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Updates

Unicover management buys company back from Delphi

WILMINGTON, Del.—Delphi Financial Group Inc. has sold its beleaguered Unicover Managers Inc. unit back to Unicover's management only five months after acquiring the underwriting manager for $22 million plus contingent cash and stock payments.

The sale price was not disclosed, but Delphi announced it will break even on an aftertax cash basis. The buyers are Unicover Chairman, President and Chief Executive Officer John E. Pallat III and three other Unicover officials, Mr. Pallat confirmed.

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Insured tornado damage might reach $1 billion

By MICHAEL PRINCE

OKLAHOMA CITY—Tornadoes that tore through Oklahoma and Kansas last week destroyed thousands of homes and businesses and created the worst insured catastrophe in Oklahoma history.

Because the destruction was so widespread and severe, precise loss figures were not yet compiled last week, but estimates for total insured losses could reach $1 billion for both states, according to the Insurance Information Institute. Of that, business losses account for about $100 million or more, said Robert Hartwig, vp and chief economist for the III in New York.

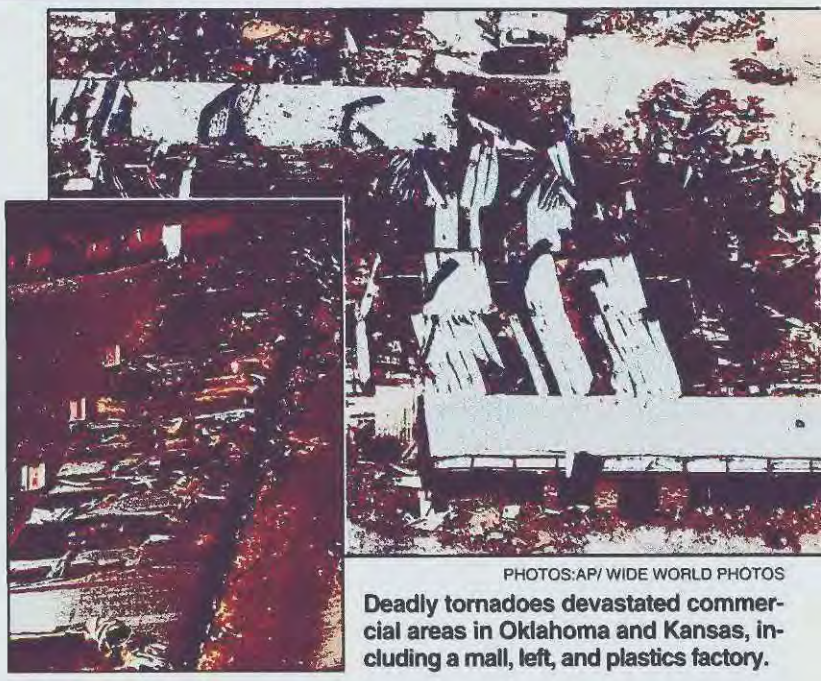
Total commercial losses are difficult to calculate, Mr. Hartwig said. He said the figure could increase, because the loss amount includes business interruption losses, which depend on factors such as how long businesses are without electrical power or phone service.

He added that many of the business losses took place in a heavily commercial area along Interstate 35 in Moore, which is south of Oklahoma City. Damage there included the destruction of two strip malls and severe damage to three hotels.

One of the largest commercial losses in Oklahoma occurred in Stroud, 43 miles east of Oklahoma City. The Tanger Mall, with 65 stores, was destroyed, said Bruce Maddux, director of the Stroud Chamber of Commerce.

"It's basically gone," he said. "It basically looks

See **Tornadoes** *on page 37*



PHOTOS:AP/ WIDE WORLD PHOTOS

Deadly tornadoes devastated commercial areas in Oklahoma and Kansas, including a mall, left, and plastics factory.

Loss foreseen for '98

Profits shrinking

By SARAH GODDARD

LONDON—Healthy profits reported last week by Lloyd's of London look to be the last for several years.

Announcing a £606 million ($1.04 billion) profit for the 1996 year of account, under Lloyd's three-year accounting system, Chief Executive Ron Sandler described the result as "very satisfactory." At the same time, however, he warned that the projected result for the 1997 year of account is much lower, at an estimated profit of £70 million ($116 million), while 1998 results are currently on track for a £60 million ($99.5 million) loss.

What's more, because the 1998 account still has two years to develop before it is closed and reported, the final result could be an even greater loss, he said, and market conditions do not appear to have changed for 1999.

"There is no question that market conditions are depressed. . . .We are operating in the down part of the (insurance) cycle," said Mr. Sandler. He warned that the current prediction for

See **Lloyd's** *on page 39*

Benefits for reservists a challenge to administer

By MICHAEL BRADFORD

As reservists pack their bags for the conflict in Yugoslavia, employers are gearing up for the administrative challenges of continuing benefits for workers called to active military duty.

Employers will be following directives in a little-used law in administering benefits for up to 33,102 reservists who could get the call to duty. President Clinton late last month authorized a call-up of reservists, and 2,000 troops were notified that they would be leaving immediately to support refueling operations



in the campaign in Yugoslavia.

Late last week, Russia and the Western powers reached agreement on the outline of a peace plan, increasing the chances that the conflict could end soon. Meanwhile, though, the fighting continues.

For most employers, the call-up likely will take only a few workers away from their jobs. Some industries—airlines, for example—may be a little harder-hit as reservists who are pilots or work in other airline trades are tapped for duty to support the air strikes.

While employers can rely on the Uniform Services Employment and Reemployment Rights Act for guidance on benefits for reservists, benefits departments could run into problems if they haven't prepared their administrative processes to handle the changes called for in the 1994 law.

See **Reserves** *on page 30*

Lawsuits allege fraud in Executive Life sale

By JOANNE WOJCIK

LOS ANGELES—Former policyholders of Executive Life Insurance Co. of California, as well as employers and state guaranty funds that supplemented payments under the failed insurer's contracts, all stand to gain if two new lawsuits filed against ELIC's current owners are successful.

The lawsuits, filed in San Francisco and Los Angeles, allege that a French-led investment consortium that purchased Executive Life in 1991 deceived state regulators to fraudulently obtain the insurer's junk bond portfolio, which at the time was of dubious worth but has since soared in value.

The suits seek to recover "billions of dollars" in profits made by the French investors as a result of the alleged scheme, in addition to compensatory and punitive damages.

In a deal negotiated by then-California Insurance Commissioner John Garamendi, Altus Finance S.A., a unit of French government-owned bank Credit Lyonnais, paid $2.7 billion to acquire ELIC's shaky junk bond portfolio, while two French mutual insurers—Mutelle Assurance Artisanale de France and Mutuelle Assurance Artisanale de France Vie S.A.—were to operate Aurora National Life Assurance Co., a new insurer created to replace ELIC.

Executive Life collapse sparked other lawsuits, regulatory changes

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The California Insurance Department charges in its suit, however, that documents it has obtained show that the French bank actually controls the insurers' stake in Aurora National, which would violate not only the ELIC sale agreement, but also state and federal laws.

Attorneys representing the defendants declined to comment on the allegations

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NEWSPAPER



Updates

Unicover sold to management

Continued from previous page

Lisle, Ill.-based Unicover earlier this year stopped underwriting for three workers compensation reinsurance pools it manages after one participant, Cologne Life Reinsurance Co., announced a $275 million loss related mostly to its Unicover participation and after analysts projected that total losses on the Unicover business could range from $1 billion to $2.5 billion. While several pool participants have said they do not expect material losses, analysts expect the burden to fall heavily on participants' retrocessionaires (*BI,* March 15).

Delphi's stock price plummeted from more than $58 a share on Feb. 23 to a low of $27.50 on March 4. The stock jumped $8.31 a share last Monday on the announcement of Unicover's sale and closed at $36.69 a share on Friday.

"The market has said, with unmistakable clarity, that (Unicover) would have a material impact on our stock price. We have listened to the market and have taken the appropriate action," Delphi Chairman and CEO Robert Rosencranz said in a statement. "We wish the owners of Unicover well."

Delphi had previously maintained that it faced no liability from any potential Unicover litigation, and the sale "should make that point even stronger," the company said.

Delphi will classify Unicover as a discontinued operation and will report a resulting net loss of $13.8 million, or 65 cents per share, in its first-quarter financial statements, the company said.

Mr. Pallat, one of the buyers, said: "I'm very pleased about" Unicover becoming a privately held company. "It's very good not to worry about what analysts think."

Unicover plans to continue as a workers comp reinsurance underwriting manager and now will have time to develop a new facility, which could involve representing either a single reinsurer or a pool, he said. The facility may not be writing the kind of quota share and low-level excess workers comp reinsurance Unicover previously wrote, he added.

Meanwhile, Mr. Pallat said, Unicover is managing the runoff of its existing business, which will involve about two more years of premium collection and seven years of managing claims.

State seeks 32% comp rate cut

BOSTON—A contentious workers compensation rate hearing is likely in Massachusetts, as actuaries representing the state last week recommended a 31.7% decrease in average insurance rates for all business classes.

That State Rating Bureau filing was made in response to a March 1 submission by the insurance industry-sponsored Workers Compensation Rating & Inspection Bureau; the submission sought a 2.6% rate increase.

Under state law, Insurance Commissioner Linda Ruthardt must hold hearings and set a rate by Sept. 1. The four most recent rate changes in the state have been double-digit decreases: 21.1% in 1998, 12.2% in 1996, 16.5% in 1995 and 10.2% in 1994.

Each side blasted its opponent's position.

"The SRB's recommended rate filing represents an attempt at government price control that would set premium rates at inadequate levels in the workers compensation insurance market," Suzanne M. Bump, assistant vp-northeast region for the Washington-based American Insurance Assn., warned in a statement.

"The State Rating Bureau believes that a number of inputs and/or methodologies underlying the WCRB's proposed rate increase are unreasonable," Robert MacNicholl, acting director of the bureau, said in a statement. These include data on loss/premium trends, profits, expense issues, residual market surcharges and pricing, he said in the statement.

He also pointed out that insurers typically offer good risks deviations from the average rates of 5% to 35%.

Captive regulator named in Hawaii

HONOLULU—Hawaii Insurance Commissioner Wayne Metcalf has appointed Craig M. Watanabe as captive insurance administrator, making him the domicile's first full-time captive regulator.

Mr. Watanabe previously worked in Honolulu as senior vp for 50th State Risk Management Services Inc., a unit of AIG Insurance Management Services. He replaces Gordon Nishiki, who oversaw Hawaii captive regulation while also attending to other insurance division functions. Mr. Nishiki now will focus on other division business.

Promoting the domicile to businesses located within the Western United States and Asia is among Mr. Nishiki's immediate priorities, he said. Mr. Watanabe assumed his new position last week and is in the process of hiring the domicile's first full-time captive application examiner.

Meanwhile, Hawaii legislators last week gave final approval to legislation that would allow rent-a-captive formations. Mr. Watanabe said he expects that Gov. Benjamin Cayetano will sign the legislation into law.

First Union sued over 401(k) moves

RICHMOND, Va.—First Union Corp. says it will "vigorously defend" itself against a lawsuit filed by participants in a 401(k) plan of an acquired bank who claim their plan's assets were shifted illegally into funds managed by First Union.

The suit was filed in U.S. District Court in Richmond, Va., by nine former employees of Signet Banking Corp., a Richmond-based company that was acquired by First Union in 1997. It seeks at least $150 million, which is the amount of investment income plaintiffs say has been lost since the Signet plan's assets were transferred to the First Union plan. They contend the plan offers only poorer-performing investment options, all of which are managed by Charlotte, N.C.-based First Union.

According to Michael D. Lieder, a partner with the Sprenger & Lang law firm in Washington, who is representing the plaintiffs, First Union never obtained the necessary approval to transfer the Signet plan's $250 million in assets.

See **Updates** *on page 38*

House panel OKs bill; no vote yet in Senate

Proposal aims to limit Y2K liability

By MARK A. HOFMANN



WASHINGTON—This could be a critical week for supporters of a legislative fix aimed at limiting businesses' liability arising from the Year 2000 computer problem.

Their cause got a boost last week when the House Judiciary Committee approved—by one vote—a Republican bill that would provide some liability relief for businesses. The full House could vote on the measure as early as this week.

But the Senate continued to postpone consideration of its own bipartisan Y2K liability relief bill, which President Clinton has threatened to veto (*BI,* May 3). Although the bill's sponsors had hoped for a vote by the end of last month, all of the Senate's Democrats—even those who supported the bill—refused to vote for cloture on the bill because of a dispute with the Republican majority over the introduction of non-germane amendments. That dispute remains unresolved.

Proponents remain hopeful that the difficulty is only temporary and that the matter can be brought to a vote this week.

"I am optimistic that we'll get something through both the House and the Senate. In the Senate, if we can get to the substance of the bill, we'll get it. If there continues to be a procedural logjam, that's the

See **Y2K** *on page 37*

Brokers see firmer pricing

By SALLY ROBERTS

BROKER RESULTS 1st Qtr.

As the competitive soft pricing market continues to stymie double-digit organic revenue growth among the world's largest publicly held brokers, at least two brokerage executives say the market soon could change.

As mid-year renewals approach, "there is clear evidence of the beginning of a bottoming occurring," J. Michael Bischoff, vp-corporate development at Marsh & McLennan Cos. Inc. in New York, said of insurance prices.

While there is still overcapacity in the market and price discounting continues, a number of underwriters are not "quite as aggressive" as they used to be in lowering rates, he said. In addition, he said he has seen "less willingness to underwrite multiyear policies" among some insurers.

John F. Roskopf, vp-financial relations at Aon Corp. in Chicago, agrees.

"We are hearing a lot of people talk about it," he said of a potential change in market pricing. "So far in most lines, there's a slowing in the rate of decline and signs of better things to come, but nothing we could pinpoint and call a trend," he said. "The market is

See **Brokers** *on page 38*

Tips to avoid old problems of new covers

By GAVIN SOUTER

NEW YORK—Securitized insurance and reinsurance products are no different from other financial products that involve the risk of dissatisfied buyers or sellers trying to renege on deals, a lawyer says.

While the legal risks cannot be eliminated entirely, careful review and construction of securitization agreements can greatly minimize those risks, he says.

Ensuring that all parties are aware of and acknowledge the risks makes it much more difficult for investors to rescind their obligations if losses occur, he says.

Securitized insurance and reinsurance deals are becoming more prevalent, said Andrew S. Rowen, a partner at Sullivan & Cromwell in New York who has worked on several such deals.

The legal structures for catastrophe bond deals, in particular, have generally been established, he said at a conference on insurance securitization last week sponsored by the Assn. of the Bar of the City

See **Bonds** *on page 36*

Buffett touts contributions of General Re

By PAUL D. WINSTON

OMAHA, Neb.—If Berkshire Hathaway Inc. shareholders had somehow overlooked that the company was a significant force in the insurance business, that message was brought home at its annual meeting last week.

The 1998 acquisition of General Re Corp. and its impact on everything from the size of Berkshire's annual meeting and shareholder base to its contribution to the company's float were among the key points of discussion at the annual meeting.

More than 15,000 people attended the May 3 annual meeting, exceeding the Ak-Sar-Ben Coliseum's capacity of roughly 12,000 people. An additional venue was set up to accommodate the overflow.

The number of attendees swelled in part due to Chairman Warren Buffett's continuing popularity as an investment sage and business leader, and in part because the number of shareholders in Berkshire Hathaway doubled following the issuance of stock to acquire General Re.

See **Buffett** *on page 30*

Inside

€We welcome the move on the part of some employers to eliminate old-style pension plans in favor of providing pension benefits that are more suited to today's workers, this week's editorial says. **PAGE 8**

€Zurich Financial Services Group has made such good financial progress since it was created last year that it remains on the lookout for more acquisitions. **PAGE 31**

€A new study finds a "compensation culture" emerging in the United Kingdom, prompting companies to change their practices to minimize liability exposures. **PAGE 31**

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Benefits: Pensions/Retirement Plans

Motivation behind cash balance pension plans debated

By JERRY GEISEL

Which description is more accurate?

Cash balance pension plans are a vehicle in which companies can deliver benefits more equitably to a changing workforce and in a way employees can understand and appreciate. Or, companies have been adopting cash balance plans as a way to save pension costs and slash benefits to older workers.

The latter description has been scarcely heard since the first cash balance plan was set up in 1985.

Employers for years have been singing the plans' praises. Many say the plans, which deliver bigger benefits to employees after a few years of service, are far better attuned to an ever-more-mobile workforce than are traditional final-average-pay plans. Traditional plans pay rich benefits for employees who work many years for one company but offer only skimpy benefits to employees who leave after a few years.

But the positive view of cash balance plans shared by many employers and consultants is under attack.

The attacks began late last year with a front-page story—and several stories since—in The Wall Street Journal under the headline "Retirement Wrinkle: Employers Win Big with a Pension Shift; Employees Often Lose."

The article said switching to cash balance plans was a way big companies were saving millions of dollars on pension costs.



While the move to cash balance plans is the biggest development in the pension world in years, the article said that move has a "little-noticed dark side": a lot of older workers will be hit with deep cuts in their pension plans.

Pension activists also are voicing their objections. Older workers who counted on full benefits from their traditional final-average-pay plans now are finding the "rules of the game" being changed in midstream, when companies move to cash balance plans, says Karen Ferguson, director of the Washington-based Pension Rights Center.

"Potentially, employees have lost hundreds of thousands of dollars. From our perspective, that is the biggest thing going on," she said.

Pension attorneys representing employees in suits against employers with cash balance plans have leveled their own criticisms.

"While employers give many reasons for making the change to a cash balance plan, it appears that cost savings through a shift in benefits to younger workers drives most of the changes," said William K. Carr, an attorney in Denver.

But the increasing criticism in national media has not dampened employer interest in setting up cash balance plans, benefit consultants say.

"This is not slowing down the conversion process," said Scott Macey, senior counsel with benefit consulting company ASA Inc.

See **Cash balance** *on page 10*

At 25, ERISA has compiled a mixed record of success

May have caused eclipse of defined benefit pensions

By MARK A. HOFMANN

If ever a federal act illustrated the law of unintended consequences, the portion of the Employee Retirement Income Security Act that deals with pensions is it.

ERISA, which became law in September 1974, was designed to ensure that workers got the pension benefits they had been promised. At the time, this meant protecting defined benefit pensions—then the overwhelming vehicle of choice for providing pensions. Yet, as ERISA approaches its 25th anniversary, defined benefit pension plans are in eclipse. Many observers say that development can be attributed to—or blamed on—ERISA and subsequent amendments to the law, as well as Congress' insatiable appetite for new revenue.



Changes, often made in the name of fairness, have made defined benefit plans extremely complicated and expensive to maintain. For example, attempts to make sure that highly compensated employees weren't getting the bulk of the benefits led plan sponsors to question the value of running increasingly expensive plans in which they had little stake. Tax law changes added to the burden, while a generation of workers who didn't plan to follow their parents' example of remaining with an employer for life demanded more-flexible retirement systems. The convergence of forces rocked the pension landscape.

"One of the new realities that has jeopardized the strength of DB plans is job mobility. Without portability, DB plans lose substantial value to workers whose careers consist of many short-tenured jobs at many different employers," said Bill Arnone, partner and national director of employee financial education and planning at Ernst & Young L.L.P. in New York.

"The unanswered question is whether ERISA caused the supplanting of defined benefit plans by defined contribution plans, or would that have happened anyway?" he said.

Ted Benna, president of the 401(k) Assn. in Bellefont, Pa., goes so far as to say that ERISA "should be viewed as the beginning of the death of traditional defined benefit plans."

While other observers don't go that far, they do agree that ERISA's impact on defined benefit plans has not been uniformly benign.

"ERISA has its split personality—we have the labor side, and we have the tax side. From the tax point of view, we have a situation where not only have we not developed a good overall retirement policy,

See **ERISA** *on next page*



Retirement education takes multiple approaches

By ROBERT KAZEL

To benefits executives searching for ways to educate workers about preparing for retirement, experts give the following advice: Be creative and persistent, and don't overestimate what workers know about saving.

Often, they know very little.

Trying to educate employees can be daunting. Sometimes, promoting programs such as 401(k) plans can be like leading a horse to water and forcing it to drink. This can be especially true with younger workers.

"Young people simply don't get it," said Randall Keller, senior vp-human resources at Pearson Inc., a London-based publishing conglomerate with 12,000 U.S. workers concentrated in New York City and Boston.

Pearson has had a 401(k) plan for about 17 years, in which about 69% of its U.S. workers participate, he said.

But among workers under 25 years old, only 36% opt to join the retirement savings plan, Mr. Keller said. Among those 25 to 30 years old, participation improves to 61%, and the proportion of workers joining continues to climb in each successive age group until the over-60 generation, when participation begins to wane modestly.

Pearson emphasizes written materials in educating its workers about the 401(k) plan. Its plan provider, New York Life Benefit Services Inc., produces the materials. In addition, over the years various Pearson subsidiaries have held workshops, ranging from basic to intensive, to explain the plan to employees.

Retirement specialists say employers should use a variety of approaches to emphasize the importance of saving for retirement.

"The first step is to get to people earlier," said Rich Koski, a principal with Buck Consultants Inc. in Secaucus, N.J. Workers frequently wish they had had information about the 401(k) plan—and had understood that information—earlier in their careers, he said.

One method to achieve this is through automatic enrollment of workers in the plan as soon as they are hired, with information distributed during their first-day orientation.

According to a Buck study released last month, 7% of employers enroll new employees automatically, and 28% are considering ways to implement automatic enrollment. Automatic enrollment can ensure that employees don't overlook plan participation.

Because many employers "typically have great fanfare about a (new) program and then forget about it," Mr. Koski said, employees also tend to forget about the opportunity the plan represents. Early hoopla needs to be reinforced frequently through newsletters and seminars, preferably with an employee's spouse attending if retirement is close at hand, he said.

Plan sponsors should schedule a series of workshops, including short videos, and use worksheets to help employees calculate how much money they will need after retirement, said Bob Liberto, vp with Segal Advisors Inc. in New York, an affiliate of The Segal Co.

See **Education** *on page 12*

What employers say works best in 401(k) plan education:

General seminars	33%
One-on-one seminars	32%
Financial planning/ pre-retirement planning seminars	30%
401(k) newsletters	26%
Investment seminars	26%
Employee newsletters	21%
Pamphlets	17%
Comprehensive benefit statements	15%

Source: Buck Consultants Inc.

ERISA

Continued from pervious page
we've actually discouraged defined benefit plans. Through various parts of the tax code, we've discouraged any type of superior funding of these plans," said Pete McCormick, benefits consultant with Buck Consultants Inc. in Pittsburgh.

According to Dallas Salisbury, president of the Washington-based Employee Benefit Research Institute, there were 33 million participants in 103,000 defined benefit plans in 1974, compared with about 11 million participants in 207,000 defined contribution plans. EBRI's most recent estimates show about 41.7 million participants in 42,000 defined benefit plans, compared with 50 million participants in about 700,000 defined contribution plans.

Mr. Salisbury said the number of defined benefit plans peaked in 1983 at about 175,000.

Despite the growth in the number of participants in defined benefit plans over the past quarter-century, EBRI's Mr. Salisbury pointed out, "Relative to the growth of the labor force, there should have been a lot more."

Ironically, ERISA itself gets generally high marks for achieving the major goals of its framers, according to Mr. Salisbury.

ERISA had three primary purposes, noted Mr. Salisbury. These were: securing benefit promises to make sure plans were funded; creating the Pension Benefit Guaranty Corp. in order to ensure that the first objective was met even if some plans weren't adequately funded; and increasing benefit entitlement through greater participation and faster vesting. All of these were achieved, he said.

"Because of ERISA, more than 42 million workers and retirees can rest easy knowing that, no matter what happens to their company, they will have a pension in retirement. For nearly half a million people whose pensions are now in PBGC's care, the promise of a protected pension is a reality. These are the people who were covered by the 2,700 pension plans that PBGC has taken over," said David Strauss, executive director of the PBGC.

'We need to make traditional pensions more attractive, and we are working toward that end,' says David Strauss.

"As we look ahead, we hope many more American workers will have additional pension plans that provide a predictable, secure pension for life. To make this happen, changes are needed. We need to make traditional pensions more attractive, and we are working toward that end," Mr. Strauss said.

"Judged on its own terms, it has been an extraordinary success. It was targeted at disappointed expectations and broken promises, and it's no exaggeration to say that, as a direct result of ERISA, millions of people are getting pensions they counted on getting," said Karen Ferguson, a Washington-based consumer advocate who is director of the Pension Rights Center.

"Having said that, there are, of course, many shortcomings, but they are really traceable less to the law than to the implementation of the law by the administrative agencies and the courts," Ms. Ferguson said. "First, what we saw in the Reagan administration was an invitation for companies to cut back or cut out pensions, first through reversions. Second is what we call executive-only plans. The third and most important has been the advent of 401(k)s—do-it-yourself retirement plans, which have invited companies to drop or to effectively freeze (defined benefit) plans," she said.

"It's a mixed story. For those who have been functioning under ERISA pension plans, they're still doing well," said George Pantos, a Washington attorney who specialized in ERISA law for more than two decades. "For those people who are covered, they're much more secure."

But meeting ERISA's primary objectives proved to be both expensive and complex, and it "has had the unintended consequence of freezing the defined benefit pension system and encouraging the massive growth of the defined contribution system," which was not a goal or intention of ERISA, said Mr. Salisbury. He noted that ERISA had a fourth objective that was "hidden" within the language spelling out the PBGC's purpose: to encourage the maintenance and expansion of defined benefit plans. This goal "has been an utter failure," he said.

"The one area where they've substantially fallen short is in the desire to expand coverage," said Syl Schieber, vp-research and information at Watson Wyatt Worldwide in Bethesda, Md. The percentage of the workforce covered by defined benefit plans really hasn't expanded "since the late 1970s or early 1980s," Mr. Schieber said.

Several observers blame changes to the law for ERISA's shortcomings.

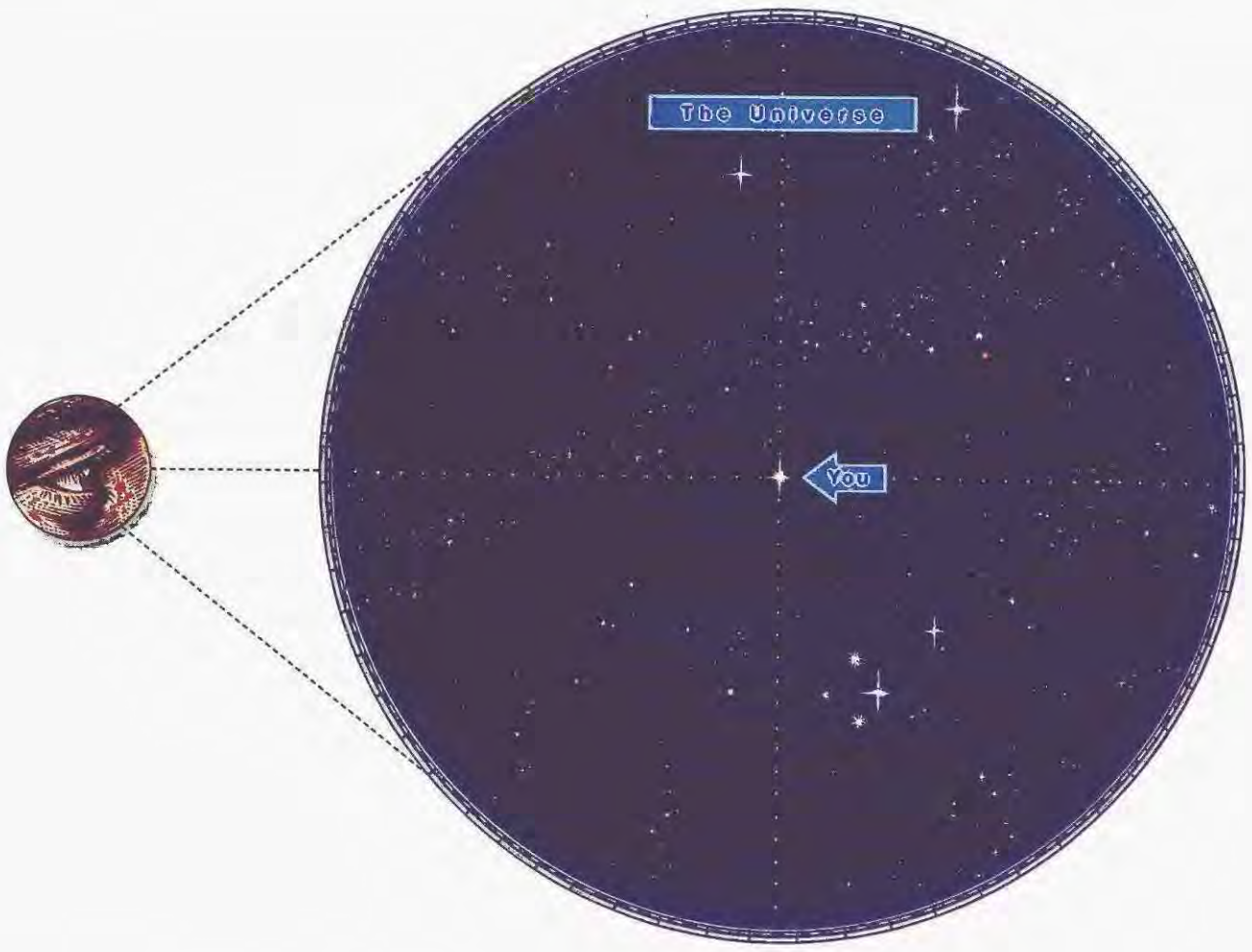
"It has achieved what it set out to achieve. But the law of unintended consequences being what it is, it has also done some damage, although I think the damage is more than partly the result of subsequent amendments. If it had been left as it was when enacted, I think—and I think everyone else thinks—it would have been grand," said Frank Cummings, a partner in the Washington office of LeBoeuf Lamb Greene & McRae and a one-time staffer for the late Sen. Jacob Javits, R-N.Y., one of the architects of ERISA.

"The subsequent amendments, which were of populist origin, suffered from an excess of populist zeal," said Mr. Cummings.

"In the past three years, it has gotten somewhat better. The pendulum has started to swing back. But ERISA was always a complicated statute, and, certainly during the 1980s and early 1990s, most of the legislation and regulation served to make an already-complicated statute much more so," said Henry Saveth, an attorney with William M. Mercer Inc. in New York.

"The problem is ERISA has been modified," agreed Terry Stuchiner, special consultant with PwC Kwasha in Teaneck, N.J. "Much of the complexity stems from the later amendments to the

See **ERISA** *on page 6*



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ERISA

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law, some of which are merely tax-oriented," she said.

This view is shared by benefit administrators, who must deal with the day-to-day complexity of meeting ERISA requirements. "In the 1980s, things started changing a lot. Rather than being driven by employee or employer needs, ERISA was changed for tax necessity. Government was looking to raise revenue, and pension plans were where the money was," said Michael Pikelny, benefit manager at Hartmarx Corp. in Chicago.

Watson Wyatt's Mr. Schieber said that "the confusion—if not the competition—between the revenuers and the regulators" has resulted in the program being somewhat less successful than it might have been.

"Since ERISA was passed in 1974, just about every year we've had some piece of benefits legislation passed," agreed Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen L.L.P. in Chicago.

This trend accelerated in the 1980s, noted Mr. Cummings. He named a long list of revenue acts, beginning with the Tax Equity and Fiscal Responsibility Act of 1982—which capped benefits and limited contributions—that caused employers to turn away from defined benefit plans. "The tide turned with TEFRA," he said. That act was followed by the Deficit Reduction Act of 1984, which resulted in "more of the same," he said. Mr. Cummings said that the "sleeper" was the Balanced Budget and Emergency Deficit Control Act of 1985, better known as "Gramm-Rudman" after its principal sponsors—Sens. Phil Gramm, R-Texas, and Warren Rudman, R-N.H. The act's requirement of revenue neutrality was "part of the engine" driving the emphasis on "fairness," he said.

In the 1980s, 'government was looking to raise revenue, and pension plans were where the money was,' says Michael Pikelny.

Then, "what I called Pension Convulsion"—the Tax Reform Act of 1986—was passed, Mr. Cummings pointed out. The new law put in numerous tests—coverage and non-discrimination tests—as well as taxes on certain types of late distributions.

A hint of the complexity of the act was that the bill's language dealing with non-discrimination was about 50 words long, while the regulations governing it ran to "more like 500 pages," said Mercer's Mr. Saveth.

Other legislation, such as the Single-Employer Pension Plan Amendments of 1986, the Unemployment Compensation Amendments Act of 1992 and Omnibus Budget Reconciliation Act of 1993 also made defined benefit plans less attractive.

"Every time you make pensions 'fairer,' you make pensions fewer," said Mr. Cummings.

Mr. Saveth said that attempts to "wring out every last bit of abuse" make ERISA, in essence, "unenforceable." Lawmakers and others must realize that there are "no absolute fixes, just more- or less-successful adjustments," he said.

Mr. Nirtaut said that complexity hits employees as well as employers. "When we send out our summary annual report to plan participants, very often the response we'll get back is, 'Why did you send this to me?' "

Despite the unintended consequences of ERISA and its subsequent amendments, some observers believe that defined benefit plans may be on their way back.

"I'm optimistic about the future. For much of these past 25 years, we faced a situation where the tax policy tail was wagging the retirement policy dog, and so much of the legislative activity was based on how to extract more tax revenue, rather than what was sound retirement policy," said James Klein, president of the Assn. of Private Pension and Welfare Plans in Washington. Mr. Klein said that "a fortuitous dual situation," combining federal budget surpluses and Baby Boomer awareness of the need to save for retirement, presents an opportunity for bipartisan efforts to encourage retirement plans.

"What goes around, comes around. I think we're beginning to see the rebirth of defined benefit plans," said Mr. Pikelny, citing congressional efforts to liberalize the regulations that govern pensions.

"We'll see the pendulum swinging back, where growth in defined benefit is greater than in defined contribution plans. Employees are starting to see, where there are big swings in the stock market, it might be better to get benefits from defined benefit plans," he said.

But that presents new challenges as well, pointed out Peter Turza, a partner in the Washington office of Gibson, Dunn & Crutcher. Mr. Turza also once worked for Sen. Javits.

Mr. Turza said he thinks demographic changes guarantee that pension policy will continue to be at the forefront of concern. He said that any attempt to get into mandatory benefits would be a big mistake and would change the dynamics of ERISA law. Any attempt to place too much liability on plan sponsors "has to be tempered," he said.

Mr. Turza praised recent efforts by Reps. Rob Portman, R-Ohio, and Benjamin Cardin, D-Md., to increase the tax incentives and attractiveness of defined benefit plans.

Ernst & Young's Mr. Arnone said that, as workplace demographics change, "clearly, there has been a re-examination of retirement itself." He said that ERISA hasn't focused on the issue of part-time retirement.

The inflexibility of some DB plans discourages part-time retirement by not allowing retirees to collect partial payments while working and by not allowing retirees who work to continue building their pensions, Mr. Arnone said.

The concept of "phased retirement" has a great deal of appeal to Baby Boomers and could help employers meet their needs during tight labor markets, he said. BI

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Opinions

Plans fit today's workforce

IT WOULD BE DIFFICULT not to notice the revolution that is changing the pension landscape.

Many employers are scrapping their traditional final-average-pay pension plans in favor of cash balance pension plans.

This is no passing fad, as roughly 500 employers now have or soon will have cash balance plans, including such corporate heavyweights as Aetna Inc., CBS Corp., Eastman Kodak Co. and International Business Machines Corp.

Is this a long-overdue revolution designed to offer retirement benefits that better meet the needs of today's workforce? Or is it a sinister trend, fueled instead by a crass desire to slash corporate pension costs and benefits, especially for older workers?

Some critics in recent months have sought to portray it in the media as the latter. But we believe those reports are misleading and do not accurately reflect the reality of how these plans work—and why employers are offering them.

Certainly, some employers *are* adopting cash balance plans with a goal of reducing their pension costs. We do not, however, find that disturbing or startling. Indeed, companies may decide that their pension costs have become excessive or that corporate dollars could be better used elsewhere.

Based on extensive interviews with companies adopting these plans, however, we don't think pension cost reduction has been the prime motivator behind the shift.

After rigorous examination and consultation, corporations have concluded that their old-style pension plans have become increasingly irrelevant to their current employees.

Old-style pension plans—those in which employees only begin to earn significant benefits after many years of employment—were a great idea in an era when career employment was a realistic expectation. Those plans still make sense for companies that want to give employees a powerful financial incentive to stay with them for their full careers.

In an era of corporate downsizings, company spinoffs, company startups and vastly increased job mobility, however, this kind of employment has become the exception rather than the norm. Employers and employees alike know and understand this.



With increased mobility of the workforce, more companies have concluded that they need pension plans that provide greater benefits for employees who are likely to stay with them for only a few years. Cash balance plans, with their smooth accrual of benefits, help to meet that corporate objective. Indeed, Kodak's benefit manager says the company felt it needed a cash balance plan to help it compete for employees.

To be sure, a shift to cash balance plans from traditional plans is not easy. Older employees could be hurt because they may not have earned full benefits in the old plan and will not be covered in the new plan long enough to earn significant benefits.

But again the reality—contrary to what cash balance critics say—is that companies take great care to ensure their older workers are protected during such a shift. Corporate approaches to providing such protection include: giving older employees the opportunity to stay in the old plan; giving them the choice of earning benefits under either plan; and giving them extra credits in the cash balance plan.

Providing pension benefits more attuned to today's workforce is a welcome development and one that more employers should look at.

Letters

Mental health deserves benefit parity

To the editor: I am writing in response to the editorial in the April 19 issue regarding mental health care parity. In it you question the cost and fairness of a mental health parity mandate. I have several points to make that should show that parity is cost-effective and, more importantly, the fair and proper thing to do. You call this a new mandate; it is not. This bill would close the legal loopholes in the Mental Health Parity Act of 1996 and force companies to follow the spirit of the law and not just the letter.

Health care experts are in near-unanimous agreement that the cost to businesses in lost time and productivity due to mental health problems is higher than most other diseases. Having a mentally healthy workforce will make up much of the cost of providing these benefits.

The failure to pay mental health benefits inflicts substantial costs on those who must pay for these services out of pocket. As a long-term sufferer from clinical depression, I pay a substantial amount for my care. I did not choose this disease and am otherwise healthy. I was under a plan that made all mental health care an out-of-network treatment. This was whether I used a plan doctor or not. Thus, I had to pay the full deductible and a coinsurance of 50%. Out of a total bill of $4,300 for 48 visits per year, I had to pay $2,400. If this had been treated like other illnesses, I would have paid $480. Why are you worried about other workers' costs and not mine?

Mental health problems are diseases of the brain. They have physical origins and are treatable. Drugs and counseling can control the diseases and allow a person to be productive.

Congress thought about this and recognized the need to cover mental health care in 1996 when it passed the first parity act. It was not well written, and benefit managers found loopholes to get around it. Congress' closing of these loopholes is not writing a new mandate; it is making an old one effective. They are making companies do something they should have done a long time ago.

Phillip D. Barcafer Jr.
East Stroudsburg, Pa.

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Cash balance

Continued from page 3
in Somerset, N.J.

"I haven't seen anyone hold back," concurred Eric Lofgren, a consultant with Watson Wyatt Worldwide in New York.

If anything, the news accounts may have heightened employer interest in cash balance plans.

"The press in general has created more interest," said David Rosenblum, a principal with William M. Mercer Inc. in New York. When a company reads about another Fortune 500 company converting to a cash balance plan—even if the coverage is negative, an employer might say, "There must be another side; I want to find out more," he said.

Certainly, there have been plenty of cash balance plan conversions to read about. In recent weeks, such big-name companies as Aetna Inc., CBS Corp., Eastman Kodak Co. and International Business Machines Corp. have announced that they either have or will be setting up cash balance plans.

In all, as many as 500 cash balance plans now are operating, a number swelling almost weekly.

While negative publicity hasn't put a dent in plan formation so far, it has triggered employer anger at what they say is the misleading and unfair coverage of cash balance plans.

Most misleading, say employers with cash balance plans, is the implication that the move to cash balance plans has been principally motivated by a desire to cut pension costs.

Several employers say that charge is flat-out wrong.

"Senior management was adamant that if this was a cost-cutting measure, don't do it. In fact, cost was not a factor. We wanted more value for the dollars we spent and to provide benefits that better met the needs of today's workforce," said Bob Stock, manager-compensation and benefits at Raleigh, N.C.-based Carolina Power & Light Co. In January, the utility switched to a cash balance plan from a traditional final-average-pay plan.

"We were not looking to cut costs but wanted to distribute benefits more equitably," concurred Gerry Murray, director of employee benefits at the BOC Group in Murray Hill, N.J. The company set up a cash balance plan in the mid-1980s.

Some employers say their pension costs increased when they switched over to a cash balance plan. Insurer Atlantic Mutual Cos. says its pension costs climbed by $600,000 a year when it adopted a cash balance plan in 1997. Saving money obviously was not an objective, said Shirley Grill, Atlantic Mutual's vp-human resources in Madison, N.J.

"To say that cash balance plans are solely a vehicle to reduce costs is sheer nonsense. A cash balance plan can be designed to increase, decrease or keep pension costs the same," said Gordon Gould, chief actuary with Towers Perrin in Denver.

To be sure, other employers, such as CBS and BankAmerica Corp., which in 1985 created the first cash balance plan, have candidly said the cash balance plans they set up cost less than the plans they replaced.

But while those companies cut pension costs—compared with the traditional plans—the two employers boosted other benefits. BankAmerica, for example, sweetened a 401(k) plan, while CBS started a stock option plan.

Indeed, cash balance plan critics often overlook the context of plan conversions, plan supporters say.

"You can't look at one plan in isolation. You have to look at the entire retirement compensation package," said Kerry Schmidt, a principal and consulting actuary with Buck Consultants Inc. in Atlanta.

Mr. Schmidt cites the example of a client whose cash balance plan did cost less than the traditional plan it replaced. But a beefed-up 401(k) plan offset that lower corporate cost.

Rather than cutting retirement plan costs, benefit executives say the overriding reason for moving to a cash balance plan has been the gradual but dramatic change in workplace mobility.

Decades ago, both employers and employees had a much greater expectation that workers would spend their careers at one company. For those workers, traditional plans in which the vast bulk of benefits were earned when an employee hit a certain cliff—such as age and service equaling 70—were a perfect match.

Such plans encouraged workers to stay with a company for decades and then when the age and/or service requirement was met, employees had a powerful financial incentive to retire.

But if traditional plans once were a perfect match for workers, many benefit managers with cash balance plans now view them as a benefit dinosaur.

That is because the design of traditional plans is skewed so that employees working a few years for one company earn only tiny benefits. The promise of a rich benefit after spending a career at one employer meant less and less to a workforce, which increasingly expects to stay only a few years with one company and then move on.

"The old plan was a perfect mismatch. The younger, productive employees were getting virtually nothing," said Robin Miklatek, director of New York-based Avon Products Inc., which adopted a cash balance plan in 1997.

By contrast, she said, cash balance plans with their smoother accrual of benefits mean shorter-service employees get greater benefits compared with the benefits of traditional plans.

The message conveyed by its cash balance plan is that "we will reward you for each year of service," said Atlantic Mutual's Ms. Grill.

With a cash balance plan, "you are going to get a meaningful benefit after a few years, and that has value to today's employees," said Michael Johnston, a consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill.

Benefit managers and others acknowledge that older, longer-service employees may not earn the same benefits in a cash balance plan compared to a traditional final-average-pay plan. But, they add, traditional plan benefits may have been too rich for longer-service employees, especially when coupled with 401(k) plans that many employers added during the last decade.

"We had people retiring at 110% of pay," Ms. Grill said.

"Many companies realized they overprovided in terms of providing retirement income," said Karen Salinaro, a principal with PricewaterhouseCoopers Kwasha HR Solutions in Teaneck, N.J.

At the same time, companies switching to cash balance plans have been providing so-called transition benefits to current older employees to protect them from loss of benefits that could occur as a result of the switch.

AT&T Corp., for example, automatically gives employees with at least 15 years of service whichever plan benefit—from the cash balance plan or old plan—is greater. Other employers, aside from grandfathering certain older employees, also give older employees additional pay credits atop their base pay credits. BI



Cash balance plans maintain 'accounts'

By JERRY GEISEL

Cash balance plans draw their name from their structure.

An employer, which typically sets up the plan to replace a traditional defined benefit plan, calculates the present value of employees' vested benefits in the old plan. That amount then is converted into an opening account, or cash balance, in the new plan.

Added to that opening account balance annually are credits—expressed as a percentage of pay—that the employer agrees to provide, such as, for example, 5% of salary.

In addition, account balances grow by a guaranteed amount, such as the one-year Treasury bill rate plus one percentage point, or the 30-year Treasury bond rate.

With these benefits expressed in dollar amounts, an employee instantly knows, much as in a 401(k) plan, how much money he or she has in the account.

That account feature distinguishes cash balance plans from traditional pension plans, in which benefits typically are expressed as a monthly annuity payable when an employee reaches retirement age.

Cash balance plans also resemble defined contribution plans in one other important way. When an employee leaves, he or she can take a lump sum payout and roll that payout over into an individual retirement account or into a new employer's plan. Traditional defined benefit plans often lack this portability feature.

While cash balance plans are designed to resemble 401(k) and other defined contribution plans, they are, legally, defined benefit plans.

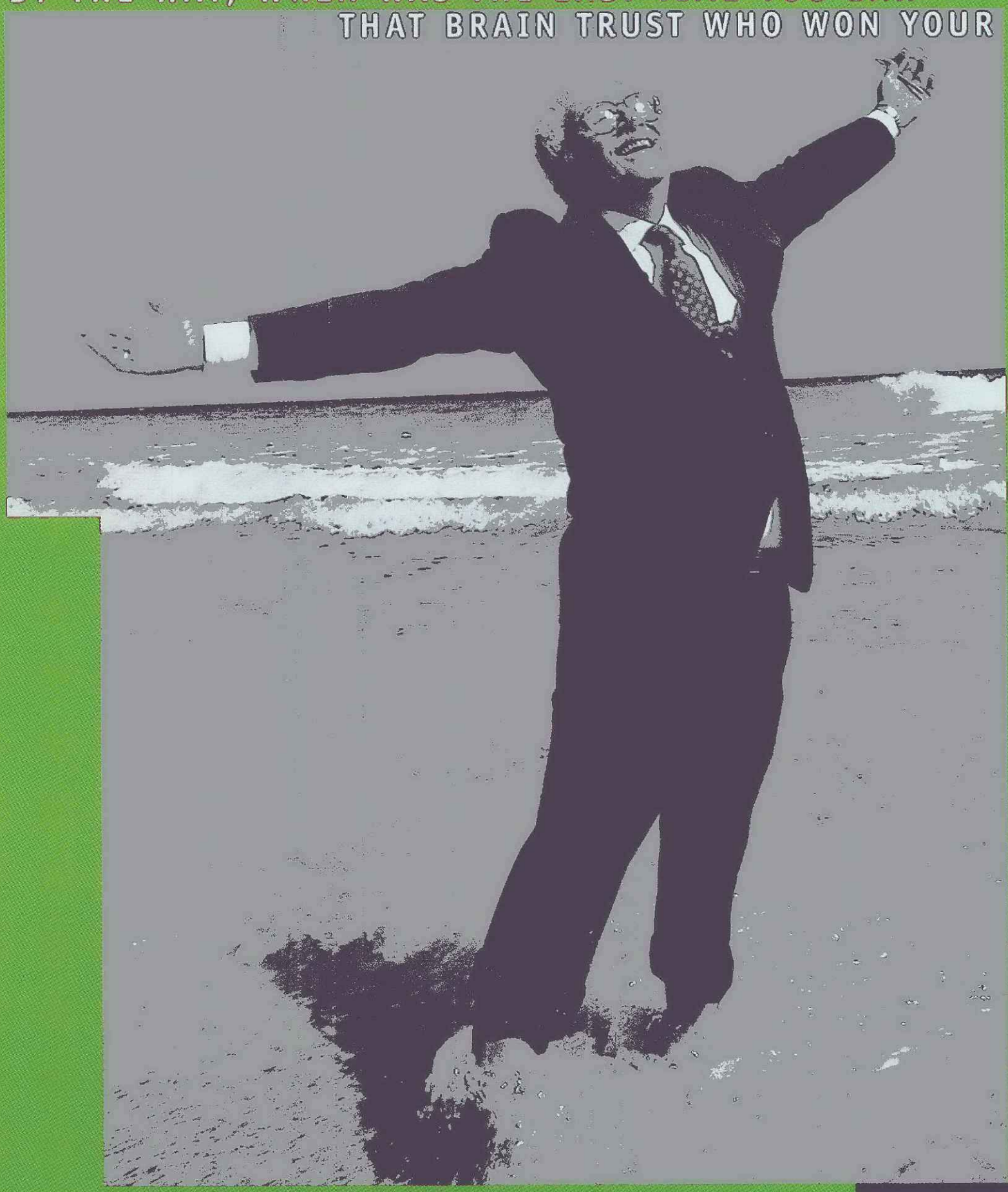
Employees in cash balance plans have individual accounts, but those accounts are established only for recordkeeping purposes. There is, in fact, only one plan, and employer contributions are made to that plan and not to individual employee accounts.

Like traditional plans, cash balance plans are funded on an aggregate basis with contributions determined by various factors, such as assumptions about future salary increases, employee turnover and investment returns.

If cash balance plan assets grow more than was projected, a company can reduce its future contribution. But in cases of investment losses or lower-than-expected returns, a company must contribute more. BI

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Education

Continued from page 3

"The people who come to the workshops tend to want to learn," he said. "Hopefully at the workshop you get them to make a decision there, or go home and make a decision."

Thirty-three percent of the 646 employers with 401(k) plans that responded to Buck's survey considered general seminars to be the most effective communication vehicle for teaching employees about the retirement programs. Another one-third ranked one-on-one meetings as the most effective approach. Survey respondents also gave high marks for effectiveness to financial planning seminars, newsletters and magazines.

Buck found that 60% of employees who went through an investment education process increased their contributions to the plan, while none decreased contributions. About 25% of workers who went through the process did not change their contributions, the survey found.

Even if an employer does provide retirement education, it is unlikely that all workers will heed the call, said Dennis Ackley, a consultant with Watson Wyatt Worldwide in Washington. Although retirement should be viewed as a "consumer item" that must be saved for and purchased like a house or a car, he said, employees don't usually see it that way.

"Retirement is not even on the list," he said. "It's just something people don't prepare for. As people start to wake up and think about retirement, they don't have many choices at the end. As we see more people bumping into that problem, we'll see more people taking it seriously."

Only a third of retirees have $100,000 or more in savings when they leave their job, which is not a lot when "you divide it by the 25 or 30 years you'll be retired," Mr. Ackley said.

"Retirement is something nobody ever taught in school," he said. "If the employer doesn't, who will?"

Employers may be reluctant to delve deeply into retirement planning with workers, however, because federal law provides for fiduciary liability in offering financial advice to plan participants. The line between teaching employees how they *can* invest as opposed to how they *should* invest may seem unclear, even though federal guidelines within the past several years have offered some help to plan sponsors in this area.

The Department of Labor in 1996 distinguished between investment assistance and advice. The following "safe harbors" were established to outline areas considered assistance rather than advice:

- Plan information, such as the terms and operation of the plan and general asset classes.
- Basic investment information, such as the concepts of risk and return, compounded return, inflation and risk tolerance.
- Asset allocation models, such as pie charts, and interactive materials, such as worksheets and computer software, as long as these conform to several conditions to insure fairness.

Many employers recently have observed that 401(k) plan participants want and need investment advice to make effective decisions, and some have begun to offer sessions with Certified Financial Planners as a company benefit. Because such sessions tend to be prohibitively expensive, however, a small but growing number of employers are referring workers to the World Wide Web as a tool to obtain advice from impartial sources. Typically, employers pay the modest cost charged by the online adviser.

One such company, Palo Alto, Calif.-based ALZA Corp., has for more than a year used Financial Engines Inc., also of Palo Alto, to provide investment advice to its 2,000 employees via the Internet.

Dawn Pollard, vp of human resources for ALZA, a manufacturer of pharmaceuticals and drug delivery technology, said an online advice service for 401(k) plan participants has worked well because most employees have a computer on their desk and many have computers at home. For those without computer access, ALZA is planning to place online kiosks in the workplace.

"We were very intrigued with a product that would provide investment advice as opposed to a retirement calculator," Ms. Pollard said. Employees use Financial Engines' software to complete an online questionnaire about their expectations for retirement. The software then recommends mutual funds for them. Financial Engines does not yet provide ALZA employees with an online link to the 401(k) recordkeeper that would execute investment changes made on the Internet, but such a connection is planned, she said.

Most employees have no idea how much they will need to save for retirement, and the computer is an excellent educational tool, said Christopher Jones, vp of financial research and strategy for Financial Engines.

"There's lots of seminars, lots pamphlets available, but most people don't have time to become a financial planning expert," he said. "At the end of the seminar, people walk up to the front and say, 'I understand everything you told me, but what specifically should I do?' "

Financial Engines considers itself a "fiduciary firewall" that can give employees investment tips and indemnify itself against potential lawsuits, something employers are very reluctant to attempt, he said.

Another provider of online 401(k) plan advice, 401(k) Forum L.L.C. of San Francisco, has found that in the first month of rolling out the service, 10% to 20% of clients' plan participants log on to see what it's like, said David A. Peckman, vp of marketing.

"Most (employees) don't have access to, or interest in, doing their own research into the future," he said. "There is pent-up demand for answers, and answers that are specific to them, so employees can get on with their life."

A third recent entrant into the online investment advice market, Rational Investors of Boston, has eight clients ranging from 7,000 plan participants to 2.5 million participants, said Francois Gadenne, president.

Unlike Financial Engines and the 401(k) Forum, Mr. Gadenne's company provides its service not directly to plan sponsors but to asset managers, such as Fidelity Investments, providing bundled services to employers. The wedge between the employer and asset manager is aimed at producing more objectivity in investment advice, he said. The service "is not just education," Mr. Gadenne said. "If you go to a doctor with a disease, you don't go to get a medical education. You go for advice." BI

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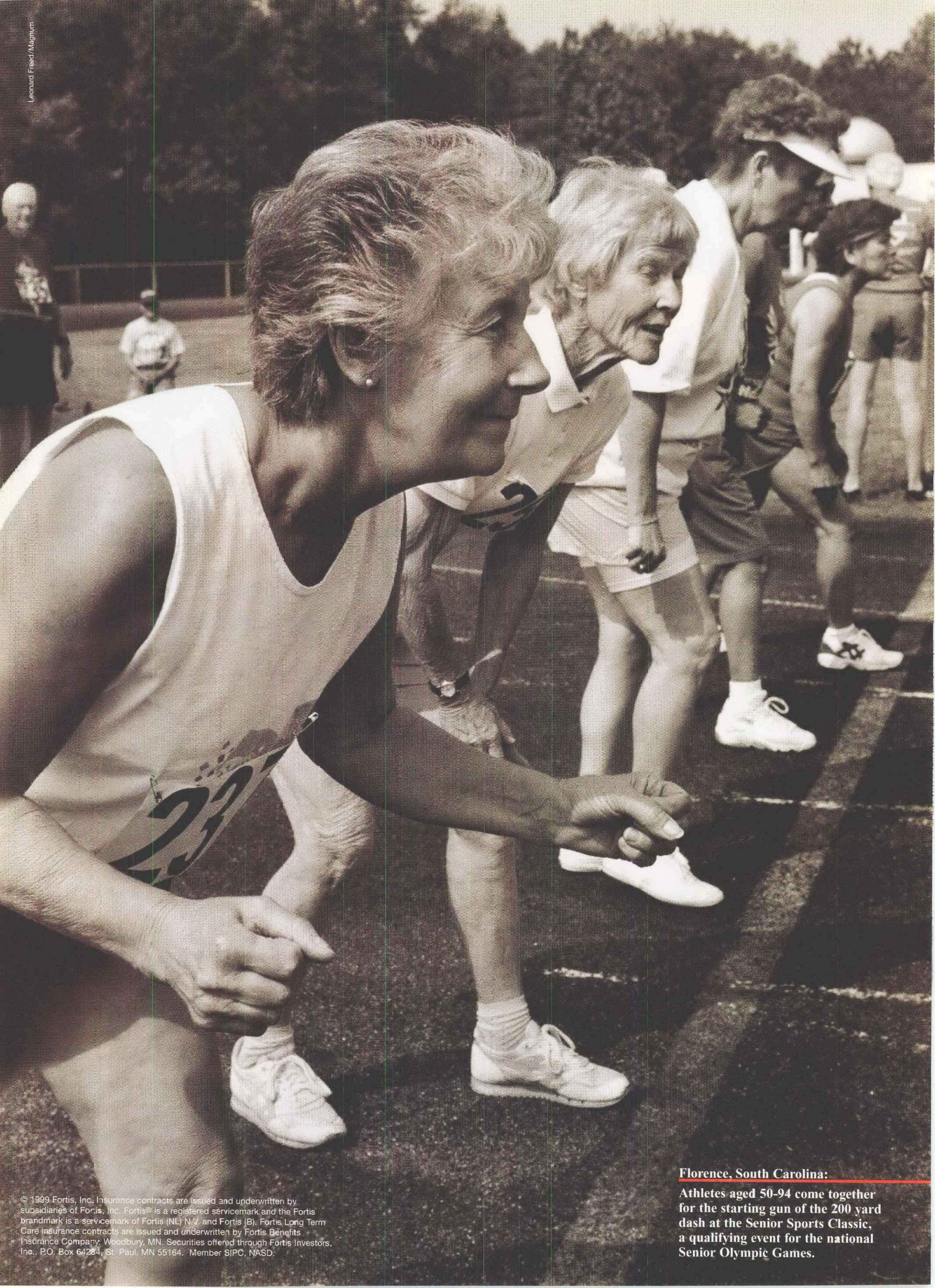
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Leonard Freed/Magnum

Florence, South Carolina:

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Roth plan would create more attractive 401(k)

By JERRY GEISEL

Too good to be true? That could be an apt description of a proposed new type of 401(k) plan.

The Roth 401(k) plan, named after Senate Finance Committee Chairman William Roth, R-Del., and included in a far-reaching retirement savings bill he has introduced, would offer tax breaks potentially far greater than those of the immensely popular traditional 401(k) plans.

In a traditional 401(k) plan, employees make pretax contributions. For example, an employee who earns $50,000 and contributes $5,000 to a 401(k) plan would reduce his or her adjusted gross income to $45,000. When funds are withdrawn, though, such as at retirement, the distribution is taxed.

An easy-to-understand account balance feature, the ability to get an immediate tax break on contributions and, in many cases, a matching employer contribution have helped make 401(k) plans the most widely available defined contribution plan.

According to Spectrem Group, a financial services research consulting firm in San Francisco, 401(k) plans have 28.3 million participants and $1.14 trillion in assets. In all, employers offer roughly 283,000 401(k) plans, compared with 42,000 defined benefit plans.

Benefit experts say Roth 401(k) plans could be even more attractive.

Under a Roth 401(k) plan, employees would make aftertax contributions, but distributions—including the investment income earned—would be tax-free.

To qualify, contributions would have to remain in the Roth 401(k) plan for five years and could not be withdrawn while an employee was in the workforce. In addition, funds could not be taken tax-free until the employee reached the age of 59 and one-half years.

Potentially, a Roth 401(k) plan could be a bonanza for employees. Contributions could earn investment income for decades and would come out tax-free, a huge windfall for plan participants.

"This is much more beneficial than making pretax contributions. This is tax avoidance on employee contributions for the rest of their lives," said Dennis Coleman, a principal with PwC Kwasha in Teaneck, N.J. "I think it would be an incredible boon" for employees.

And employees would be more likely to contribute to Roth 401(k)s than to Roth IRAs, which allow individuals to contribute $2,000 in annual aftertax income to individual retirement accounts, some say.

"There would be more trust in contributing to an employer-sponsored arrangement" than arrangements promoted by brokers and other financial planners, said Gregory Metzger, a consultant in the Sherman Oaks, Calif., office of Watson Wyatt Worldwide.

Nothing would require employers to offer Roth 401(k)s, but for competitive reasons many probably would, benefit experts say.

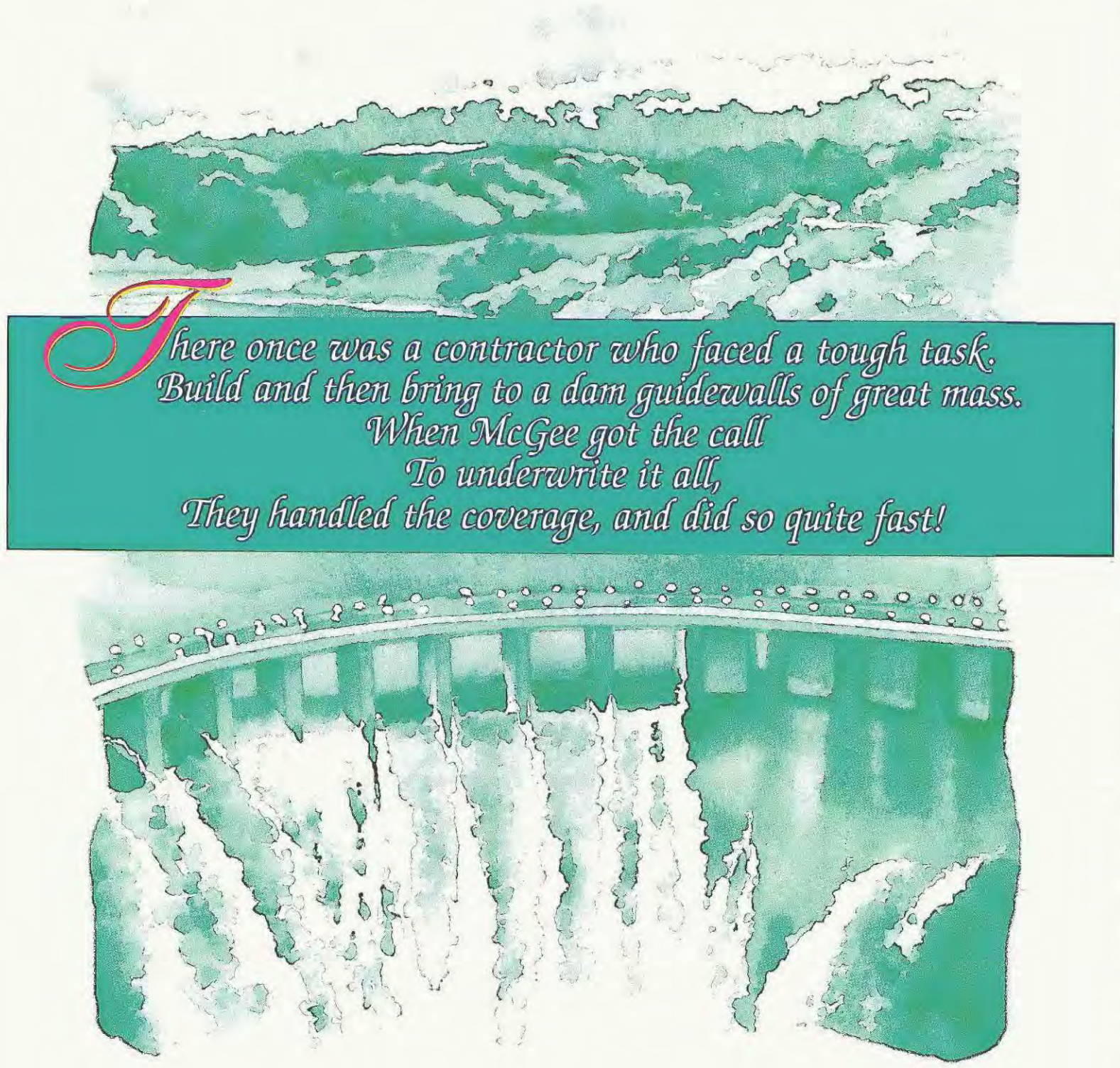
"My guess is that this would be a very popular benefit," says John Woyke, a principal with Towers Perrin in Valhalla, N.Y.

"Employers would be under pressure from employees to add this feature," said Chris Bone, chief actuary with the benefit consulting firm ASA Inc. in Somerset, N.J.

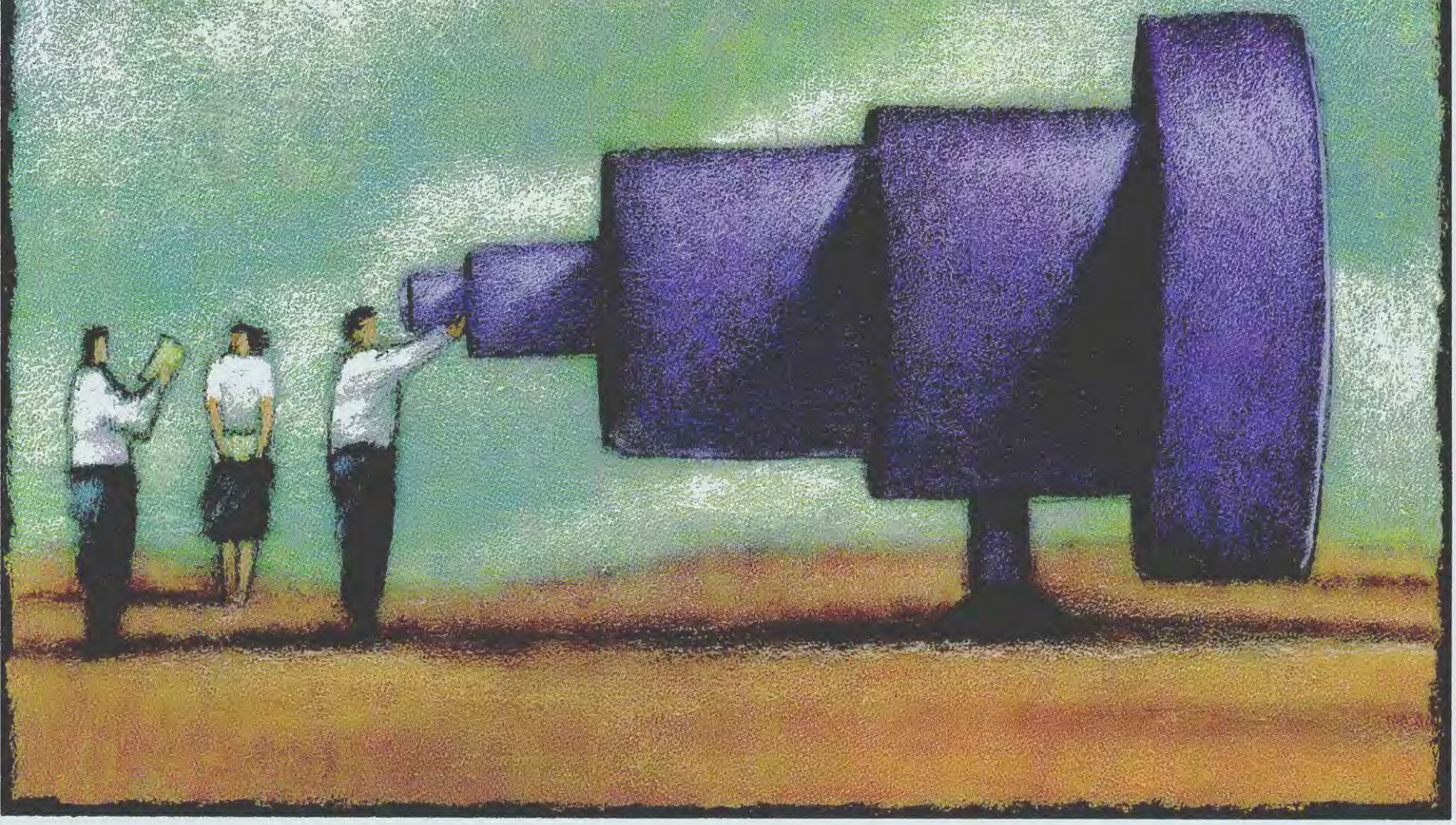
While adding a Roth 401(k) feature to an existing 401(k) program would give employees another savings plan option, it would require them to decide—possibly with employer assistance—which approach would make the most sense for them.

"You would have a communications issue," said Richard Koski, a

See **Roth** *on page 18*



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Jun 14		GLOBAL FOCUS	Jun 2
Jun 21	PRIMA Report	IT Information Technology SS	Jun 9
Jun 28	Benefits: Balancing Work & Life RS *Directory: EAPs & Dependent Care Resource & Referral Services* *Distribution: SHRM*		Jun 16
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RS: Reader Service, SS: Starch Study

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Circulation: 965 E. Jefferson Ave., Detroit, MI 48207 ▪ Tel: 888-446-1422 ▪ Fax: 313-446-6777

Roth

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principal with Buck Consultants Inc. in Secaucus, N.J.

Employees could apportion contributions to a traditional 401(k) plan, a Roth 401(k) plan, or both. Sen. Roth's bill proposes an overall maximum annual contribution to a 401(k) program of $15,000. Thus, an employee could, for example, contribute $7,000 to the traditional plan and $8,000 to a Roth 401(k). The current limit on salary deferrals to traditional 401(k) plans is $10,000.

While employees would decide how much of their 401(k) contributions would go to the traditional plan and how much to the Roth 401(k), the contributions would be aggregated for non-discrimination testing, according to the legislation.

While Roth 401(k)s would be a hit, benefit experts question whether Congress will approve Sen. Roth's proposal.

Some experts say that those likely to participate in Roth 401(k) plans would be employees with higher incomes. They would be more able to afford the contributions and forgo—in favor of a bigger payoff down the road—the immediate tax breaks than would rank-and-file employees.

"Democrats will say, 'This is a benefit that wealthier people will take advantage of compared to the less fortunate.' They will say this is not a good use of tax benefits," Mr. Coleman said.

Others concur, noting that the eventual, long-term loss of tax revenue would make legislators reluctant to approve Roth 401(k)s.

"The drain on the Treasury would be very great," Mr. Koski said.

On the other hand, due to the unusual way legislative proposals are "scored" for determining their impact on federal revenues, legislators might find Roth 401(k) plans appealing. That is because the effect on revenues typically is measured for five years after enactment.

In that case, Roth 401(k)s actually could raise revenue for the government, assuming employees would be more likely to contribute to Roth 401(k)s than to traditional 401(k)s. The Treasury would benefit initially because employees would be making aftertax, rather than pretax, contributions to the plans and thus would have higher taxable incomes.

"With respect to short-term savings to the government, the effect is positive," said James Delaplane, vp-retirement policy at the Assn. of Private Pension & Welfare Plans in Washington.

Down the road, though, when employees withdrew their accumulated funds tax-free, the Treasury would lose revenue, and that could lead legislators to curtail Roth 401(k)s, said Towers Perrin's Mr. Woyke.

Benefit experts say that if Congress considers a broad tax bill this session, there will be an effort to include Roth 401(k)s.

"As chairman of the Senate Finance Committee, which considers tax legislation, Sen. Roth will be in a key position to advance his proposal," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington. BI

Business Insurance directory of 401(k) plan administrators

A

ABR Retirement Plan Services

34125 U.S. Highway 19 N.,
Palm Harbor, Fla. 34684
800-272-9605; fax: 727-771-4635
www.abr.com

Staff:
Total 1,500
Involved in 401(k) plan services 210
Clients:
Total 3,777
Receiving unbundled services 3,777
Average participants/plan 600
Minimum participants/plan 10
Maximum participants/plan 50,000
1998 revenues:
Total $74,592,000

Parent: ABR Information Services.
Services began: 1991.
Software: written and maintained in-house, purchased from outside vendor, leased from outside vendor, accommodates 2,500 investment funds.
Administration: cash, unit-value accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; fully integrated statement product; National Securities Clearing Corp. trading interface.
Service area: nationwide.
Locations: administrative/consulting offices: Matthews, Malone & Associates Ltd., Phoenix; Western Pension Services, San Rafael, Calif.; Qualified Plan Services, Palm Harbor, Fla.; Mid-Atlantic 401(k) Services Inc., Midlothian, Va; Charing Co., La Crosse, Wis.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: James MacDougald, CEO; James O'Drobinak, CFO; Frank DePew, president.

ACH Pension Consultants Inc.

2458 N. Pantano Road,
Tucson, Ariz. 85715-3743
520-751-9403; fax: 520-751-9083

Staff:
Total 11
Involved in 401(k) plan services 9
Clients:
Total 321
Receiving unbundled services 321
Average participants/plan 35
Minimum participants/plan 1
Maximum participants/plan 5,000
1998 revenues:
Total $785,000
401(k) plan administration $785,000

Services began: 1981.
Software: purchased from outside vendor, accommodates 30 investment funds and 10 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; plan documents.
Service area: nationwide.
Locations: administrative/consulting offices in: Seattle.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Eric L. Hughes, president; Cheryl A. Hughes, vp.
Contact: achpen@azstarnet.com.

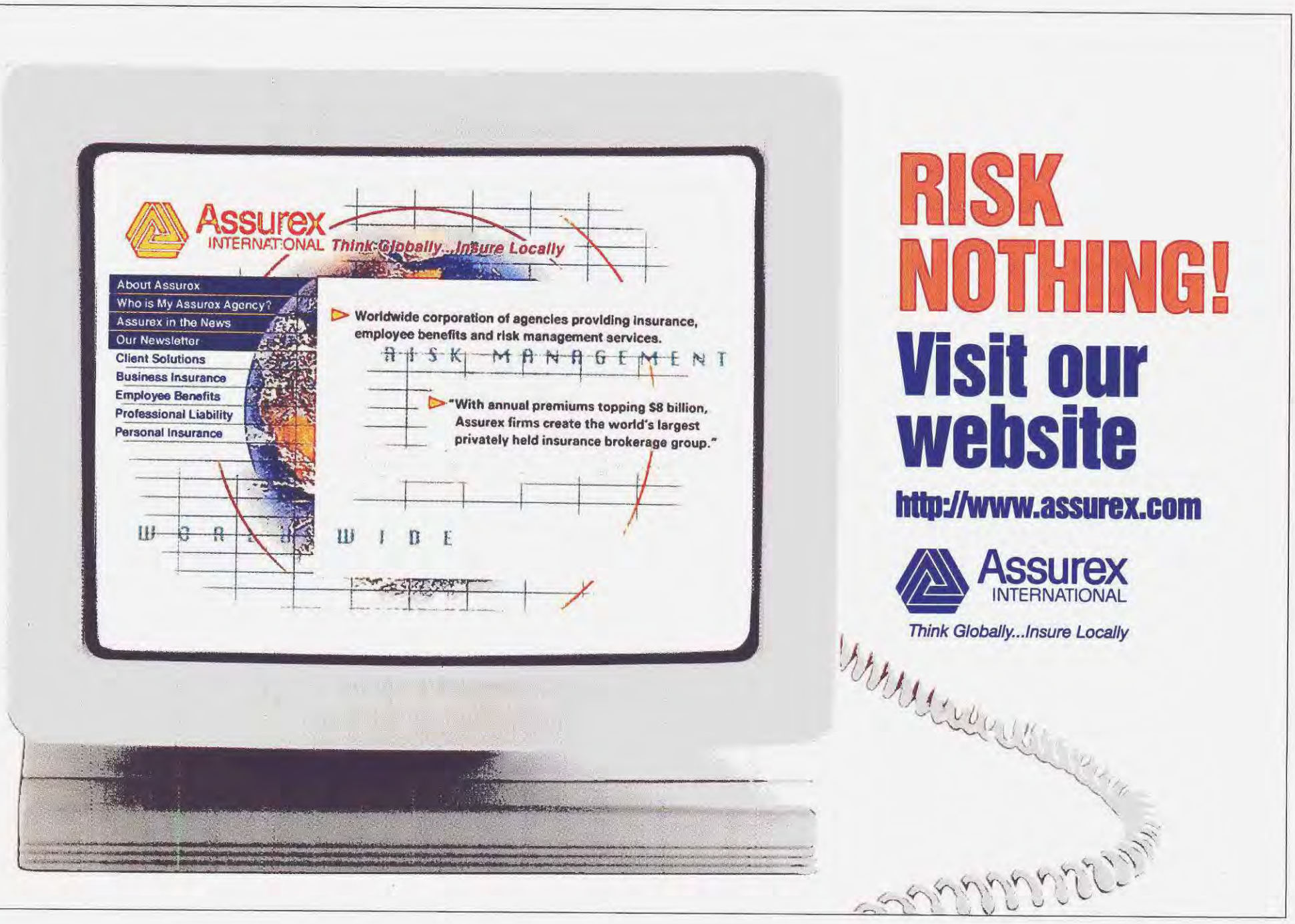
Accurecord Inc.

100 Executive Drive,
Edgewood, N.Y. 11717
516-243-6400; fax: 516-243-6427

Staff:
Total 56
Involved in 401(k) plan services 48
Clients:
Total 920
Receiving unbundled services 122
Receiving bundled services 798
Average participants/plan 673
Minimum participants/plan 5
1998 revenues:
Total $5,800,000
401(k) plan administration $5,800,000

Services began: 1982.
Software: written and maintained in-house, accommodates 99 investment funds and 32 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; consults on compliance issues, employee communications; full plan administration/recordkeeping.

Continued on next page



Continued from previous page

Service area: nationwide.
Charges: determined by number of participants, frequency of valuations.
Officers: George Chave, president; Paul Badamo, John Bradley, executive vps.
Contact: Kevin Rooney, ext. 236.

Actuarial & Employee Benefit Services Co.

3481 Central Parkway, Suite 100,
Cincinnati, Ohio 45223
513-872-7505; fax: 513-872-7519

Staff:
Total 26
Involved in 401(k) plan services 4
Clients:
Total 30
Receiving unbundled services 26
Receiving bundled services 4
Average participants/plan 42
Minimum participants/plan 1
Maximum participants/plan 1,000
1998 revenues:
Total $2,300,000
401(k) plan administration $217,000
Parent: CAI Insurance Agency Inc.
Software: written and maintained in-house.
Administration: cash, unit-value, full-share accounting, accommodates loan provisions.
Client services: communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: Midwest.
Charges: determined by number of participants, complexity of plan.

Directory terms explained

The 10th annual directory of 401(k) plan administrators contains information on companies that provide services such as enrollment, recordkeeping, daily maintenance of participants' accounts and handling of account activity. To be listed, a firm must offer these services independently from any investment services. It may or may not offer investment management services as well as plan administration services.

Listings begin with the company name, address, telephone and fax number, as well as Web site, if available. The listing continues with details on **Staff**, including the total number of staff and the number involved with 401(k) plan services. **Clients**, including those clients receiving 401(k) plan administration services on an unbundled and a bundled basis, are listed next. **1998 gross revenues** and revenues from 401(k) plan administration services are included when those numbers are provided by the company. Next, the **Parent** company (if any) is listed, as well as the year the company began offering 401(k) plan administration services.

Details on **Software** used and **Administration** services provided follows. Cash, unit-value or full-share accounting methods are noted. Information on whether the company has the ability to accommodate loan provisions for clients is included. This is followed by a list of **Client services** that are offered. The **Service area** and the **Locations** of branch offices are listed next. How the company **Charges** for services is noted next. The names and titles of principal **Officers** and a **Contact** person complete the listing.

The directory is published as an editorial service; there is no charge for companies to be included. Information reported is based on responses to a *Business Insurance* questionnaire. Although every effort is made to print complete and accurate listings, *BI* is unable to verify all information provided by companies.

Officers: James T. Schlotman, Carl R. Schlotman Jr.

Actuaries & Associates

701 S. Tyler,
Amarillo, Texas 79101
806-373-3624; fax: 806-373-2952

Staff:
Total 15
Involved in 401(k) plan services 11
Clients:
Total 500
Receiving unbundled services 500
Average participants/plan 40
Minimum participants/plan 1
Maximum participants/plan 5,000
1998 revenues:
Total $1,000,000
401(k) plan administration $600,000
Services began: 1981.
Software: purchased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: consults on plan design issues, compliance issues, employee communications.
Service area: nationwide, principally in New Mexico, Oklahoma and Texas.
Locations: administrative/consulting offices in: El Paso, Houston and Lubbock, Texas.
Charges: determined by number of participants, frequency of valuations.
Officers: Bob Houchin, president; Jeff Houchin, secretary; Steve Houchin; treasurer.
Contact: Steve Houchin.

Administrative Management Group

3800 N. Wilke Road, Suite 250,
Arlington Heights, Ill. 60004
847-577-6000; fax: 847-870-9200
www.amgusa.com

Staff:
Total 110
Involved in 401(k) plan services 60
Clients:
Total 250
Receiving unbundled services 10
Receiving bundled services 40
Average participants/plan 1,000
Services began: 1982.
Software: written and maintained in-house, accommodates 80 investment funds and 20 types of contributions .
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; projection letters; retirement planning software; data management; flex spending accounts; participant statements; actuarial service.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: John Salajka, CEO; David Goldenberg, CFO.
Contact: Mark Tucker, director-new business development; mtucker@amgusa.com.

American Pension Benefits Inc.

P.O. Box 505,
Warrendale, Pa. 15086
724-935-0100; fax: 724-935-2511
www.apbpensionnetwork.com

Staff:
Total 20
Involved in 401(k) plan services 8
Clients:
Total 57
Receiving unbundled services 12
Receiving bundled services 45
Average participants/plan 75
Services began: 1984.
Software: leased from outside vendor, accommodates 20 investment funds and 9 types of contributions.
Administration: cash, unit-value accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; plan document (prototype; individually designed); cross-tested employer discretionary allocations and special testing.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense.
Officers: James W. Landis, president.

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Continued from previous page

Contact: apb@nauticom.net.
American Pension Benefit's Web site will be available as of July 1999

Ameritas Life Insurance Corp.

5900 "Q" St.,
Lincoln, Neb. 68510-1889
402-467-1122; fax: 402-467-7952
www.ameritas.com

Staff:
Total 973
Involved in 401(k) plan services 30
Clients:
Total 242
Receiving unbundled services 49
Receiving bundled services 193
Average participants/plan 37
Minimum participants/plan 1
1998 revenues:
Total $1,118,736,000
401(k) plan administration $93,210
Parent: AmeritasAcacia Mutual Holding Co.
Services began: 1985.
Software: purchased from outside vendor, accommodates 400 investment funds and 400 types of contributions.
Administration: cash, unit-value, full-share accounting accommocates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: nationwide.
Charges: determined by number of participants, assets under management, time and expense, frequency of valuations.
Officers: Larry Arth, chairman/CEO; Ken Louis, president/COO; JoAnn Martin, senior vp/controller/CFO.
Contact: Jessie Waller, 800-745-9995.

B

Benefit Dynamics Inc.

8 Ranoldo Terrace, Suite 200,
Cherry Hill, N.J. 08034
609-616-1400; fax: 609-616-1401

Staff:
Total 24
Involved in 401(k) plan services 9
Clients:
Total 145
Receiving unbundled services 116
Receiving bundled services 29
Average participants/plan 150
Minimum participants/plan 25
Maximum participants/plan 25,000
1998 revenues:
Total $1,800,000
401(k) plan administration $450,000
Services began: 1982.
Software: purchased from outside vendor, accommodates 25 investment funds and 8 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; individual voice response system; electronic enrollment.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, frequency of valuations.
Officers: JoAnn, Massanova, president; Carmen LaVerghetta, vp.
Contact: Mark Moran, benefit@bellatlantic.net.

Benefit Equity Plans Inc.

1971 E. Fourth St., Suite 100,
Santa Ana, Calif. 92705
714-480-1364; fax: 714-480-1365
www.benefitequity.com

Staff:
Total 25
Involved in 401(k) plan services 15
Clients:
Total 560
Receiving unbundled services 320
Receiving bundled services 240
Average participants/plan 80
Minimum participants/plan 10
Maximum participants/plan 5,000
1998 revenues:
Total $3,000,000
Services began: 1989.
Software: leased from outside vendor, accommodates 25 investment funds and 7 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: nationwide.
Locations: administrative/consulting offices in: San Diego and Santa Ana, Calif
Charges: determined by number of participants, complexity of plan.
Contact: Robert H. Gorelick, president; Robert@BenefitEquity.com.

Benefit Systems Inc.

7701 N. Lamar, Suite 206,
Austin, Texas 78752
512-458-3888; fax: 512-458-4550
www.benefitsystems.org

Staff:
Total 12
Involved in 401(k) plan services 8
Clients:
Total 200
Receiving unbundled services 200
Average participants/plan 100
Minimum participants/plan 1
Maximum participants/plan 5,000
Services began: 1994.
Software: written and maintained in-house.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: Southwest.
Charges: determined by number of participants.
Officers: Brian Uecker, president.
Contact: bsi@benefitsystems.org.

Benefits Connection Group

1130 Connecticut Ave, N.W.,
Washington, D.C. 20036
202-828-7186; fax: 202-828-7105
www.bcg-dc.com

Staff:
Total 9
Involved in 401(k) plan services 4
Clients:
Total 70
Receiving unbundled services 70
Average participants/plan 50
Software: record keeping is provided by an outside third party, and 10 types of contributions.
Administration: full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; 5500 filing; non-discrimination testing; fiduciary liability insurance.
Service area: nationwide.
Charges: determined by number of participants, assets under management.
Officers: Carlos A. Mnoz, CEO; Lorin H. Bleecker, COO.
Contact: David Popper, director-marketing, 202-828-7148, dpopper@bcg-dc.com.

Benefits & PPA Services Inc.

5435 Corporate Drive, Suite 150,
Troy, Mich. 48098
248-641-7525; fax: 248-641-7530
www.benefitsppa.com

Staff:
Total 44
Involved in 401(k) plan services 38
Clients:
Total 275
Receiving unbundled services 2
Receiving bundled services 273
Average participants/plan 70
Minimum participants/plan 25
Maximum participants/plan 5,000
1998 revenues:
Total $3,808,612
401(k) plan administration $1,628,613
Services began: 1983.
Software: purchased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; investment advisory; cofiduciary compliance; personal financial planning.
Service area: nationwide.
Charges: determined by number of participants, assets under management.
Officers: Mark Wayne, CEO.
Contact: Laura Durkin, vp-marketing, 248-641-7525, ext.1110.

Continued on page 24

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RISK MANAGEMENT GOVERNMENT

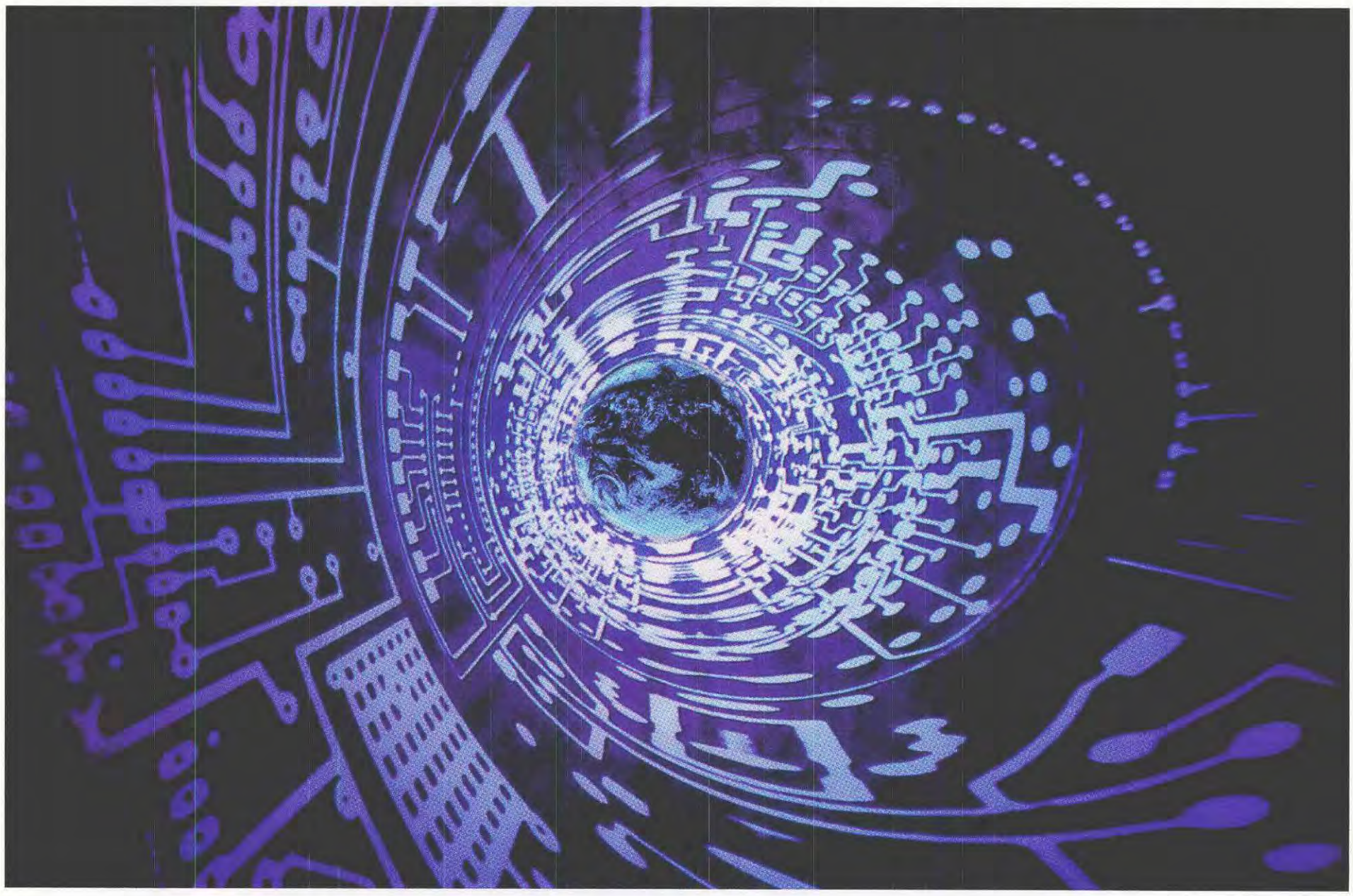
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Cash balance plans fit new workforce

Portable accounts reward productivity of mobile employees

By Stephen J. Hoeffner

There's a new revolution sweeping over America that, until very recently, had gone almost unnoticed by the press and public policymakers; a revolution that promises to give the U.S. economy still another worldwide competitive advantage. It is taking place not in the streets, or in Washington, but in the way U.S. companies provide for their employees' retirement.

This revolution in pension plan design is based on the "cash balance" plan, which defines benefits not in terms of monthly annuity payments but as much more measurable and portable account balances—balances that allow employees who work for a series of companies to still accumulate significant retirement income. This cash balance revolution is increasing incentives for productive work effort and enhancing the free flow of American labor into jobs and companies where it can be used most productively.

The economic boom of the 1990s has been built on hard work, creativity and free markets—for goods, for capital and for labor. Public policymakers, especially in the United States and the United Kingdom, are learning to trust the wisdom of free markets, and now American corporate management is learning to do the same in its employment practices. Career employment and paternalism are fading from the U.S. corporate culture. More and more, vacancies are filled with the best-available candidates, whether from inside or outside the company, and pay and benefit programs are being restructured to reward performance rather than seniority.

Yes, corporate America is remaking itself, and cash balance pension plans are a part of it—helping to spearhead cultural change at many of America's largest and best-known companies. By encouraging free labor markets and helping employers reward good job performance, the cash balance pension revolution is helping to bring new dynamism to the American economy.

Traditional retirement plans were developed to encourage career employment and give older, long-service workers the financial ability to retire before they became unproductive.

Traditional retirement plans were developed to encourage career employment and give older, long-service workers the financial ability to retire before they became unproductive. To discourage turnover and limit cost, benefits accrued very slowly, with only minimal deferred pensions provided prior to retirement age. These design features don't motivate today's workers, inevitably locking many of them into jobs that don't maximize their productivity. Traditional plans were perfectly at home in the 1950s, but they are out of step with the evolving corporate culture—and with employee expectations—of the 1990s.

Employees were the first to lose faith in traditional retirement plans—not career employees nearing retirement age but their shorter-service, younger counterparts. These younger employees preferred their employers' generally less expensive 401(k) plans. They found traditional retirement plans almost incomprehensible and wanted to know what the employer's commitment really was. They no longer expected—or trusted—their employers to take care of them for life, and they valued job mobility over security.

Employers did catch on eventually. They understood that many important career-oriented employees valued and depended on their traditional plans. But their plans were doing nothing to attract, retain and motivate more-mobile, typically younger, employees. Companies in old-line industries—especially utilities—needed to revamp their corporate cultures to stay competitive. Workforce stability was important, but guaranteed career employment was too high a price to pay for it. And retirement plans focused on career employment were distorting employment patterns, restricting management decision-making and discouraging entrepreneurial thinking.

The genuine benefit portability of cash balance accounts costs money, but it's a much better, safer and more-equitable plan design for today's more-mobile employees.

Some employers terminated their traditional defined benefit pension plans in favor of profit sharing or other types of defined contribution plans, but that generally meant expensive annuity purchases. Any leftover plan assets were then subject to corporate income and excise taxes. Most chief financial officers soon realized that it was much less expensive to fund an existing pension obligation through an ongoing defined benefit plan.

Cash balance plan redesign has proven to be a much better answer than pension plan termination. CFOs generally like the idea because investment of plan assets remains the company's responsibility but employees still get what they prefer—an account-based benefit accumulation. And the people over in human resources find it much easier to develop effective transition arrangements in the framework of an ongoing defined benefit pension plan.

As with any revolution, there has been some resistance. In Washington, Reps. Rob Portman, R-Ohio, and Ben Cardin, D-Md., have included cash balance notification requirements in their proposed "pension simplification" bill, and Sen. Daniel Patrick Moynihan, D-N.Y., is sponsoring similar legislation—the Pension Right to Know Act of 1999. Of late, national press coverage has been negative.

Traditional retirement plans have not been very popular in Washington. Public policymakers haven't always trusted free markets, but they didn't trust corporate paternalism, either—and many were never comfortable with the delayed benefit accrual patterns of these defined benefit pension plans. They preferred the more straightforward, faster-accumulating and portable account balances of defined contribution plans.

Despite numerous legislative efforts to require more significant defined benefit plan vested benefits prior to retirement age, real benefit portability was never achieved. Now, the market-driven cash balance revolution is at last giving employees exactly what many thoughtful public policymakers have always wanted for them: account-based benefit accumulations that are simple to understand and measure, faster in accumulation and genuinely portable—all just like defined contribution plans.

Negative press coverage has included reports in the Washington Post, on National Public Radio and especially in the Wall Street Journal. Employers are being accused of using cash balance redesign simply as a smoke screen for lowering retirement benefits and reducing cost. Certainly, there are exceptions, but, by and large, this is nonsense.

First, let me say that I have yet to work with an employer for which cost reduction was the dominant motivation for redesign. Cash balance plans are not inherently less expensive than traditional plans. In fact, the increased visibility and measurability of explicit account balances makes it impossible to disguise a cash balance plan's true value.

Here's another potentially controversial but fairly well documented fact. Total defined benefit plan and 401(k) retirement benefits at many, if not most, major corporations with traditional plans are excessively generous for career employees. Almost every retirement income replacement analysis I've seen has shown this result.

How did this happen? In the early 1980s, most employers adopted 401(k) plans with matching company contributions but didn't touch their retirement plans. This made sense when 401(k) balances were negligible, but now, thanks to a booming stock market, we read about average employees who have become so-called "401(k) millionaires." Later in the 1980s, tax law changes restricted access to 401(k) accumulations, helping to turn these savings programs into true retirement plans. In the 1990s, low inflation has caused traditional pensions—which are not typically indexed to the Consumer Price Index—to regain much of the value that they had lost in the high-inflation 1970s and early 1980s.

Despite scattered resistance, the cash balance revolution must continue, for one fundamental reason. American companies, even the largest ones, simply can't continue to guarantee career employment in today's more competitive world. Employers know this, most employees know it, and public policymakers must recognize it.

The genuine benefit portability of cash balance accounts costs money. But this portability makes cash balance a much better, safer and more equitable plan design for today's more mobile employees, even if career retirement benefits must be reduced to pay for it.

Transition to a cash balance pension plan design is never easy. Older, long-service employees are usually given "grandfathering" or other transition arrangements that preserve all or most of their expected retirement benefits. But transition arrangements must be limited or there won't be sufficient savings from reduced career retirement benefits to cover the extra portability cost of cash balance accounts.

Communication with employees must then be clear and honest. Some employers will handle these difficult trade-offs with greater sensitivity, creativity and skill than will others. And some companies will inevitably take the opportunity to cut back benefits.

The implementation difficulties of some employers should be acknowledged, but they are beside the point. Despite recent negative publicity, cash balance plans are not a way to trick employees into accepting lower cost retirement plans.

They are a long overdue and sensible response to fundamental changes in the American economy and workforce, and they should be encouraged by public policymakers as one important way to help maintain U.S. competitiveness, prosperity and economic growth. BI



Stephen J. Hoeffner is a consulting actuary with ASA Inc., a Somerset, N.J.-based employee benefits consulting firm. He is a fellow of the Society of Actuaries and an enrolled actuary.

Continued from page 20

Business Benefits Corp.

9801 Westheimer Road, Suite 1070,
Houston, Texas 77042
713-781-9242; fax: 713-781-7330

Staff:
Total 6
Clients:
Total 76
Receiving unbundled services 76
Average participants/plan 50
Minimum participants/plan 2
Maximum participants/plan 500
1998 revenues:
Total $563,662
401(k) plan administration....$200,000 est.
Services began: 1989.
Software: leased from outside vendor.
Administration: cash, unit-value, full-share accounting.
Client services: communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; established alliances to provide all services.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: James W. Smith, president/CEO.
Contact: Tom Townsend, vp-marketing.

C

CMC Retirement & Employee Benefits Specialists

111 E. Broadway, Suite 208,
Glendale, Calif. 91205
818-247-7900; fax: 818-247-7277
www.retireben.com

Staff:
Total 10
Involved in 401(k) plan services....6
Clients:
Total 500
Receiving unbundled services 500
Average participants/plan 200
Minimum participants/plan 1
Maximum participants/plan 3,000
Services began: 1981.
Software: purchased from outside vendor,
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: toll-free service for account balance inquiries; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; actuarial services.
Service area: Arizona, California, Nevada, Oregon, Washington.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Michael L. Bain, principal, Cathy Green, vp.
Contact: 818-247-7900 ext 226 or 231: mbain@retireben.com.

CNA Trust

3080 S. Bristol St., Second Floor,
Costa Mesa, Calif. 92626
714-437-1012; fax: 714-437-4084
www.cnatrust.com

Staff:
Total 200
Involved in 401(k) plan services....120
Clients:
Total 1,700
Receiving unbundled services 435
Receiving bundled services 1,265
Average participants/plan 100
Minimum participants/plan 1
Parent: CNA Financial Corp.
Services began: 1985.
Software: purchased from outside vendor, accommodates 20 investment funds and 8 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; consulting; trust services.
Service area: nationwide.
Locations: administrative/consulting offices in: Costa Mesa and San Francisco, Calif; Chicago; New York
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Renate Renfro, president; John Brown Sr., Alfred Antigrolo, senior vps.
Contact: Fran Schoenfeld, 714-437-4005, fran.schoenfeld@cnatrust.com.

Carlson, Quinn & Associates

2000 Powell St., Suite 1600,
Emeryville, Calif. 94608
510-420-9020; fax: 510-420-9021
www.carlsonquinn.com

Staff:
Total 15
Involved in 401(k) plan services....15
Clients:
Total 225
Receiving unbundled services 225
Average participants/plan 150
Minimum participants/plan 10
1998 revenues:
Total $2,000,000
401(k) plan administration $1,500,000
Services began: 1994.
Software: purchased from outside vendor,
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; service provider evaluation; ESOP design and administration and non-qualified plans.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Brian P. Quinn, Leif T. Carlson, principals.
Contact: Brain P. Quinn.
Quinn & Associates' Web site will be available as of June 1999

The Chicago Trust Co.

171 N. Clark St., 10RTR,
Chicago, Ill. 60601
312-223-2300; fax: 312-223-5731
www.chicago-trust.com

Staff:
Total 300
Involved in 401(k) plan services....100
Clients:
Total 340
Receiving unbundled services 100
Receiving bundled services 240
Average participants/plan 339
Minimum participants/plan 50
Maximum participants/plan 10,000
1998 revenues:
Total $32,000,000,000
401(k) plan administration $5,000,000
Parent: Alleghany Corp.
Services began: 1983.
Software: purchased from outside vendor, accommodates 20 investment funds and 15 types of contributions .
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; recordkeeping; trustee; custodial; compliance and consulting.
Service area: nationwide .
Locations: administrative/consulting offices in: Atlanta.
Charges: determined by number of participants, complexity of plan, assets under management.
Officers: Stuart Bilton, president; Charlie Henderson, CFO; Terry Zirkle, senior vp.

Columbia Benefits Consultants Inc.

5840 Banneker Road, Suite 200,
Columbia, Md. 21044
410-740-7335; fax: 410-740-9204

Staff:
Total 8
Involved in 401(k) plan services....5
Clients:
Total 78
Receiving unbundled services 9
Receiving bundled services 69
Average participants/plan 55
Maximum participants/plan 5,000
1998 revenues:
Total $395,000
401(k) plan administration $220,000
Services began: 1984.
Software: leased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: nationwide.
Charges: determined by number of participants, assets under management, time and expense, frequency of valuations .
Officers: Peter F. Hibbard, president; Jodie A. Dailey, vp-administration.
Contact: cbcadmin@columb abenefits.com.

D

Daily Access Concepts Inc.

P.O. Box 1505,
Mobile, Ala. 36633
334-432-4755; fax: 334-433-5484
www.dailyaccess.com

Staff:
Total 60
Involved in 401(k) plan services....60
Clients:
Total 308
Receiving unbundled services* 308
Minimum participants/plan 1
Services began: 1995.
Software: written and maintained in-house.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: nationwide.
Locations: administrative/consulting offices in: Mobile, Ala; Sacramento, Calif; Hartford, Conn; Denver; Tampa, Fla; Chicago; Minneapolis; Raleigh, N.C.; Columbus, Ohio; Dallas.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Rob Cordasco, president/CFO; Burgess A. Thomasson, Greg Carpenter, Gregg Wood, executive vps; Steve Schardin, executive vp-sales/marketing.
Contact: Dale Cunningham, national sales manager: sales@dailyaccess.com.
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www.dreyfus.com
www.buckconsultants.com

Staff:
Total 3,630
Involved in 401(k) plan services....640
Clients:
Total 972
Average participants/plan 2,000
Parent: Mellon Bank Corp.
Services began: 1981.
Software: purchased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; voice response systems/services; defined contribution; defined benefit and health and welfare outsourcing; integrated data system.
Service area: nationwide.
Locations: administrative/consulting offices in: Phoenix; Anaheim, Los Angeles, San Francisco and San Diego, Calif; Denver; Stamford and Trumbull, Conn; District of Columbia; Atlanta; Honolulu; Chicago; Fort Wayne, Ind.; New Orleans; Baltimore; Boston and Everett, Mass.; Detroit; St. Louis; Seaucus, N.J.; New York and Uniondale, N.Y.; Cleveland and Cincinnati; Nashville, Tenn.; Houston; Seattle
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Joseph A. LoCicero, chairman/CEO (Buck); Michael Devine, president (Dreyfus); Joseph Eck, senior vp-sales/marketing(Dreyfus).
Contact: Joseph Eck, 617-722-7289; info@dreyfus.com or John R. McGlone, principal/administrative consultant, 201-902-2458 (Buck).

E

The Epler Co.

450 B St.,
San Diego, Calif. 92101
619-239-0831; fax: 619-239-0807
www.eplercompany.com

Staff:
Total 18
Involved in 401(k) plan services....8
Clients:
Total 25
Receiving unbundled services 25
Average participants/plan 250
Minimum participants/plan 25
Maximum participants/plan 10,000
Services began: 1981.
Software: leased from outside vendor, accommodates 99 investment funds.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications.
Service area: California.
Locations: administrative/consulting offices in: Irvine and San Diego, Calif.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Jane Barry, president/CEO; Lin Ball, vp; Lou Filliger, vp/principal actuary.
Contact: consultants@eplercompany.com.

F

Findley Davies Inc.

300 Madison Ave., Suite 1000,
Toledo, OH 43604
419-255-1360; fax: 419-259-5685
www.findleydavies.com

Staff:
Total 85
Involved in 401(k) plan services....20
Clients:
Total 125
Receiving unbundled services 125
Average participants/plan 250
Minimum participants/plan 10
Maximum participants/plan 5,000
Services began: 1984.
Software: purchased from outside vendor, accommodates 20 investment funds and 15 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; cross testing; assistance with IRS audits; plan design and funding; vendor searches.
Service area: nationwide .
Locations: administrative/consulting offices in: Charlotte, N.C.; Cleveland and Toledo, Ohio
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Robert J. Rogers, president/managing principal; Marc E. Stockwell, Brian C. Hubbell, principals.
Contact: John Weber, recordkeeping practice leader, 419-327-4134; jweber@findleydavies.com.

First Data Investor Services Group

4400 Computer Drive,
Westborough, Mass. 01581
508-871-9135; fax: 508-871-9105
www.fdc-invest.com

Staff:
Total 650
Involved in 401(k) plan services....625
Clients:
Total 6,608
Receiving unbundled services 6,608
Average participants/plan 300
Minimum participants/plan 15
Parent: First Data Corp.
Services began: 1981.
Software: written and maintained in-house.
Administration: cash, unit-value accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; trading platform for more than 1,000 mutual funds; trust downloads.
Service area: nationwide.
Locations: administrative/consulting offices in: Seal Beach, Calif.; Tampa, Fla.; Rockville, Md.; Westborough, Mass.; Bloomington, Minn.; Charlotte, N.C.
Charges: determined by number of participants, assets under management, time and expense, frequency of valuations.
Officers: Jack Kutner, president; Robert Guillocheau, executive vp-retirement services; Mark Hourihan, executive vp-sales/marketing.
Contact: Mark Hourihan, mark.hourihan@fdc-invest.com.

G

Gallagher Abow Inc.

1050 Wilshire Drive, Suite 250,
Troy, Mich. 48084
298-649-1990; fax: 248-649-4978
www.gallagher-abow.com

Staff:
Total 90
Involved in 401(k) plan services....30
Clients:
Total 220
Receiving unbundled services 200
Receiving bundled services 20
Average participants/plan 150
Parent: Arthur J. Gallagher & Co.
Services began: 1981.
Software: purchased from outside vendor,
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; compliance testing; government form filling; document preparation,.business/plan objectives analysis.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: A. Peter Knoop Jr., area president; Craig C. Arnold, Richard R. Barnes, area vps.

H

HPL&S Inc.

125 S. Wilke Road, Suite 300,
Arlington Heights, Ill. 60005
847-392-2999; fax: 847-392-1053

Staff:
Total 34
Involved in 401(k) plan services....22
Clients:
Total 280
Receiving unbundled services 200
Receiving bundled services 80
Average participants/plan 50
Minimum participants/plan 1
Maximum participants/plan 5,000
1998 revenues:
Total $3,390,000
401(k) plan administration $1,300,000
Services began: 1983.
Software: purchased from outside vendor, accommodates 20 investment funds and 7 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; administration and coordination with other retirement plans maintained by the sponsor.
Service area: nationwide, primarily Chicago metropolitan area.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Ira A. Post, president; George F. Castillo, Thomas J. Doherty, vps; William C. Ludwig, treasurer.
Contact: George F. Castillo.

Hewitt Associates L.L.C.

100 Half Day Road,
Lincolnshire, Ill. 60069
847-275-5000; fax: 847-883-9019
www.hewitt.com

Staff:
Total 10,000
Involved in 401(k) plan services....1,700
Clients:
Total 160
Receiving unbundled services 160
Average participants/plan 30,000
Minimum participants/plan 5000
1998 revenues:*
Total $850,000,000
Services began: 1981.
Software: written and maintained in-house.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee commu-

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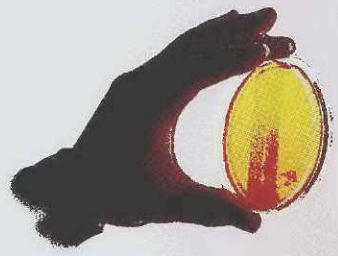
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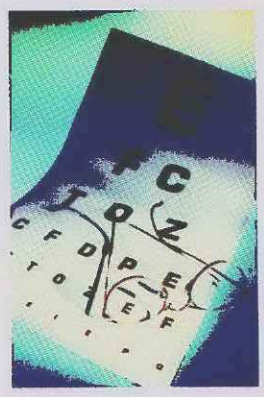


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Continued from page 24

nications.
Service area: nationwide.
Locations: administrative/consulting offices in: Orlando, Fla.; Lincolnshire, Ill. The Woodlands, Texas
Charges: determined by number of participants, complexity of plan, time and expense.
Officers: Dale L. Gifford, CEO; Thomas L. Schmitz, director-benefit delivery; E. Scott Peterson,director-defined contribution services.
Contact: Tim Murphy: tgmurphy@hewitt.com.

** More than 50% of revenue is from benefit delivery (includes defined benefits and health & welfare).*

J

W.J. Jones Administrative Services Inc.

1979 Marcus Ave., Suite C101.
Lake Success, N.Y. 11042
516-775-5420; fax: 516-775-4581
www.wjjones.com

Staff:
Total 240
Involved in 401(k) plan services 10
Clients:
Total 20
Receiving unbundled services 16
Receiving bundled services 4
Average participants/plan 3,000
Minimum participants/plan 100
1998 revenues:
Total $10,000,000
401(k) plan administration $1,000,000
Services began: 1987.
Software: written and maintained in-house, accommodates 10 investment funds.
Administration: cash, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; maintains employee enrollment/beneficiary forms; loan documentation.
Service area: nationwide.
Charges: determined by number of participants.
Officers: John P. Sherlock, chairman/CEO; Robert F. Sherlock, president; Kevin J. Sherlock, vp.
Contact: Robert F. Sherlock.

M

Meeker Sharkey Benefit Consultants

14 Commerce Drive,
Cranford, N.J. 07016
908-272-8100; fax: 908-272-4878
www.meekersharkey.com

Staff:
Total 200
Involved in 401(k) plan services 10
Clients:
Total 90
Receiving unbundled services 10
Receiving bundled services 80
Average participants/plan 75
Minimum participants/plan 10
Maximum participants/plan 2,000
1998 revenues:
Total $12,000,000
401(k) plan administration $500,000
Parent: MSFG Inc.
Services began: 1990.
Software: purchased from outside vendor, record keeping is provided by an outside third party, accommodates 50 investment funds and 6 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; enrollment; investment counseling.
Service Area: Connecticut, New Jersey, New York, Pennsylvania.
Locations: administrative/consulting offices in: Burlington, Cranford and Wall Township, N.J.; Wayne, Penn.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Gerry Gebauer, president; Gerry Desmond, director.

Merrill Lynch Group Employee Services

800 Scudders Mill Road,
Plainsboro, N.J. 08536
609-282-2664; fax: 609-282-0344
www.ml.com

Staff:
Total 1,950
Involved in 401(k) plan services 1,650
Clients:
Total 5,680
Receiving unbundled services 122
Receiving bundled services 5,558
Average participants/plan 389
Parent: Merrill Lynch & Co. Inc.
Services began: 1983.
Software: purchased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; benefit consulting; financial planning; trust services.
Service area: nationwide.
Locations: administrative/consulting offices in: Englewood, Colo.; Jacksonville, Fla.; Plainsboro and Somerset, N.J.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Howard Johnson, vice chairman-group employee services; Patrick J. Walsh, senior vp/director-group employee services; Kevin O'Hanlon, Alan J. Kizor, William B. Stanton, first vps/senior directors-group employee services.

MetLife

1 Madison Ave.,
New York, N.Y. 10010
212-578-2218
www.metlife.com

Staff:
Total 41,000
Involved in 401(k) plan services 1,000*
Clients:
Total 2,038
Receiving unbundled services 1,364
Receiving bundled services 674
Average participants/plan 1,226
Services began: 1981.
Software: written and maintained in-house.**
Administration: unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; Internet access; outsourcing of hardship withdrawals and Qualified Domestic Relations Orders; retirement planning software.
Service area: nationwide.
Locations: administrative/consulting offices in: Denver; Jersey City, N.J.; New York; Nashville, Tenn.
Charges: determined by number of participants, complexity of plan, assets under management.
Officers: Robert H. Benmosche, chairman of the board/CEO; Rob Hendrikson, senior executive vp; Gary Lineberry, senior vp.
Contact: Gary Lineberry, 212-578-3181, glineberry@metlife.com&hut.

** Reflects District of Columbia group only.*
*** Investment fund options and kinds of contribution varies by size of plan.*

Milliman & Robertson

1301 Fifth Ave., Suite 3800,
Seattle, Wash. 98101-2605
206-624-7940; fax: 206-623-3485
www.milliman.com

Staff:
Total 1,400
Involved in 401(k) plan services 225
Clients:
Total 1,778
Receiving unbundled services 1,778
Average participants/plan 200
Minimum participants/plan 1
Services began: 1981.
Software: written and maintained in-house, purchased from outside vendor, leased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: nationwide.
Locations: administrative/consulting offices in: Phoenix; Irvine, Los Angeles; San Diego and San Francisco, Calif.; Denver; Hartford, Conn; Washington; Tampa, Fla; Atlanta; Chicago; Indianapolis; Portland, Maine; Boston; Minneapolis; St. Louis; Omaha, Neb.; Albany and New York, N.Y.; Portland, Ore.; Philadelphia; Dallas; Houston; Salt Lake City; Seattle; Milwaukee; Bermuda; Tokyo.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Dan McCarthy, chairman; Bob Collett, president.
Contact: Janet Rubenstein, principal, janet.rubenstein@milliman.com.

Minnesota Life Insurance Co.

400 Robert St. N.,
St. Paul, Minn. 55101
651-665-4701; fax: 651-665-6327
www.minnesotamutual.com

Staff:
Involved in 401(k) plan services 202
Clients:
Total 1,504
Receiving unbundled services 514
Receiving bundled services 990
Average participants/plan 73
Minimum participants/plan 20
1998 revenues:
Total $89,508,060
401(k) plan administration $49,855,989
Services began: 1984.
Software: purchased from outside vendor.
Administration: cash, unit-value accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: nationwide.
Locations: administrative/consulting offices in: Los Angeles and San Francisco; Atlanta; Chicago; Detroit; Minneapolis and Saint Paul; Cleveland; Charlotte, N.C.; Philadelphia; Memphis, Tenn.; Houston; Seattle.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense.
Officers: Randy Wallake, senior vp-pension division; Richard Manke, vp-retirement plan services; Jenean Cordon, second vp/actuary.
Contact: Terri McNamara, pension marketing/field development coordinator; teresamcnamara@minnesotamutual.com.

Northern Trust Retirement Consulting L.L.C.

400 Perimeter Center Terrace,
Suite 850,
Atlanta, Ga. 30346
770-395-9880; fax: 770-512-6417
www.ntrs.com

Staff:
Total 7,000
Involved in 401(k) plan services 337
Clients:
Total 179
Receiving unbundled services 154
Receiving bundled services 25
Average participants/plan 6,180
Minimum participants/plan 250
Parent: The Northern Trust Co.
Software: written and maintained in-house.
Administration: cash, unit-value, full-share accounting.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; actuarial services; pension calculations; defined benefit administration; benefit statements; retirement modeling; trust services.
Service area: nationwide.
Locations: administrative/consulting offices in: Atlanta; Seattle
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Connie P. Magnuson, CEO; Dennis F. Sain, COO; Andrew A. Adams, director-client services/new business.
Contact: Andrew A. Adams, a.adams@notes.ntrs.com.

The Nyhart Co., Inc.

3515 N. Washington Blvd.,
Indianapolis, Ind. 46205
317-923-2391; fax: 317-926-3303

Staff:
Total 150
Involved in 401(k) plan services 18
Clients:
Total 80
Average participants/plan 500
Services began: 1981.
Software: purchased from outside vendor, accommodates 20 investment funds and 15 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: nationwide.
Locations: administrative/consulting offices in: Evansville and Indianapolis, Ind.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Daryl J. Dean, president, CEO; Nancy Cooper Pitt, Gary C. Chattin, senior vps.
Contact: Gary C. Chattin.

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N

National Benefit Consultants Inc.

28800 Orchard Lake Road,
Suite 210,
Farmington Hills, Mich. 48334
248-539-4000; fax: 248-539-4012

Staff:
Total 14
Involved in 401(k) plan services 8
Clients:
Total 83
Receiving unbundled services 8
Receiving bundled services 75
Average participants/plan 70
Maximum participants/plan 200
Services began: 1981.
Software: written and maintained in-house, accommodates 99 investment funds and 99 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; participant education; investment advice; enrollment meetings.
Service area: Midwest.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Hal Lambert, president; Michael T. Stacey, vp; Brian Stevens, secretary.

P

Parsons, McKee, Sommers & Co.

2001 Crocker Road,
Gemini Tower II, Suite 300,
Westlake, Ohio 44145
440-871-8611; fax: 440-871-7485
www.pmsco.com

Staff:
Total 55
Involved in 401(k) plan services 26
Clients:
Total 300
Receiving unbundled services 300
Average participants/plan 150
Minimum participants/plan 1
Maximum participants/plan 50,000
1998 revenues:
Total $3,700,000
401(k) plan administration $2,350,000
Services began: 1985.
Software: written and maintained in-house, and 25 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; Internet; plan documents; plan termina-

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tion; form 5500's.
Service area: nationwide.
Locations: administrative/consulting offices in: Charlotte, N.C.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: John R. Parsons, chairman; Mark S. Sommers, president; Richard S. Wargo, senior vp/managing actuary.
Contact: Mark S. Sommers.

TR Paul Inc.

14 Commerce Road,
Newtown, Conn. 06470
203-426-8161; fax: 203-270-0927
www.TRPaul.com

Staff:
Total 20
Involved in 401(k) plan services 10
Clients:
Total 150
Receiving unbundled services 100
Receiving bundled services 50

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Average participants/plan 50
Minimum participants/plan 1
Maximum participants/plan 3,500
1998 revenues:
Total $2,000,000
401(k) plan administration $1,000,000
Services began: 1981.
Software: purchased from outside vendor, accommodates 99 investment funds and 12 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: New England.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Robert Levy, president; George Romer, CFO; Mary Griffin, vp.
Contact: George Romer 203-426-8161, ext 324.

Pension Resources

401 N. Michigan Ave.,
Chicago, Ill. 60611
312-245-1740; fax: 312-644-4423
www.pension-resources.com

Staff:
Total 25
Involved in 401(k) plan services 18
Clients:
Total 400
Receiving unbundled services 400
Average participants/plan 75
Parent: FERS Business Services Inc.
Services began: 1981.
Software: leased from outside vendor, accommodates 25 investment funds and 20 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: nationwide.
Locations: administrative/consulting offices in: Chicago and Northbrook, Ill.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Michael Schwartz, president; Kevin Simpson, CFO; Neil Shore, chief actuary; Irwin Friedman, managing director.
Contact: Michael Schwartz, mschwartz@fers.com.

The PENTAD Corp.

950 Winter St., Suite 1400,
Waltham, Mass. 02451-1232
781-684-8400; fax: 781-68-48440
www.pentadcorp.com

Staff:
Total 25
Involved in 401(k) plan services 11
Clients:
Total 300
Receiving unbundled services 300
Average participants/plan 75
Minimum participants/plan 1
Maximum participants/plan 10,000
Services began: 1982.
Software: written and maintained in-house, leased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; retirement modeling.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Paul L. Chern, president; John Buttrick, vp/treasurer; Gary A. Miller, vp/chief actuary.
Contact: Richard S. Fitts, vp/client coordinator.

Praxis Consulting Inc.

3101 Industrial Drive, Suite 204,
Raleigh, N.C. 27609
919-832-8311; fax: 919-832-2593
www.retirementadvisor.net

Staff:
Total 18
Involved in 401(k) plan services 8
Clients:
Total 228
Receiving unbundled services 126
Receiving bundled services 102
Average participants/plan 75
Minimum participants/plan 1
Maximum participants/plan 5,000
Services began: 1983.
Software: purchased from outside vendor, accommodates 3,000 investment funds and 15 types of contributions.
Administration: cash, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: Georgia, North Carolina, South Carolina, Tennessee, Virginia.
Locations: administrative consulting offices in: Knoxville, Tenn.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Joseph M. Gordon, president; Laura S. Millwood, vp-retirement plan services; Denise S. Prince, director-marketing.
Contact: rsmith@thepraxis.com.
Praxis Consulting's Web site will be available as of May 1999

PricewaterhouseCoopers Kwasha HR Solutions

2100 North Central Road,
Fort Lee, N.J. 07024
201-592-1300; fax: 201-592-7608
www.pwglobal.com

Staff:
Total 2,100
Involved in 401(k) plan services 600
Clients:
Total 171
Receiving unbundled services 171
Minimum participants/plan 5000
Services began: 1981.
Software: written and maintained in-house, accommodates 99 investment funds and 32 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues; compliance issues, employee communications; HR and benefits integrated administration.
Service area: nationwide.
Locations: administrative consulting offices in

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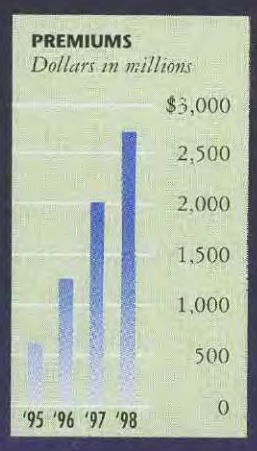


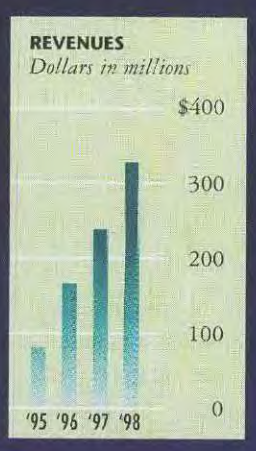
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Continued from previous page

San Francisco; Chicago; Fort Lee, N.J.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations. **Officers:** Iris Goldfein, Americas theater leader; Robert Byrne, human resources outsourcing sector leader; Michael Sternklar, Americas leader, human resources outsourcing.
Contact: Alisa Plazonja, director-benefits outsourcing business development: alisa.plazonja@us.pwcglobal.com.

R

Retirement Plan Administrative Service Ltd.

1503 Santa Rosa Road, Suite 120,
Richmond, Va. 23229
804-288-8782; fax: 804-288-8786
www.rpasltd.com

Staff:
Total 14
Involved in 401(k) plan services 7
Clients:
Total 120
Receiving unbundled services 70
Receiving bundled services 50
Average participants/plan 35
Minimum participants/plan 1
1998 revenues:
Total $960,000
401(k) plan administration $400,000
Services began: 1981.
Software: leased from outside vendor, accommodates 999 investment funds and 14 types of contributions.
Administration: cash accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: District of Columbia; Maryland; North Carolina; Virginia.
Charges: determined by number of participants, complexity of plan, frequency of valuations.
Officers: Burl V. Bachman, president; Barbara H. Smith, vp.

Retirement Resources Inc.

1983 Marcus Ave., Suite 260,
Lake Success, N.Y. 11042
516-358-3858; fax: 516-488-1081

Clients:
Total 60
Receiving unbundled services 55
Receiving bundled services 5
Average participants/plan 71
Minimum participants/plan 10
Services began: 1981.
Software: written and maintained in-house.
Administration: cash accounting.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds.
Service area: Connecticut, New Jersey, New York, Pennsylvania.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Steven L. Roemer, president.

S

Sansima Consulting Group Inc.

404 Towne Centre Drive,
Somerville, N.J. 08876-4698
908-904-0412; fax: 908-904-0812
www.sansima.com

Staff:
Total 4
Involved in 401(k) plan services 4
Clients:
Total 17
Receiving unbundled services 14
Receiving bundled services 3
Average participants/plan 1,500
Minimum participants/plan 100
Maximum participants/plan 10,000
Services began: 1997.
Software: purchased from outside vendor.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; investment advisory services; trust and custodial services through alliances with outside vendors.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Gustavo J. Sanchez, president/CEO; Susan J. Schutzman, vp/COO.
Contact: sanchez@sansima.com.

Schloss & Co.

1400 Old Century Road, Suite 310,
Westbury, N.Y. 11590
516-333-2800; fax: 516-333-2889
www.schlossco.com

Staff:
Total 65
Involved in 401(k) plan services 45
Clients:
Total 300
Receiving unbundled services 300
Average participants/plan 100
Minimum participants/plan 20
Services began: 1986.
Software: leased from outside vendor, accommodates 20 investment funds and 15 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Eugene Schloss, president; Elaine Enis, David Dorfman, vps.

Sentinel Benefits Group

107 Audubon Road, Building Two,
Wakefield, Mass. 01880
781-246-9050; fax: 781-246-9054
www.sentinelbenefits.com

Staff:
Total 60
Involved in 401(k) plan services 45
Clients:
Total 400
Receiving unbundled services 150
Receiving bundled services 250
Average participants/plan 100
Minimum participants/plan 25
Maximum participants/plan 5,000
Services began: 1987.
Software: purchased from outside vendor, accommodates 28 investment funds and 8 types of contributions .
Administration: cash, unit-value, full-share accounting, accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on plan design issues, compliance issues, employee communications; manages investment of 401(k) plan funds; enrollment assistance; newsletters.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, assets under management.
Officers: John Carnevale, president; Joshua Meltzer, vp; Rob Dimase, benefits consultant.
Contact: Rob Dimase: robd@sentinelbenefits.com.

SilverStone Group Inc.

11516 Miracle Hills Drive,
Suite 102, Omaha, Neb. 68154
402-964-5678; fax: 402-964-5454
www.ssgi.com

Staff:
Total 161
Involved in 401(k) plan services 32
Clients:
Total 285
Receiving unbundled services 285
Average participants/plan 108
Minimum participants/plan 25
1998 revenues:
Total $14,500,000
401(k) plan administration $1,250,000
Services began: 1983.
Software: purchased from outside vendor, accommodates 36 investment funds and 20 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; contribution allocation calculations; record keeping; KSOPs.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Lewis E. Trowbridge, president; Anthony J. Sorrentino, COO/executive vp; Daniel J. Wintz, executive vp.
Contact: Daniel J. Wintz: dwintz@ssgi.com.

Swerdlin & Co.

5901 Peachtree Dunwoody
Road, Building B, Suite 170,
Atlanta, Ga. 30328
770-396-6601; fax: 770-698-9335
www.swerdlin.net

Staff:
Total 38
Involved in 401(k) plan services 28
Clients:
Total 600
Receiving unbundled services 600
Average participants/plan 250
Minimum participants/plan 100
Maximum participants/plan 10,000
1998 revenues:
Total $3,200,000
401(k) plan administration $2,000,000
Services began: 1983.
Software: purchased from outside vendor, accommodates unlimited investment funds and 14 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications.
Service area: nationwide.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: Dorn H. Swerdlin, president/CEO; Joanne H. Swerdlin, executive vp; Anthony J. Brizzolara, executive vp/COO.

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Towers Perrin

1500 Market St.,
Philadelphia, Pa. 19102
215-246-6000; fax: 215-246-4189
www.towers.com

Staff:
Total 8,152
Clients:
Total 86
Receiving unbundled services 86
Average participants/plan 11,000
Minimum participants/plan 2,000
1998 revenues:
Total $1,160,000,000
401(k) plan administration $219,000,000
Services began: 1981.
Software: written and maintained in-house, accommodates 30 investment funds and 30 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, employee communications; Web access to saving/investment planning; inquiry/transaction capabilities.
Service area: nationwide.
Locations: administrative/consulting offices in: Voorhees, N.J.; Philadelphia; Chesapeake, Va.
Charges: determined by number of participants, complexity of plan, time and expense, frequency of valuations.
Officers: John Lynch, CEO; Alan Dugan, Marv Greene, managing directors.
Contact: Don Biron, director-business development, 215-246-4307.

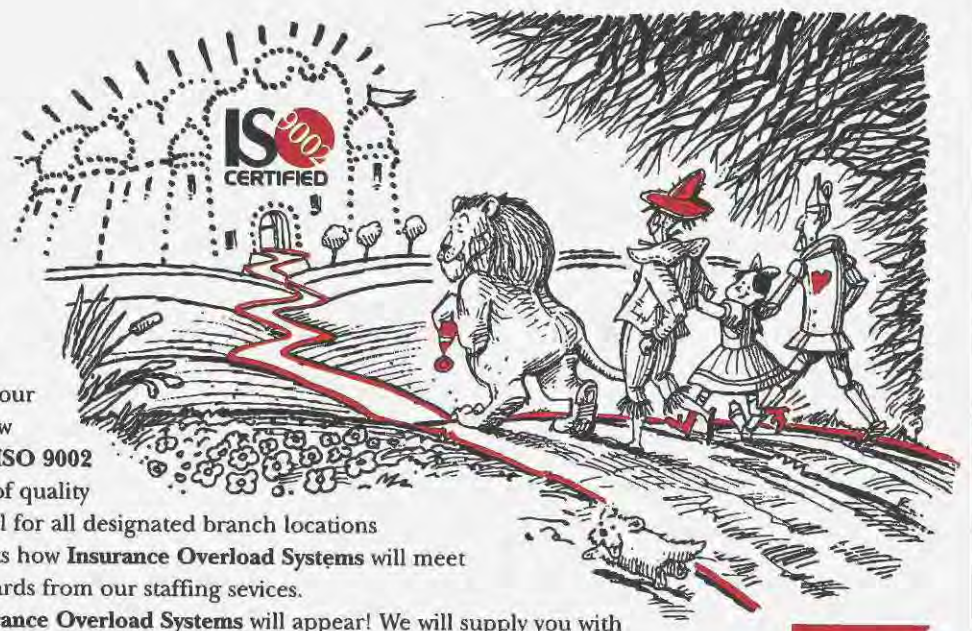
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The USI Consulting Group

95 Glastonbury Blvd.,
Glastonbury, Conn. 06033
860-633-5283; fax: 860-368-2110
www.usicg.com

Staff:
Total 200
Involved in 401(k) plan services 100
Clients:
Total 500
Receiving unbundled services 300
Receiving bundled services 200
Average participants/plan 500
Minimum participants/plan 50
Maximum participants/plan 10,000
Parent: USI Insurance Services Corp.
Services began: 1981.
Software: written and maintained in-house, leased from outside vendor, accommodates 1,500 investment funds and 99 types of contributions.
Administration: cash, unit-value, full-share accounting; accommodates loan provisions.
Client services: daily valuations; toll-free service for account balance inquiries; toll-free service to request account activity; online access; communication of plan features to employees; consults on legal issues, plan design issues, compliance issues, manages investment of 401(k) plan funds; form preparation; government filing; investment policy statements; form preparation; non-qualified plans, audit review; outsourcing.
Service area: nationwide.
Locations: administrative/consulting offices in: San Francisco; Glastonbury and Hartford, Conn.; Boston; Briarcliff Manor and New York, N.Y.; Knoxville, Tenn.
Charges: determined by number of participants, complexity of plan, assets under management, time and expense, frequency of valuations.
Officers: Douglas J. Rubinstein, senior vp-chief marketing officer.
Contact: Douglas J. Rubinstein; George Torrella, 914-747-6388. BI

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Providers of annuities vying to win a share of group pension market

By MICHAEL PRINCE

Strong competition is driving group annuity providers, such as insurers and mutual fund companies, to provide better products and services, according to a recent Standard & Poor's report.

"Rising prosperity, tightening labor markets, uncertainty about Social Security and a steadily aging workforce are making the American workplace the focal point for new and expanding retirement products," the report states.

"To a large extent, employers have shifted the risk of retirement plan performance to their employees by moving from defined benefit to defined contribution programs. These trends, along with the aging of the workforce, have created attractive opportunities for providers of group annuities," according to the report.

Employer demand for group annuities is strong, "because there is a lot of emphasis on retirement in America," Neil Strauss, director at S&P in New York and a co-author of the report, said in an interview.

There is "huge market growth right now," noted Barbara Hume, vp of the retirement and savings center at Metropolitan Life Insurance Co. in New York.

Most of the growth for insurers lies in group variable annuities. These are annuities tied to a separate-account defined contribution plan, such as a 401(k). For example, upon retirement a worker could use funds from his or her 401(k) to purchase an annuity that would guarantee monthly income for life.

Although insurers can expect rising demand for annuities, they won't be the sole beneficiaries. S&P's report notes that insurers face strong competition from mutual fund companies and banks, which often have lower administrative costs and more expertise in money management than do insurers, giving the fund companies and banks an advantage in attracting clients.

In addition, such financial service companies have a longer roster of proprietary funds—often name brands that employees want—than do insurers. As a result, most large employers have turned to such companies to serve their needs.

So, despite overall growth in insurers' annuity business, insurers' share of the market is dropping, said Kevin Ahern, associate director at S&P and the report's other co-author.

"To compete, insurers must be vigilant in forging strong distribution partnerships and pressing for price concessions from high-profile fund managers," the report states.

Although insurers traditionally have had higher costs, the gap with financial firms is closing, said MetLife's Ms. Hume. "It used to be a fact," but in the future, the perception of insurers' higher costs "will be a fallacy."

Insurers' higher costs stem from greater distribution expenses because they use networks of agents, said Brendan Lynch, vp at Travelers Insurance Co. in Hartford, Conn. The notion that insurers have much higher costs disappears under close scrutiny, said Mr. Lynch.

Mutual funds rarely reveal their charges in the way insurers do, but when all costs for the program are calculated, the difference between insurers and mutual funds is small and shrinking, Mr. Lynch said. "I think slowly we're closing the gap," he said.

Donald Salama, vp and director of retirement plan solutions for Hartford Life Insurance Co. in Simsbury, Conn., agreed. "It's a perception issue, not a reality issue," he said.

Mutual fund companies dominate the large-employer market, the report states. Insurers can better compete for midsize and small employers, where they have advantages over the financial firms.

"Insurance companies are good at small-company pension plans," Mr. Strauss said.

This advantage exists because small employers generally buy products based upon a relationship with the seller, and distributing products through agents enables insurers to establish these relationships, said Travelers' Mr. Lynch.

Mutual fund companies have begun eyeing the smaller market, where the number of employers buying group annuities is expected to grow sharply. "Some of the big mutual funds are looking in that direction to continue their growth rate," Mr. Lynch said.

For example, last week Fidelity Investments announced a new 401(k) plan for small, tax-exempt organizations.

To succeed in the annuity market, insurers "must be sure to offer custom services and flexible delivery," the report states.

One of the most important services is employee education. And here, mutual fund companies historically have done a better job than insurers, Mr. Ahern said.

With respect to education, insurers have certain advantages over mutual fund companies, insurers said.

Insurers offer some employers financial advisers whom plan participants can call for advice, and agents often conduct onsite educational seminars for employees.

Aside from that, insurers offer other advantages over mutual fund companies, particularly for smaller employers. Insurers can provide other retirement products—such as long-term care, disability and life insurance—that mutual fund companies cannot, the report states.

Plus, the annuity offered by insurers generally contains an annuity and death benefit in addition to the separate retirement account, whereas mutual fund companies offer only the separate retirement account.

Overall, insurers offering annuities have a bright future, but they must still evolve in the face of strong competition, the report says.

"To compete with other financial firms, they will have to stay cost-conscious to woo plan sponsors aggressively with value-added products, to provide retirement education and allocation tools, and to forge loyal relationships with plan participants," the report concludes.

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For additional Business Sector reports and company rankings, visit S&P's Web site at www.standardandpoors.com/ratings/insurance.

Standard & Poor's 50 largest providers of annuities

Groups and individual companies, ranked by premiums and deposits, in millions of dollars

Rank	Group or Company	Premiums & Deposits 1997	Market Share 1997	Rating
1	Hartford Insurance Group	12,285.1	5.9%	AA ○
2	Nationwide Group	10,034.6	4.8%	AA+ ○
3	Metropolitan Life Group	9,690.6	4.6%	AA ○
4	Principal Financial Group	9,165.9	4.4%	AA ○
5	Aetna Group	8,522.6	4.1%	AA- ○
6	Lincoln National Group	7,594.2	3.6%	AA- ○
7	Prudential of America Group	7,455.8	3.6%	A+ ○
8	CIGNA Group	7,352.9	3.5%	AA ○
9	AEGON Group	6,484.7	3.1%	AAA ○
10	American General Group	5,904.1	2.8%	AA+ ○
11	AXA Group	5,616.0	2.7%	AA- ○
12	John Hancock Financial Services Group	5,537.2	2.6%	AA+ ○
13	Jackson National Group	5,256.6	2.5%	AA ○
14	New York Life Group	5,206.6	2.5%	AA+ ○
15	SunAmerica Group	5,017.4	2.4%	AAA ○
16	TIAA Group	4,961.2	2.4%	AAA ○
17	ING Group	4,423.6	2.1%	AA+ ○
18	American Express Group	4,085.2	1.9%	AApi
19	Manulife Financial Group	3,931.6	1.9%	AA+ ○
20	General American Life Group	3,730.1	1.8%	AA- ○
21	Skandia International Group	3,698.0	1.8%	A ○
22	Mass Mutual Group	3,664.9	1.7%	AAA ○
23	Allstate Group	3,636.4	1.7%	AA+ ○
24	Pacific Life Group	3,592.4	1.7%	AA+ ○
25	Citigroup	3,481.8	1.7%	AA ○
26	American International Group	3,323.9	1.6%	AAA ○
27	General Electric Group	3,113.6	1.5%	AA ○
28	Transamerica Group	3,106.9	1.5%	AA ○
29	Allmerica Financial Group	3,079.1	1.5%	AA- ○
30	Great-West Life Group	2,395.0	1.1%	AA+ ○
31	Sun Life of Canada Group	2,350.7	1.1%	AAA ○
32	Allianz Insurance Group	2,077.1	1.0%	AAA ○
33	ReliaStar Financial Group	1,639.7	0.8%	AA ○
34	Liberty Mutual Insurance Group	1,566.4	0.7%	AA ○
35	Conseco Insurance Group	1,521.4	0.7%	A+ ○
36	SAFECO Insurance Group	1,355.1	0.6%	AA- ○
37	ARM Financial Group	1,202.9	0.6%	A ○
38	Mutual of Omaha Group	1,185.9	0.6%	AA ○
39	Merrill Lynch & Co.	1,185.8	0.6%	AA- ○
40	CNA Insurance Group	1,176.6	0.6%	AA- ○
41	The Guardian Group	1,076.8	0.5%	AA+ ○
42	Northwestern Mutual Group	954.8	0.5%	AAA ○
43	Fidelity Investments	943.2	0.4%	AA- ○
44	Minnesota Mutual Group	887.4	0.4%	AA+ ○
45	MONY Group	881.5	0.4%	A+ ○
46	AmerUs Life Group	824.8	0.4%	BBBpi
47	Western & Southern Group	811.5	0.4%	AAA ○
48	Mutual of America Group	738.6	0.4%	AA+ ○
49	Jefferson-Pilot Group	719.7	0.3%	AAA ○
50	Fortis Group	707.6	0.3%	AA ○

○ Denotes a Standard & Poor's Security Circle Insurer, which one that voluntary has undergone S&P's most comprehensive review and has achieved one of S&P's top four rating categories; "pi" denotes a rating that is based upon public information

Source: Standard & Poor's Corp.

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Reserves

Continued from page 1

"The challenge for employers right now is going to be all the operational issues they haven't faced before," said Joe Walshe, a partner at PricewaterhouseCoopers in Tysons Corner, Va.

USERRA, passed to address employee benefits issues that arose during the Gulf War, sets forth rules employers must follow in providing benefits to employees called up from military reserves. Until now, USERRA has come into play only once, when President Clinton in 1995 called up 3,800 reservists for duty in Bosnia.

"Plan documents may have been amended," Mr. Walshe said, after the law was passed, "but whether administrative processes have been changed to take (USERRA) into account remains to be seen. That's where the rubber is going to hit the road."

"Since the law was passed in 1994, they've had time to get ready," said Liz Snyder, legal consultant with Hewitt Associates L.L.C. in Lincolnshire, Ill. But, she said, administrative problems could arise if employers aren't prepared.

A major feature of USERRA defines how employers must allow returning veterans to make retroactive contributions to defined contribution plans. Employers have to match those retroactive contributions to the same extent that they matched other employees' contributions during the reservists' period of military service.

Under the law, employer contributions are based on employees' earnings during the 12 months prior to military service. Reservists have three times the length of their military service, up to five years, to make retroactive contributions.

The law also calls for employers to continue contributions to pension plans and profit-sharing arrangements for reservists called to duty.

"The practice in terms of benefits was all over the board before this law," Mr. Walshe said of USERRA. "Typically, employers would give credit under pension plans but not under 401(k) and profit sharing."

Regarding health care benefits, the law says employers have to maintain medical coverage for reservists if they are activated for less than 30 days. After 30 days, employers can require employee reservists to pay 102% of the premium to keep coverage in force. The requirement is the same as that found in the Consolidated Omnibus Budget Reconciliation Act.

In addition, an employer is not required to cover a condition that occurs while the employee is on military leave if the health plan contains an exclusion for such injuries.

Some reservists might choose to keep their coverage in place even though the military provides free medical care, Ms. Snyder pointed out.

As of last week, employers were waiting to see how they would be affected by the call-up. Some are going beyond the USERRA requirements.

Xerox Corp. knows of a few employees being called up, and its systems are set to handle benefits administration for those reservists and any others who might be summoned to military duty, according to Paula Fleming, manager-HR effectiveness at the Stamford, Conn.-based office equipment manufacturer.

Xerox in 1995 revised its benefits policy for reservists called to duty, she said, pointing out that the company is ready to comply with USERRA.

Benefits for employees who must report for military duty are handled mostly through a paper system—rather than through the company's automated system—until the employees return, Ms. Fleming said.

Because call-ups are so rare, a computerized system for administering reservists' benefits isn't needed, she said. "It probably wouldn't pay you to create one unless you could piggyback it onto something else."

Xerox will continue to provide medical benefits for up to 18 months for its employees who are called to duty. Any employee contribution toward premiums continues during that period, Ms. Fleming explained.

Continental Airlines Inc. was uncertain how many employees it would lose to the conflict but expects some pilots and possibly some mechanics to be called, according to John Gaiser, director of benefits at the Houston-based airline.

Employees who are called up will have medical benefits continued at no charge to them; they don't even have to pay the normal employee contribution during that time, Mr. Gaiser said.

"Normally we charge employees, but during military leave it's free. We pay medical," and employees can pay to continue dental and vision, he said.

Dana Corp. employees who are not covered by provisions in labor contracts will be offered the option to continue medical coverage under the COBRA-like arrangement, according to Robert Arquette, vp and director of benefits and payroll services at the Toledo, Ohio-based manufacturer.

"There's no one rule," he emphasized, because Dana Corp.'s workforce is spread over several business units in different parts of the country. Many of the issues related to continuing benefits are covered in labor agreements with some employees.

"For the rest of the company, there are some general recommendations," Mr. Arquette said. For example, pay for employees who are called to duty generally is continued for a time, "probably not to exceed 90 days," he pointed out.

Dana Corp. will apply the rules under the federal law for defined contribution plans and other benefit issues addressed by USERRA, he noted.

Medical and dental benefits are not automatically continued for Sears, Roebuck & Co. employees. In order to keep coverage in place, Sears employees must pay the 102% premium required by law after 30 days, according to a spokeswoman for the Hoffman Estates, Ill.-based retailer.

Medical and dental benefits for dependents, however, are continued under Sears' plan, she said. The employee still must make his or her contribution to the premium to maintain that coverage for dependents. BI

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Buffett

Continued from page 2

With Mr. Buffett on the dais before the assembled crowd was Berkshire's laconic vice chairman, whom Mr. Buffett introduced as "that hyperkinetic bundle of energy, Charlie Munger."

"We've been in insurance since 1967; it just hasn't attracted as much attention until now," Mr. Buffett said during an interview with CNBC before the meeting, referring not only to the addition of General Re, but also to the growth of primary insurance subsidiary, GEICO.

The insurance business goes hand in hand with the investment business, said Mr. Buffett. Berkshire Hathaway has long been a proponent of insurance underwriting as a source of capital—derived primarily from premiums and loss reserves—for investment purposes, with underwriting profitability determining whether that capital costs less than having to borrow a comparable amount. In most years, Berkshire's cost for this insurance float is less than it would cost to borrow a comparable amount of cash.

The extent to which General Re's purchase would expand the company's float was a recurring theme of the meeting.

Mr. Buffett says in the company's annual report that General Re currently accounts for about two-thirds of Berkshire's total float, which it puts at $22.76 billion in 1998.

The growth of float at General Re—and Cologne Reinsurance Co., which is 83% owned by General Re—will be slow in the near future, Mr. Buffett said at the meeting. The reinsurance business doesn't have the same potential for growth as a primary insurer like GEICO, he said, because reinsurance is a longer-term business. There won't be significant growth of float from the reinsurers until premium volume grows, which is difficult in the current soft market, he added.

"At a level of $6 billion in premiums, it will take a period of fairly substantial premium growth for growth in float," Mr. Buffett said. "We don't expect that to happen in the short-term, but it will over the long-term," he said.

The acquisition of General Re also brought, however, an unpleasant surprise for Berkshire Hathaway and some of its investors.

One shareholder questioned Mr. Buffett on how investors trying to understand insurance should regard the loss reserves that a Cologne Re unit recently boosted to cover its exposure to losses from the huge Unicover Managers Inc. reinsurance pool (*BI*, March 15). She also sought assurances that Cologne Re's $275 million loss caused by the reserve addition would not simply be the "tip of the iceberg."

"That $275 million still represents our best estimate," responded Mr. Buffett, though he cautioned of uncertainty surrounding Unicover. "It may be only the tip of the iceberg but, to date, no one else has acknowledged any losses, which is amazing. There *have* to be other losses," he said.

"The distribution of the losses in the Unicover affair will not be fully settled 10, 15 years from now," he added. "There are so many allegations of fraud and stupidity" that there will be years of litigation before losses are settled, he said.

At this time, the $275 million is the company's best estimate of its ultimate exposure, explained Mr. Buffett, though he pledged to make shareholders aware of any changes—whether negative or positive—as that loss develops.

While acknowledging the Unicover exposure was an unwelcome surprise, Mr. Buffett noted that "these things happen in insurance." He pointed to a $1.5 billion charge for reserve additions that CNA Financial Corp. made in 1983 for an asbestos bodily injury claim under a policy that generated only a few thousand dollars in premium in the late 1950s.

"The nature of insurance is that there may be unpleasant surprises," he said.

Mr. Munger termed the Unicover affair "a dumb error, an amateurish mistake," though he hastened to add that "these things happen; we don't think it's a lowering of the intellectual standards at General Re."

"If there's a good side, it's that it makes you more careful," he added.

Meanwhile, with the addition of General Re, Mr. Buffett said Berkshire Hathaway's competitive advantage in the market for "supercat" coverage is stronger than ever.

Mr. Buffett said the company's reputation for financial strength is a "permanent advantage" when writing catastrophe reinsurance.

This will be especially true after a major disaster, he said, when the company's checks are received by ceding companies and its reputation is proved.

"When the need for very big cover comes along, we have very few competitors," he added.

Although Mr. Buffett was cautious to avoid making broad market forecasts, he did suggest that the stock market cannot continue to grow at its current levels, his comments ironically occurring the same day the Dow Jones Industrial Average exceeded the 11,000 mark for the first time.

"We should have dramatically reduced expectations for growth in the future," Mr. Buffett said. Corporate profits cannot continue to soar while the gross domestic product is growing at only about 4% annually; "the mathematics don't work," he said, noting that equities can be viewed as the securitization of profitability.

Both Messrs. Buffett and Munger applauded a recent proposal to ban the use of pooling as a method of accounting for acquisitions, noting that Berkshire Hathaway prefers to make acquisitions on a purchase basis.

"Because of the difference between purchase and pooling accounting, there have been some dumb moves done to avoid write-downs of goodwill," said Mr. Buffett.

"Most of our businesses increase their economic goodwill," which would make the risk of having to write it off unlikely, he added.

Both Berkshire executives advocated a system in which goodwill—the difference between the actual price paid for a company and the fair value of its identifiable assets—would be kept as an asset on the balance sheet, but would not be amortized. Currently, charges against earnings to write off goodwill must be amortized over up to 40 years from the date of purchase, regardless of any later changes in the amount of actual goodwill.

Mr. Munger was more blunt on the issue, saying that current accounting practices—of which pooling was but one example—in the United States are "irresponsible" and "corrupt."

The Wizard of Omaha also weighed in on the question of corporate America's readiness for the Year 2000 problem, though Mr. Buffett qualified his opinion as "secondhand."

"My general feeling is that the part of the world that we have to worry about is in pretty good shape. I do not think it's going to be a big deal," said Mr. Buffett, adding, "I could be wrong."

Mr. Munger dryly observed: "We've known that the Year 2000 was coming for some time."

"Yes, I think it was 1985 when we realized that," Mr. Buffett said. BI

INTERNATIONAL

Global Briefs

French credit insurer **Coface Group** has signed a cooperation agreement with Japanese insurer Yasuda Fire & Marine Insurance Co. Ltd. to provide international export credit risk services to Japanese companies. . . .The **World-wide Intellectual Resources Exchange**, also known as WIRE, has created an Internet site to explain alternative risk transfer techniques. The World Wide Web site, www.artemis.com, will be launched Wednesday. . . .A man has been arrested following a third **nail bomb explosion** in London. Three people were killed when the bomb exploded in a busy bar in the Soho district, and insurers are expecting claims for property damage and business interruption. No motive has been officially established for the three attacks, so it is not yet known whether insurers or government-backed reinsurer Pool Reinsurance Co. Ltd. will pick up the claims. . . .**Ron Sandler, chief executive of Lloyd's of London**, will be leaving Lloyd's at the end of next month. Nick Prettejohn already has been named as his successor (*BI*, Jan. 25). . . .David Armes is joining Syndicate 1224, managed by **PXRE Managing Agency Ltd.** Mr. Armes will underwrite business including professional liability, product liability and U.K. employers liability. He previously was underwriter on Syndicate 820, managed by Amlin Group P.L.C. . . .**British Steel** has been fined £175,000 ($286,457) following an explosion at the Llanwern plant in South Wales. The blast in January 1998 occurred when a propane gas cylinder was loaded into a converter containing molten metal. Twelve contractors were injured, and the court decided the accident happened because British Steel did not pay enough attention to the risk to the contractors. . . .European insurance companies, insurance regulators and representatives from Jewish organizations reached an agreement last week in London to expedite **payments to Holocaust victims** and their families. Resolving an issue that had held up previous negotiations, all sides agreed that payments should reflect the real value of life insurance policies at the time they were purchased. It was also agreed that the nationalization of some insurers after World War II should not preclude payments. . . .Businesses must act now to prevent a serious pollution threat caused by **Year 2000 computer problems**, according to the U.K. Environment Agency. Companies need to complete a survey to ensure their environmental management computer systems are Y2K-compliant. The agency will not regard Year 2000-related failures as mitigating circumstances when considering whether to prosecute in the event of an environmental incident, said Paul Leinster, director of Environmental Protection. . . . **CLM Group Holdings Ltd.** has become the first Lloyd's of London operation to join the International Underwriting Assn. of London. CLM Chief Executive Michael Wade said the move reflected the closer relationship between Lloyd's and the IUA. . . .Robin Clark has been appointed a director of **BRIT Insurance Ltd.**, a London-based specialist catastrophe excess-of-loss reinsurer and financial risk insurer. He has also been appointed catastrophe underwriter of BRIT Re, a division of BRIT Insurance. Simon Woodage has been appointed assistant underwriter of catastrophe reinsurance. . . .The U.K. divisional business of Lloyd's broker **Byas Mosley & Co. Ltd.** has been bought by agent Towergate Underwriting Group Ltd. of Maidstone, Kent. Byas Mosley brokered the U.S. auto liability line slip that has resulted in massive losses in the Lloyd's 1996 year of account and led some syndicates to leave their 1996 years of account open.

More mergers for Zurich?

Success from B.A.T combination may lead to others, chairman says

By EDWIN UNSWORTH

LONDON—Zurich Financial Services Group has made such good financial progress since it was created last year that it remains on the lookout for more acquisitions.

That financial progress includes better-than-anticipated savings from the merger and a 25% rise in net income in 1998.

ZFS Chairman Rolf Hueppi made these revelations late last month when unveiling the group's first results since its creation last September from the merger of Zurich Insurance in Switzerland with the financial service units of B.A.T Industries P.L.C. of London.

Commenting on the group's current acquisition plans, Mr. Hueppi said, "This company certainly hasn't stopped looking."

He said that, while ZFS places priority on growing from within and would make no acquisition merely to increase its size, other companies could be targeted for takeover. These companies, however, would have to meet three criteria: the acquisition could not seriously dilute earnings, ZFS would have to secure control of what it acquires, and any acquisition would have to fit very much in line with ZFS' long-term strategy to expand its operations globally.

Mr. Hueppi added that he could not be more specific, however, about acquisition targets.

ZFS' consolidated net income, before one-time merger and restructuring costs of $800 million, rose by 25.3% in 1998 to $2.8 billion. Gross written premiums improved by 5.3% to $28.4 billion.

Mr. Hueppi said the progress made in merging the two companies has exceeded expectations. Cost savings from the merger, estimated a year ago to reach about $400 million by the third full year of operation, are now estimated at $500 million by 2001. In 1998, savings had already amounted to $100 million. Savings are arising mainly in the United Kingdom, where 1,600 jobs are being cut.

In 1998, ZFS also made a $1.6

See **ZFS** *on page 33*

Marine rate hikes forecast

By EDWIN UNSWORTH

LONDON—The lower insurance rates shipowners have enjoyed over the past few years could begin to increase this year, according to a leading figure in the London marine insurance market.

Nigel Jenkins, chairman of the marine committee of the International Underwriting Assn. of London, made his assessment late last month when reporting 1998 results for the group.

The association was formed at the end of December 1998, through the merger of the London International Insurance & Reinsurance Market Assn. and the Institute of London Underwriters, which represented marine insurers.

The results showed London marine insurers had another difficult year in 1998, paying claims of £1.57 billion ($2.64 billion) on premiums of £1.04 billion ($1.75 billion). This was only slightly better than in 1997, when they paid claims of £1.82 billion ($3.06 billion) on premiums of £1.18 billion ($1.98 billion).

Despite London marine insurers' declining premium base and evidence of increased loss ratios and reduced profitability, Mr. Jenkins said there is, nevertheless, "an increasing belief that 1999 will see an overdue turnaround."

Mr. Jenkins said he believes there was "some significant tightening" of terms during renewals this year, though he added that he would not call it a "hardening" of rates.

"I still think it would be very difficult, unless one has a particular niche strategy, to make a profit in 1999," Mr. Jenkins said.

Mr. Jenkins also referred to IUA figures showing an increase in the number of merchant ships lost in 1998, saying that he had hoped underwriters would take into account the "cumulative effect of these losses" in their pricing, "although there does not seem to be any indication that this is the case at present."

The figures show that 96 vessels of 500 gross tons or larger were lost in 1998; that's seven more than in 1997. Although

See **Marine** *on page 33*

Split aimed to help names

Agency demerges

LONDON—One of the few remaining members' agents at Lloyd's of London has decided to demerge from its broker parent and expand its operations into underwriting in a bid to extend its services to names.

Sedgwick Oakwood Capital P.L.C., the names conversion vehicle set up by agent Sedgwick Oakwood Lloyd's Underwriting Agents Ltd., has agreed to buy SOLUA and its subsidiary companies from Marsh & McLennan Cos. Inc., though the deal still is subject to M&M's approval.

"Marsh Mac decided the agency was not part of its core business," said SOLUA Managing Director Tim Riddell. SOLUA was the last of the Lloyd's members' agents to be owned by a broker, originally Sedgwick Group P.L.C. and more recently M&M, which bought Sedgwick last year. Although M&M is disposing of all its interest in SOLUA, it will maintain a shareholding in SOC, currently standing at about 7%, and Sax Riley will remain chairman of SOC.

SOC is writing against £67 million ($112.8 million) capacity this year across a spread of syndicates. As SOLUA's largest client, it made sense for SOC to buy it, said Mr. Riddell, and will broaden its base of operation.

Part of that broadening includes setting up a managing agency and starting a new syndicate for the 2000 year of account. These moves will enable current investors in SOC—formerly unlimited liability members of Lloyd's—to have direct access to their own syndicate.

SOC will continue to invest in a variety of syndicates across the market, said Mr. Riddell, but he expects some of the capacity currently used that way to be put into the new syndicate.

"It is our intention to get somebody from outside the Lloyd's market" to head up the new syndicate, Mr. Riddell said. This would mean the new operation would bring new business into Lloyd's, Mr. Riddell added.

In addition to using existing capacity, the new syndicate will be backed by a mixture of new invited subscriber shares issued as part of the conversion process from unlimited to limited liability membership of Lloyd's, plus cash injections. SOC is seeking to gain new names both by transfers from other agencies and by buying competing agents.

— By Sarah Goddard

Litigation growing in U.K., study finds

By CAROLYN ALDRED

A "compensation culture" emerging in the United Kingdom is prompting companies to change their business practices to minimize liability exposures, a recent study contends.

According to a study published this month by the Centre for Policy Studies Ltd., a U.K. think tank, lawsuits are growing rapidly and are costing U.K. companies and the government billions of dollars.

"This explosion of litigation now has a formidable momentum," according to the study's author, Frank Furedi, a sociologist at the University of Kent in Canterbury.

"The trend towards a compensation culture merely highlights the need for good risk management," said David Ketley, chairman of the Assn. of Insurance & Risk Managers. "Society has to strike a realistic balance in compensating the victim," he said.

In light of this trend, there is an added incentive for risk managers to "improve risk control and instill a culture of risk management within organizations," said an AIRMIC spokesman.

Mr. Furedi predicted in his report that the introduction last week of the Woolf Reforms on court procedures (*BI*, Feb. 22), designed to speed up personal injury cases, will increase the level of litigation by making the legal system less expensive and more accessible to claimants. Among other regulations, a defendant now has only 21 days to respond to personal injury claims and 90 days to decide on a defense.

In recent years, legislation and court rulings have expanded liability, particularly in the public sector, he said. For example, schools now face suits by former students who failed to perform well, financial institutions are being sued by real estate speculators following market downturns, and soldiers and policemen are suing their employers for stress-related illnesses, Mr. Furedi wrote.

While such litigation has become commonplace in the United States, a similar culture is developing in the United Kingdom, he said.

Mr. Furedi's report estimates non-work-related compensation costs U.K. society between £3.3 billion and £6.8 billion ($5.32 billion and $10.96 billion).

According to the Health and Safety Executive, accidents and work-related stress cost the British economy £6 billion to

See **Litigation** *on next page*

INTERNATIONAL

Group calls for higher personal injury awards

Report addresses non-financial losses

By CAROLYN ALDRED

LONDON—The U.K. Law Commission is calling for higher personal injury awards in England and Wales, even though such increases would mean higher insurance premiums.

In a report released April 20, the Law Commission, a government-funded body formed to promote legal reform, recommends that damage awards of more than £3,000 ($4,847) for non-financial losses, such as pain and suffering, should be increased by between 50% and 100%. For injuries where the current non-financial loss award is between £2,001 ($3,233) and £3 000, there should be a series of increases of less than 50%, the Law Commission suggests.

"The Law Commission's view is that the amount of compensation at present payable for non-financial losses consequent on an actionable injury is too low," said Andrew Burrows, a member of the Law Commission. "We recommend that this element of damages should generally be increased by 50% to 100%. No amount of money can make up for the suffering caused by an injury, but at least compensation would then be widely regarded as fair."

The Law Commission's conclusions take into account a survey that was conducted by the government-funded Office for National Statistics. The survey sought to determine the amounts that people thought should be awarded for the non-financial consequences of wrongfully caused personal injury.

The U.K. Law Commission's conclusions take into account a survey conducted by the Office for National Statistics.

Four case histories were given to 3,639 individuals, who were then asked to name a monetary amount each injured person should have been awarded. The results of the research suggested that the majority of the population would consider current levels of damages to be too low by at least 50%, the Law Commission suggests.

The ONS research also showed that individuals' opinions about fair compensation generally do not change when they are reminded that increasing damages will result in higher insurance premiums, both for commercial lines and personal lines coverage.

The Law Commission estimates a 50% increase in awards would raise employers' liability insurance premiums by between 3.45% and 4.5%; a 100% increase would boost premiums by around 6.9% to 9%.

The Law Commission also points out that non-financial loss awards already are higher in the courts of Scotland and Northern Ireland than they are in the courts of England and Wales.

The report recommends that the best way to increase damages would be by the higher courts issuing guidelines in a case or a series of cases. However, if the minimum recommended increase is not achieved within a reasonable amount of time, the Law Commission says that legislation should be enacted to achieve this end.

Neither the Confederation of British Industry nor the Assn. of Insurance & Risk Managers would comment on the Law Commission proposal.

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The full text of the report, "Damages for Personal Injury: Non-Pecuniary Loss (1999)," is available on the Internet at www.open.gov.uk/lawcomm.

Litigation

Continued from previous page

£12 billion ($9.67 billion to $19.34 billion) each year, with a significant proportion of this figure representing compensation and insurance payments.

The increasing threat of litigation is forcing organizations to change their business practices. For example, several large employers now employ stress counselors to avoid stress-related employee lawsuits. And while some of these risk management measures are positive, many people often overlook the negative consequences of the litigation-avoidance strategies adopted by management," including defensive medicine and the closing of public amenities, such as children's play areas, Mr. Furedi said.

Meanwhile, the extent of the problem largely is unseen, because as many as 98% of all claims are settled out of court, he said.

"Nervousness about litigation means that insurance companies, public corporations and businesses are reluctant to discuss the volume of claims made against them. They are also concerned to avoid publicity regarding the size of awards reached through out-of-court settlements," Mr. Furedi wrote in his report, "Courting Mistrust: The Hidden Growth of a Culture of Litigation in Britain."

As a result, Mr. Furedi recommends that the National Audit Office compile and publish figures from each public organization relating to the number of claims incurred, settled out of court and the amounts paid, the number of claims resolved in court and the compensation paid, and the legal costs of settling compensation claims.

Mr. Furedi's other recommendations include legal reforms to cap damages, curbing use of expert medical witnesses and deterring unmeritorious complaints.

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Copies of the study are available from the Centre for Policy Studies by calling 44-171-222-4488; fax: 44-171-222-4388; or on the Internet at www.cps.org.uk.

Higher awards spur authority to boost cover requirement

By CAROLYN ALDRED

CHICHESTER, England—Due to escalating awards to plaintiffs in British courts, a local government authority is doubling the minimum insurance required for companies or groups working on its property.

The West Sussex County Council is informing all council contractors and users of council property that they must now obtain at least £10 million ($16.2 million) of liability insurance, as opposed to the £5 million ($8.1 million) previously required, said Ray Barber, the WSCC's risk and insurance manager.

The requirement applies to charities and other groups, such as local drama groups, who, for example, display advertising banners across public highways, as well as to contractors that work for the council, he said.

Liability coverage must be increased because the injury awards are on the rise in the United Kingdom, Mr. Barber said. In particular, he noted a £9.3 million ($15 million) damage award handed down by the London High Court last December for a passenger injured in a traffic accident.

Martijn Willem Otto Biesheuvel was injured when an automobile in which he was a passenger went out of control and crashed into a row of parked cars. Mr. Biesheuvel, who was left completely paralyzed, sued the driver of the car. The judge found no contributory negligence on Mr. Biesheuvel's part, even though he was not wearing a seat belt when the accident occurred.

"That accident happened in 1993. Imagine what award an accident happening today could reach," said Mr. Barber, adding that £10 million of liability coverage is the minimum level any entity should have.

The WSCC's heightened liability insurance requirements for those working on its property have drawn the attention of the risk managers for nearby public-sector entities. According to Mr. Barber, the increased coverage move is slated to be discussed at the next regional meeting of Local Authority Risk Managers.

The WSCC itself has £40 million ($64.6 million) of liability coverage, placed with "many external insurers," Mr. Barber said.

The council does, however, take a £100,000 ($162,000) deductible for every claim, a policy that Mr. Barber said encourages good risk management.

Since the WSCC set up its own risk management department and began handling its claims internally in 1992, the number of claims filed annually has dropped by about 25%, and insurance costs have decreased by 40%, said Mr. Barber.

Risk management measures undertaken by the six-person department have helped "make the whole authority risk-aware." Such measures, which include instructional videos, have reduced the level of auto, accident, theft and fire claims by a "phenomenal" amount, said Mr. Barber. BI

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ZFS

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billion one-time strengthening to non-life reserves, which takes into account the long-term effects of asbestos and environmental risks in the United Kingdom and the United States.

All four of ZFS' core businesses contributed to last year's improved results.

Strongest growth came from its life business, where operating income increased by 47% to $1.2 billion.

Pretax operating income from non-life business rose 3.5% to $2.4 billion, and from reinsurance by almost 16% to $288 million. The fourth core business, asset management, produced a $73 million profit, sharply up from a previous loss of $171.

In the United States, which accounts for 46% of the group's global premiums, ZFS singled out a strong performance by Farmers Group Inc., the holding company for Los Angeles-based Farmers Insurance Group. It said Farmers, which predominantly serves personal lines and small business in the Western region of the United States, had expanded into 12 Eastern states. Zurich U.S. of Schaumburg, Ill., formed earlier this year (*BI*, Feb. 1), brings together the commercial business operations of Zurich-American Insurance Group, Zurich Commercial and Zurich Small Business. BI

Marine

Continued from page 31

the total tonnage of these vessels—546,915 gross tons in 1998 against 739,164 gross tons in 1997—was down, IUA Technical Director Matthew Marshall stressed that "the number of losses is more significant when analyzing casualty statistics than the amount of tonnage involved."

The IUA also drew attention to the "significant" number of casualties involving heavy losses for both hull and cargo underwriters.

"The combination of today's large, expensive container ships—fully laden with high-value cargo—and the sort of severe weather which affected shipping on a number of occasions last year, is a potent recipe for major losses in the marine underwriting market," the IUA warned.

Hull premiums received by IUA members last year were £545 million ($917.2 million), but claims were £957 million ($1.61 billion), resulting in a 176% ratio. In 1997, the figures were £636 million ($1.07 billion) for premiums and £1.23 billion ($2.07 billion) for claims, producing a 194% ratio.

Cargo premiums in 1998 totalled £155 million ($260.9 million), while claims were £196 million ($329.9 million), for a 126% ratio. In 1997, premiums were £192 million ($322.4 million) and claims were £212 million ($355.9 million), for a ratio of 110%.

Aviation account claims also exceeded premiums. In 1998, premiums totaled £338 million ($568.9 million) against claims of £421 million ($708.5 million), for a 125% ratio. In 1997, premiums were £356 million ($597.7 million) and claims were £374 million ($629.6 million), resulting in a 105% ratio. BI

ELIC

Continued from page 1

contained in the suits, saying their clients have not yet been served.

ELIC was seized by California regulators in 1991. Although the insurer was not technically insolvent at the time, regulators feared deteriorating security, as 64% of the insurer's assets comprised non-investment-grade bonds.

The eventual rehabilitation plan left many policyholders exposed to uncovered losses. This included dozens of employers that had purchased ELIC annuities to replace benefits promised by overfunded pension plans they terminated and ELIC guaranteed investment contracts purchased by 401(k) plans (see story, page 35).

California regulators said they first became aware of the French bank's control of Aurora National in January, after receiving translated copies of sales contracts and management agreements selling shares of New California Life Holdings Inc., the holding company of Aurora National, to Altus from MAAF. The Insurance Department also received a copy of an agreement allegedly giving Altus control over MAAF's majority stake in New California Life.

According to its financial statement, New California Life is two-thirds owned by MAAF and one-third by SunAmerica Inc., a Los Angeles-based unit of American International Group Inc.

Because Altus is controlled by Credit Lyonnais, whose majority shareholder is the French government, Altus' ownership of the insurer violates California's unfair competition laws as well as the federal Glass-Steagall Act of 1933, which bars bank ownership of insurers, the regulators' lawsuit charges.

The documents, provided by a French "whistleblower," were first contained in a lawsuit filed in San Francisco Superior Court on Feb. 17, according to Gary Fontana, a partner with Thelen, Reed & Priest in San Francisco, who filed the suit. The suit was filed on behalf on Insurance Commissioner Chuck Quackenbush, the State of California and all ELIC policyholders, Mr. Fontana said.

The lawsuit, said Mr. Fontana, is based on evidence showing that the pair of French insurers that were supposed to operate Aurora after the sale "had no economic interest at all in the transaction and was operating as a front for Altus."

"The bottom line is, they wanted the bonds and they were willing to lie to get them," Mr. Fontana said. "Altus was the only company to make a bonds-out bid. Everybody else said to leave the bonds alone."

Other bidders—including the National Organization of Life & Health Guaranty Assn.—had offered to manage carefully the junk bond portfolio so that if the market turned around, proceeds from the bonds could be used to supplement ELIC's assets. NOLHGA members to date have paid $1.69 billion to policyholders affected by the ELIC insolvency. The total payout is estimated to be $2.57 billion, making it the costliest insolvency in NOLHGA's 16-year history, according to a spokesman for the Herndon, Va.-based organization.

The whistleblower's evidence was revealed to the Thelen, Reed firm last fall when "somebody in Europe involved in the transaction came forward," said Mr. Fontana, declining to identify the individual.

Mr. Fontana said he shared the evidence with the Insurance Department, which filed its own suit on behalf of Commissioner Quackenbush on Feb. 19 in Los Angeles Superior Court.

"We have a regulatory obligation—in addition to the fiduciary responsibility to the ELIC estate—to ensure that someone who profits from attempting to defraud the commissioner does not get to keep the spoils," said Michael Strumwasser, a partner with Los Angeles-based Strumwasser & Woocher, who represents the regulators.

Meanwhile, Mr. Fontana's suit has been sealed by the state Attorney General's Office under a statute known as Qui-Tam, which protects whistleblowers. As a result, only the accusations contained in the regulators' complaint currently are being made public.

In its suit, the Insurance Department alleges that the French investors used deceit to persuade Commissioner Garamendi to approve its bid for ELIC.

"Instrumental to the plan was plaintiff's understanding that Altus would obtain the bond portfolio and that ELIC's insurance business would be taken over by an insurance company owned by entities other than Altus—entities qualified to meet the regulatory requirements of an insurance company, entities with experience in running an insurance company, and entities not owned by a foreign state directly or indirectly," the lawsuit states.

However, through a series of side agreements executed between August 1991 and December 1993, MAAF and Swiss finance company Omnium Geneve S.A., which was part of the original investment consortium, sold to Altus the right to control New California and Aurora, the suit charges.

The alleged side agreements provided that MAAF and Omnium Geneve would hold shares of New California but would exercise their rights to control their shares only at the request of Altus, as well as fixing a price at which Altus would buy their shares in the holding company, the suit alleges.

California law bars licensing an insurer "owned, operated or controlled directly or indirectly by any other governmental entity," and the misrepresentation of who actually controlled ELIC's successor insurer caused California regulators to "restructure ELIC in a way that the law did not allow," the suit asserts.

"Garamendi's original request was that whoever took over ELIC had to have expertise in running an insurance company," Mr. Fontana recalled. "But it turns out MAAF was just a front and that Credit Lyonnais obviously had no interest in running an insurance company," he said.

The attorney who filed the suit on behalf of Mr. Quackenbush and the Department of Insurance agreed. Aurora National has been operating more like a runoff facility than as a going concern, said Mr. Strumwasser.

Duff & Phelps Credit Rating Co. last year placed an "uncertain outlook" on Aurora National's A+ claims-paying ability rating "due to Aurora's lack of new business."

After being notified of the lawsuit, Aurora National issued a statement saying, "Aurora was not involved in any way in the alleged wrongdoing; we do not believe this will have any effect on the company, its employees or its policyholders."

Neither Aurora, its officers and directors, New California Life nor any of its current shareholders were named as defendants in the complaint.

When ELIC was taken over by California regulators in April 1991, the insurer had almost 340,000 policyholders, assets of $10.1 billion and more than $43.5 billion of life insurance in force.

Under the Altus bid, policyholders received about 92 cents on the dollar from the ELIC estate. Insurance guaranty funds were triggered in 44 states and collectively will pay $2.57 billion to help make policyholders whole. In addition, employers were forced to provide more than $150 million in guarantees to settle suits brought by the U.S. Labor Department. These suits accused employers of violating their fiduciary duty by purchasing annuities and GICs from ELIC to back their benefit obligations.

All of these parties will likely benefit if the lawsuits against Altus are successful, according to Mr. Fontana.

"The profit made on the bond portfolio would go back to ELIC," he said, adding that, now that the junk bond market has turned around, "it's possible even creditors could get a bonus."

"At the end of the day, it may well turn out that Fred Carr had enough assets," Mr. Fontana said, referring to the former chairman of ELIC. "If the bonds had been retained and simply managed, there may have been more than enough" to satisfy all of ELIC's obligations, he said.



'I think the lawsuit will really help find out what happened.'

— James P. Corcoran

"We know the economy came back, interest rates have continued to fall, and many of the bond issues were either redeemed or the debt was converted to equity," Mr. Fontana said.

"There was always a question about the value of the portfolio," Mr. Fontana said. "We did a valuation in May 1992 that they were worth $875 million more than Altus paid."

By 1993, in fact, it was suggested that the value of the bonds had increased by $2 billion from the time of the sale.

"Part of discovery will be to determine the value of the portfolio" at the time of the Altus takeover, Mr. Fontana said.

Regulators who have followed the ELIC rehabilitation generally were not familiar enough with the new lawsuit to comment on its merits.

James P. Corcoran, former Insurance Superintendent of New York, said, however, "I think the lawsuit will really help find out what happened."

Former California Commissioner Garamendi, now a Washington lobbyist for the Los Angeles-based Yucaipa Co., could not be reached for comment.

The California commissioner's action currently is stalled, however, because on March 18 it was moved to federal court in response to a petition filed by two of the defendants, Credit Lyonnais and CDR Enterprises, which is described in court papers as a successor company to Altus. In their petition, the defendants said Credit Lyonnais has civil immunity from California law under the federal Foreign Sovereign Immunities Act.

"At all times relevant to the allegations in the complaint, a majority of the shares of Credit Lyonnais were owned by the Republic of France. Moreover, Credit Lyonnais was an 'organ' of the Republic of France, as that term is understood in the FSIA," the petition states.

"CDR Enterprises is also an agency or instrumentality of a foreign state," the petition states. CDR Enterprises is a wholly owned by Etablissement Public de Financement et de Restructuration, a public administrative institute of the Republic of France," it added.

By moving the suit to federal court, the defendants have slowed the litigation, according to Mr. Strumwasser. Defendants must be now served under the Hague Convention, an international compact that governs service of process and jurisdiction for foreign governments and foreign entities, he said.

"The problem with the Hague Convention is that if it's not used properly, it could void the litigation," Mr. Strumwasser explained.

The whistleblower's suit will remain sealed until the California Attorney General's Office decides how to go forward with it, according to Peter Siggins, chief deputy attorney general in Sacramento.

"We're getting reasonably close to deciding what to do," he said. BI

ELIC's collapse forces regulatory changes

By MEG FLETCHER

Many of the enhanced regulatory tools that protect insurance consumers today stem from a spate of life insurer failures, beginning with the takeover of Executive Life Insurance Co. of California.



The ELIC collapse—one of 23 multistate life insurer failures in 1991—threw a harsh spotlight on inadequacies of state insurance regulation at that time.

Concern about the quality of state insurance regulation attracted the attention of federal lawmakers, who called for investigations by the U.S. General Accounting Office and held hearings on the findings.

In ELIC's case, federal critics said its troubles stemmed from inadequate state regulation of insurers. This weak oversight, they charged, allowed the company to report inflated values for its bonds, which offered high yields though they were non-investment grade.

The junk bonds—which made up nearly two-thirds of ELIC's assets—supported the marketing strategy of its maverick chairman, Fred Carr, who attracted buyers of guaranteed investment contracts, single-premium deferred annuities and other insurance contracts by promising high rates of return.

Several developments combined to frighten ELIC policyholders into cashing in their contracts with the insurer, including the collapse of the junk bond market, which fueled ELIC's negative financial reports.

The resulting "run on the bank" caused a liquidity crisis and prompted California Insurance Commissioner John Garamendi—the state's first elected commissioner and

See **Regulation** *on next page*

Regulation

Continued from previous page

later an unsuccessful candidate for governor—to take the still-controversial step of placing the company in conservatorship.

Mr. Garamendi then independently crafted a rehabilitation plan that required all junk bonds to be sold at what was later determined to be the bottom of that bond market. The market began to rebound only a few months later.

ELIC's insolvency in 1991 helped spur a movement to improve state oversight of insurance, because "we had not experienced an insolvency of that magnitude—ever," said Jack Blaine, who was president of the National Organization of Life & Health Guaranty Assns. in Herndon, Va., from 1992 to 1997. Mr. Blaine now is an attorney with Sutherland Asbill & Brennan L.L.P. in Washington.

ELIC is expected to cost state guaranty associations a total of $2.57 billion, the costliest insolvency in NOLHGA's 16-year history, according to the organization's statistics.



'We had not experienced an insolvency of that magnitude—ever.'

— Jack Blaine

But the situation quickly grew much worse for life/health guaranty associations, as a record 23 insurer insolvencies occurred in 1991, creating billions of dollars in statutory obligations. Those obligations are paid for through insurer assessments.

The call for regulatory reform was enhanced by the fact that insurer casualties hit a range of companies, including both upstart ELIC, with its aggressive marketing and investment strategy, and Mutual Benefit Life Insurance Co. in New Jersey, which was a 146-year-old company that held 60% of its assets in real estate before that market collapsed.

Federal authorities' general criticism of state oversight included the view that state insurance departments were suffering from differences in quality due to disparities in resources and regulatory philosophy, as well as inconsistent solvency laws. In addition, federal critics said state insurance regulators failed to coordinate their efforts, to enforce their solvency laws in a timely fashion, to pursue wrongdoers and to oversee holding companies and foreign reinsurers.

The Kansas City, Mo.-based National Assn. of Insurance Commissioners and some industry representatives protested that these criticisms were overstated.

Others, however, agreed with the federal officials' negative assessment.

"They were merited criticisms," said James P. Corcoran, superintendent of the New York Insurance Department from 1983 to 1990. He was one of the first to impose regulatory sanctions against ELIC's subsidiary in New York; he fined it $250,000, required it to add $151 million in reserves and ordered three executives to stop doing business in the state.

See **Regulation** *on next page*

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Insurance company is seeking individual with a minimum of ten years experience with ceded reinsurance. This experience must encompass dealings with both international and domestic reinsurers of treaty and facultative reinsurance. Individual must have strong management, leadership and marketing skills. Compensation package is commensurate with experience. An equal opportunity employer. Please respond to: Business Insurance, Box 3108, 740 N. Rush Street, Chicago, Illinois 60611-2590.

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State of Iowa FSA RFP

The State of Iowa will be seeking proposals to provide administrative services for its flexible spending account programs covering approximately 22,000 employees effective January 1, 2000. The request for proposals will be in late May.

If you are interested in receiving a request for proposal, please fax or e-mail your request on or before May 17th to:

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Regulation

Continued from page 34

Mr. Corcoran, now an attorney with Winston & Strawn in New York, also solicited legislative support for his regulatory authority to limit insurers' junk bond holdings to 20% of assets.

Overall, however, federal authorities' criticisms "reflected a bias toward federal government oversight," said Mark Puccia, a managing director of Standard & Poor's Corp. in New York.

The federal investigation and resulting GAO reports prompted the introduction of two bills calling for federal intervention. Sen. Howard M. Metzenbaum, D-Ohio, proposed creating a federal insurance regulatory commission with authority to evaluate whether state insurance departments met minimum federal standards for certification. In addition, Rep. John D. Dingell, D-Mich., proposed establishing a new



'The threat of federal intervention was probably the prime motivating factor for insurance regulators to improve.'

— Mark Puccia

federal insurer license and an independent federal agency to regulate such insurers.

Ultimately, neither bill received much support, and both died.

Nevertheless, "the threat of federal intervention was probably the prime motivating factor for insurance regulators to improve in the past decade," according to S&P's Mr. Puccia.

State insurance regulators have since made major changes in the regulation of life/health and property/casualty insurance industries, including:

€Overhauling policies, procedures and operations of the NAIC's Securities Valuation Office. The NAIC's New York-based SVO provides regulators and insurers with standardized values for securities that support insurers' ability to pay claims.

At the beginning of this decade, the SVO had a "crude" scoring system that "did not capture the refinements used by the rating agencies," said Larry Gorski, a life actuary in the Illinois Insurance Department who acts as chair of the NAIC's Valuation of Securities Task Force.

Changes made in the SVO included expanding the number of quality rating categories to six from four, which allows the SVO to recognize more precisely differences in default risk among bonds. It also created a new rating category for certain junk bonds.

In addition, the NAIC increased the number of SVO staff members, provided more training and educational opportunities, and significantly increased the amount of direct interaction they had with regulators, Mr. Gorski said.

€Creating the Interstate Insurance Receivership Compact as a vehicle to give nondomiciliary regulators more say in how an insurer's liquidation is conducted.

In the ELIC insolvency, Commissioner Garamendi operated very independently from other regulators, according to James W. Schacht, a former Illinois regulator who also oversaw a centralized working group monitoring ELIC for NAIC members.

"I thought we needed some mechanism that forces people to cooperate," said Mr. Schacht. He was a prime mover in creating the compact, which also was supported by the National Conference of Insurance Legislators.

Illinois, Michigan and Nebraska currently participate in the interstate compact.

€Enacting individual state investment laws that limit insurers' junk bond holdings and require them to diversify investments to reduce the impact of market swings on insurers' financial conditions.

The financial problems of ELIC and other



'ELIC didn't fail because of lack of regulation, but rather too precipitous action' by John Garamendi.

— James. W. Schacht

insolvent insurers at the beginning of the decade spurred other regulatory changes, including some measures the NAIC was considering before 1991. These include:

€Adopting requirements that insurers' capital base better reflects its risks rather than merely meets a minimum capital and surplus level. These risks include asset risk, underwriting risk, credit risk and general business risk.

Risk-based capital requirements are particularly important, industry observers said, because they require—rather than merely allow—a regulator to take progressively more control of an insurer as its financial condition deteriorates.

"It was a very definite improvement," said Joseph M. Belth, professor emeritus of insurance at Indiana University and editor of a monthly insurance newsletter.

€Enacting an NAIC accreditation program that recognizes states that adopt minimum standards for financial regulation of multistate domestic insurers.

Currently, 48 states and the District of Columbia have adopted the package of laws and regulations governing areas such as investments, accounting practices, reinsurance and audits.

In addition, accredited states also have in place necessary regulatory practices and procedures, as determined by the NAIC.

In spite of these regulatory improvements, controversy over whether ELIC needed to be seized still has not been laid to rest.

"ELIC didn't fail because of lack of regulatory attention, but rather too precipitous action" by Commissioner Garamendi, who seized the company and independently encouraged a deal that required that all junk bonds be sold immediately, says Mr. Schacht, who today is national director of the insurance regulatory practice of PricewaterhouseCoopers in Chicago.

Evidence supporting that perspective comes from rehabilitators of ELIC's subsidiary in New York. They crafted a very successful plan that included holding onto the New York insurer's portfolio of junk bonds and reaping the benefits of a market that revived several months later.

Also, the investors that acquired ELIC's junk bonds have since reaped billions of dollars in profits, though they are charged with deceiving regulators to win the bidding for the life insurer in two new lawsuits (see story, page 1).

Other observers, including Mr. Belth, point out that Mr. Garamendi had no choice but to seize the company after outside auditors questioned its ability to continue operating. BI

Employers settle suits over ELIC annuities

By JOANNE WOJCIK

WASHINGTON—Eight years after regulators seized Executive Life Insurance Co. of California, litigation against employers that purchased Executive Life annuities has been settled.

While at least 50 companies bought Executive Life annuities, the U.S. Labor Department sued 10 employers under the Employee Retirement Income Security Act of 1974, alleging they acted "imprudently" and "without adequately investigating the insurer's or any other bidders' financial stability, creditworthiness or claims-paying ability."



As part of the settlements, employers agreed to provide a total of up to $150 million in financial guarantees to meet 100%of the original Executive Life annuity contract values, a Labor Department spokeswoman said.

Because none of the annuity contracts was covered by the federal Pension Benefit Guaranty Corp., which guarantees pension benefits when they are paid directly by pension plans, the Executive Life contracts were referred to the Labor Department's Pension & Welfare Benefits Administration for investigation, she explained.

The settlements typically involved situations in which employers terminating overfunded pension plans purchased annuities from Executive Life to replace benefits promised to participants in the plans. The PBGC does not guarantee annuities after a pension plan is terminated.

The National Organization of Life & Health Guaranty Assns. reached an agreement with California regulators to supplement the Executive Life contract values up to the limits set by the guaranty fund laws in the states where the annuitants resided.

This capped benefits between $100,000 and $250,000 per contract. Benefits were further reduced by the write-down of Executive Life's liabilities as a result of the rehabilitation, so annuitants received only about 92% of their original annuity contract values.

But the Labor Department required employers that purchased Executive Life annuities to pay 100% of the original values, the department spokeswoman said.

Employers were not required to pay any additional fines, however, because penalties for such ERISA violations were not instituted until 1989—long after the purchases occurred—the spokeswoman said.

The employers agreed to make pension plan participants whole through monetary settlements or financial guarantees or both.

Among the employers that settled the Labor Department suits were:

€Milwaukee-based MagneTek Inc., which in 1992 agreed to purchase a backup annuity to cover pension benefits provided by an Executive Life annuity.

€Dallas-based Halliburton Geophysical Services Inc., the parent company of Geosource, which agreed in 1992 to make direct payments to participants and beneficiaries for the difference between the reduced Executive Life annuity payments and actual benefit obligations.

€New York-based Bulova Corp. and its parent, Loews Corp., which agreed in 1993 to guarantee a $56.2 million Executive Life annuity contract.

€New York-based Revlon Consumer Products Corp. and its parent, Mafco Holdings Inc., which agreed in 1994 to pay $86.7 million to cover the Executive Life annuity shortfall.

€Houston-based Smith International Inc., which in 1995 agreed to pay $4.07 million to cover the annuity shortfall.

€Scotia, Calif.-based Pacific Lumber Co., which in 1996 agreed to pay $7 million to settle the annuity shortfall.

The Labor Department also reached settlements over the Executive Life annuities with Raymark Industries, AFG Corp., Zapata Corp. and American National Can Co., but the amounts and terms of the agreements were not available from the PWBA.

Many other employers that were not sued by the Labor Department provided guarantees on their own.

While most Labor Department litigation involved annuities purchased from Executive Life, the department sued at least one employer for purchasing a guaranteed investment contract: New York-based Gilman Paper Co. agreed to buy back a $5.7 million GIC to settle the suit.

Sun Life manages sick leave

Products & Services

NEW YORK—A program from Sun Life Insurance & Annuity Co. of New York aims to help employers manage self-funded sick leave plans.

The program, SunAdvisor, provides professional claims management, including medical and psychiatric review, as well as vocational rehabilitation services for early intervention.

SunAdvisor does not require employers to have a Sun Life benefit plan in place. Whether purchased alone or with a fully insured long-term disability plan, SunAdvisor is designed to complement an employer's self-funded sick leave program.

Available to employers with more than 25 employees, SunAdvisor can be customized. Its basic module establishes a foundation for sick leave management with advice on how to comply with such laws as the Family and Medical Leave Act and the Americans with Disabilities Act, and helps employers create job descriptions.

A second module provides advice on the management and administration of selected sick leave claims. A third module provides advice on the management and administration of all sick leave claims.

For information, contact Mark Leeds, group manager at Sun Life, 800-786-7886.

Year 2000 risk review

SILVER SPRING, Md.—Next Millennium Consulting has introduced Benchmark2000, an online, interactive Web-based service that allows organizations to assess their Year 2000-related business risks.

Developed with input from leading industry consulting firms, the Benchmark2000 service reviews and analyzes all major Year 2000 risk components in an interactive Web-based questionnaire.

Questions cover areas such as organizational issues, management oversight procedures, financial commitment and budget issues, overall project planning and implementation, business partners and supply chain issues and contingency planning procedures.

Benchmark2000 costs $500 and is available online to all organizations through www.benchmark.consult2000.com. Additional sponsorship and partnership options are available.

Trade secret theft policy

CHICAGO—TradeSecret, a new insurance product from CNA Pro, a division of CNA Financial Corp., provides protection against trade secret theft.

The policy provides coverage for financial losses resulting from the theft of trade secrets, which must be owned by the company and be in a recorded form as formulas, compilations, programs, devices, methods, techniques or processes. TradeSecret includes coverage for ideas designed for commercial use.

Policy limits are $10 million, with a minimum retention of $100,000.

For information, contact Bill Jennings at 212-440-2903 or Mike McCarthy at 212-440-3822.

Claims litigation course

INDIANAPOLIS—Pictorial Inc. has released a new training text and course called Litigation Management for controlling claims litigation costs.

Designed for claims managers, risk managers, litigation managers and claims handlers, the course teaches effective skills and methods to help reduce claim-related legal expenses.

The course explains the purpose and goals of litigation management programs, litigation plans and litigation budgets.

Students learn how competitive bidding is used to hire outside lawyers, the importance of defining your expectations in writing, how to work effectively with attorneys, the mechanics of various fee arrangements, how to develop written billing guidelines and why legal audits are sometimes necessary.

Upon completion, students will be prepared to create a first-time litigation management program, or analyze the effectiveness of their existing litigation management strategy and suggest improvements.

Litigation Management is $31.95 for each text and quantity discounts are offered. To order, call 800-428-4215 or order online at www.pictorial.com. BI

FTR FOR THE RECORD



AP/WIDE WORLD PHOTOS

An amphibious craft like the one above claimed 13 lives when it sank suddenly in an Arkansas lake.

13 die in tourist boat sinking

HOT SPRINGS, Ark.—Thirteen people died when a World War II-era amphibious landing craft used as a tourist boat sank May 1 in a lake in Hot Springs, Ark.

Eight other people on the craft survived, said Lt. Rodney Neighbors of the Garland County Sheriff's Office.

The vehicles, nicknamed ducks, are common on Lake Hamilton. They take tourists on road tours and then plunge into the lake for boat trips.

The vehicle's owner, Land & Lake Tours of Hot Springs, declined to comment. The company's insurer has hired an attorney to represent the company.

An investigation still was ongoing to determine the cause of the sinking, as were efforts to raise the craft from the lake bottom.

A Coast Guard spokesman said the craft was inspected in February and received its yearly operating certificate.

Fire sprinklers draw scrutiny

WASHINGTON—The U.S. Consumer Product Safety Commission is evaluating all types of fire sprinklers following the recall last year of 8 million Omega brand fire sprinklers.

Omegas were found to have failed during tests and actual fires, prompting the CPSC's recall of Omega sprinklers. But the safety commission will not say why it is currently investigating all other sprinkler models or whether other failures have led to the broader investigation, a CPSC spokesman said.

"We are not calling into question the performance of fire sprinklers," the spokesman said. Experts agree that fire sprinklers remain essential for property loss control.

"An adequately, designed, installed and maintained sprinkler system is the most reliable and cost-effective means of limiting fire damage," said George Capko Jr., vp and manager of the standards division for Factory Mutual Research Corp. in Norwood, Mass.

Ernst & Young settles lawsuit

NEW YORK—Ernst & Young L.L.P. said it has settled a $3.8 billion lawsuit brought by Merry-Go-Round Enterprises Inc. of Joppa, Md., thereby avoiding a trial.

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Ernst & Young will pay the trustee of now-bankrupt Merry-Go-Round $185 million, an amount the accounting and consulting firm said will be paid largely by insurance. Ernst & Young said it would also seek unspecified "other parties" to provide part of the settlement.

Merry-Go-Round sued New York-based Ernst & Young, accusing it of providing inept services in relation to an attempted corporate turnaround. The consultant denied any malfeasance.

Comings & Goings: Industry

Rock Hill, N.Y.-based Frontier Insurance Group Inc. has appointed **Mark Sioma** as vp. Mr. Sioma, who will be based in Frontier's La Jolla, Calif., office, also will serve as president of Frontier Pacific Insurance Co., an excess and surplus lines subsidiary. Previously, Mr. Sioma was vice chairman of Gryphon Insurance Group and president of Associated International Insurance Co. . . . Foundation Health Systems Inc., a Woodland Hills, Calif.-based managed care organization, has appointed **Richard W. Hanselman** as non-executive chairman. The post had been vacant since FHS' former chairman, Dr. Malik M. Hasan, retired in March. Mr. Hanselman has served as a director of FHS since its formation in April of 1997 through the merger of Foundation Health Corp. and Health Systems International. Prior to that, he served as a director of FHC. BI

Bonds

Continued from page 2

of New York and the Insurance Federation of New York Inc. But the bond deals still have individual differences that need to be addressed, he said.

For example, most of the deals have been completed offshore. But recently the first onshore deal was completed, and this generates new legal issues, Mr. Rowen said.

Carefully constructing contracts or modifying established ones can reduce the likelihood of serious disputes between issuers and investors, he said.

One of the main purposes of securitized insurance deals is to expand the amount of capital available to cover traditional insurance risks, he said. "This purpose would be defeated if investors had to be licensed as insurers or reinsurers simply for the purpose of investment," he said.

Most state insurance authorities and several foreign domiciles have issued written interpretations stating that investors in hurricane bonds and other securitized insurance products are not insurers, Mr. Rowen said.

While a consensus seems to have emerged, the bonds should be sold only in jurisdictions that have issued such interpretations, he advised.

And while a state is unlikely to rescind such an interpretation, insurers or reinsurers in the deals should ensure that bond investors are unable to avoid their liabilities by claiming the coverage was provided by unlicensed insurers, he said. Offering documents for the bonds should state that: there may be uncertainties over whether the bonds are insurance contracts; state interpretations may be modified or may not be followed by courts; and, in such an event, there may be adverse consequences to investors.

"In light of such a disclosure, investors are knowingly taking the risk of later being considered unlicensed insurers" and would be less able to seek the return of their investments in the event of losses, Mr. Rowen said.

Bond issuers also should include a cancellation provision if states change their interpretations, he said.

Insurers and reinsurers that issue the bonds also should review how their disclosure obligations under federal securities laws affect the bonds and investors, Mr. Rowen said.

While the risk of running afoul of the Securities and Exchange Commission cannot be eliminated, several steps can minimize liability related to inadequate disclosure, he said.

First, under SEC rules, liability generally is more limited for non-public offerings than for public offerings, he said. Second, the companies offering the bond should perform due diligence on the disclosure documents to ensure accuracy, he said. Third, the offering document should contain a "risk factors" section that should indicate, among other things, the potential for losses of investments and the limitations of any financial models or expert analysis used, he said. Fourth, liability may be reduced by limiting the sale of the bond to sophisticated institutional investors, who would be less able to claim they did not understand the inherent risks, he said.

It also is preferable to sell the bonds to institutional investors to ensure the securitizations are not subject to state gambling laws, Mr. Rowen said. Most of these laws contain business purposes exceptions and are unlikely to be applied to institutional investors or issuers, he said. BI

EBC Call for Entries

The Employee Benefits Communication Awards acknowledge excellence in communicating employee benefit programs.

- All companies in the U.S. and Canada are eligible to enter their own benefit communication programs.
- There are no restrictions as to the size of company or cost involved in the preparation of the programs.
- No generic programs are accepted.
- Consulting firms are also invited to submit programs on behalf of their clients.

Programs are judged on the effectiveness of the communication effort. No value is placed on the actual benefits offered by a particular company. A panel of executives knowledgeable in various aspects of communication will select winners from a variety of categories.

The deadline for completed entries is June 11.

Winners of the 27th annual EBC Awards will be announced in our November 22 issue and honored at a luncheon in New York City.

For a copy of our 1999 EBC rules and entry form, contact:

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Commentary

A dilly of a time at Warrenstock

The very rich are not so different from you and me.

Like us, they drink a lot of Diet Coke. They eat Dairy Queen ice cream bars and stay in Holiday Inns. They buy sets of Ginsu knives and boxes of peanut brittle. They'll stand in line for a bargain, be it jewelry, rugs or auto insurance.

I don't know what I expected, but that's how I found the millionaires attending Berkshire Hathaway Inc.'s annual meeting in Omaha, Neb., last week.

I am not fortunate enough to have bought stock in Berkshire Hathaway in the early 1960s, despite my loud and plaintive entreaties from the crib. Rather, I attended last week's annual meeting to learn what's up at one of the world's largest reinsurance companies, and I wound up observing the behavior of thousands of people who were more astute investors—and certainly more affluent—than me.

Some impressions from the meeting, which Berkshire itself refers to as a "Woodstock for Capitalists":

€My taxi driver from the airport seemed shocked when I told him I was there to write about Berkshire's sizable insurance and reinsurance operations—a side of the company of which he was unaware.

He promptly began to cuss insurers, complaining of the injustice of raising auto rates after his "hundreds of tickets"—including a half-dozen for driving under the influence. To him, the fact that he had not actually harmed or killed anyone while impaired meant his risk profile was A-OK. I buckled my seat belt and listened for the sound of bottles rolling around the floor.


Paul D. Winston

€Ak-Sar-Ben, the name of the arena where the annual meeting is held, is "Nebraska" spelled backwards; I had assumed it was some sort of Shriner's temple. It seemed fitting that residents of Omaha would have a corny sense of humor.

€People allegedly began lining up for the meeting outside Ak-Sar-Ben at 4 a.m. When it was still dark out. And raining. No coffee in sight and five hours before the 9 a.m. start of the meeting. Mr. Buffett has a fine singing voice, but this was behavior usually reserved for his cousin, Jimmy.

I, however, didn't arrive until 6:30 a.m. By that time, the line was about a half-mile long. The combined net worth of the individuals standing in line was in the billions of dollars.

€In addition to serious questions such as "How can I get rich?" Mr. Buffett and Charlie Munger, his partner and vice chairman, entertained several off-the-wall queries from the floor.

These included: "What kind of music do you like?"; "If you could come back as someone else, who would it be?"; and "Would you invest in China?"

In one exchange, a shareholder asked Mr. Buffett: "Would you rather be rich or wealthy?" It was an awesome sight to see 15,000 heads swivel toward the Wizard of Omaha to see if he understood the question any better than the rest of us.

He didn't and asked her to give her definitions of the terms, which eventually elicited a contrast between monetary wealth and non-monetary riches, such as health, friends and happiness.

While Mr. Buffett took the safe road and said he'd choose health so he could live to be over 100, the usually taciturn Mr. Munger cleared his throat and passed on the wisdom of a golfing buddy: "What good is health? You can't buy money with it."

€In a video shown to shareholders, one segment spoofed the Internet investment hysteria with a get-rich-quick infomercial called the "Web of Wealth."

The pitchman, with gestures reminiscent of Crazy Eddie, touted the ability to quickly make millions via the Internet. He urged viewers to search their garages for some pieces of unique junk that could make them rich if they put them on the Internet.

A familiar-looking man with owlish glasses identified only as "Bill" tells viewers how easy it is to make money with the Internet: "If I can do it, anyone can!"

By the end of the meeting, I had learned a thing or two about the reinsurance outlook of Messrs. Buffett and Munger but felt more rewarded by having witnessed the spectacle of thousands of folksy millionaires wolfing down Dilly Bars, sipping Cokes, and generally having a good time celebrating their good fortune.

I may not be able to afford Berkshire's class A shares, but maybe I can wrangle the franchise to open a Dairy Queen in Monte Carlo.

Editor Paul D. Winston's commentary appears fortnightly.

Tornadoes

Continued from page 1

like a bomb hit."

Other losses include the Stroud Memorial Hospital, where the roof was torn off, and the SYGMA Network, a restaurant distribution company that lost a warehouse, the stored merchandise, and a few vehicles. "They got leveled," Mr. Maddux said.

A spokeswoman for SYGMA's parent company, Houston-based SYSCO Corp., did not place a value on the 100,000-square-foot warehouse, but said the company is insured and does not expect a significant loss. It will take the company four to six months to rebuild the warehouse, she said.

A spokesman for insurer FM Global said 19 claims have been filed to date for an estimated $9 million in losses, with roof damage the most common claim.

The insured losses will vastly exceed the previous worst insured catastrophe in Oklahoma. In June 1992, tornadoes and hail caused $150 million in damage in portions of the state, according to the Property Claim Services unit of the Insurance Services Office Inc. Despite the enormous destruction, the recent storm probably will not surpass the largest insured losses on record from tornadoes. That occurred around Xenia, Ohio, in 1974, with about $1.3 billion in losses, adjusted for inflation, according to the PCS.

More than 40 people died from the tornadoes in Oklahoma, and more than 750 were treated in local hospitals. The death total could climb, however, as 14 people are still missing amid the ruins.

The vast majority of losses in Oklahoma were homes. Overall, the III estimates that 2,000 homes were destroyed, while another 8,000 suffered severe damage. An unknown number sustained minor damage.

State Farm Group, the leading home insurer in both states, reported it expects 30,000 homeowner claims totaling more than $135 million in losses for both states.

In Kansas, five people died from the storms and another 150 were injured. Sedgwick County, which contains Wichita, bore the brunt of the damage. According to a spokesman for Sedgwick County's office of emergency management, 8,480 structures were damaged, with 1,109 of them severely damaged or totally destroyed, leading to about $140 million to $146 million in damages.

On Monday evening, dozens of tornadoes ripped through Oklahoma City and surrounding areas. The same storm system also spawned the tornadoes in Kansas. Some of the tornadoes in Oklahoma reached levels F-4 and F-5 on the Fujita scale, which measures tornado intensity. Winds in these tornadoes—the most violent—could reach speeds up to 300 mph.

Oklahoma City and two nearby towns, Moore and Midwest City, were hardest hit. Other areas receiving heavy damage include Del City and Stroud, with damage occurring in many smaller towns as far away as Tulsa, nearly 100 miles to the east. In one small town, Mulhall, every structure was damaged and 95% of the community was destroyed, according to the Oklahoma Department of Civil Emergency Management.

In response to the devastation, President Clinton declared 11 counties in Oklahoma disaster areas. Sedgwick County in Kansas was also declared a disaster area.

One reason the losses in the Oklahoma City area were so high was that the storm swept through middle-class neighborhoods, said Paul Kottler, branch manager in Oklahoma City for claims adjuster GAB Robins North America. He estimates his firm will eventually handle 2,000 to 3,000 claims, with personal losses making up 75% of that number. This figure could rise, however, because the sweep of damage has prevented adjusters from getting to all damaged areas.

Mr. Kottler said commercial damage includes strip malls, schools, motels, an oil and chemical manufacturing plant in Oklahoma City, and numerous smaller commercial buildings.

The storm system did not end its destruction on Monday. On Wednesday night, the storm moved into Tennessee, where eight funnel clouds touched down and hurricane-strength winds buffeted homes and businesses in more than 20 counties, killing four people, said Cecil Whaley, director of natural hazards for the Tennessee Emergency Management Agency in Nashville.

The storm destroyed about 150 to 200 homes and damaged nearly 1,000 more. Mr. Whaley said early estimates place total damages at about $110 million, including the costs of debris removal and repairs to damaged infrastructure.

The largest losses in Tennessee occurred at the Metropolitan Nashville Airport, where about 70 private planes were destroyed, causing about $30 million to $40 million in damages, Mr. Whaley said. BI

Y2K

Continued from page 2

problem," said Melissa Shelk, assistant vp-federal affairs for the American Insurance Assn.

William Morley, director of congressional affairs at the U.S. Chamber of Commerce in Washington, said enactment of a Y2K bill is a top priority for the Chamber, and he predicted there could be a cloture vote as early as this week.

"We're just getting folks lined up on that," he said, adding that he's "pretty confident" supporters will be able to line up the 60 votes needed to invoke cloture. A House-Senate conference committee could get a compromise bill "out by Memorial Day," he said.

"I think it's going to go next week in both Houses, possibly very contemporaneously," said Jan Amundson, general counsel for the National Assn. of Manufacturers, referring to the week of May 10. "We know it's going in the House; I think that there's been movement on the Senate side as well."

Not all supporters are willing to predict exactly when a bill might emerge. "Given the way the Senate historically operates, action could come at any time. It will be a matter of when the differences can be ironed out," said Ken Schloman, Washington counsel for the Alliance of American Insurers.

Despite what supporters called the "logjam" on the Senate side, advocates see much to cheer in House action.

"We're very pleased with what happened on the House side with the vote out of Judiciary. We expect full House action" this week, said the Chamber's Mr. Morley.

"We're very encouraged with the House vote because it does move the process forward," said the Alliance's Mr. Schloman.

He played down the significance of the defection of one Republican—Rep. Lindsey Graham of South Carolina—to a Democratic bloc that voted against the bill, noting that Rep. Graham's objections appeared to be based on a fear that the measure intruded on states' rights. "I think that, as the legislation progresses, you'll see a few Republicans break ranks, you'll see a few Democrats break ranks," Mr. Schloman predicted.

The bill approved by the House Judiciary Committee was a substitute for the original H.R. 775. The substitute—offered by Rep. Bob Goodlatte, R-Va.—made several small alterations to the original, such as changing the method by which punitive damages would be calculated, but it retained most of the bill's provisions. These include a cap on punitive damages, limits on the personal liability of corporate directors and officers, and a requirement that most class-action suits be filed in federal rather than state courts.

Congress should not 'create a special law for this one situation,' argued Rep. Robert Scott of Virginia.

But the contentious nature of the House Judiciary Committee markup last week underscores the difficulties congressional Y2K reform advocates face.

The markup, which had been postponed from April 29 after committee members found that they could agree on next to nothing, began quietly enough as Rep. Melvin Watt, D-N.C., offered a series of changes to the portion of H.R. 775 dealing with attorneys' practices. A provision in the bill limiting lawyer compensation already had been removed.

Rep. Watt described his proposed changes as necessary to reflect "real world" conditions, and, after an unsuccessful GOP attempt to persuade Rep. Watt to delay his changes, both Reps. Goodlatte and Tim Hutchinson, R-Ark., said they supported the changes with some reservations. The amendment passed, and the committee soon dissolved into acrimony.

Rep. Gerald Nadler, D-N.Y., offered an amendment to strike the entire section dealing with class-action suits. He said the amendment would direct "a tidal wave" of litigation into federal courts, which, he said, are already strained by existing cases.

Democrats used the Nadler opening to attack the bill. Rep. Zoe Lofgren, D-Calif., a sponsor of a competing bill, said she supported the Nadler amendment and wanted a bill that dealt only with Y2K and did not rewrite tort law. Rep. Maxine Waters, D-Calif., called the GOP members "anti-consumer" even though Rep. Goodlatte countered that the bill would "not harm the little person" with its provision to send most class-action suits to federal court.

Rep. Robert Scott, D-Va., said Congress should not "create a special law for this one situation."

When Rep. Goodlatte first made clear his opposition to the Nadler amendment, he cited the example of an unnamed state judge in an unnamed state who supposedly has certified more class actions than all federal judges combined. Democratic members of the committee pounced on this, pressing him to identify the judge and the state.

Rep. Goodlatte did not. Tempers flared as Rep. Nadler accused Rep. Goodlatte of not telling the truth. "You're doing as much as you feel you can get away with" in the bill, he said.

Rep. Goodlatte countered that Rep. Nadler's remark "crosses the line" of what was acceptable.

The bill ultimately passed the committee by a 15-to-14 vote, with all of the committee Democrats and Rep. Graham voting against it. BI

Brokers

Continued from page 2
still competitive."

Messrs. Bischoff and Roskopf discussed market trends last week while commenting about their company's first-quarter results.

The three largest publicly held brokers appearing in *Business Insurance*'s rankings of the world's 10 largest insurance brokers all reported revenue increases during the first quarter of 1999.

M&M and Arthur J. Gallagher & Co. also reported increased profits for the quarter, 20.8% and 13.6% respectively, over their 1998 first quarters. As expected, Aon took a $163 million pretax charge in the quarter to cover integration and other costs within the company. As a result, Aon's profits dipped 64% to $50 million during the first three months of the year.

Acquisitions continue to fuel much of the brokers' revenue growth, and deal-making remained the name of the game during the first quarter for the largest publicly held brokers.

In January, Aon's French brokerage operation, Aon Risk Services France S.A., acquired Paris-based Societe Generale d'Assurance et de Prevoyance. Also in January, Aon Risk Services Cos. Inc. acquired McKenna & Associates Managed Care Insurance Services Inc., a managed care insurance broker based in Irvine, Calif. And in March, Aon acquired a regional third-party administration firm, CARE Systems Corp. Terms of the deals were not disclosed.

Arthur J. Gallagher acquired two agencies in March: Goodman Insurance Agency Inc., a retail property/casualty agency in Laguna Niguel, Calif., whose managing general agency affiliate, ARM of California, also will join Gallagher; and Dodson-Bateman & Co., a retail agency based in Dallas.

Terms of those deals were not disclosed.

Perhaps the largest broker deal in the first quarter was the announcement that Glen Allen, Va.-based Hilb, Rogal & Hamilton would acquire American Phoenix Corp. from Phoenix Home Life Mutual Insurance Co. (*BI*, April 5). The cash and stock deal, which is valued at between $96 and $100 million, was completed last week. As a combined company, HRH, which is publicly traded, might break into the ranks of the world's 10 largest insurance brokers this year with $254 million in pro-forma 1998 gross revenues.

Of the three largest publicly held brokers, M&M reported the largest revenue and profit rises for the first three months of 1999. The world's largest broker's 41.4% increase in brokerage and consulting revenues to $1.7 billion represents the first full quarter that includes Sedgwick Group P.L.C., which M&M acquired last November.

Mr. Bischoff said Sedgwick contributed about $350 million to M&M's first-quarter revenue figures, of which $300 million is retail brokerage and $50 million is consulting.

Corporatewide revenues, which include investment income and revenues from The Putnam Co., M&M's Boston-based investment management company, rose 32.4% to $2.4 billion. Net income rose 20.8% to $279 million.

The Sedgwick integration process "is going very well," Mr. Bischoff said.

The organizational structure is in place, and M&M continues to identify operations that either do not fit with M&M or are not needed, he said.

"We've identified and have sold or are in the process of selling $175 million to $200 million of annual revenue of Sedgwick," Mr. Bischoff said.

For example, M&M recently sold five U.S. employee benefit practices of Sedgwick Noble Lowndes to Seattle-based Milliman & Robertson Inc. (*BI*, April 12). M&M also sold back Sedgwick's stake in Nikols Sedgwick Group to the Milan, Italy-based broker's management.

Aon expects to close on a deal to acquire Nikols during the second quarter.

In addition to identifying certain unneeded Sedgwick operations, M&M also is dealing with redundant positions. Mr. Bischoff said the broker is in the process of eliminating 900 positions. "We're trying to do that voluntarily," he said, referring to an early retirement program.

Acquisitions aside, M&M's retail brokerage operation, Marsh Inc., reported a 6% rise in organic revenues and 10% rise in organic profit for the quarter, Mr. Bischoff said.

The integration process "is tremendously time-consuming," he said. "To see a slight increase in organic growth is very, very positively surprising to me," he said.

"We had a very strong quarter," he said.

Chicago-based Aon also had a strong quarter, according to Mr. Roskopf.

"We have picked up several new Fortune 500 clients," he said.

The world's second-largest broker reported a 10.9% increase, to $1.15 billion, in brokerage and consulting revenues for the quarter. Excluding acquisitions, revenues were up 5%, Mr. Roskopf said.

Corporatewide revenues, which includes investment income and revenues from its underwriting operations, improved 9% to $1.7 billion. Net income fell 64% to $50 million.

Mr. Roskopf pointed out that operating income before special charges was up 10.1% to $152 million for the quarter.

Aon declared a three-for-two stock split effective May 4.

Of the $163 million pretax charge taken in the quarter, $119 of it will cover costs associated with reorganization efforts and layoffs in its U.K. brokerage operations, as well as costs associated with consolidating various European acquisitions made in 1998. The charge also will cover costs of an early retirement plan the company offered 1,300 of its U.S. employees.

Mr. Roskopf said a total of 900 positions are being eliminated worldwide. That includes those who took the early retirement package in the United States and other head-count reductions overseas.

The other $44 million of the total charge, taken in Aon's consulting segment, will cover costs associated to redress payments to customers who purchased private pension plans in the United Kingdom several years ago.

In terms of the broker's integration process, Mr. Roskopf said, "We're very happy with the way the integration process is going."

"Aon. . .is manufacturing great rewards" from its acquisitions, including being able to offer new classes of business and new specialized expertise, he said.

"We're still very acquisitive," Mr. Roskopf continued. "The mega-acquisitions are probably behind us. We are looking for niche acquisitions in the brokerage business and looking for acquisitions in our consulting operations," he said.

Itasca, Ill.-based Arthur J. Gallagher's brokerage commission and fee revenues increased 9.6% to $130.5 million during the first quarter of the year. Adding in investment income, corporatewide revenues improved 7.1% to $135.1 million. Net income rose 13.6% to 13.3 million.

"We are extremely pleased with the results despite the fact that market conditions are tough," said Michael J. Cloherty, executive vp of the parent company and CEO of the brokerage services division.

The world's fourth-largest broker has been focusing on revenue retention and strong new sales growth, which is paying off, Mr. Cloherty said.

While commission and fees are up, investment income slid 35.7% for the quarter to $4.6 million.

"We had a great year in 1998, especially in the first quarter," Mr. Cloherty said of investment income. "We're running against a tough comparison."

He said that investment income for the quarter, while down from last year, is meeting company expectations.

In March, Gallagher formed a new national health care division headquartered in Kansas City, Mo. "Healthcare First" offers specialized risk management services and exclusive insurance programs to health care systems and professionals throughout the country.

Last month, Gallagher's financial services subsidiary, AJG Financial Services Inc., entered into an agreement to sell a substantial portion of its investments in landfill gas collection partnerships and real estate partnerships.

The broker anticipates gaining about $36 million from the landfill investment deal; that money will come in over a period of nine years. Gallagher expects to gain about $3 million from the real estate investment deal, which is to be realized in the fourth quarter of 1999.

Mr. Cloherty said proceeds from the investments, which still need regulatory approval, will be used for new Internet and e-commerce technology initiatives at the brokerage. BI

Brokers post gains in first quarter

1999 first-quarter results for the world's largest publicly held brokers
(in millions of dollars)

	Brokerage & Consulting		Corporate			
	Gross revenues	% change from 1998	Gross revenues	% change from 1998	Net income	% change from 1998
Marsh & McLennan	$1,722.0	41.4%	$2,358.0	32.4%	$279.0	20.8%
Aon	1,153.0[1]	10.9	1,699.0	9.0	50.0	(64.0)
Arthur J. Gallagher[2]	130.5	9.6	135.1	7.1	13.3	13.6

[1] Includes some non-fiduciary investment income. [2] 1998 results have been restated for poolings of interests.
Source: *BI* survey

Updates

First Union sued over 401(k) moves

Continued from page 2

"They did not obtain the written consent of the board of directors of either Signet prior to the date of the merger. . .or of the board of directors of First Union after the date of the merger," Mr. Lieder said. "It was done by underlings."

Mr. Lieder estimated that the Signet plan had more than 5,000 participants at the time the company was acquired by First Union; the suit seeks class-action status.

In a statement, First Union said the company "takes its responsibilities with respect to its 401(k) plan seriously" and maintains a single plan "to provide our employees a uniform benefit." The First Union plan offers participants "a broad range of options" and is operated for the benefit of First Union's employees, the statement said.

IBM to alter two benefit plans

ARMONK, N.Y.—International Business Machines Corp. is overhauling its retiree benefits by putting in a cash balance pension plan and a retiree medical program that caps IBM's costs.

Under the new cash balance plan, which will go into effect July 1 and may be the largest of its kind in the country, employees will receive annual pay credits ranging from 5% to 9% of compensation.

The new retiree medical plan embodies a defined contribution approach. Under that plan, IBM will set up tax-free accounts for all employees age 40 and over with one year of service. Each year for up to 10 years, an employee's account will be credited with $2,500 plus interest. Employees—after meeting certain age and service requirements—can use the money to pay for IBM-provided health care coverage when they leave the company. Employees failing to meet those service and age requirements forfeit their account balances.

The new benefit programs, IBM says, reflect its shift away from the traditional concept of retirement and move toward cash accumulation throughout employees' careers.

Wrongful death award upheld

SAN FRANCISCO—A federal appeals court has upheld a nearly $20 million judgment against Raytheon Aircraft Co. in the wrongful death lawsuit filed by the families of two experienced pilots who were killed when their twin-engine Beechcraft plane spun out of control and crashed during routine training maneuvers near Tucson, Ariz., in March 1991.

A three-judge panel of the 9th U.S. Circuit Court of Appeals on April 29 rejected Raytheon Aircraft's argument that the trial judge erred in allowing the jury to hear evidence related to 20 other Beechcraft Baron-model crashes. The defense argued that those crashes were not substantially similar to the Tucson crash.

The appeals court also rejected Raytheon Aircraft's request for a new trial. The defendant argued that plaintiffs' attorneys should not have been allowed to ask the jury to punish the manufacturer, because the plaintiffs did not seek punitive damages. The court said Raytheon Aircraft should have objected to that plea for punishment when it was made during closing arguments.

A federal court jury in May 1997 found that a design flaw in the Baron airplane series manufactured by Beech Aircraft Corp., now named Raytheon Aircraft, causes flat spins. Finding no pilot error in the crash, the jury awarded the plaintiffs $60 million (*BI*, May 19, 1997). The trial judge, though, later reduced the award to $20 million, still the highest-ever compensatory award in Arizona.

Wichita, Kan.-based Raytheon Aircraft has not decided how it will respond, said Wayne W. Wallace, vp and general counsel. The company, a subsidiary of Raytheon Co. of Lexington, Mass., could seek a rehearing before the panel or ask the full appeals court to hear the case.

Mr. Wallace said the loss is fully insured by several insurers, including Kansas-based captive Travel Air Insurance Co. He would not comment on whether Raytheon Aircraft has a self-insured retention.

Briefly noted

Jefferson County school officials estimate it will cost $5.4 million to clean up and repair **damage to Columbine High School** near Littleton, Colo., after two students rampaged the school, killing 12 classmates and one teacher last month. Jefferson County schools have a blanket property policy, underwritten by units of Chubb Corp., with a $50,000 deductible (*BI*, April 26). . . .The Senate voted 54-to-44 last week in favor of a **financial services modernization** bill backed by insurers. A similar measure awaits action by the full House of Representatives. . . .A 1996 lawsuit over the use of **workers compensation data** was settled last week with a nationwide agreement that calls for New York-based Insurance Services Office Inc. to license the intellectual property of Boca Raton, Fla.-based National Council on Compensation Insurance (*BI*, March 22). . . .Lawmakers, business groups and one of the nation's largest health insurers are calling for a **"national dialogue"** between the private and public sectors on reducing the number of U.S. workers who do not have health insurance. Speakers at a news conference last week organized by Aetna U.S. Healthcare Inc. said about 43 million people—the majority of whom have jobs— lack health insurance and that number is expected to grow. . . .Legislation introduced last week in California would allow claimants to **sue their employers' workers compensation insurers** for unfair claims settlement practices. The legislation is contained in S.B. 1237, authored by Sen. Martha Escutia, D-Los Angeles.

Lloyd's

Continued from page 1

the 1998 result should be treated with "a high degree of caution" because "in the down part of the cycle, early estimates have a tendency to worsen."

Names welcomed the 1996 profit announcement. "It is a jolly good result," said Michael Deeny, chairman of the Assn. of Lloyd's Members. Names' return on capital is about 25% for 1996 and "we are very happy with that," he said. At the same time, "we all appreciated the cycle has turned right down and is definitely at the bottom, so we are not surprised by the pure-year loss in 1998."

Lloyd's forecast results most likely are echoing problems across the insurance markets, said Gregson Carter, managing director of rating agency A.M. Best Europe Ltd. Lloyd's, unlike insurance companies, does not include investment income in its global results, Mr. Carter pointed out, and peer group analysis indicates that Lloyd's results are no worse than those in the U.S. and U.K. insurance markets. If Lloyd's does report a £60 million loss for 1998, it will have outperformed the overall insurance market, he added.

A.M. Best affirmed its A, or excellent, rating for Lloyd's following Friday's publication of the global results.

The 1996 overall result is much lower than that of the previous year of account, when Lloyd's reported a profit of £1.15 billion ($1.79 billion), after members' personal expenses.

In fact, in pure underwriting terms, Lloyd's results show a greater gap, reflecting the deteriorating market conditions over the two years. The 1996 result comprises a £359 million ($614.8 million) pure-year underwriting profit and £268 million ($459 million) release from prior-year reserves, after personal expenses. Market sources have suggested that future reserve releases may be used to mitigate, if not cancel out, the losses in the pipeline.

However, Lloyd's contends that underwriters have not deliberately overreserved in the past, saying that underwriters reserve on a prudent basis but do not overreserve, as doing so would cause problems with U.K. tax regulators.

In fact, Lloyd's has challenged the Inland Revenue's decision that reserves should be discounted. The Inland Revenue's decision has resulted in it sending unexpected tax bills to members for the 1994 year of account. A six-day hearing on the issue before an independent tribunal is expected to begin Tuesday. No formal decision is expected before the end of next month.

The 1996 results represent a pure-year return of 3.6% on total market capacity of £9.87 billion ($15.33 billion). Adding in the releases from reserves, Lloyd's members received a 15.6% return on net written premiums of £4.79 billion ($8.20 billion). In 1995, the market made an overall pure-year profit of £1 billion ($1.55 billion), representing a 9.9% return on £10.17 billion ($15.92 billion) capacity for the year. The £176 million ($273.3 million) added into the results from reserve releases led to a 28% return on £5.92 billion ($9.19 billion) in net premiums in 1995.

At the same time, toughening market conditions meant Lloyd's underwriters used only two-thirds of their capacity, writing gross premiums of £6.72 billion ($11.51 billion) in 1996. Gross premiums written in 1995 totaled £8.02 billion ($12.46 billion), almost 80% of the market's overall capacity.

Increased competition and below-normal loss experience for most of this decade has pushed rates down, said Lloyd's Chairman Max Taylor. "In the past two to three years, the loss developments are back on trend," which, along with the "acute competition" and annual rate reductions, may help the market stabilize. "There are signs in the retrocession market that conditions are tightening," he said.

Apart from motor business, which posted a £104 million ($178.1 million) loss against net premiums of £803 million ($1.38 billion) for 1996, the remaining market sectors posted "respectable results," said Mr. Sandler.

In particular, aviation business showed the strongest return, at 31.2% of capacity, recording a £136 million ($232.9 million) profit on £436 million ($746.7 million) in net premiums. This compares with a £283 million ($439.5 million) profit on net premiums of £620 million ($962.9 million), or a 45.6% return, in 1995.

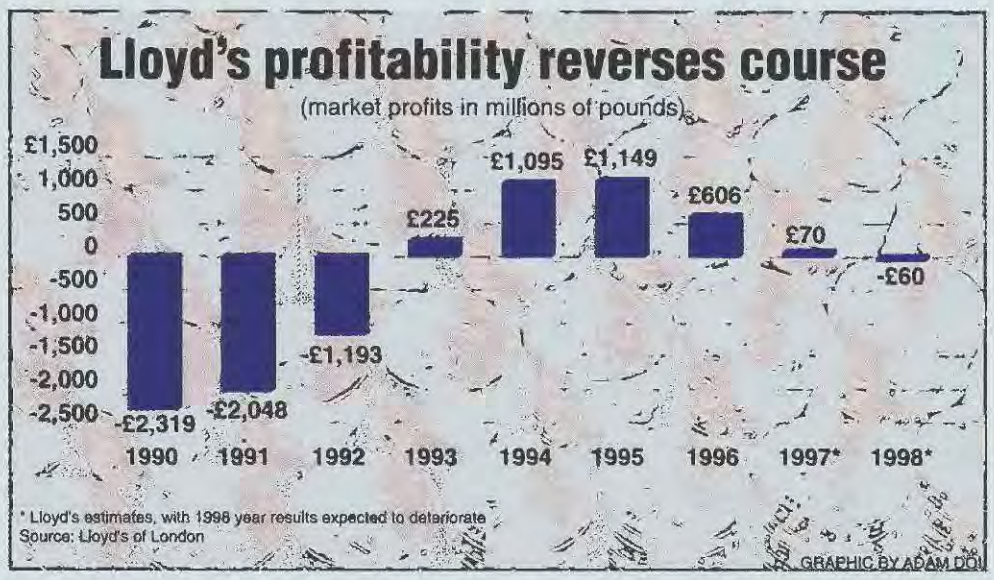
Lloyd's commentary on its results noted that the reduced returns reflect an accounting change the market adopted in 1995, allocating premiums to the year of the policies' inception date rather than the year in which premiums were received from brokers. Increased capacity and rate reductions also are reflected in the lower premiums in 1996, while major aviation losses grew to 25 from 16 in 1995.

Soft market conditions reduced premium volume in all lines at Lloyd's. Non-marine net premiums fell to £2.68 billion ($4.59 billion) in 1996 from £3.19 billion ($4.95 billion) in 1995. Profits dropped to £523 million ($895.6 million), or a 19.5% return, vs. £856 million ($1.33 billion), or a 26.8% return, in 1995. Marine net premiums fell to £872 million ($1.49 billion) in 1996 from £1.27 billion ($1.97 billion) in 1995, and returns fell to £193 million ($330.5 million), or 22.1% of net premiums, compared with £514 million ($798.2 million), or 40.3%, in 1995.

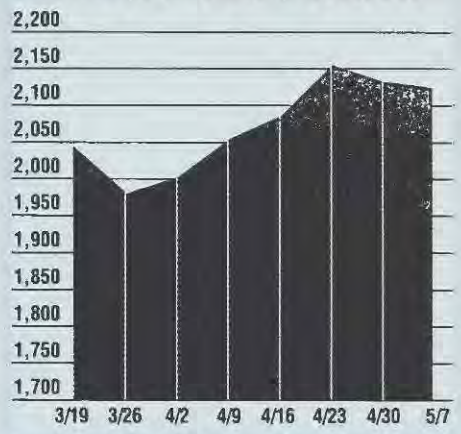
"Compared with the 1995 result, there is evidence of deterioration across the board," said Mr. Sandler, "particularly from the marine market, where rates were off very seriously."

But Lloyd's security remains strong, he said. It has assets of £15.3 billion ($25.09 billion) and liabilities of £9 billion ($14.76 billion), and the recent Central Fund insurance program (*BI*, April 26) further strengthens the market, he said.

Despite market conditions, Lloyd's expects to boost its capacity by welcoming more corporate members, particularly from the insurance and reinsurance industries, said Mr. Taylor. These will bring new business to the market, he said, and make more capacity available when the insurance rating cycle improves. Lloyd's also plans to extend its broker network to widen the net for business, he added. BI



BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of May 7

Call spread	Price bid/ask
National Annual 1999	
40/60	15.0/19.0
60/80	8.0/15.0
80/100	5.0/—
150C	5.3/9.0
200/250	3.6/6.0
Southeastern September 1999	
40/60	2.8/—
60/80	2.3/3.0
80/100	2.1/2.4
Eastern September 1999	
40/60	3.3/—
California Annual 1999	
60/80	1.0/2.3
80/100	0.7/1.9
150C	0.5/2.5
Western Annual 1999	
80/100	0.8/2.2
Midwest June 1999	
10/20	5.0/9.5
Florida Sept./Dec. 1999	
100/150	2.6/—

Total volume: 0 Total open interest: 10,682

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	381	5.9	10.0	3.3	396-331
Legal & Gen	169	20.9	3.6	2.7	237-162
Royal & Sun	552	18.1	23.0	5.5	633-455
Brokers					
Lmbrt Fenchurch	92	7.5	5.7	7.7	94-58
JLT	238	10.8	12.0	6.3	242-166

Note: Prices are May 7 closings; other numbers from May 6.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

BI Industry Stock Report MAY 3, 1999, THROUGH MAY 7, 1999

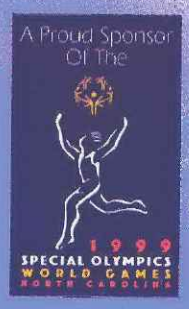
BROKERS		Price	Weekly % change	Year to date % change	Year to date High	Low	Vol.(000)
Aon Corp.	NYS	66.69	-2.65	18.95	75.56	48.25	2885
E.W. Blanch Holdings Inc.	NYS	59.19	0.53	26.77	62.00	34.88	247
Gallagher Arthur J. & Co.	NYS	47.56	0.13	8.71	50.63	34.88	237
Hilb, Rogal & Hamilton	NYS	18.44	-1.01	-1.01	19.88	15.38	123
Kaye Group Inc.	NDQ	7.00	0.00	-3.45	8.06	5.00	49
Marsh & McLennan	NYS	74.94	-2.12	26.74	81.13	43.38	3943
Brown & Brown	NYS	33.44	2.29	-4.29	42.50	29.31	23
BROKERS	AVERAGE		-0.03	8.91			
INSURERS/REINSURERS							
ACE Ltd.	NYS	31.69	4.75	-3.06	43.00	24.38	2188
Accel International Corp.	NDQ	2.25	-2.70	-25.00	3.38	2.13	7
Acceptance Insurance Cos.	NYS	14.13	0.44	-28.93	25.63	12.06	235
AEGON N.V.	NYS	90.50	-4.86	-25.78	130.13	66.94	272
Aetna Life & Casualty	NYS	95.00	8.34	19.03	95.00	60.19	3367
AFLAC Inc.	NYS	52.69	-2.88	19.74	56.75	25.13	2448
Allmerica Financial Corp.	NYS	56.75	-0.98	0.22	75.25	38.38	758
Allstate Corp.	NYS	37.56	3.26	-2.44	52.38	34.75	11811
AMBAC Indemnity Corp.	NYS	58.63	-2.90	-2.19	65.94	40.88	1069
American Bankers Ins.	NDQ	53.31	1.67	11.65	61.88	30.13	786
American Financial Group	NYS	35.31	-2.75	-14.26	45.75	30.50	160
American General	NYS	74.00	0.00	-5.43	79.00	52.38	2357
American Heritage Life Ins.	NYS	22.94	-1.08	-4.68	26.69	18.63	115
American Indemnity/Fin'l	NDQ	13.75	1.38	29.41	15.38	10.25	26
American Intl Group	NYS	118.69	1.44	21.89	134.00	64.88	14241
American Safety Insurance	NYS	8.25	6.20	-13.16	14.50	6.63	50
Argonaut Group	NDQ	26.38	5.50	9.90	35.00	21.25	159
AXA-UAP Group	NYS	63.00	-1.47	-11.97	80.25	38.25	345
Baldwin & Lyons Inc.	NDQ	21.31	-9.31	-8.82	26.00	18.50	15
Berkley W.R. Corp.	NDQ	27.00	-1.82	-20.00	49.88	23.50	463
Berkshire Hathaway Inc.	NYS	76800.00	0.26	12.15	84000.00	57000.00	2
Capital RE Corporation	NYS	19.88	1.60	1.60	38.44	11.94	344
Capitol Transamerica Corp.	NAS	14.94	-1.24	-15.55	22.75	13.31	39
Centris Group Inc.	NYS	12.00	5.49	28.00	14.06	7.94	193
Chartwell Re	NYS	18.50	0.00	-20.43	30.94	13.50	208
Chubb Corp.	NYS	70.31	18.67	8.28	88.81	54.00	8795
CIGNA Corp.	NYS	93.44	7.17	20.18	93.44	57.19	2690
Cincinnati Financial Corp.	NYS	39.81	-1.39	11.56	44.75	30.50	1011
Citigroup	NYS	70.13	-6.34	38.69	77.63	28.50	41759
CNA Financial Corp.	NYS	42.44	3.98	7.95	51.25	33.00	738
CNA Surety	NYS	14.31	6.02	-4.18	16.44	10.19	144
EMC Insurance Group Inc.	NDQ	11.13	-2.20	-12.75	15.38	9.00	58
ESG Re Limited	NDQ	16.50	-2.94	-16.72	25.63	12.75	86
Enhance Financial Services	NYS	18.44	-10.88	-39.05	37.31	17.31	1696
Everest Reinsurance	NYS	31.19	2.89	-14.99	43.50	28.75	1283
Executive Risk Inc.	NYS	85.00	18.47	57.77	85.00	35.50	887
EXEL Ltd.	NYS	61.00	0.51	-14.76	83.25	54.50	1182
Fremont General Corp.	NYS	18.94	-5.31	-21.50	30.06	16.50	1136
Frontier Insurance Group	NYS	15.75	14.03	26.00	24.69	10.88	1039
Gainsco Inc.	NYS	4.31	-9.21	-31.68	9.13	4.25	155
Harleysville Group	NDQ	18.38	-1.34	-27.94	27.25	17.00	209
Hartford Steam Boiler	NYS	37.63	-0.66	-6.38	59.56	34.75	241
HCC Insurance Holdings	NYS	20.94	-0.89	23.62	23.19	16.00	400
ING Groep N.V.	NYS	57.44	-6.42	-5.84	76.75	36.06	298
IPC Holdings Ltd.	NDQ	19.13	8.51	-15.93	32.75	17.38	865
Hartford Financial Services	NYS	62.94	6.79	12.77	62.94	37.63	3042
LaSalle Re Holdings Ltd.	NYS	14.75	0.43	-28.48	39.19	11.63	215
Lincoln National	NYS	100.75	4.88	21.57	100.75	67.00	1919
MAIC Holdings Inc.	NYS	29.00	5.45	-9.38	33.13	23.25	148
Markel Corp.	NYS	185.50	-0.54	2.91	187.50	132.00	16
MBIA Insurance Group	NYS	69.81	3.81	5.28	80.13	46.06	1827
Meadowbrook Insur. Group	NYS	13.50	-0.46	-17.24	32.69	13.25	65
MMI Cos. Inc.	NYS	15.31	-1.21	-8.24	23.44	13.75	96
Mutual Risk Mgmt. Ltd.	NYS	39.19	0.80	3.29	43.25	25.38	391
NAC Re Corp.	NYS	55.25	1.38	18.34	57.31	43.69	719
Navigators Group	NDQ	14.25	0.88	-6.56	19.50	13.25	14
NYMagic Inc.	NYS	13.75	-7.95	-34.13	34.25	12.38	58
Ohio Casualty Corp	NDQ	39.06	5.13	-5.02	51.75	33.75	333
Old Republic Int'l	NYS	19.63	0.32	-8.45	31.25	17.94	3066
Orion Capital Corp.	NYS	29.75	1.06	-24.08	59.25	27.56	749
Partner Re Ltd.	NYS	40.25	-2.42	-10.93	52.50	33.63	545
Penn-America Group Inc.	NYS	10.63	1.19	14.86	19.75	8.13	17
PMA Capital Corporation	NDQ	20.44	0.93	4.47	23.75	16.63	34
Philadelphia Cons. Holding	NDQ	24.00	-2.78	12.94	25.50	18.63	308
PXRE Corp.	NYS	16.88	-11.18	-33.17	32.88	16.88	81
Reliance Group Holdings	NYS	9.31	24.17	-28.02	19.81	7.31	6790
ReliaStar Financial Corp.	NYS	40.25	9.52	-10.06	52.44	29.00	2659
RenaissanceRe Holdings Ltd.	NYS	35.88	15.03	-0.69	48.31	30.00	227
Risk Capital Holdings	NDQ	15.50	6.90	-26.63	25.50	12.00	108
RLI Corp.	NYS	31.88	0.20	-4.49	45.63	27.88	74
St. Paul Companies	NYS	33.00	15.03	-5.71	45.44	28.06	9492
SCOR	NYS	52.00	1.46	-20.00	72.75	49.06	5
SAFECO Corp.	NDQ	43.03	8.25	1.25	49.75	36.69	3342
SCPIE Holdings Inc.	NYS	26.38	9.90	-12.27	38.38	23.69	NA
Seibels Bruce Group	NDQ	5.88	42.42	67.86	8.00	2.69	97
Selective Ins. Group	NDQ	19.38	0.00	-4.32	27.63	16.69	646
Terra Nova Ins Co. Ltd.	NYS	22.19	-1.11	-8.97	35.00	21.25	524
Tokio Marine & Fire	NDQ	60.13	1.69	2.12	62.88	39.00	89
Torchmark Corp.	NYS	36.06	5.48	3.78	47.19	30.69	2291
Transatlantic Holdings	NYS	75.88	-1.30	0.33	94.50	73.63	138
Travelers Property Casualty	NYS	37.19	7.79	21.43	45.75	24.13	1044
Trenwick Group Inc.	NDQ	31.00	10.71	-1.98	40.50	25.50	43
Unico American Corp.	NDQ	10.25	1.23	-11.11	16.25	8.63	59
United Fire & Casualty	NDQ	26.06	-1.65	-21.69	41.75	22.75	25
Unitrin	NDQ	34.13	-1.44	-3.70	38.00	27.88	812
UNUM Corp.	NYS	55.56	1.72	-7.30	62.50	41.75	3884
Vesta Insurance Co.	NYS	5.06	0.00	-11.96	57.69	3.38	435
Zenith National Ins.	NYS	23.13	-2.63	0.00	29.19	20.31	38
INSURERS/REINSURERS	AVERAGE		2.36	-2.67			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	16.25	17.65	47.73	32.63	5.88	3623
Humana Inc.	NYS	13.00	-4.59	-31.35	32.13	10.06	5513
Oxford Health Plans	NDQ	20.31	1.88	45.09	24.25	5.81	4566
Pacificare Health Sys.	NDQ	87.50	19.35	22.38	98.13	53.75	967
Safeguard Health Enter.	NDQ	4.06	-9.72	14.04	8.38	2.34	16
Sierra Health Services	NYS	13.75	10.00	-34.13	26.00	10.44	249
United HealthGroup	NYS	59.00	5.12	32.40	73.94	29.56	5334
Wellpoint Health Networks	NYS	74.81	6.49	-12.88	87.88	50.50	1675
HMOs	AVERAGE		5.77	10.41			
ALL COMPANIES	AVERAGE		2.70	5.55			

Top advancing issues: Seibels Bruce Group, Reliance Group Holdings, Pacificare Health Sys. Leading decliners: PXRE Corp., Enhance Financial Services, Safeguard Health Enter. Most active issue: Citigroup. The *BI* index decreased 0.2%; the Dow Jones 30 Industrials gained 2.3%; the S&P 500 increased 0.7% and the NYSE Composite gained 1.1%. Average P/E: Brokers, 18.0; Insurers/reinsurers, 18.3; HMOs, 19.1.

Source: *Nordby International Inc.* (nordby.com), Boulder, CO

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