumer price index increase of .4% over 5% each year.

ACCORDING TO Mr. Fagan, the only differences between the two contracts are in some areas of contract language and changes in the job classification manual. The

Praise for California rehab results

SACRAMENTO—California insurance carriers and employers have been praised for "long having engaged in voluntary successful rehabilitation practices" that have not been recognized.

The praise came from Roy J. Bell, administrative director, Workmen's Compensation Appeals Board Division of Industrial Accidents, as he completed a six-month study of industrial rehabilitation within the state. The study covered 3,635 cases involving rehabilitation of injured workmen.

"California employers and insurance carriers," he declared, "are to be commended in that rehabilitation plans indicate more than half of the injured employees will return to work with the same employer performing new functions compatible with their physical disability."

"THE REMAINDER," Mr. Bell added, "will return to some form of gainful economic self-sufficiency through the coordinated efforts of the insurance carriers, the employers and private and public rehabilitation services."

Special consultant Robert A. McLeod served as chairman of the industrial vocational rehabilitation study planning committee.

Participants in the survey included workmen's compensation insurance carriers, self-insured employers, permissibly uninsured employers and adjustment service firms.

Of the 3,635 cases studied 750, or 20.6%, required on-job retraining; 439 required school training and 206 combined school and on-job training while 2,240 required no training. Most of the injuries involved, 1,726 (47.5%), were strains or sprains and 41% of the injuries, or 1,491, involved the back.

manual changes, he said, represented an economic difference between the two contracts and would cost the companies involved more money because jobs formerly classified on lower levels have been raised.

However, a source at Crown Cork & Seal said the job manual changes apply to National Can as well as to the three manufacturers who just settled. "There will be no differences in the manuals," he said. "National Can left the manual question open in their negotiations and accept our agreement on a 'me-too' basis."

Crown Cork & Seal, Continental Can and American Can had expressed surprise and anger when National Can broke the in-

dustry's solid front and signed with its 3,500 USW members in February. A source at American Can Co. commented that National Can's breakaway influenced the speed and terms of negotiations between the remaining three companies and the USW.

"National Can's contract set a precedent," he said, "and our contract naturally parallels theirs. But it's going to cost American, Continental and Crown Cork & Seal far more than National, which only has about 4,000 employees. We've got 33,000 USW members among us."

Representatives of American Can Co. and Continental Can Co. Inc. are presently involved in negotiations with the International Assn. of Machinists in San Diego. Their master contracts with the IAM expire on March 31. National Can and Crown Cork & Seal, which have contracts with the IAM on a single agreement basis, are not involved.

California considers repeal of state Medi-Cal program

SACRAMENTO — Legislative repeal of California's Medi-Cal program and replacement with prepaid private health insurance has been proposed here by Craig Biddle, Riverside Republican assemblyman.

"A completely new solution to the problem is required," Mr. Biddle told the assembly. "Our only alternative is to kill the fiscal monster which can easily bankrupt California."

Mr. Biddle said in five years both case loads and expenditures "have doubled . . . with 2.4 million people now on Medi-Cal and budgeted cost for the current fiscal year of \$1.3 billion."

THE ASSEMBLYMAN said he would propose retaining the pres-

ent U.S.-funded Medi-Care program for senior citizens and the state, in addition, would pay for new insurance policies to provide health care service to a specified maximum dollar amount.

"This would mean," Mr. Biddle explained, "that every welfare recipient would join a health care plan from a private carrier and California would pay the premium."

Gov. Ronald Reagan, Mr. Biddle added, "has emphasized that the state Medi-Cal program provides 23 services for those on welfare and the medically needy compared to the eight that the average tax-paying family buys for itself from private insurance carriers."

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DuBain . . .

Continued from page 14
take into account inflationary increases in replacement costs. After all, construction costs over the past 10 years right here in San Francisco have gone up about 80%. Machinery costs have risen even more sharply."

The vp is convinced that there can and should be no capacity when the insured "refuses to take reasonable and prudent measures to prevent loss. Insurance is not a substitute for the insured's responsibility for protecting his investment or for reimbursing

maintenance costs or to underwrite errors in judgment in the design, construction and operation of physical plants."

INDUSTRY, he declared, "must be more alert to its loss-reduction responsibilities, and more conscientious in carrying out loss-control measures, if it hopes to retain adequate individual risk capacity."

Fireman's Fund, he said to illustrate the problem, is a member of the Railroad Insurance Underwriters, a pool now going out of business, and Fireman's is also taking the lead with Continental Casualty, Hartford and Travelers in forming a new pooling arrangement, to be known as Railroad Transportation Insurers.

In explaining failure of the old pool, Mr. DuBain asserted that "the railroads cut back investments for new equipment, maintenance and loss prevention. They ran faster trains over old tracks

in a sad state of disrepair. Losses went up but premium rates did not keep pace. The railroads had, in effect, run themselves out of the insurance market."

Mr. DuBain contended that "if we can achieve, on a broad scale, adequate rates and terms and if industrial management will discharge its own responsibilities for risk protection and loss control, we will have overcome the major obstacles to profitable underwriting and we will have an adequate supply of willing capacity. Then we can deal effectively with the third part of the capacity problem, which is finding means to make willing capacity readily available to insurance buyers.

"THIS PROBLEM is most often associated with risks that have extremely hazardous or unique exposures or that require high limits or broad coverages. But it can also be a problem for small and medium risks."

He asserted that the industry has the means for mobilizing capacity on a large scale, naming the Oil Insurance Assn., Factory Insurance Assn. and the Factory Mutuals, and railroad, aviation, cotton and ocean marine pools and facilities for the nuclear energy field, both property and liability, as examples. He said the industry's capacity study committee is now considering establishment of a Lloyd's-type facility, which may be called the American Insurance Exchange, as a centralized market place to which every domestic insurer and reinsurer would subscribe.

"Each company," Mr. DuBain said, "would be represented in AIE by its own underwriters, except that smaller companies might form syndicates and each syndicate would have its own underwriters." Business that could not be placed through normal channels would be submitted to AIE. Every underwriter in "the room" would make his own decision on acceptance, rates and terms.

The primary motive behind AIE," he continued, "is to make every dollar of willing capacity readily and conveniently available to insurance buyers. Additionally, it would allow many smaller companies to participate in risks and classes of business which they are not structured to compete for now.

"ACTUALLY," he said, "Fireman's Fund questions that what is needed is a Lloyd's-type American insurance market. In our opinion that is not the answer to the capacity problem.

The recommendations are based upon the stated assumption that present U.S. markets do not now write high limits, broad coverages or hazardous, unique and complex risks. This assumption is basically not true, to the extent that underwriters can obtain proper rates and terms. AIE will not of itself create any more willing capacity for these risks.

"If the companies can be freed from regulations impeding the use of broad forms and judgment rates by changing present laws, the alleged need for an AIE would, for all intents and purposes, be negated. It has been suggested that rating freedom might be obtained for only AIE transactions. I find this to be unrealistic and indefensible in the public interests," he said.

Mr. DuBain also alleged that there are "serious anti-trust implications that have not been adequately resolved in relation to the proposal for AIE."

In terms of AIE as a solution for agents who exhaust markets, he proposed as "a better solution" that state company agency licensing laws be changed to allow access to additional companies."

He was most firm in stating that Fireman's Fund "is not prepared to participate in an American Insurance Exchange as proposed by the capacity study committee.

"On a broader scale, a large reinsurance pool readily accessible to all companies is the direction in which we hope to go." ■

Group auto for Seattle?

SEATTLE, Wash.—Employees of the city of Seattle have been offered a new group auto insurance program, by Employee Benefit Plans Inc., newly formed insurance brokerage firm. Coverage will be placed with Federated American.

James A. Thompson is president of Employee Benefit Plans, broker for the Joint Crafts Council. The firm will specialize in mass marketing of payroll deduction insurance programs for all lines.

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Industry against insurance premium taxing proposals

HARTFORD—Gov. Thomas J. Meskill's tax proposals have met with criticism from the Connecticut insurance industry.

The governor has proposed to make insurance premiums subject to the 7% sales tax he has recommended, in addition to continuing the 3.5% tax on interest and dividends.

Roger Dove, Insurance Assn. of Connecticut executive director, contended that no other state applies its sales tax to insurance premiums.

Moreover, he asserted that the imposition of such taxes will trigger retaliation by other states that could cost Connecticut-based insurance companies an additional \$100 million in taxes.

MR. DOVE added, "No business

can stand a drain of this magnitude." He said that the insurance business suffered an "extraordinary" 367% increase in taxes in 1969 and needs tax relief, not an additional load.

"Connecticut already taxes its insurance companies far more heavily," he said, "than any other state, and our ability to compete in the national market is jeopardized."

Some 95% of Connecticut insurance company business is based outside the state and results in an influx of vital net income to Connecticut, he said. The insurance industry is approaching 40,000 employees in direct and related services and this makes the industry one of the largest single categories in Connecticut, he noted.

dates for buyers

April 15, 2nd Annual Conference, Risk Management in Practice, Massachusetts Insurance Buyers Assn., an American Society of Insurance Management chapter, Colonial Hilton Inn, Wakefield, Mass.

May 13-14, 5th Annual Conference on Employee Benefits, Pension & Welfare News, Statler Hilton Hotel, New York City.

May 17-21, Diamond Jubilee Annual Meeting, National Fire Protection Assn., San Francisco Hilton, Cal. For more information write NFPA, 60 Batterymarch St., Boston, Mass. 02110.

May 19-21, 25th Annual (Silver Anniversary) Technical Conference and Exhibit, American Society for Quality Control, Conrad Hilton Hotel, Chicago, Ill. For more information write the Registrar, ASQC, 161 W. Wisconsin Ave., Milwaukee, Wis. 53203.

Single global policy outdated for large corporation, insurer says

BRUSSELS—The single global policy concept for large corporations may now be outdated, Gordon J. R. Hickmott, fire and consequential loss production manager for Commercial Union group, declared at a European seminar on corporate risk management.

Reviewing merits of locally-placed policies for interruption insurance cover, he pointed out to delegates:

"Use of local insurance markets assists general local well being of the large international trading organization. It enables local flexibility in cover. Losses are paid in local currency, and assistance in the form of underwriting supervision is valuable.

"IT MAY BE said that local markets are not sufficiently experienced in this type of policy to meet all reasonable requirements, but they will often co-operate with the central placing of a master policy so as to enable the corporation to ensure its total cover is worldwide and common in the extent required.

"By this means the equivalent of global cover is achieved with-

out most of the drawbacks. It does have the snag of complexity of arrangement in using many local markets, but this may be necessary in any case to ensure correct cover is reached.

"The need for compliance with local regulations, either of state or government requirements, or of local insurance market conditions, is becoming much more common. Failure to comply with them possibly threatens continued trading in some areas, so the single global policy concept is now possibly outdated."

Practical aspects of arranging interruption cover were analyzed by Mr. Hickmott, who stressed for the benefit of risk managers:

"WHOEVER is responsible for arranging the cover must be in a position to appreciate the future developments of the company's business as a whole, and not just the isolated units spread abroad. The sales policy of the organization is often informative of the method of control.

"The normal commercial prosperity of the business from its own trading is its prime concern.

Insurance needs therefore are secondary protection matters, and must not interfere with production and sales."

For this reason local trading purchases could well include the purchase of insurance so as to provide good will in all the territories in which business is being done. Skilled practitioners in interruption insurance are still rare in many countries as it is a relatively new branch of the market, he declared.

International insurance markets were building up their resources to provide advice, but in the meantime the larger markets with their existing large portfolios must guide and assist.

As income grew with the expansion of international trade, so the strength of advice on risk management from interruption surveys, "after damage" loss prevention, and other first-aid measures would grow also. Full use of local markets, coupled with experience of the older insurance markets and adequate rating, would provide the best scope for the future.

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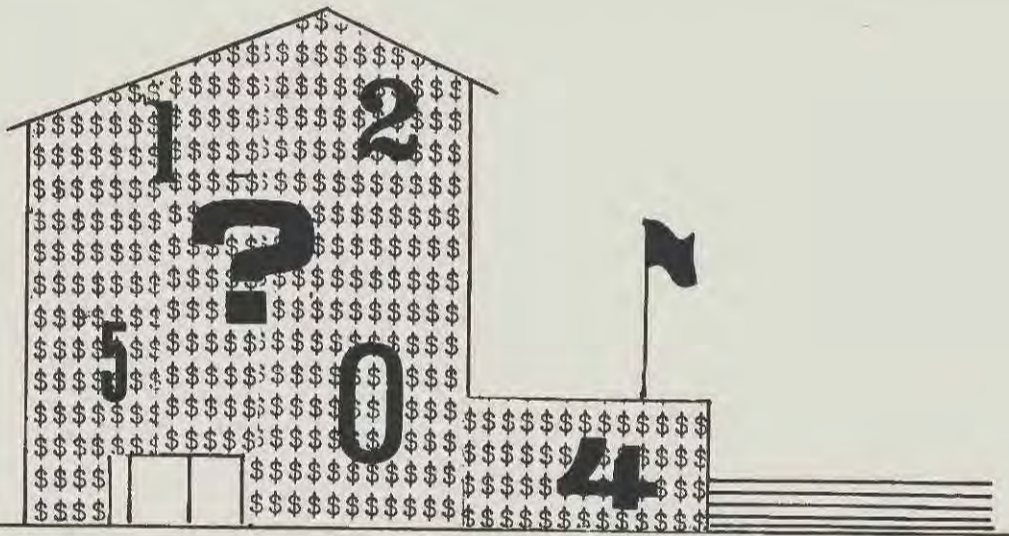
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Record . . .

Continued from page 50
to approve hiking the deductible to forestall cancellation of the policy held by American Employers Insurance Co.

American Employers, which paid out \$163,144 for losses at one school in a 1968 fire and has paid out another \$9,500 in two other claims, has the right to cancel within 30 days of notice. Its demand was triggered by a more recent fire, in November, which caused \$160,000 damage to another county school. American Employers is expected to pay about \$110,000 on that claim.

Mr. Underwood said he is preparing bid specifications for the

replacement of insurance covering the system's \$150 million-worth of property. But he said prospective insurers will need two to three months to prepare bids.

The school system has paid its insurer \$366,780 in premiums since the policy was written for coverage through this June. Mr. Underwood said the annual premium, which rises as the system builds more schools, is now \$111,416. He said fire losses have exceeded \$50,000 in only two cases during the past five years.

No-fault auto cover opposed by state bar

MILWAUKEE, Wis.—No-fault automobile insurance proposals

which would severely reduce benefits payable to accident victims were opposed here by the state bar of Wisconsin.

The state bar's board of governors, ruling body for the 6,300 lawyers in Wisconsin, adopted instead a resolution encouraging stiffer safety measures as the best way of reducing highway deaths and accidents. According to Wisconsin's present law, persons who are at least 50% negligent in an auto accident are barred from recovery of damages against the driver of the other vehicle.

In reference to the no-fault system which has been adopted in Massachusetts, under which policyholders recover damages from their insurance companies regardless of who is at fault, the state bar's board said:

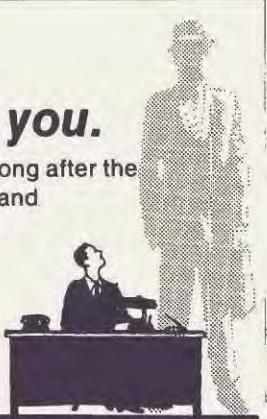
"The public interest of the citizens of Wisconsin would be better served by meaningful and continued reform of the present personal injury reparation system."

The no-fault idea was rejected last year by the state bar's advisory committee on auto accident liability. A bill calling for the establishment of a no-fault system in Wisconsin was introduced in the state assembly at Madison by Rep. William Atkinson, Milwaukee Democrat, and eight others.

James D. Ghiardi, president of the bar and a professor at the Marquette University School of Law here, told the board that he would appoint a committee to study group legal insurance programs similar to the Blue Cross-Blue Shield medical plans. ■

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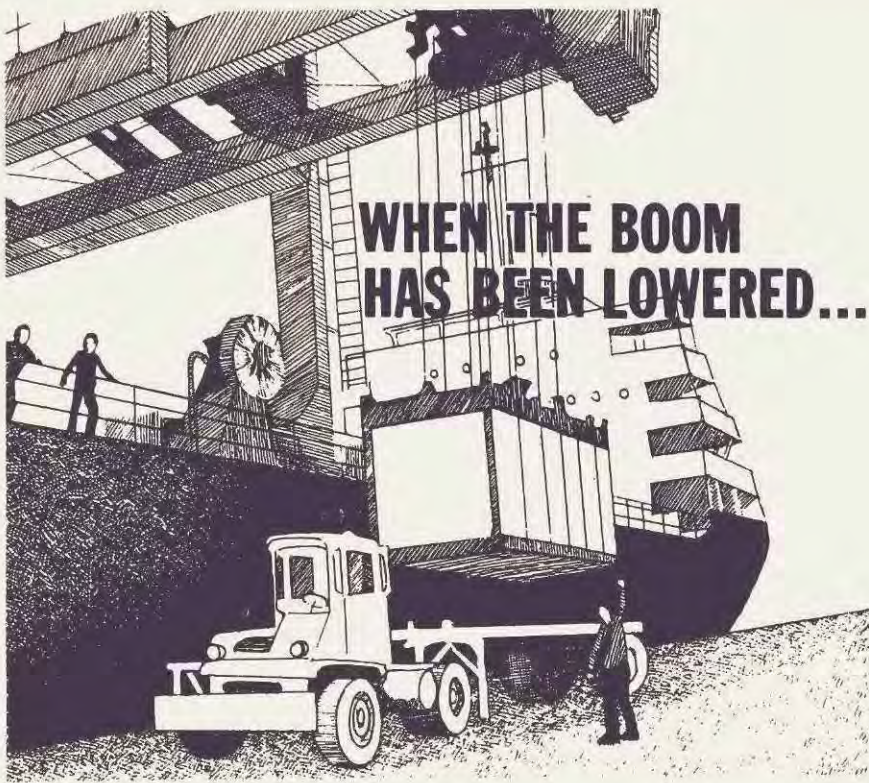
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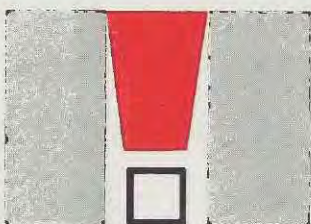
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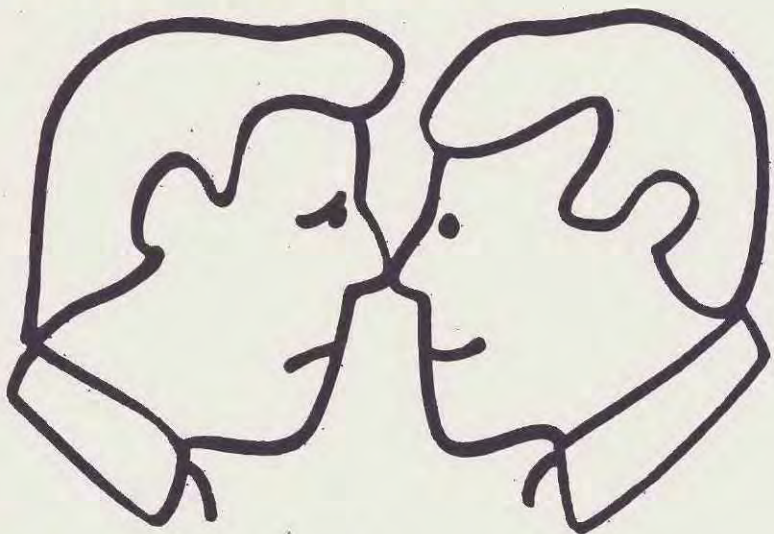
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