NOVEMBER 18, 1991

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives / $2.00 a copy; $80 a year

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Update

Federal court upholds limits on AIDS cover by self-insurers

NEW ORLEANS—Employers that self-fund their health care plans do not violate federal benefits law by limiting coverage for AIDS treatment, a federal appeals court has ruled.

The case involves a lawsuit by John McGann, an employee of H&H Music Co. in Houston who was diagnosed with acquired immune deficiency syndrome in 1987. The following year, after Mr. McGann had filed claims, H&H switched from an insured health care

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Subcommittee OKs McCarran reform

Brooks bill would strip antitrust exemptions

By MARK A. HOFMANN

WASHINGTON—The House Judiciary Committee is scheduled to vote Tuesday on a measure that would strip insurers of most of the exemptions from federal antitrust laws they enjoy under the 46-year-old McCarran-Ferguson Act.

The legislation, H.R. 9, was approved by the Judiciary's Committee's Economic and Commercial Law Subcommittee Thursday on a 10-5 party line vote.

Opponents of the Insurance Competitive Pricing Act of 1991 expect the Judiciary Committee to approve the measure this week, but they also take comfort in a Democratic congressman's warning that, unless it is changed, the bill will be "D.O.A." when it reaches the full House.

Because the Judiciary Committee is often perceived as being "more liberal" than the House as a whole, the measure probably will be "trimmed back" in the House, explained David Pratt, vp-federal affairs for the American Insurance Assn.

The full House is unlikely to consider the bill until February at the earliest, he said.

The AIA, like every other major insurance industry group, opposes H.R. 9. Following the committee vote, Mr. Pratt said the AIA wants to resume discussions about the bill with the staff of its sponsor, Rep. Jack Brooks, D-Texas, the Judiciary Committee's chairman.

The AIA had been negotiating with Rep. Brooks' staff for about six months before talks broke off early last week.

That break off was a "timing thing," said Mr. Pratt. "The chairman decided that he had to move the bill before Thanksgiving."

Reading the events differently, Bob Hunter, president of the National Insurance Consumer Organization in Alexandria, Va., said, "This is a train that's leaving the

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PBGC relief proposed

Agency's claims would become highest priority in bankruptcies involving underfunded plans

By JERRY GEISEL

WASHINGTON—Bankruptcy legislation the Bush administration is sending to Congress could help prevent the Pension Benefit Guaranty Corp. from being swamped with billions of dollars in new pension liabilities.

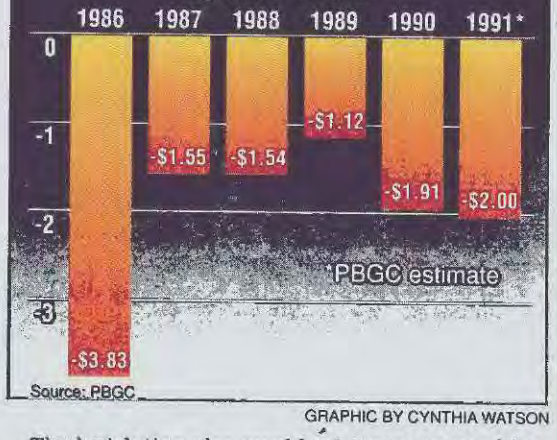
The legislation, which could be introduced in Congress as early as this week, would make it clear that the PBGC has priority status as a creditor in bankruptcies of companies with underfunded pension plans.

That would reverse a recent federal court ruling involving LTV Corp. and its massively underfunded pension plans. The court ruled that the pension agency was a general unsecured creditor—the lowest rank creditor—when it sought unpaid pension obligations from companies in Chapter 11 (*BI*, Sept. 23). Often, general unsecured creditors receive only a few cents on the dollar for debts owed by companies in Chapter 11.

The agency, which is appealing the decision, warns that the ruling will lead employers to seek bankruptcy protection to avoid financing large underfunded pension liabilities.

PBGC's deficit grows

The Pension Benefit Guaranty Corp.'s deficit fell sharply in 1987, when it returned underfunded plans to LTV Corp., but has grown again in the past two years. Figures in billions.



GRAPHIC BY CYNTHIA WATSON

The legislation also would set a new, more objective limit on the maximum amount that the PBGC could seek from a company in bankruptcy for unfunded pension obligations, which often comprise a bankrupt company's biggest liability.

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Punitive damage judgment affirmed despite Haslip ruling

By STACY ADLER GORDON

ATLANTA—Punitive damages need not be reasonably related to a plaintiff's actual injuries or the defendant's wealth, the Georgia Supreme Court says.

The Georgia court issued the ruling after the U.S. Supreme Court ordered it to reconsider the case in light of the U.S. Supreme Court's landmark punitive damage ruling.

In that March ruling, *Pacific Mutual Life Insurance Co. vs. Haslip*, the nation's highest court refused to set specific limits on juries' discretion to award punitive damages. But, it also said the Constitution requires that judges properly instruct jurors about the purpose of punitive damages and that the awards be subject to significant judicial review (*BI*, March 11).

Courts nationwide appear to be split in how they are interpreting the Haslip ruling.

While the Georgia Supreme Court affirmed its earlier ruling and defended Georgia's system of reviewing punitive damage awards, the Maryland Special Court of Appeals vacated a punitive award in light of the Haslip case (*BI*, Oct. 14). A federal appellate court struck down South Carolina's punitive damage law, partly relying on Haslip (*BI*, Oct. 21).

Attorneys for the defendant in the Georgia case, the Hospital Authority of Gwinnett County, Ga., plan to seek U.S. Supreme Court review of the decision.

If review is granted, it will mark the second time this case has been before the nation's highest court.

The U.S. Supreme Court in April vacated a jury award of $1.3 million in punitive damages and $5,001 in compensatory damages in the case. It then ordered the Georgia Supreme Court to reconsider

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Hartford reinsurance cost grabs attention

By KATHRYN J. McINTYRE

NEW ORLEANS—Hartford Group Inc. may pay 50% more for its catastrophe reinsurance next year, according to quotes from lead underwriters in London.

The Hartford, Conn.-based insurance group, which is seeking $250 million excess of $50 million in catastrophe reinsurance for 1992, could pay $32 million for the coverage, provided that the capacity is available.

In fact, some brokers and reinsurers suggest that there may be only $150 million to $180 million in catastrophe capacity worldwide.

Hartford's catastrophe reinsurance program was a hot topic of conversation at the National Assn. of Independent Insurers' 46th annual meeting held earlier this month in New Orleans.

While underwriters have been warning that catastrophe reinsurance premiums would go up sharply for 1992 renewals, due to the billions in catastrophe losses the market has suffered in recent years, few ceding companies apparently believed it until underwriters quoted the Hartford program and the insurer accepted the increase.

"You've got to see it to believe it," quipped one reinsurance broker.

How much catastrophe reinsurance will cost at year-end and how much will be available were among the most pressing questions on the minds of insurers and reinsurers attending the NAII meeting.

The rising cost of aviation and marine reinsurance and retrocessional coverage also attracted some attention.

But other aspects of the market—primary insurance pricing and casualty reinsurance—mostly were considered depressing subjects and were little discussed. More of the same rock-bottom pricing is expected in 1992, though the high cost of catastrophe reinsurance could lead to some property insurance rate increases next year.

Attended by about 1,800 registrants, the NAII annual meeting is the last major gathering of property/casualty insurers and their reinsurers before the year-end renewals are negotiated in earnest.

While formal speeches held in the mornings attract several hundred executives, most of the work is conducted in private meetings in hotel

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More coverage of the NAII annual meeting appears on page 76.

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Update

Cap on AIDS coverage upheld

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plan to a self-funded plan and implemented a $5,000 lifetime cap on AIDS benefits. Under the insured plan, Mr. McGann would have been eligible for $1 million in lifetime health care benefits, including treatment for AIDS (*BI*, Aug. 6, 1990).

The 5th U.S. Circuit Court of Appeals in New Orleans said in its Nov. 4 decision that it believed H&H changed its plan because of Mr. McGann's health claims. However, it ruled that H&H did not violate the Employee Retirement Income Security Act of 1974 because the benefit cap applied equally to all employees, said plaintiff's attorney Joseph Garcia of Vladeck, Waldman, Elias & Englehard in New York. "The court appears to be saying anytime there is economic justification for altering the terms of a medical plan, a company can do that," he said.

The plaintiff is considering appealing to the U.S. Supreme Court.

Mishandled health claims bill

WASHINGTON—House committee staffers and the Blue Cross & Blue Shield Assn. are crafting separate alternatives to a bill approved by a House panel that would expose insurers to state sanctions—including punitive damages—for improperly handling group health claims.

Under a proposal by the House Education and Labor Committee staff, the Employee Retirement Income Security Act of 1974 would be amended to let judges award punitive damages in suits over denied health care claims if gross negligence was involved. In addition, reasonable attorneys' fees would be awarded automatically to prevailing plaintiffs. Such awards are now discretionary.

The BC/BS alternative would not allow punitive damages. However, it would require group health care plan administrators to act within 10 days after requests for preauthorization of procedures that are costly and potentially life-saving. The BC/BS alternative also would award attorneys' fees to prevailing plaintiffs.

Benefit lobbyists are encouraged that committee members and staffers are considering alternatives to the original legislation, H.R. 1602, which was approved by the Labor-Management Relations Subcommittee in September (*BI*, Sept. 30).

Health cost hike slows: Study

WASHINGTON—Increased enrollment in managed care plans and special offers by business-hungry health care insurers held the average increase in employer-sponsored health care plan costs to 11.5% between spring 1990 and spring 1991—the smallest average increase since 1987-1988, an actuarial and consulting firm says.

The 11.5% average cost increase is lower than the increases reported in several other surveys, because about 20% to 25% of the 1,003 firms surveyed reported no cost increases, and 5% of respondents reported a cost decrease, authors of the KPMG Peat Marwick study say.

The average cost increase for firms whose costs increased was 18%.

Higher enrollment in managed care plans and premium reductions offered to employers that switched plan providers are the two leading reasons why nearly 30% of the responding companies kept costs down or lowered them in 1990, said Roy Oliver, national practice director of Peat Marwick's Compensation and Benefits Practice in Los Angeles.

But Tom Billet, a principal with A. Foster Higgins & Co. Inc. in New York, disagrees with some of the study's findings. While managed care enrollment is up, most employers that sponsor insured indemnity plans are not changing insurers for cheaper premiums, he said.

Foster Higgins found that total health care costs leaped an average of 17.1% per person in 1990 (*BI*, Jan. 28).

Constellation Re liquidation

NEW YORK—Constellation Reinsurance Co.'s liquidator must present a "final report" on the liquidation by Jan. 6, a New York judge says.

But, it is uncertain whether the final report will include the recommendations of the New York Insurance Department's liquidation bureau on two pending offers to assume the liabilities of Constellation Re, which was ordered liquidated in 1987.

One offer was advanced in 1989 by Great American Insurance Co., a Constellation Re creditor that proposed assuming the reinsurer's assets and liabilities (*BI*, Feb. 20, 1989). And, earlier this year, Centre Reinsurance Co. of New York proposed assuming Constellation Re's liabilities under a $300 million reinsurance treaty.

The liquidation bureau tentatively supported Centre Re's bid in May.

A committee of Constellation Re's creditors complained in a Nov. 12 letter to state Supreme Court Judge Walter M. Schackman that the liquidation bureau is taking too long to decide on the two offers. The creditors pointed to relatively speedy action on the Mutual Benefit Life Insurance Co. and Executive Life Insurance Co. takeovers by regulators in New Jersey and California, respectively.

The liquidation bureau says it is awaiting results of an actuarial study of the Centre Re plan's adequacy by Arthur Andersen & Co., along with a separate study of Constellation Re's potential liability to the federal government on tax and other claims.

Judge Schackman last week expressed a desire to "get this thing disposed of" by January. But, in ordering a final report, he did not specifically order a recommendation on the Centre Re and Great American plans. And lawyers are uncertain whether the judge expects the bureau to submit a recommendation Jan. 6.

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Errors & omissions

• An article in the Nov. 4 issue, "London Market Shake-out Intensifies," incorrectly reported Albion Insurance Co. of London had been placed in runoff. Albion—which has capital and surplus of 6.6 million pounds ($11.7 million) and anticipates 1991 premium volume of 13.7 million pounds ($24.3 million)—ceased writing new or renewal "home foreign" business after July to concentrate on provincial U.K. business. The incorrect information that Albion had run off all business was received from the London Insurance & Reinsurance Market Assn. *Business Insurance* apologizes for any confusion or inconvenience caused by the error.

Workers comp insurers seek to flee Maine market

By MEG FLETCHER

AUGUSTA, Maine—The long-troubled Maine workers compensation system could collapse by year end if the state's 10 largest workers comp insurers follow through with their plans to pull out of the market.

Insurers' main complaint centers on anticipated large losses from the state's residual market, which writes about 90% of the workers comp business in the state.

The National Council on Compensation Insurance reported that Maine's assigned risk plan suffered a deficit of $150.4 million in 1990 on $260.3 million in written premium. Losses in the three previous years were $160.7 million, $176.9 million and $248.8 million, respectively.

Insurers pay most of these losses through residual market assessments, though in recent years employers have been assessed a mandatory surcharge on workers comp premiums by the state to finance some of these losses.

Insurers also contend that workers compensation rates in Maine have been inadequate for years and that reforms enacted in recent years are not keeping costs down.

Maine workers comp rates recently were reduced by an average of 4.7% because recent changes in workers comp laws are expected to reduce costs (*BI*, July 22; July 8). At the same time, employers were assessed a 3% surcharge on premiums to help fund the residual market deficit.

The Maine workers comp system is in "total and complete chaos," said Richard Thomas, senior vp of American International Group Inc. in New York.

However, state officials are "optimistic" that they can lure insurance companies back by adopting a regulatory proposal that would

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Regulator picks Altus bid to acquire Executive Life

By JOANNE WOJCIK

LOS ANGELES—A French investor group's $3.55 billion offer for Executive Life Insurance Co. may make it the victor in the four-month bidding war for the failed insurer.

California Insurance Commissioner John Garamendi said last week he will ask Los Angeles Superior Court Judge Kurt Lewin to approve the latest takeover plan submitted by the investor group led by Paris-based Altus Finance and Mutuelle Assurance Artisanale de France over a sweetened bid by a group led by San Francisco-based investment bank Hellman & Friedman.

Both groups upped the ante in the wagering for Executive Life last week after Mr. Garamendi rejected a bolstered bid from the National Organization of Life & Health Guaranty Funds (*BI*, Nov. 11).

But while the Altus bid is Mr. Garamendi's choice, Judge Lewin, who is overseeing the Executive Life conservatorship, will make the ultimate decision. At a hearing scheduled to begin today, he will review all nine bids that have been submitted for the Los Angeles-based insurer.

And NOLHGA has not yet thrown in the towel, having publicly announced its intention to seek approval of its bid by Judge Lewin during the hearings.

Meanwhile, Judge Lewin was expected late Friday to rule whether the municipalities that invested bond issue proceeds in guaranteed investment contracts issued by Executive life should be treated as policyholders or general creditors. General creditors have a lower priority in Executive Life's conservation.

A ruling in favor of the so-called muni-GIC holders would substantially reduce the payout to policyholders whose Executive Life obligations exceed caps on payments

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Risk Manager of the Year entries due

Nominations for the 1992 *Business Insurance* Risk Manager of the Year competition must be postmarked by Tuesday to be eligible for consideration.

The 1992 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the March 30, 1992, issue of *Business Insurance*, which coincides with the Risk & Insurance Management Society Inc. conference in Anaheim, Calif.

Please call 312-649-5398 with any last-minute questions.

Could be largest retiree health care liability

GM's FASB charge may hit $24 billion

By JUDY GREENWALD

DETROIT—General Motors Corp. reports it eventually will have to take a charge of between $16 billion and $24 billion against earnings to account for its retiree health care liabilities.

The charge is by far the largest among the Big Three automakers—and may be the largest taken by any U.S. company—to recognize accumulated retiree health care obligations under new accounting rules.

Employers traditionally have reported their retiree health care expenses on a pay-as-you-go basis. However, under Financial Accounting Standard 106, which takes effect for large employers in 1993, companies will have to accrue as an expense against earnings retiree health care liabilities from the date an employee is hired until the employee is first eligible for benefits (*BI*, Dec. 17, 1990).

Differences between accrued expense and actual payments for retiree health care benefits also will have to be recognized as a liability on the balance sheet.

Under the accounting rule, em-

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Inside

✔ If you thought the Internal Revenue Service, which took five years to produce final pension non-discrimination rules, would give employers a reasonable amount of time to comply with those rules, think again, says this week's editorial. **PAGE 8**

✔ Changes in the Japanese business environment, including financial deregulation and increasing overseas trade, are spearheading the development of risk management, say speakers at the Japan's first International Symposium on Risk Management. Coverage begins on **PAGE 71**

✔ A Lloyd's of London broker has been ordered to pay 24 Lloyd's underwriters a total of $2.1 million for failing to inform them of the full details of a policy that was placed under a binding authority. **PAGE 71**

✔ The drive to overhaul the nation's health care delivery system and to require employers to offer health care coverage is picking up support from business and labor organizations. **PAGE 73**

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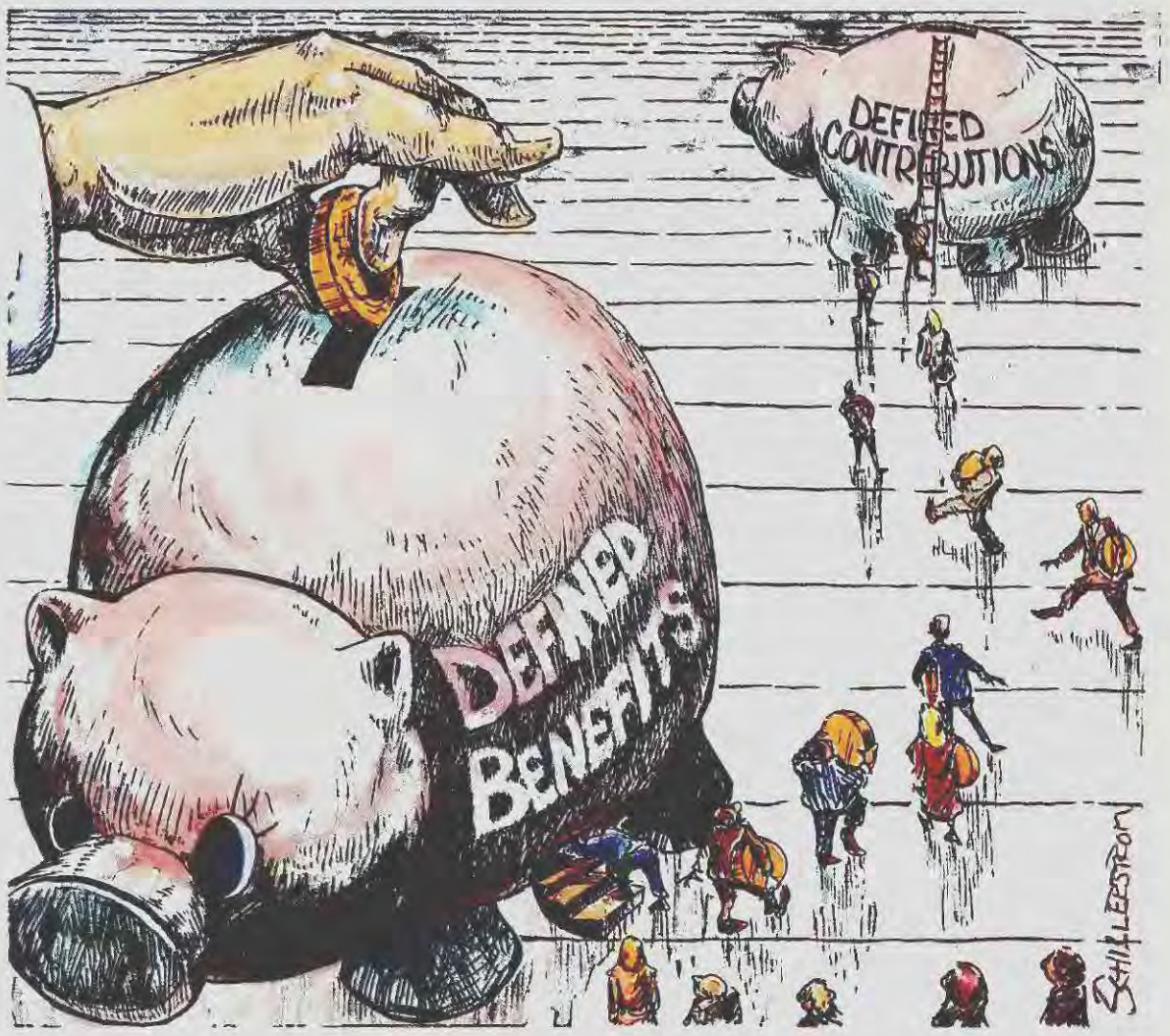
Vol.25, No.46—*Business Insurance* (ISSN 0007-6864) is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207-3185; 800-678-9595 or 313-446-1611. Copyright 1991 by Crain Communications Inc.

Retirement plans

Big employers retain defined benefit plans

High costs lead small firms to terminate their plans, but corporate giants stick with traditional programs

By DEBORAH SHALOWITZ



Large employers are sticking with their defined benefit pension plans, despite the high cost.

However, small and medium-sized companies are terminating defined benefit plans in record numbers, replacing them with defined contribution plans.

And most large companies are not improving the benefits their defined benefit plans provide, apart from cost-of-living increases, though some are adding cash balance features to make benefits more visible to employees.

While defined benefit plans have not gone the way of the Edsel, the popularity of 401(k) and other types of defined contribution plans continues to grow among firms of all sizes. Nearly all companies with defined benefit plans now also offer at least one defined contribution plan.

Some pension experts point out that defined benefit plans are a necessity because a defined contribution plan alone may not provide adequate retirement income for today's workers. Because of low investment yields usually associated with defined contribution plans, the balances in these plans may never equal the benefits that would have been guaranteed by a defined benefit plan.

Despite warnings in the early 1980s that defined benefit plans' days were numbered, a large part of Corporate America remains committed to them.

"There's a common feeling. . .that defined benefit plans are kind of old dinosaurs to be done away with," said Jason Jeffay, a consultant with Hewitt Associates in Rowayton, Conn. "But when you actually look at what's going on out there, that's not true."

According to a Hewitt survey of 560 large employers, 89% said they had a defined benefit pension plan in place in 1990, compared with 91% in 1985 (*BI*, March 25).

"At the top of the corporate world, things haven't changed that much," commented Brian McDermott, a principal in the New York office of A. Foster Higgins & Co. Inc.

Employers and employees like defined benefit plans for many reasons.

"There is no security like what (workers) get from a defined benefit plan," stated Michael Pikelny, employee benefits manager of Hartmarx Corp., the apparel manufacturer and retailer in Chicago.

That is because defined benefit plans promise a specific level of benefits, typically based on salary and years of service. Any plan investment losses must be made up by employers.

And, defined benefit plans can help a company attract and retain employees, said Pattie Duca, corporate benefits manager of Becton, Dickinson & Co., a pharmaceutical company in Franklin Lakes, N.J.

"From the employer's point of view, (a defined benefit plan) does strengthen a career involvement with the company," she said.

"The defined benefit plan is the most cost-effective way of providing retirement income," asserted Richard Joss, resource actuary for The Wyatt Co. in Washington, D.C.

One reason why defined benefit plans work so well, explained Anna Rappaport, a managing director of William M. Mercer Inc. in Chicago, is that employers typically invest retirement funds more aggressively than workers, so defined benefit dollars grow more quickly than defined contribution assets.

However, those companies that are keeping their defined benefit plans for the most part are not enriching the benefits, benefit experts said.

Changes in benefit levels—except for cost-of-living increases—traditionally have been driven by top executives who would themselves benefit by the improvements, pointed out Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

But today, with tougher non-discrimination rules, "those perks are gone," he said. Without incentives, "the plans themselves will be less generous."

Companies that are altering their defined benefit plans tend to do so in response to government regulations or to add cash balance features, benefit experts said (see story, page 16).

In a cash balance plan, an account balance is established for an employee. The account balance grows as the employer provides benefit credits equal to a fixed percentage of salary (*BI*, Nov. 19, 1990). A vested employee is entitled to the balance in his or her account when leaving the company, no matter at what age.

Companies also guarantee that employee account balances will increase at a certain rate, like the interest rate on one-year Treasury bills. That way, employees can always find out what their balance is and how much they can take when they leave the company.

Communicating the true value of a worker's defined benefit pension accrual is difficult, which is why many employers are considering adding a cash balance feature to their plans.

"For the majority of our employees, (our defined benefit plan) is a silent benefit," said Martha Van Hise, vp of compensation and benefits for Summit Trust Co. of Chatham, N.J. "Here we are spending $2 million a year on benefits that people don't even know are there."

The trust company, which has 2,000 employees, is considering adopting a cash balance feature because "employees will appreciate (their benefits) more," she said.

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GIC marketplace under scrutiny

Some plan sponsors rethink 'guaranteed' investments

By JUDY GREENWALD

The Mutual Benefit Life Insurance Co. and Executive Life Insurance Co. debacles are shaking up the guaranteed investment contract industry.

The much publicized troubles of the two insurers, both of which wrote a substantial amount of GIC business, have startled some defined contribution pension plan sponsors into an awareness that the "guaranteed" in guaranteed investment contracts is only a label, not a reflection of reality.

As a result, many sponsors of defined contribution plans, like 401(k) plans, are re-evaluating their GIC investment strategies.

While some plan sponsors are doing nothing, others have abandoned insurer-issued GICs altogether (see story, page 12).

Still other plan sponsors are taking a variety of approaches, which include:

- Closer scrutiny of insurers issuing GICs, including looking beyond rating agency assessments.
- Greater diversification of GIC holdings.
- A "flight to quality" by targeting only highly rated insurers.
- Turning to "synthetic" GICs offered by banks.
- Offering "safer" investments, like fixed-income funds or segregated GIC accounts (see story, page 10).

The total GIC market is estimated to total $150 billion to $200 billion, with a more precise total amount hard to pinpoint because there are no official tallies.

A major appeal of GICs to employers sponsoring defined contribution plans and plan participants is that they offer book value accounting, which allows employers to report to employees that their contracts are valued at the interest and principal due at maturity. Other investments like stocks and bonds are reported at fluctuating market values.

Although the Financial Accounting Standards Board earlier this year voted to require that GICs held by defined benefit pension plans be accounted for at market value, the amount of GIC assets held by defined benefit plans is relatively small (*BI*, March 11).

To many observers' surprise, there has been little concern about GICs expressed by defined contribution plan participants. Instead, anxiety is generally being expressed by corporate officers worried about their fiduciary responsibilities (see story, page 6).

Proposed Labor Department rules would make it easier for employers to avoid fiduciary liability for investment decisions made by employees enrolled in defined contribution plans. Those rules, commonly known as 404(c) rules, are expected to be finalized next month (*BI*, Dec. 24, 1990).

It was the July takeover of Mu-

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Employers limit highly paid workers' 401(k) deferrals
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Companies learn value of promoting pension benefits
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More firms delegating 401(k) administration
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GIC shakeup

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tual Benefit Life by New Jersey regulators in particular that sparked plan sponsors' concerns about GIC security.

"In general, I think that the Mutual Benefit situation is far more significant to the GIC industry than Executive Life," said Bruce Vane, senior vp at Prudential Asset Management Co., a unit of Prudential Insurance Co. in Newark, N.J.

It was well known that Executive Life invested in junk bonds, so it was not that surprising that the insurer failed when the junk bond market soured, Mr. Vane said. "Mutual Benefit was much more of a surprise to the industry, so I think the impact as been far more significant."

Bethpage, N.Y.-based Grumman Corp. had about 5% of its GIC funds invested with Mutual Benefit, said Harry Turner, director of economic analysis, who blames the insurer's problems on the "run on the bank" that it experienced (*BI*, July 22).

Grumman held no Executive Life GICs despite attempts by the insurer to win Grumman as a client, Mr. Turner said. "That I saw coming."

Plan sponsors are taking closer looks at their GIC commitments and strategies in the wake of the Mutual Benefit and Executive Life failures.

The general view is that employers are much more conservative when it comes to their GIC commitments than they were a year ago, said Murray L. Becker, president of Becker & Rooney in Teaneck, N.J., a GIC consultant. Every deal must now be "squeaky clean."

"There's been a lot of review of investment managers and guidelines," said Larry Mylnechuk, executive director of the GIC Assn. Inc., a trade group based in Lake Oswego, Ore.

'The conservative, stodgy insurance companies have become the darlings of the GIC market,' says Kim McCarrel, a consultant with Wyatt Asset Services in Portland, Ore. 'The flight to quality has really benefited them.'

Plan sponsors are taking a much harder look at their GICs than they have in the past and are at least setting tougher criteria for the future, said James R. Hiner, a consultant with William M. Mercer Inc. in Chicago. Some employers also are coming to grips with the fact that continuing to offer a GIC option to plan participants may not be in employers' best interests, he said.

Some plan sponsors, in fact, are immediately pulling out of their GIC contracts, giving up negotiated rates of return, Mr. Hiner said.

"That's a situation I think is an overreaction," said Mr. Hiner, adding he would have suggested a phased-out approach.

One less-drastic step that plan sponsors are taking is to more closely investigate their GIC insurers.

The nasty surprise provided by the Mutual Benefit takeover has generated a trend toward "getting underneath" the insurer's numbers, said Prudential's Mr. Vane. Clients are asking more questions "and not just looking at what a credit rating agency may put in the paper."

"We certainly have seen an increased interest in understanding more about the financial strength of The New England," said Bill Wolff, vp-group pension product marketing at New England Mutual Life Insurance Co. in Boston, a GIC issuer.

J.C. Massar, vp and chief marketing officer for Transamerica Life Insurance & Annuity Co. in Los Angeles, said large plan sponsors are now conducting thorough due diligence activities, interviewing top Transamerica officials and looking at all the financial records publicly available.

And even small employers, which may not have the financial resources to pay a personal visit to Transamerica, are conducting thorough investigations, said Mr. Massar. "They certainly do ask for more information and a synopsis of your financial health beyond just talking to the rating services," he said.

Some plan sponsors are also making greater efforts to diversify their GIC portfolios.

Instead of dealing with one or two insurers, they are dealing with six or seven, said Jim Wolff, an analyst with Conning & Co. in Hartford, Conn. "They're cutting down their exposure to each insurer."

However, William D. Templeton, director-insurance consulting for TPF&C, a unit of Towers, Perrin, Forster & Crosby Inc. in Atlanta, said "that's true to a limited extent, but most GIC funds are diversified already."

"There's a growing perception there's a dark side to the whole idea of having a high level of insurer diversification," Mr. Templeton said. By definition, "you're accelerating your risk of dying the death of 1,000 cuts," he noted.

"The sheer probability assures you that you're spreading the risk out, but the likelihood of having to make a nasty announcement to your participants increases," Mr. Templeton said.

There has also been a marked "flight to quality" among GIC purchasers, say observers.

Bob Bonner, vp-pensions for Sun Life Assurance Co. of Canada (U.S.), said the insurer has witnessed a flight to quality. Sun Life (U.S.), based in Wellesley Hills, Mass., has a AAA rating from Standard & Poor's Corp.

"I think there's a heightened consciousness (of quality) by both plan managers and plan consultants," Mr. Bonner said.

Raychem Corp. has instructed its record keeper and adviser to invest its GIC funds exclusively in AAA-rated insurers, said Ron Proctor, benefits specialist for capital accumulation funds at the Menlo Park, Calif.-based company.

If a AAA insurer is not available, the adviser can then purchase a GIC from a AA-rated insurer, but it cannot go lower, Mr. Proctor said. "Generally, we're more cautious to review the new investments we would enter into."

"The conservative, stodgy insurance companies have become the darlings of the GIC market," noted Kim McCarrel, a consultant with Wyatt Asset Services in Portland, Ore. "The flight to quality has really benefited them."

A spokeswoman for Principal Mutual Life Insurance Co. in Des Moines, Iowa, noted the insurer has been dropped one step below the top ratings of S&P and Moody's Investor Service Inc., with Moody's giving the insurer a AA1 rating in July and S&P dropping its rating to AA+ in September (*BI*, Sept. 30; July 29).

Despite that, she said, "we're having our best year ever in the GIC market. We're finding that AAA or AA is still working very

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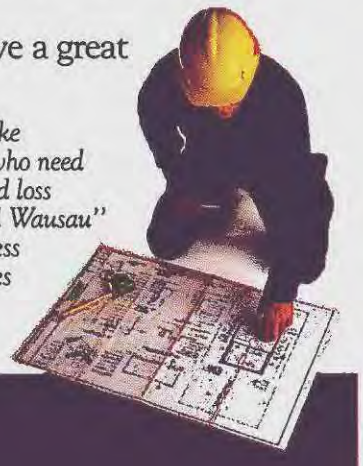

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Workers not worried about GIC security

Defined contribution plan participants are expressing surprisingly little concern about the security of their GIC investments despite widespread publicity about the takeovers of Mutual Benefit Life Insurance Co. and Executive Life Insurance Co.

And the company officials who buy the contracts also do not appear worried.

Instead, anxiety about the security of the products is generally being voiced by top executives worried about their fiduciary responsibilities for employee investment decisions.

"I believe most participants are really unaware of what is happening in the GIC world" unless they were affected or knew someone who was affected by the Mutual Benefit Life or Executive Life debacle, said Scott Sokol, managing director of Charles, Dunhill, Rubin & Co. in Los Angeles, a GIC manager.

"We've been surprised that we haven't had more inquiries from employees regarding the GICs in our fixed-income fund," said Kathy Mastako, manager of retirement and profit sharing at Varian Associates Inc., based in Palo Alto, Calif.

"The concern instead has been expressed by Varian's investment committee and top management," she said.

"We think we do a fairly good job of communicating to our employees what these GICs are," as well as the fact that the "G" in GIC comes from the insurance company and that there is always the risk of default, Ms. Mastako said. Nevertheless, she said, "I would just have expected more concern."

Varian prepared a memo to address employee concerns, she noted, but with the reaction so muted, decided not to distribute it. "We certainly didn't want to address issues that weren't out there."

Benefit managers are not terribly concerned either, said Judith Markland, vp at Boston-based John Hancock Mutual Life Insurance Co., a major GIC issuer. "I think it's because the benefit manager has worked with the GICs for a long time, and he's probably more familiar with some of the alternatives, and he's certainly more familiar with the insurance industry."

Fear over GICs is "coming from on high," said Murray L. Becker, president of Becker & Rooney Inc. in Teaneck, N.J., a GIC consultant. It only takes one high company official to panic and it becomes institutionalized, he said.

"You have to deal with perception by management," said Mr. Becker, adding that whether the fear is justified or not, it is a strongly held view.

There has been little reaction on the part of plan participants, agreed Peter E. Bowles, president and chief investment officer at Fiduciary Capital Management, a GIC manager based in Woodbury, Conn. "Sponsors, however, have become more sensitive to their fiduciary responsibilities and are reacting—and, in some cases, overreacting—to that," he said.

It also depends on the particular official, Mr. Bowles said. He noted that at one company he deals with, the "financial types" have been reasonably objective and have taken reasoned responses to the issue, while "the most outspoken and vocal person is the corporate counsel."

"Most of the hysteria seems to be generated at the senior management level" and generally from people who do not understand financial matters, said Mr. Bowles. "It seems to me (that) the further you get down in the organization, the less concern there is," he said.

Not all employees, however, are complacent about their GIC investments.

At FMC Corp. in Chicago, 401(k) plan participants are asking a "broad (range) of questions" about the contracts, said Ken Morrissey, benefits manager.

Mr. Morrissey attributed this to the fact that FMC has many employees in the Princeton, N.J., and Philadelphia areas, as well as a significant number in California, so they are unusually aware of the Mutual Benefit Life and Executive Life failures.

Ed Ryan, vp at Massachusetts Mutual Life Insurance Co. in Springfield, Mass., a GIC issuer, said he, too, believes there has been some plan participant concern.

"We're getting questions from plan sponsors and they're saying they need to get back to their employees," he said.

—By Judy Greenwald

GIC shakeup

Continued from page 4
well in the GIC market."

Many AAA-rated insurers are not major players in the GIC market, so sponsors are looking at both AAA- and AA-rated insurers, the spokeswoman said. Also, she noted, "plan sponsors don't rely totally on the ratings," but seek out more information.

But Daryle Johnson, senior vp-pension investments for Pacific Mutual Life Insurance Co. of Newport Beach, Calif., said "there's no doubt" that not being a AAA-rated insurer has hurt Pacific Mutual's GIC business. Pacific Mutual's ratings are in the A to AA range, depending on the rating agency.

Some plan sponsors have said that although Pacific Mutual is a good company and offered a good return on a particular GIC contract, they were accepting a quote with a lower rate of return from Metropolitan Life Insurance Co. because of its AAA rating, according to Mr. Johnson. As a result, "our GIC business is down a little bit," he said.

Rudy Gernert, director-institutional marketing for Capital Holding Corp. in Louisville, Ky., noted there are delineations even among the AAA-rated insurers themselves.

Capital Holding owns Commonwealth Life Insurance Co. in Louisville and People's Security Life Insurance Co. of Durham, N.C., both of which have AAA ratings from S&P, but an A1 rating from Moody's and a AA+ from Duff & Phelps Credit Rating Co.

This puts these insurers in a "gray area" compared with, for example, Metropolitan Life and The Prudential Life Insurance Co. of America, both of which have the top ratings from S&P, Moody's and Duff & Phelps, Mr. Gernert explained.

"Companies that are perceived as being the top-quality companies," whether they are AAA- or AA-rated, "clearly have a stronger edge than those that aren't," he said. Those with single-A ratings "are going to have a more difficult time" generating GIC business at the margins they previously quoted.

However, Larry Brossman, vp at

Continued on page 10

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GIC shakeup

Continued from page 6

Duff & Phelps in Chicago, predicted that plan sponsors would eventually hold more balanced portfolios and be more willing to hold contracts issued by even BBB-rated insurers, assuming they were compensated with higher interest rates.

"There may be some range of risk there," said Mr. Brossman. Plan sponsors currently are so "gun-shy" that they are seeking only top-rated insurers, he noted.

Some plan sponsors are adding investment options in light of worries about GIC security.

Avon Products Inc., for instance, introduced a money market fund option effective July 1 "for those employees who feel they would like the additional security," said Arleane Baltrusitis, manager of employee benefits at the New York-based cosmetics company.

That move had little impact, though. Less than 2% of the $130 million in Avon's plan was moved to the new option, while 64% of plan assets still are invested in GICs, she said.

"I think they still feel that sense of security" with GICs, Ms. Baltrusitis said. Avon has an older population, with an average employee age of about 45, which could help explain employees' reluctance to shift their funds

Mr. Becker of Becker & Rooney noted that two of his firm's clients have introduced fixed-income funds as a safer alternative to GICs, even though these funds provide lower returns, and another four to five clients plan to introduce such funds. The advantage of these additional funds, he said, is that they allow those who are "totally" risk-averse to take the lower interest rates without forcing all employees to do so.

Another advantage is that additional investment options establish a "very clear risk-reward trade-off for employees," Mr. Becker said. "That makes it very clear to the plan participants they're getting paid to take risk," he said.

Peter Bowles, president of Fiduciary Capital Management, a Woodbury, Conn.-based GIC management company, pointed out that money market funds are now offering 5% interest rates. In contrast "blended" GIC funds—which include older as well as newer contracts—probably now offer returns in the 8% range. With those rates, said Mr. Bowles, "participants are going to continue to fund GICs" despite the somewhat greater risk.

"Treasuries are good, but they fluctuate in value and you don't get any additional yield, and that's the reason people go to GICs," said Mike McMath, senior vp-pensions investments division for Lincoln National Life Insurance Co. in Fort Wayne, Ind., a GIC issuer. ■

Wary plan sponsors use alternative GICs to diversify holdings

Plan sponsors are diversifying their guaranteed investment contract investment away from "pure" insurer-issued contracts and toward a variety of alternative GICs offered by both insurers and banks.

The move is part of a general trend by plan sponsors to not place all their eggs in one basket, observers say.

An increasing number of insurers offer, or plan to offer, "separate account" products that segregate invested plan assets from the insurers' general investment account. These instruments, which are generally backed by Treasury bills or other government obligations, theoretically are protected should an insurer fail. Other possible investments include high-grade corporate bonds and credit card receivables.

Among the many insurers now offering separate accounts are Prudential Insurance Co. of America and Metropolitan Life Insurance Co.

Banks offering comparable products include Union Bank Switzerland, Bankers Trust Co. and Morgan Guaranty Trust Co.

Both insurers' and banks' separate account products offer the advantage of transferring credit risk away from the potentially volatile financial services industry while preserving book value.

The bank products, and often the insurance products as well, are referred to as "synthetics."

Observers disagree as to just how significant a share of the market these alternative GICs have actually claimed to date.

"There's probably a little more smoke than fire," said Rudy Gernert, director of institutional marketing for Capital Holding Corp. of Louisville, Ky., which owns two insurers that offer GICs.

"I think there's more people talking about them than actually selling them," agreed Bob Bonner, vp-pensions for Sun Life Assurance Co. of Canada (U.S.) in Wellesley Hills, Mass.

But J.C. Massar, vp and chief marketing officer for Transamerica Life Insurance & Annuity Co. in Los Angeles, said that while there had not been a lot of money invested in separate accounts over the past three to four years, "I believe that has changed within the last five to six months."

For example, C. Robert Henrikson, senior vp in pension national accounts for New York-based Met Life, said the insurer last year did $1.7 billion in separate account business with 30 clients.

This year, it has 101 clients and $3 billion in business. This is partly attributable to its introduction of commingled funds, which permit smaller clients to participate as well, Mr. Henrikson said.

While it is unclear what percentage of the markets these synthetics now claim, observers generally agree it will grow, as sponsors seek to diversify outside the traditional GIC market.

Daryle Johnson, senior vp-pension investments at Pacific Mutual Life Insurance Co. in Newport Beach, Calif., said he expects plan sponsors to move toward alternative GICs as they seek to diversify their investments. "I would bet 50% of the sponsors may well do that next year."

"My guess is they're going to take a big chunk of the market over the next six months," said Randolph Root, an analyst with Kwasha Lipton in Fort Lee, N.J., referring specifically to bank-issued synthetics.

Industry observers say investing in synthetics is a good way to get away from traditional GICs, although the strategy can have drawbacks.

"There's no free lunch," said James R. Hiner, a partner with William M. Mercer Inc. in Chicago. Synthetics offer high credit quality and diversification, but the plan sponsor could take on additional risk or have a lower rate of return as compared with the traditional GICs, he said.

—By Judy Greenwald

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Spotlight report

Some employers limiting GIC exposure

By JUDY GREENWALD

Amid concern about the security of guaranteed investment contracts, some employers with defined contribution plans are abandoning additional investments in insurer-issued GICs.

Atlanta-based Georgia-Pacific Corp., for example, has decided to forego any additional investment in GICs.

"We have been concerned for some time that we have not been able to get proper diversification in our GIC portfolio," explained John Stetler, director-benefit investments/risk management. Georgia-Pacific has $350 million invested in GICs in its salaried 401(k) plan.

Three AAA-rated insurers claim a large percentage of the company's GIC portfolio, Mr. Stetler said. But there are no insurers offering GICs of equally high quality to add to them, he said.

"We really felt like we had a fiduciary issue here," he said.

Instead of investing in additional GICs, Georgia-Pacific plans to invest funds into U.S. government obligations and securities with an average maturity of about two to three years. Even though these funds have a lower yield than GICs, "it's worth it" because they are a higher-quality investment, said Mr. Stetler.

While plan participants might be unhappy about the lower yield, "they are going to be a lot less happy if they lose principal," he said.

Capping GIC investments gives plan participants more flexibility because Georgia-Pacific can eventually offer a broad spectrum of investment alternatives, like short- and intermediate-term Treasury funds and a bond index fund.

Many GIC issuers place restrictions on competing funds in order to ensure a predictable cash flow into the GIC account.

Bethpage, N.Y.-based Grumman Corp. also has decided to restrict additional investment in insurer-issued GICs, said Harry Turner, director of economic analysis.

Instead, it is investing in synthetic GICs offered by banks and other options, like Government National Mortgage Assn. and Federal National Mortgage Assn. securities, said Mr. Turner.

He noted that 5% of Grumman's GIC funds are comprised of GICs issued by Mutual Benefit Life Insurance Co., which was seized by New Jersey regulators in July, though he refused to disclose the amount involved.

However, Grumman will wait until its current GIC contracts expire before moving plan assets, Mr. Turner said.

"There's no reason to get rid of these things just to get rid of them," he said. "Getting rid of them, that's really panic," he added, noting that most of the contracts have several more years to run.

When these remaining contracts do expire, Mr. Turner said, "we'll take the time to see" where insurance companies are investing their money before reaching any decision on where to invest the funds.

E.I. du Pont de Nemours & Co. based in Wilmington, Del., also is diversifying away from the traditional GICs into alternative products, said Bill Smith, an internal consultant with the company.

While DuPont is happy with the quality of its current GIC issuers, it feels the need to diversify beyond the insurance industry because of the size of its funds, he said. Of the $6.7 billion in its retirement savings plans, including a 401(k) plan, $5.5 billion is now invested in GICs.

Mr. Smith noted that DuPont started examining its GIC investments a couple of years ago (*BI,* May 22, 1989). Its current goal, which he said is "subject to change," is to invest half of its funds in traditional GICs and half in other alternatives "that become available from other financial institutions" and separate account products.

Separate account products, which are offered by insurers and banks, segregate invested plan assets from the issuer's general accounts (see story, page 10).

Los Altos, Calif.-based Varian Associates is diversifying away from the GIC market as well, said Kathy Mastako, manager of retirement and profit sharing.

'We continue to offer very high-quality GICs to participants,' says Mr. Boller of Owens-Illinois.

Varian's investment committee last year "was becoming increasingly concerned with GICs and the underlying holdings of insurers, and decided to diversify away," even though its portfolio included contracts from 18 insurers, she said.

Ms. Mastako said Varian then established a short-duration, high-quality bond portfolio that holds instruments including government securities, Treasury notes and high-quality corporate bonds.

Varian has set a target of having at least half of its fixed-income investments outside the GIC industry, said Ms. Mastako. "We're moving rapidly toward having a 50-50 mix," she said, noting that "we're not channeling any additional money" into GICs right now.

However some companies, like Toledo, Ohio-based Owens-Illinois Inc., have opted not to make any significant changes in their GIC strategy.

"We continue to offer very high-quality GICs to participants," said Ron Boller, director of benefit finance. Plan participants are annually given information about the insurers with which Owens-Illinois places its contracts and the rates they offer, and then are allowed to make their own decision, said Mr. Boller, who noted the company's has $200 million in defined contribution plan assets invested in GICs.

"The key is quality," he said.

He noted that Owens-Illinois employees overall have six investment choices, including a bond fund and a money market fund, so "they have a wonderful diversified fixed-income portfolio with very low risk."

"The key is to have a mix of securities, and we always stress that word 'mix' " to employees, said Mr. Boller. He noted also that "we pay an awful lot of attention" to the issuers of GICs. ■

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Insurer problems to transform GIC industry

The turmoil caused by the Executive Life Insurance Co. and Mutual Benefit Insurance Co. debacles will eventually settle, but the guaranteed investment contract industry will never be quite the same again, observers say.

There is some disagreement, however, as to precisely how things will look when the dust settles.

"The marketplace for GICs will be permanently different," said Murray L. Becker, president of Becker & Rooney in Teaneck, N.J., a GIC consultant.

There will be more attention paid to credit quality and portfolios will be more diversified, he said.

Mr. Becker predicted that insurer-issued GICs will remain under a cloud for the next three to five years, until the industry's real estate holdings are no longer "under water."

Eventually, though, insurers' reputation will be re-established, he predicted.

Insurers are straightening out their junk bond and mortgage loan situation and adding more capital and surplus in response to plan sponsors' concerns, said Daryle Johnson, senior vp-pension investments at Pacific Mutual Life Insurance Co. in Newport Beach, Calif.

That will make for some difficult years, but the "industry is going to emerge from all of this even stronger than it is today," he said.

Once the market settles down, insurer-issued GICs will still account for a high proportion of the assets in defined contribution plans, like 401(k) plans, said Brian Ternoey, a principal with A. Foster Higgins & Co. Inc. in Princeton, N.J. However, that share will be "nothing like the 60% we've seen to this point in time," he said.

The 'pendulum' had swung to the point where people viewed investing in GICs the same as investing in the government, Mr. Hiner explains. But now, he says, "we have a perception shift" from GICs having no risk at all to "paranoia."

"They're not going to disappear, and they're still going to be a sizable proportion of the total, but I just don't see how they can keep the dominance they've had in the past," Mr. Ternoey said. Plan sponsors will move investments to other fixed-income funds, he said, as well as the so-called synthetic contracts that operate like GICs.

"I think we're seeing a natural evolution of a product line in the country" and that is to be expected, said James R. Hiner, a partner with William M. Mercer Inc. in Chicago. In light of the huge amount of money funnelling into a single industry, the situation could not have lasted forever without a major challenge, he said.

The "pendulum" had swung to the point where people viewed investing in GICs the same as investing in the government, Mr. Hiner explained. But now, he said, "we have a perception shift" from GICs having no risk at all to "paranoia."

"The pendulum has swung too far to the other side," Mr. Hiner said.

Although insurance companies will undergo some tough times, eventually "I think it will moderate to middle ground" and there will be a recognition that there are some weak players, some strong players and moderate players in the middle that must be evaluated, he said.

—By Judy Greenwald

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Pension plans

Continued from page 3

Becton Dickinson also is considering adopting a cash balance feature for similar reasons, noted Ms. Duca. A cash balance feature can "make an account balance visible to employees," she noted.

Meanwhile, small and medium-sized companies continue to abandon defined benefit plans.

According to the Internal Revenue Service, 16,293 defined benefit plans were terminated in 1990, up from 15,848 in 1989 and 11,573 in 1988.

At the same time, only 1,867 new defined benefit plans received qualification letters from the IRS in 1990, compared with 5,461 in 1989 and 16,812 in 1988. In comparison, 11,454 new defined contribution plans received qualification letters in 1990, compared with 22,897 in 1989 and 46,256 in 1988.

Those figures, cautions Mr. Jeffay, "can be a little misleading."

Benefit experts agreed that for the most part, the terminated defined benefit plans were offered by small to medium-sized companies, which generally are defined as having fewer than 1,000 employees.

"The small companies seem to continue to terminate defined benefit plans, so you end up with large numbers of plans terminating but few people in them," said Dallas Salisbury, president of the Employee Benefit Research Institute in Washington, D.C.

Gerald Facciani, president and chief executive officer of the Facciani Division of the C&B Consulting Group in Cleveland, said that a large majority of defined benefit plans sponsored by companies with fewer than 100 employees already have been terminated. Many companies now terminating defined benefit plans have 100 to 1,000 employees, he continued.

One reason that small companies are dropping defined benefit plans is administrative costs.

According to a study by the Pension Benefit Guaranty Corp., administration costs for defined benefit plans with 15 participants were $455 per participant in 1991, up from an inflation-adjusted $162 in 1981.

Administration costs for plans with 75 participants grew to $259 per participant in 1991 from $115 in 1981. The cost for plans with 500 participants were $133 per participant in 1991, compared with $56 in 1981.

The administrative cost for a defined contribution plan with 75 participants in 1991 was $143 per participant, up from $95 in 1981, while the cost for a defined contribution plan with 500 employees was $85 in 1991, up from $54 in 1981.

For very large companies, administration costs on a per-participant basis are substantially less.

For example, the administration costs for a defined benefit pension plan with 10,000 participants totaled

Continued on page 14

Pension plans

Continued from previous page
$54 per participant in 1991, up from $19 per participant in 1981, according to the PBGC. Administrative costs for a defined contribution plan with 10,000 participants rose to $39 in 1991 from $17 a decade earlier.

Another reason companies are terminating defined benefit plans is because they are tired of complying with complex and changing rules.

There has been "a continuing parade of regulations" for companies to comply with, beginning with the Employee Retirement Income Security Act of 1974 and extending through almost every subsequent piece of tax legislation, pointed out Mr. McDermott of Foster Higgins.

Although the laws and regulations apply to both types of plans, they are more onerous for defined benefit plans, he added.

Also to blame are skyrocketing PBGC premiums, benefit experts said.

In 1974, PBGC premiums for single-employer defined benefit plans were set by Congress at $1 per participant. They rose to $2.60 in 1978 and to $8.50 in 1986. In 1988, the basic premium rose again to $16 per participant, and an additional variable rate for underfunded plans was levied at $6 per $1,000 of unfunded vested benefits, capped at $34 per participant, for a total maximum premium of $50.

This year, the basic premium was boosted again to $19 per participant and the variable rate for underfunded plans increased to $9 per $1,000 of unfunded vested benefits, capped at $53 per participant, for a total maximum premium of $72 per participant.

The premiums are needed because the PBGC's losses—incurred when the agency takes over an underfunded plan—have been much greater than anticipated.

However, some complain that PBGC premiums have gotten out of hand.

"This is not really a premium; it's a tax on defined benefit plans," complained Mr. McDermott.

Sponsors of defined contribution plans do not have to pay PBGC premiums.

Some companies also believe that defined benefit pension plans are not very relevant to today's workers, who tend to be younger and do not spend an entire career with one company.

Take, for example, Universal Foods Corp. of Milwaukee. The food ingredient manufacturer with 4,000 full-time employees terminated its defined benefit plan two years ago and replaced it with a defined contribution employee stock ownership plan.

Rich Carney, the company's director of benefits, explained that employees were never sure what their retirement benefit would be under the defined benefit plan.

Now, with the defined contribution plan, workers "see what their retirement benefit is and how it's growing," he said.

Furthermore, because the defined contribution plan's assets are invested in company stock, "they have a vested interest in how the company does," he said.

Defined contribution plans are growing more popular, both as additions to existing defined benefit plans and as replacements for terminated ones.

According to the Hewitt survey, only 1% of employers with defined benefit plans did not also offer at least one defined contribution plan in 1990, down from 4% in 1985. Nearly every employer that did not offer a defined benefit plan offered a defined contribution plan, the survey found.

Companies that terminate a defined benefit plan overwhelmingly choose to replace it with a defined contribution plan, usually a 401(k) plan, according to C&B Consulting's Mr. Facciani.

Of the approximately 200 defined benefit plan terminations on which C&B has consulted over the past four years, 95% of the companies have either installed a new 401(k) plan or improved the level of the company's matching contribution to an existing 401(k) plan, Mr. Facciani said. The other 5% have not replaced the defined benefit plan, he added.

"Over the last five years, we have not implemented a new defined benefit plan; that's incredible," Mr. Facciani stated.

Companies for the most part are reluctant to form new defined benefit plans because they do not want to pay the PBGC premiums, deal with the regulations associated with defined benefit plans or take on the fixed commitment of providing specific benefits in the future, said Gary Blank, a consultant in Wyatt's San Francisco office.

For startup companies, defined contribution plans are more advantageous than defined benefit plans because the company can adjust its contribution each year depending on how well the business does, Mr. Jeffay pointed out.

Some suggest that employers are embracing defined contribution plans because they generally require the employee to make some form of contribution, while most defined benefit plans are non-contributory.

"Right now, there is a basic philosophical restructuring in corporations," noted EBRI's Mr. Salisbury.

Instead, companies see the corporate role as providing information to individuals and opportunities for individual savings, he said.

There is a "greater emphasis on a matched savings plan to inject employee responsibility into the retirement plan," Mr. Jeffay noted.

At Hartmarx, for instance, an employee must defer at least 1% of pay to the company's 401(k) plan to participate in the defined benefit plan, noted Mr. Pikelny. "Our defined benefit plan is really an incentive for (employees) to contribute to the defined contribution plan," he said.

"Our philosophy is you need retirement income from all three sources," he said, referring to company-provided benefits, individual savings and Social Security.

Some experts, though, have misgivings about do-it-yourself approaches.

Karen Ferguson, director of the Pension Rights Center in Washington, D.C., and an advocate of defined benefit plans, pointed out that under most defined contribution plans, companies "only have to make contributions for those who can afford to save for themselves." And, "there is no evidence that a do-it-yourself savings approach to retirement can do the job," she added.

A 401(k) plan is "a terrific middle-income tax shelter," she said. "Whether it's a retirement income vehicle is another question."

Furthermore, workers tend not to invest their 401(k) contributions in high-yield vehicles, Mr. Blank pointed out. Given a choice, most choose a fixed-income investment.

That choice hurts employees, he noted, because in "any 10-year period, the equity markets outperform fixed-income vehicles."

By the year 2010, when the first Baby Boomers are ready to retire, they may not have enough in their defined contribution plans to quit work, he suggested.

"We're not a very forgiving society," Mr. Blank said, adding that people are going to ask why their employers did not educate them better about the implications of their investment choices. ■

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Spotlight report

Pension integration formulas changed

By DEBORAH SHALOWITZ

Many companies that integrate their defined benefit pension plan benefits with Social Security benefits are redesigning their plans to meet Internal Revenue Service pension non-discrimination rules.

While some companies hope to pass those tests with their current Social Security integration formulas, others are changing their formulas or boosting benefits for lower-paid employees to enable them to pass the tests.

Still others are eliminating Social Security integration altogether.

Traditionally, most large employers that integrate pension and Social Security benefits have coordinated the benefits using a method called primary insurance amount offsetting —better known as PIA offsetting (*BI,* May 28, 1990).

Under this method, an employer calculates a participant's pension benefit based on formula specified by the employer's plan. Then a portion of the participant's Social Security benefit—typically 50%—is subtracted from the calculated pension benefit. The difference is the actual benefit paid by the defined benefit plan.

The final IRS pension non-discrimination regulations issued in September do not include a safe harbor for PIA offset plans. Under a safe harbor, an employer can tell from the design of its plan whether the plan is non-discriminatory.

Instead, all employers with PIA offset plans will have to run complex tests to determine whether the plan is non-discriminatory.

In response to the regulations, many companies are redesigning their offset formulas, said Richard Joss, the resource actuary for The Wyatt Co. in Washington, D.C.

In a recent study, Hewitt Associates found that 35% of surveyed employers integrated pension and Social Security benefits with a PIA offset formula, down from 66% in 1985.

One company considering eliminating its PIA offset is Hartmarx Corp. of Chicago.

The company, which has 7,000 non-union employees and retirees in its retirement plan, is unlikely to pass the non-discrimination tests using a PIA offset, said Michael Pikelny, its employee benefits manager.

"All the Social Security offset plans, like ours, were designed without any discrimination in mind," Mr. Pikelny commented. "It wasn't discrimination; it was just a way of coordinating the benefits."

Now, the clothing manufacturer and retailer may switch to a so-called step-rate excess formula for Social Security integration, which is protected by a safe harbor, he said.

Under a step-rate excess formula, an employer promises to pay a benefit based on:

- A certain percentage of the worker's salary up to a designated level or "breakpoint."
- A higher percentage of the worker's salary that exceeds that breakpoint.

By using a lower benefit formula up to the designated breakpoint, the employer essentially is taking Social Security benefits into account when calculating an employee's pension benefits.

A plan using this type of integration formula generally could qualify for an IRS safe harbor if the percentage applied to salary above the breakpoint is not more than 0.75 percentage point higher than the percentage applied to salary below the breakpoint or double the percentage applied to salary below the breakpoint, whichever is less.

For instance, if an employer used a pension formula of 1% of salary under the breakpoint, it could use a formula of up to only 1.75% of salary above the breakpoint.

In addition, to meet the safe harbor, the breakpoint would have to be equal to an employee's "covered compensation." Covered compensation is the average of the Social Security wage bases for the 35-year period ending in the year an employee reaches Social Security retirement age, generally 65.

Covered compensation is derived from an IRS table based on an employee's age. For example, covered compensation of an employee born in 1926 and retiring this year would be $19,728.

According to the Hewitt survey, step-rate excess integration had grown among employers between 1985 and 1990: to 42% from 25%.

Most companies that still are integrating pension benefits with Social Security benefits are choosing this integration formula because it affords companies basically the same result as a PIA offset, noted Jason Jeffay, a consultant with Hewitt in Fowayton, Conn.

Hartmarx also is considering one other option. It could try to pass the non-discrimination tests by maintaining the PIA offset formula and adding a flat dollar minimum benefit to boost benefits for lower-paid employees, Mr. Pikelny said.

Karen Salinaro, a partner with consultant Kwasha Lipton in Fort Lee, N.J., commented that a minimum benefit formula that enables companies to pass the IRS general non-discrimination tests may be the least costly solution for companies currently using a PIA offset.

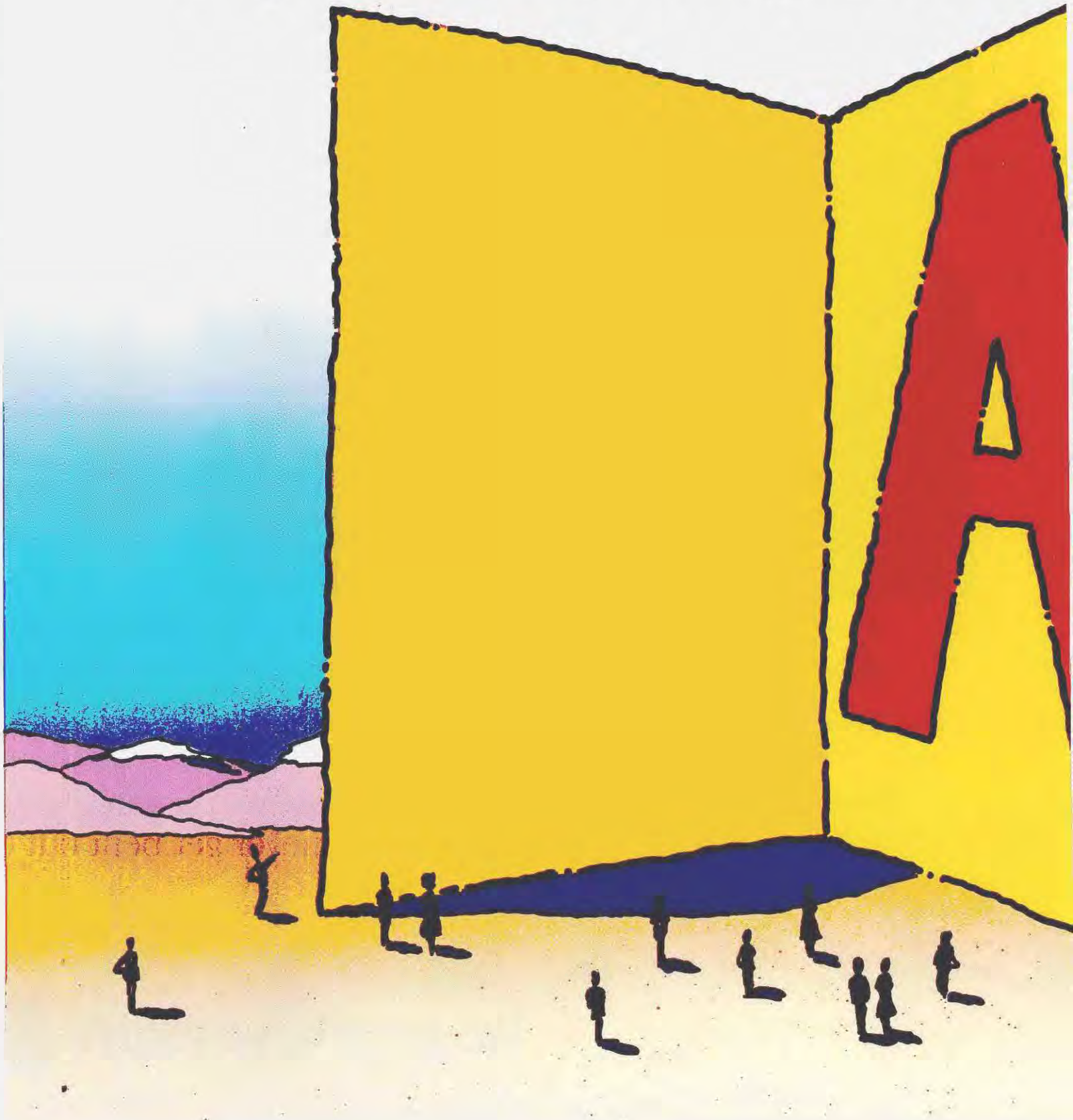
For some companies, especially large firms, having a pension plan that complies with the IRS safe harbor specifications is not crucial because these companies have the resources to perform the non-discrimination tests, noted Brian McDermott, a principal with A. Foster Higgins & Co. Inc. in New York.

Faced with a choice between trying to pass the non-discrimination tests and eliminating Social Security integration altogether, the cost of eliminating integration "far outweighs" the cost of performing the tests, Mr. Jeffay commented.

However, an employer could be tempted to eliminate Social Security integration altogether if it has many low-paid employees and few high-paid employees, said Anna Rappaport, a managing director of William M. Mercer Inc. in Chicago.

Furthermore, companies may eliminate Social Security integration in an effort to simplify very complicated pension plans, she said. ■

When you get this kind of report card, it's big news.



Firms limit some 401(k) deferrals

Contributions by highly paid workers capped to pass non-discrimination tests

By JERRY GEISEL

LINCOLNSHIRE, Ill.—More employers than ever say they have had to limit salary deferrals by highly compensated employees to 401(k) plans to pass non-discrimination tests.

Sixty percent of employers surveyed by benefit consultant Hewitt Associates said they had to cap salary deferrals made by higher-paid employees last year to prevent their 401(k) plans from failing the tough non-discrimination rules laid down by the Tax Reform Act of 1986.

That's up sharply from 1987 when 50% of employers surveyed by Hewitt said they had to place limits on contributions by higher-paid employees to pass the non-discrimination tests, which compare 401(k) deferrals of higher-paid employees with those of lower-paid workers to ensure the difference is within legally set limits.

The recession, which began last year, may be one of the reasons employers are having more trouble passing the non-discrimination tests.

A recession is more likely to limit the ability of lower-paid employees to make 401(k) salary deferrals than higher-income employees, noted Karen Frost, a Hewitt consultant in Lincolnshire, Ill.

Lower-paid workers have less discretionary income than higher-paid employees, Ms. Frost said. As a result, a lower-paid employee has fewer other resources to fall back on when, for example, a spouse is laid off because of the slow economy, causing the worker to halt or reduce deferrals to a 401(k) plan.

Another factor contributing to employers' increased problems with the 401(k) non-discrimination tests may be other provisions in the 1986 tax law that eliminated or reduced the tax shelters available to the wealthy.

With other tax shelters cut back, highly paid employees may boost their contributions to their 401(k) plans to avoid taxes.

While problems with the non-discrimination tests are increasing, employees and employees have not lost their enthusiasm for 401(k) plans.

Employers report that an average of 72% of eligible employees participated in their 401(k) plans last year, a rate virtually unchanged from 1987.

"401(k) plans continue to be extremely popular. They are a hit with employees," Ms. Frost said.

The plans let employees make pretax contributions, which earn tax-deferred interest. Typically, employers will match a portion of contributions made by employees, up to an average of 6% of salary deferred.

Clearly, 401(k) plans are winners in the eyes of employers, too. According to earlier Hewitt surveys, more than 90% of major employers now offer 401(k) plans, the fastest growing employer-provided benefit plan of the last decade.

And companies continue to adopt 401(k) plans, even in the face of tougher government rules.

Hewitt found that more than 25% of employers with plans have adopted them since 1986, when Congress tightened the non-discrimination tests and made other

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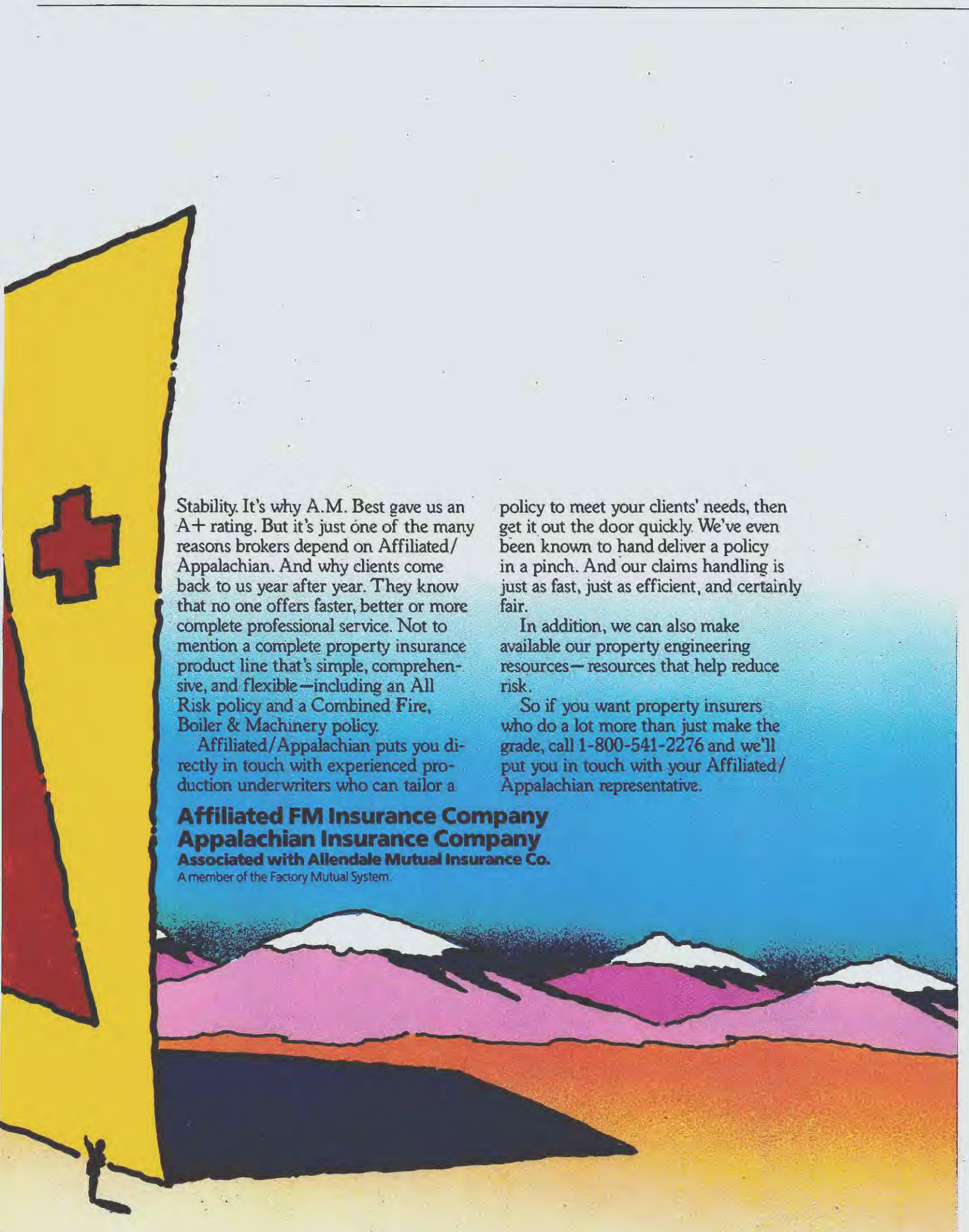

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Non-discrimination

Continued from previous page
changes that have made 401(k) administration more complex.

The Hewitt survey, based on the responses of 677 employers with 401(k) plans and which will be released next month, is the most comprehensive 401(k) plan survey ever conducted.

Among other things, the survey reports on how many investment options employers offer, how employees invest contributions, the growing popularity of loan provisions and how employers administer hardship withdrawal provisions.

The most striking results of the survey, though, center on the problems that employers have had passing the 401(k) non-discrimination tests.

Under those tests, laid down by the 1986 tax reform act, the average percentage of salary deferred by highly compensated employees —generally those earning more than $60,000 annually—cannot exceed the greater of these two amounts:

- 125% of the average actual deferral percentage (ADP) elected by lower-paid employees.
- The lesser of either 200% of the average ADP among lower-paid employees or the ADP of lower-paid employees, plus 2%.

Among employers that said they had to take action in order to pass the non-discrimination tests, more than half—57%—said that at the beginning of the plan year they limited the portion of salary that higher-paid employees could defer to their 401(k) plans.

That strategy makes sense from both an employer and employee perspective, Ms. Frost pointed out.

Capping contributions is easier before the plan year starts than afterward. It also is less of an administrative chore than returning excess contributions at the end of a plan year.

Many employers, with years of experience analyzing prior year contribution statistics, can make reasonably close estimates of the average deferral during the coming year by both higher- and lower-paid employees. As a result, employers often know at the start of a plan year by how much they have to limit highly paid employees' 401(k) contributions to enable their plans to pass the non-discrimination tests.

Despite this, however, 30% of surveyed employers established contribution limits for higher-paid employees during the plan year, while 24% returned excess contributions after the plan year ended. Some employers took more than one action.

In addition, 15% of employers said they "restructured" their 401(k) plans to pass the non-discrimination tests.

Under that technique, a 401(k) plan is broken down into separate plans covering employees at different locations or those in separate job categories. These component plans then can be tested separately.

Restructuring has allowed higher-paid employees at some companies to contribute hundreds of dollars more to their 401(k) plans without the plans running afoul of the non-discrimination tests.

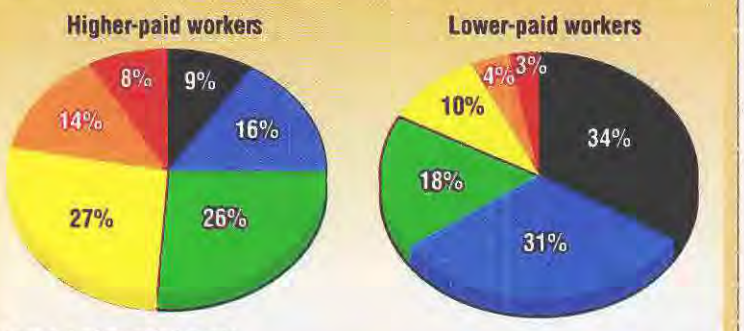
But restructuring, under final Internal Revenue Service 401(k) rules released in August, will be banned at the end of the 1991 plan year (*BI*, Aug. 12). That, in turn, probably will mean that more employers next year will have to limit contributions by higher-paid employees.

Among employers that placed limits on salary deferrals by higher-paid employees, 49% limited contributions to 6% or less of pay. Another 26% limited contributions to between 6.01% and 8% of pay; 6% capped deferrals at between 8.01% and 9%; 12% set limits—as a percentage of pay—at between 9.01% and 10%; and 7% limited contributions to more than 10% of pay.

The average limit—among employers setting deferral limits on higher-paid employees—was 7% of pay.

Employees' 401(k) deferrals

Higher-paid workers deferred an average of 4.9% of pay tp 401(k) plans in 1990, while lower-paid workers deferred an average of 3.8%.



Source: Hewitt Associates

GRAPHIC BY CYNTHIA WATSON

Even after limits were set or other adjustments, the average ADP of higher-paid employees was more than one percentage point higher than the ADP of lower-paid employees.

According to the survey, the average ADP of highly compensated employees last year was 4.9% compared with 3.8% for lower-paid employees.

Indeed, more detailed statistics show striking differences between the deferral rates of the two groups.

For example, 22% of employers said the ADP of their higher-paid employees exceeded 6% in 1990, while just 7% of employers reported that their lower-paid employees' ADP exceeded 6% (see chart).

On the other hand, only 9% of employers reported that the ADP of their higher-paid employees fell under 3%, while 34% said that lower-paid employees' ADP was less than 3%.

The survey also reported that employers offered an average of 3.7 investment options to 401(k) plan participants. Twenty-four percent of employers offered at least five investment options, 26% each offered three or four options, 19% provided two options and 5% of employers offered just one investment option.

The most common investment options for 401(k) salary deferrals and the percentage of employers offering those options are:

- Equity funds, 88%.
- Guaranteed investment contracts, 67%.
- Short-term securities and money market funds, 45%.
- Government bonds or other fixed income, 41%.
- Company stock, 38%.

Fifteen percent of employers 'restructured' 401(k) plans to pass non-discrimination tests.

More than half—57%—of the surveyed employers said they either are now in compliance or intend to comply with Labor Department rules that would make it easier for companies to avoid fiduciary liability for investment decisions made by employees enrolled in defined contribution plans, like 401(k) plans.

Another 36% said they are examining the so-called 404(c) rules, while 7% of employers said they do not intend to comply with the rules.

The 404(c) rules, proposed earlier this year and expected to be finalized next month, require employers to offer defined contribution plan participants at least three diversified investment categories, each of which has "materially different risk and return characteristics."

Employer stock also can be offered, but only as a fourth alternative and only if it is publicly traded with sufficient frequency and volume to assure liquidity (*BI*, Dec. 24, 1990).

Forty-five percent of employers said they allow 401(k) plan participants to switch from one fund to another once a quarter, while 10% allow daily switching between funds and 10% allow monthly switching.

In addition, 18% of employers allow semi-annual moving of account balances and 7% permit changes only once a year. Ten percent of respondents have other schedules.

Under the Labor Department's 404(c) proposed rules, participants would have to be allowed to switch at least quarterly from one type of fund to another.

Twenty percent of employers said their 401(k) plan administrators process fund transfer requests the day that the request is made. However, 22% of employers said their plan administrators take at least five weeks to process fund transfers, while another 22% said transfers take four weeks, 5% said transfers are processed within three weeks and 18% said transfers take less than one week. The other employers gave some other response.

While employers typically can offer employees several investment options as well as the opportunity to switch money among the options, employees generally prefer to keep their money in a fairly conservative investment option: GICs.

For example, among plans offering a GIC option, 59% of plan participants' contributions are invested in GICs, down slightly from 64% in 1987.

By contrast, among plans offering employer stock as an investment option, just 30% of participant contributions are invested in stock, down from 33% in 1987. Among plans offering equity funds as an investment option, 25% of participant contributions are invested in these funds, up from 23% in 1987.

"Employees don't like to put their monies in funds where they can be exposed to losses," Ms. Frost said, explaining the popularity of GICs.

"It is an emotional issue. When you get a statement and see a reduction in an account balance, it is difficult not to react even if you know your money is invested for the long term," he said.

Some employees, though, whose 401(k) plans chose Executive Life Insurance Co. as a GIC provider, could face losses depending on the outcome of the California Insurance Department's efforts to sell the failed insurer.

Executive Life sold about $1 billion in GICs to 401(k) and other defined contribution plans before it was seized in April by California regulators.

At this point, the negative publicity surrounding Executive Life has not affected participants' penchant to direct their 401(k) contributions to their plans' GIC option, Ms. Frost said (see stories, beginning on page 3).

"GICs are still perceived as a safe fund offering a combination of low risk and good return," she said.

Other survey findings include:

- More than 90% of 401(k) plans allow participants to make in-service withdrawals for "financial hardship."

The most common conditions for which employers will allow withdrawals are uninsured medical expenses, purchase of a primary residence, education of a family member and payment of expenses to prevent eviction from home.

- Sixty-seven percent of employers offer a 401(k) loan provision, up from 62% in 1987, while 3% say a loan feature is under consideration.
- An average of 9.2% of plan participants applied for loans in 1990, while employers said an average of 20.7% of participants had loans outstanding at the end of 1990.

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Copies of "401(k) Plan Design and Administration" will be available in mid-December. To obtain a copy, contact Diane Schuett, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60069; 708-295-5000. The cost is $75.

Seldane®
(terfenadine) 60 mg Tablets

BRIEF SUMMARY

CAUTION: Federal law prohibits dispensing without prescription.

DESCRIPTION

Seldane (terfenadine) is available as tablets for oral administration. Each tablet contains 60 mg terfenadine. Tablets also contain, as inactive ingredients: corn starch, gelatin, lactose, magnesium stearate, and sodium bicarbonate.

INDICATIONS AND USAGE

Seldane is indicated for the relief of symptoms associated with seasonal allergic rhinitis such as sneezing, rhinorrhea, pruritus, and lacrimation.

CONTRAINDICATIONS

Seldane is contraindicated in patients with a known hypersensitivity to terfenadine or any of its ingredients.

PRECAUTIONS

General: Terfenadine undergoes extensive metabolism in the liver. Patients with impaired hepatic function (alcoholic cirrhosis, hepatitis), or on ketoconazole or troleandomycin therapy, or having conditions leading to QT prolongation (e.g. hypokalemia, congenital QT syndrome) may experience QT prolongation and/or ventricular tachycardia at the recommended dose. The effect of terfenadine in patients who are receiving agents which alter the QT interval is not known. These events have also occurred in patients on macrolide antibiotics, including erythromycin, but causality is unclear. The events may be related to altered metabolism of the drug, to electrolyte imbalance, or both.

Information for patients: Patients taking Seldane should receive the following information and instructions. Antihistamines are prescribed to reduce allergic symptoms. Patients should be questioned about pregnancy or lactation before starting Seldane therapy, since the drug should be used in pregnancy or lactation only if the potential benefit justifies the potential risk to fetus or baby. Patients should be instructed to take Seldane only as needed and not to exceed the prescribed dose. Patients should also be instructed to store this medication in a tightly closed container in a cool, dry place, away from heat or direct sunlight, and away from children.

Drug Interactions: Preliminary evidence exists that concurrent ketoconazole or macrolide administration significantly alters the metabolism of terfenadine. Concurrent use of Seldane with ketoconazole or troleandomycin is not recommended. Concurrent use of other macrolides should be approached with caution.

Carcinogenesis, mutagenesis, impairment of fertility: Oral doses of terfenadine, corresponding to 63 times the recommended human daily dose, in mice for 18 months or in rats for 24 months, revealed no evidence of tumorigenicity. Microbial and micronucleus test assays with terfenadine have revealed no evidence of mutagenesis.

Reproduction and fertility studies in rats showed no effects on male or female fertility at oral doses of up to 21 times the human daily dose. At 63 times the human daily dose there was a small but significant reduction in implants and at 125 times the human daily dose reduced implants and increased post-implantation losses were observed, which were judged to be secondary to maternal toxicity.

Pregnancy Category C: There was no evidence of animal teratogenicity. Reproduction studies have been performed in rats at doses 63 times and 125 times the human daily dose and have revealed decreased pup weight gain and survival when terfenadine was administered throughout pregnancy and lactation. There are no adequate and well-controlled studies in pregnant women. Seldane should be used during pregnancy only if the potential benefit justifies the potential risk to the fetus.

Nonteratogenic effects: Seldane is not recommended for nursing women. The drug has caused decreased pup weight gain and survival in rats given doses 63 times and 125 times the human daily dose throughout pregnancy and lactation. Effects on pups exposed to Seldane only during lactation are not known, and there are no adequate and well-controlled studies in women during lactation.

Pediatric use: Safety and effectiveness of Seldane in children below the age of 12 years have not been established.

ADVERSE REACTIONS

Experience from clinical studies, including both controlled and uncontrolled studies involving more than 2,400 patients who received Seldane, provides information on adverse experience incidence for periods of a few days up to six months. The usual dose in these studies was 60 mg twice daily, but in a small number of patients, the dose was as low as 20 mg twice a day, or as high as 600 mg daily.

In controlled clinical studies using the recommended dose of 60 mg b.i.d., the incidence of reported adverse effects in patients receiving Seldane was similar to that reported in patients receiving placebo. (See Table below.)

Rare reports of severe cardiovascular adverse effects have been received which include arrhythmias (ventricular tachyarrhythmia, torsades de pointes, ventricular fibrillation), hypotension, palpitations, and syncope. In controlled clinical trials in otherwise normal patients with rhinitis, at doses of 60 mg b.i.d. small increases in QTc interval were observed. Changes of this magnitude in a normal population are of doubtful clinical significance. However, in another study (N=20 patients) at 300 mg b.i.d. a mean increase in QTc of 10% (range -4% to +30%) (mean increase of 46 msec) was observed without clinical signs or symptoms.

In addition to the more frequent side effects reported in clinical trials (See Table), adverse effects have been reported at a lower incidence in clinical trials and/or spontaneously during marketing of Seldane that warrant listing as possibly associated with drug administration. These include: alopecia (hair loss or thinning), anaphylaxis, angioedema, bronchospasm, confusion, depression, galactorrhea, insomnia, menstrual disorders (including dysmenorrhea), musculoskeletal symptoms, nightmares, paresthesia, photosensitivity, seizures, sinus tachycardia, sweating, tremor, urinary frequency, and visual disturbance.

In clinical trials, several instances of mild, or in one case, moderate transaminase elevations were seen in patients receiving Seldane. Mild elevations were also seen in placebo treated patients. Marketing experiences include isolated reports of jaundice, cholestatic hepatitis, and hepatitis. In most cases available information is incomplete.

ADVERSE EVENTS REPORTED IN CLINICAL TRIALS

Adverse Event	Percent of Patients Reporting: Controlled Studies* Seldane N=781	Controlled Studies* Placebo N=665	Controlled Studies* Control N=526***	All Clinical Studies** Seldane N=2462	All Clinical Studies** Placebo N=1478
Central Nervous System					
Drowsiness	9.0	8.1	18.1	8.5	8.2
Headache	6.3	7.4	3.8	15.8	11.2
Fatigue	2.9	0.9	5.8	4.5	3.0
Dizziness	1.4	1.1	1.0	1.5	1.2
Nervousness	0.9	0.2	0.6	1.7	1.0
Weakness	0.9	0.6	0.2	0.6	0.5
Appetite Increase	0.6	0.0	0.0	0.5	0.0
Gastrointestinal System					
Gastrointestinal Distress (Abdominal distress, Nausea, Vomiting, Change in Bowel habits)	4.6	3.0	2.7	7.6	5.4
Eye, Ear, Nose, and Throat					
Dry Mouth/Nose/Throat	2.3	1.8	3.5	4.8	3.1
Cough	0.9	0.2	0.5	2.5	1.7
Sore Throat	0.5	0.3	0.5	3.2	1.6
Epistaxis	0.0	0.8	0.2	0.7	0.4
Skin					
Eruption (including rash and urticaria) or itching	1.0	1.7	1.4	1.6	2.0

* Duration of treatment in "CONTROLLED STUDIES" was usually 7-14 DAYS.

** Duration of treatment in "ALL CLINICAL STUDIES" was up to 6 months.

*** CONTROL DRUGS: Chlorpheniramine (291 patients), d-Chlorpheniramine (189 patients), Clemastine (146 patients)

OVERDOSAGE

Information concerning possible overdosage and its treatment appears in Full Prescribing Information.

DOSAGE AND ADMINISTRATION

One tablet (60 mg) twice daily for adults and children 12 years and older.

Product Information as of July, 1990

MARION MERRELL DOW INC.
Prescription Products Division
Kansas City, MO 64114

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Firms urged not to sell pension plans short

By MICHAEL BRADFORD

Employers are wasting an expensive benefit if they are not educating workers about their pension benefits.

Unless businesses do more than simply pass out literature, workers will not appreciate or understand the value of retirement plans, consultants and employers agree.

Employers also should give defined benefit plans more of the spotlight, featuring them as an integral part of a total retirement package, experts agree.

At the same time, the wide-scale acceptance of defined contribution plans during the 1980s means that employers may have to reconsider the methods they use to communicate these benefit programs.

"In a pension plan, if an employee doesn't understand or appreciate the benefit, he or she may make a decision about leaving or not coming to work for an organization," explained Tim Hankins, a defined contribution pension plan consultant for The Wyatt Co. in Los Angeles.

Employers that do not push their plans "are short-selling the best benefit they have for the long term," agreed Clyde Baucom, corporate director of personnel and benefits at Multimedia Inc., a diversified communications company based in Greenville, S.C.

And, there is the "social and moral responsibility" that employers have to help workers put together a retirement plan that will meet their financial needs, said Monirah Womack, principal with A. Foster Higgins & Co. Inc. in Atlanta.

For example, an employee aiming for early retirement might be able to accomplish that goal through 401(k) plan contributions, she said.

Defined benefit plans usually do not receive as much attention as defined contribution plans because employees often must contribute to defined contribution plans. On the other hand, defined benefit plans are non-contributory and enrollment in these plans often is automatic.

But, experts say employers that do not promote their defined benefit plans are making a mistake. Just because enrollment is automatic, the plans should not be kept on the shelf until an employee retirees, they argue.

A defined benefit plan should be "aggressively communicated because it is a tremendous benefit," Wyatt's Mr. Hankins said.

"I personally believe that handing out a summary plan description and saying, 'Here's our great program,' is disastrous," he said.

Judi L. Wallace, vp at consulting firm Booke & Co. in Winston-Salem, N.C., pointed out that many employees know little about defined benefit plans. Information about these plans generally is presented to employees only through annual or more frequent statements and in summary plan descriptions, she said.

But one of Ms. Wallace's clients recently proved that when employees are given a thorough education of their defined benefit plan, they understand its value and may even prefer it over a defined contribution plan.

The client, Wayne Memorial Hospital Inc. in Goldsboro, N.C., was considering scrapping its defined benefit plan for a defined contribution plan after a survey showed workers did not appreciate the defined benefit plan.

Wayne Memorial employees knew that many other companies offered 401(k)s and other defined contribution plans and they were concerned that their defined benefit plan was not "keeping up with the times or not rewarding them adequately," explained Jan Harper, vp of human resources at the hospital.

"We had major bucks going into something that was not perceived as a benefit," he explained. The defined benefit plan was not "doing anything to make employees feel grateful or that they were getting anything for their years of service."

However, the problem proved to be how the plan was explained, not the plan itself.

So last winter the company began a "massive educational campaign" that included frequent articles about the plan in employee communications.

In addition, the hospital hired Booke to help educate workers about the defined benefit plan and determine whether the hospital should switch to a defined contribution plan.

A task force made up of nonmanagement employees was formed to determine how to educate employees. The group decided to hold employee workshops covering retirement issues and allow workers to question actuaries about the intricacies of their plan and how a defined contribution plan would differ.

"As a result of the workshops, the task force came back and unanimously voted to keep the defined benefit program instead of dropping it for a defined contribution plan," Mr. Harper said.

He explained that employees during the workshops discovered some disadvantages about defined contribution plans. While they were familiar with advantages of defined contribution plans like 401(k) plans, workers were not aware that they would bear responsibility for investment decisions in such programs, Mr. Harper noted.

"They chose the security of a defined benefit plan," he said.

While consultants urge employers to beef up communication of their defined benefit plans, employers also must vigorously promote their defined contribution plans to encourage employee participation, Wyatt's Mr. Hankins said.

He said an employer at least should:

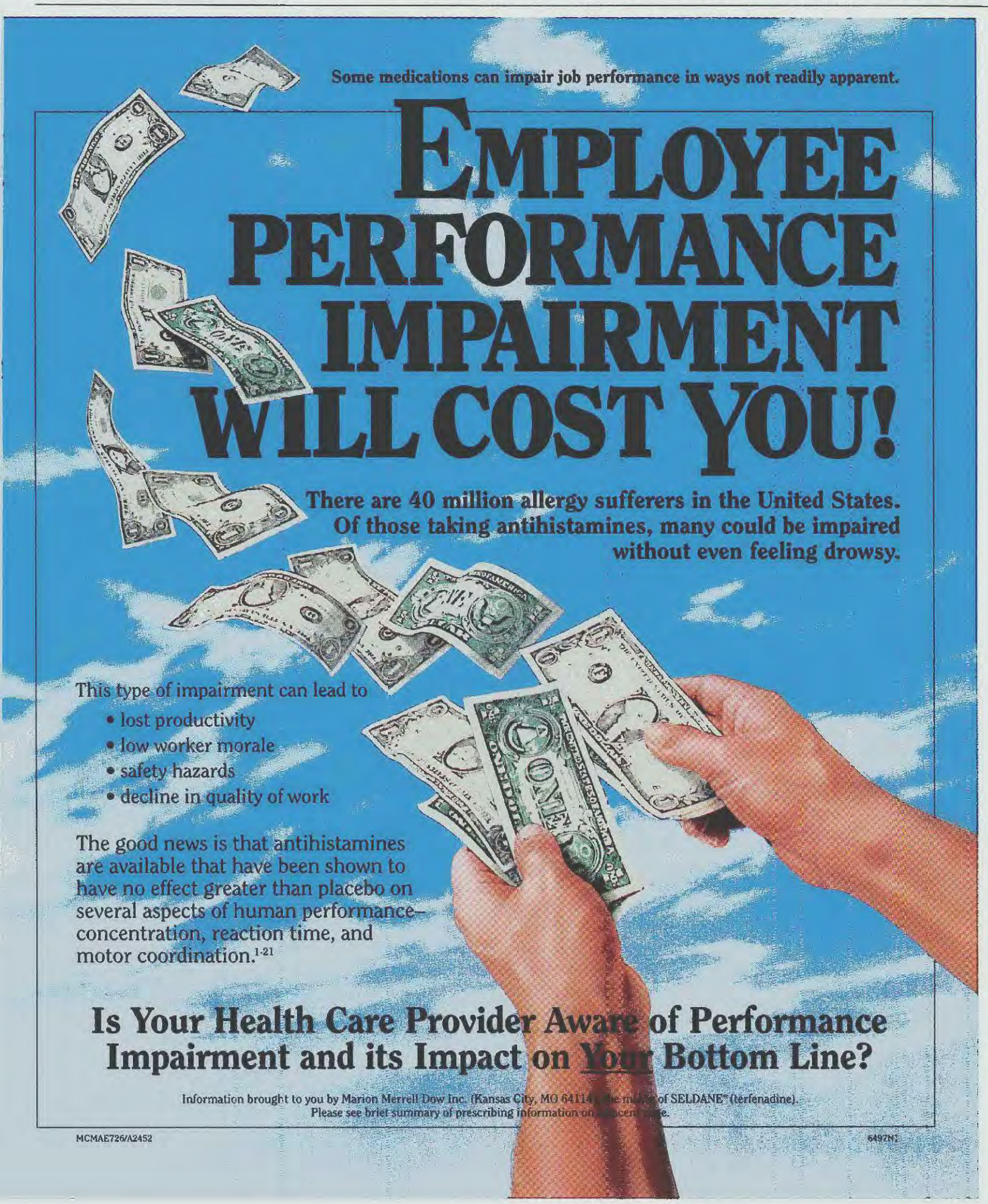
- Offer employees a brochure highlighting the workings and benefits of the plan.
- Schedule meetings monthly or at plan enrollment dates.
- Encourage employees to discuss participation with a spouse and other family members.

A poorly explained defined contribution plan is less valuable to an employer because "it is not as well-received" as one that employees understand, Mr. Hankins said.

Participants will not understand how the plan operates, how they can participate or what factors to weigh when making investment decisions, he said.

Consultants and employers agree that employers' have focused at-

Continued on next page



Spotlight report

Communications

Continued from previous page

tention on communicating defined contribution plans as those programs were swept into vogue with the popularity of 401(k) plans in recent years.

"The 401(k) was the plan of choice in the '80s," said Foster Higgins' Ms. Womack.

But when the plans were introduced, there was more emphasis placed on the benefit of investing pretax funds than on how to "use it to sock away money for retirement," she said.

But today there is "more at stake" because 401(k) balances have grown since the plans were introduced, she noted. And that makes explaining the plans even more important for employers.

"Sometimes the investment options that defined contribution plans have are difficult for employees to understand," said Booke's Ms. Wallace. Many workers become confused about factors like the risk involved with the investments and how investments generate income, she said.

To overcome the confusion, Multimedia came up with a few gimmicks, according to Mr. Baucom.

Apart from brochures, videotapes and meetings, Multimedia uses a "slide calculator" to show employees how their contributions can grow. The two-piece cardboard calculator has windows that indicate how balances increase assuming various employee contributions and company matches over time.

For example, the user can assume an employee contribution of 5% of pretax salary, plus other factors—like the company's matching contribution and a specified interest rate—over 10 years. The window provides the employee's projected accumulated benefits after 10 years.

In addition, payroll stuffers touting the plan feature cartoons by staff artists, Mr. Baucom said.

Multimedia's 401(k) program also received a new name. The plan was formerly called the Salary Deferred Thrift Plan, which "means nothing to anyone under 30," Mr. Baucom said. The plan now is called the 401(k) Matched Savings Plan. It carries the tag line: "Pay yourself first."

Dow Chemical Co. is encouraging employees to participate in its savings plan by sponsoring a series of benefit fairs at Dow worksites around the country.

Booths at the fairs feature interactive videos that allow workers to project future benefits from company-sponsored savings plans, explained Rosemary Swantek, manager of benefits communications at the Midland, Mich.-based chemical company.

While Dow offers a defined benefit plan that pays benefits based on a formula that considers years of employment, it also considers its savings plan "a part of the retirement package," Ms. Swantek said.

"We push our employees to get maximum value out of the plans," and the benefits fairs are designed to help employees see how their participation increases that value, she said.

The interactive videos allow employees to punch in salary and savings plan contribution amounts and then calculate retirement benefits. They have "gotten great reviews at the benefit fairs," Ms. Swantek pointed out.

Throughout the year, Dow heavily promotes its savings plan with in-house newsletter articles and quarterly statements, she said.

And employees have access to a telephone system that allows them to obtain information like account balances. Employees also can use the phone system to make plan changes, which they are allowed to do quarterly (see story, page 20).

Dow also offers financial planning to its employees. The company contracted with a certified financial planning firm to run employee workshops.

Following the sessions, employees can meet individually with a financial planner from the firm. If the worker agrees to let the planner develop a personal financial plan for the worker. Dow will reimburse the employee for a portion of the cost of that service, Ms. Swantek explained.

'We push our employees to get maximum value out of the plans,' Ms. Swantek says.

Although employers are encouraged by some consultants to give defined contribution plan participants investment information, giving direct advice can expose businesses to lawsuits from workers who lose money on the advice.

"Any organization that is giving investment advice could be running afoul of 404(c) regulations," said Mr. Hankins of Wyatt. These proposed Labor Department rules address how employers can avoid fiduciary liability for investment decisions made by employees in defined contribution plans (*BI*, May 6; Dec. 24, 1990).

"However, what employers can do is educate employees about investment terminology, how the stock market operates, what determines the value of stock" and other investment topics, she said.

In the wake of the state takeovers of Executive Life Insurance Co. and Mutual Benefit Life Insurance Co.—both large issuers of guaranteed investment contracts—employers are especially careful to explain investment options. Workers, though, generally are not greatly concerned about GIC investments (see story, page 6).

"Organizations are much more leery about words like 'guaranteed' that imply they are guaranteeing returns to employees," Wyatt's Mr. Hankins said.

Employers now are calling these investment options "fixed interest" or "insurance company contract funds," he pointed out.

Ms. Swantek said Dow is changing the name of its guaranteed investment contract option in the employee savings plan to the "stable income plan."

"It occurred to us that we could be giving the employee a false sense of security," she said.

Employers also should promote their pension plans—whether they are defined benefit or defined contribution plans—as part of an overall financial plan, consultants say.

Karen Greenbaum, managing director at William M. Mercer Inc. in Chicago, emphasized that while defined benefit plans usually are given short shrift, they should be promoted for the role they play in an overall retirement package.

"Employees haven't fully appreciated defined benefit plans because the plans haven't been communicated," Ms. Greenbaum said. "But if you combine it with other plans, you get a very different message" to relay to workers about their retirement, she observed.

Ms. Greenbaum said some employers have begun providing integrated benefit statements that give workers a total picture of how their retirement benefits are shaping up. Included are projected balances from all retirement and company savings plans, along with expected benefits from life insurance and medical plans.

"We're seeing more and more employers taking all the plans and counting them together," with the aim of emphasizing the results of a plan rather than the nitty gritty details that are found in a summary plan description, she said.

Integrating benefit statements allows employees to do some financial planning, she noted.

Ms. Greenbaum noted that employees should figure that they will have to replace 60% to 80% of their final earnings to maintain their standard of living in retirement. The integrated retirement benefit statements show how much of that income retirement benefits will replace and how much employees will be responsible for replacing.

"It's telling employees that the company is not the sole provider," Ms. Greenbaum said. "And it's giving them the tools to do the planning."

Encouraging employees to take on some of their financial planning becomes more important as the baby boom population heads toward retirement age, she said.

Often, "where the employees are losing out is in not knowing how best to use defined contribution plans and what they are getting from a defined benefit plan if one is in place," said Ms. Womack.

Employees need to know "how to use the two sources to build for retirement. That's one of the things that really gets left out." ■

BENEFITS: Market Report

BI's annual Employee Benefits Market Report will track the trends in group health insurance, dental, disability and other types of employee benefit-related coverages. Editors will look at what the year ahead may hold for employee benefit managers.

This issue includes BI's ranking of the largest employee benefits consultants operating in the U.S. Profiles of these leading consultants will reveal some of the new products and services being offered to benefits managers.

Included in this issue is BI's annual Directory of Benefit Consultants — the most relied upon source for corporate decision-makers.

Update
Business Insurance

PUBLISHING:
DECEMBER 16

CLOSING:
DECEMBER 3

The Year In Review

1991 presented a myriad of challenges for commercial insurance, risk management, and employee benefits.

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*includes pass-along

Update
Business Insurance

PUBLISHING:
DECEMBER 23

CLOSING:
DECEMBER 10

Directory: Benefit Consultants

More firms delegate 401(k) administration

By SARA J. HARTY

Many employers are deciding it is no longer cost-efficient in today's sluggish economy to handle all aspects of 401(k) plan administration in-house.

Some companies—particularly larger ones—are calling on outside firms to handle all aspects of 401(k) administration, while others are increasingly farming out at least part of their administrative chores, like recordkeeping or communications with plan participants.

And, as more 401(k) administrators crop up in response to the growing popularity of the plans, the resulting competition among administrators will benefit both plan sponsors and plan participants.

As employers look at containing business expenses, many are finding that administering certain types of benefit programs in-house "is not the most effective use of their dollars," said Elinor Merl, a principal with TPF&C, a unit of Towers, Perrin, Forster & Crosby Inc. in Philadelphia.

Ten years ago, many companies thought they could administer their 401(k) plans for less money than an outside company could, said Dano A. Bartolai, a principal in Chicago with consulting firm William M. Mercer Inc.

However, as 401(k) plans have developed and outside administrators have become more experienced, "it is probably cheaper to go external than to administer in-house," he said.

And, even if it is not, the advantage of consistency in information that will be disseminated to plan participants and the fact that a knowledgeable staff is answering employees' questions may make it worthwhile for a company to place all 401(k) administrative work with an outside vendor, Mr. Bartolai said.

"There is a rush to 'outsource' the administration of benefits, including 401(k) plans," agreed Steve Hendryx, an Atlanta-based consultant with The Wyatt Co.

"This is the dirty work of administration that no one wants to do," he said. Concerns over errors made by in-house benefit staffs that are spread out across the country, excess paperwork and desires to trim staff wherever possible are causing employers to consider farming out all administrative tasks, Mr. Hendryx said.

"Where there used to be an employee-employer contact point, there is now an employee-administrator contact point," Mr. Bartolai said.

One reason for the growing interest in delegating more 401(k) plan administration and other benefit-related tasks to outsiders may be the growing "back-to-basics philosophy" of a lot of companies, Mr. Bartolai suggested.

"The general attitude toward outsourcing benefits is, 'Let someone who is an expert do it and we will focus on our business,' whether it be shoes, cars or whatever," he said.

An employer's "specialization is their business, not employee benefits," agreed TPF&C's Ms. Merl.

In one instance, TPF&C provided the complete human resource function that a client wanted by absorbing its human resources staff. Those staff members are now full-time TPF&C employees but are responsible for handling their former employer's benefit needs, including the administration of their 401(k) plan.

Other employers are taking smaller steps. For example, many are contracting with outside vendors to supply account information to plan participants and to record changes.

"The 800 numbers that used to be used for basic inquiries are being expanded now to allow employees to make transactions over the phone," said Jeff Croyle, a partner with Kwasha Lipton in Fort Lee, N.J.

And, as an extension of that, some employers are looking for outside organizations that will provide live operators to back up the computerized phone systems, said E. Scott Peterson, a Rowayton, Conn.-based partner and manager of defined contribution administration services for Hewitt Associates' eastern U.S. region.

The operators provide fact-based information—not advice—to plan participants, Mr. Bartolai said.

By having more calls routed to the administrator rather than the employee benefits department—something many companies are already doing—the human resource staff can be freed to work on tasks like planning and development, functions that are not as easily taken on by an outside source, Ms. Merl said.

Macmillan/McGraw-Hill Publishing Co. has found that an outside administrator's interactive phone system fits its current needs.

The New York-based company has used the system since May of this year to answer participant questions and allow investment transfers within the company's two-year-old 401(k) plan. By next spring, participants will also be able to change their rates of contribution and make loan transactions through the phone system, said Jim Martin, a Lake Forest, Ill.-based vp.

The system, which is provided by TPF&C, has nearly eliminated paper from the administration of the plan and allows the human resource department to concentrate on more "value-added things," like long-term planning, Mr. Martin said.

However, a major reason the system was chosen was for employee convenience, he said. "We're providing better service to our employees."

Handing administration entirely over to outside firms "is not something I would discount, but not something we're ready for right now," Mr. Martin said. "We're already pretty skinny in the human resource department." The publishing company has 11 human resource employees nationwide serving 2,650 employees.

It may be more realistic for small and mid-sized companies to follow larger companies in assigning all plan administration chores to outside sources at a later date, since prices are likely to come down and services are likely to become "refined over time," he noted.

Other employers are comfortable letting an outside administrator handle all plan-related services.

General Dynamics, a St. Louis-based defense contractor with 85,000 employees nationwide, chose to completely "outsource" the administration of its 401(k) stock and savings plan in January 1990, said Roger L. Groh, corporate director of employee benefits.

The outside administrator, Hewitt Associates, has provided for a "much improved system for the employees," Mr. Groh said. Plan participants receive more prompt service and more consistent information nationwide.

Plan participants can access Hewitt's voice response phone lines from 5 a.m. until midnight Monday through Saturday. Account representatives can be reached by phone from 9 a.m. until 9 p.m. Monday through Friday.

Participants can use the phone system to perform every function from inquiries about account balances to making withdrawals from their accounts.

And, the system is virtually paperless, Mr. Groh said.

As a "side benefit," General Dynamics was able to eliminate approximately 15 full-time and 20 part-time positions, Mr. Groh said, adding that some of these workers were given other jobs and others left, but none were laid off.

As success stories of outsourcing operations grow, "more and more companies will do it," said Gary Blank, a vp with The Wyatt Co. in San Francisco.

However, relegating every aspect

Continued on next page

RISK MANAGEMENT: Market Report

To prepare corporate insurance buyers for what lies ahead, BI's annual Risk Management Market Report will take a look at where property/casualty rates are headed in 1992.

Surveying all segments of the marketplace — insurers, brokers, risk managers, surplus lines officials, reinsurers and the London market — editors will prepare in-depth reports that assess the outlook in 1992 for each line of commercial insurance.

Update

Business Insurance

PUBLISHING:
JANUARY 6

CLOSING:
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401(k) plans

Continued from previous page
of 401(k) plan administration is still a relatively new development.

While Kwasha Lipton can supply live phone operators and take care of almost all plan administration needs, most clients have not taken the full outsourcing plunge yet, said Kwasha Lipton's Mr. Croyle.

And perhaps with good reason, he adds. Employers should do a "cost benefit study to see if it is a good idea financially" to actually cut their own benefits staff while farming out the staff's functions, Mr. Croyle advised.

In addition, the employer must be very prudent in choosing a full-service plan administrator. "No matter who the employees talk to, in the end the employer still has a fiduciary responsibility," TPF&C's Ms. Merl noted.

Meanwhile, as the range of services available to plan sponsors has grown broader, so has the selection of service providers, she said.

"The number of mutual fund providers" offering 401(k) administrative services "has certainly exploded," said Stephen Porcher, a consultant with A. Foster Higgins & Co. Inc. in Princeton, N.J. Unlike benefit consultants, these companies can provide investment management services to 401(k) plan participants.

Ten years ago, interest in 401(k) administration from financial services companies—like banks and mutual fund managers—was not that great because plan assets weren't very large, Ms. Merl said.

"Now the assets are huge and the interest is there to manage those assets," she said.

The growing interest that plan sponsors have shown in hiring outside administrators has led Citibank to consider providing more comprehensive 401(k) services, said John M. McCoy, a Citibank vp in New York.

Citibank already offers a voice response system that reduces the number of employee calls to the plan sponsor by providing participant access to account balances and fund performance, he said, adding that Citibank is now considering how it can provide all types of administrative services to 401(k) clients.

While financial services giants are increasingly involved in the 401(k) market, small administrators are using competitive pricing to capture the small-employer end of the marketplace, said Mr. Porcher of Foster Higgins.

In addition, none of the big players is getting out of the 401(k) administration services arena, Kwasha Lipton's Mr. Croyle said.

Not all administrators are benefit consultants, banks or financial services companies.

American Transtech, a subsidiary of American Telephone & Telegraph Co., provides voice response technology and live operators for plan sponsors that wish to set up phone lines for the administration of benefit plans, including 401(k) plans, said David S. Zacher, director of operations for the employee benefits administrative services division.

The Jacksonville, Fla.-based firm began performing AT&T's recordkeeping in-house after the breakup of the Bell System in 1983.

American Transtech now provides telephone services for several Fortune 100 companies and forwards the transaction information on to the client's recordkeeper. In addition, the company is capable of providing 401(k) recordkeeping services and does so for one client in addition to AT&T, Mr. Zacher said.

While new 401(k) administrators crop up constantly, most of the competition administrators will face in the future is from firms that are already in the field and "are going to be hammering away at each other," said John R. Rockwell, vp and manager of institutional sales of the Baltimore-based T. Rowe Price, a mutual fund sponsor that also offers 401(k) services.

The increased competition "pushes us to consider our services" and to be as "efficient as possible from a fee perspective," Hewitt's Mr. Peterson said.

"The overall winners are the plan sponsor and participant," Mr. Peterson noted.

"As a way of controlling costs and getting the most bang for their buck, employers are looking for one provider to provide a full range of services," TPF&C's Ms. Merl said.

This "one-stop shop is one advantage of using a mutual fund company as an administrator," Mr. Rockwell said. "Generally speaking, the bundled approach is less expensive and more timely in the sense that there is no delay in dealing with multiple investment providers."

Plan sponsors that choose a financial services company to administer their 401(k) plan "are really going through one company for three services: trusteeship, investment management and recordkeeping. If the plan sponsor later becomes unhappy with one aspect of that service," it's very difficult to discontinue only that piece and not all three, Wyatt's Mr. Blank cautioned.

And, the plan sponsor's fiduciary responsibility to review investment performance can present another disadvantage to the true "one-stop shopping" packages, Citibank's Mr. McCoy said. Plan sponsors that have been locked into one family of funds will have to move every aspect of the 401(k) plan to other service providers, he said.

However, one Boston-based mutual fund sponsor has several distinct units devoted to defined contribution services. Investment management, record keeping, plan administration and communications have each been "built to be a stand-alone service" in addition to fitting together as a package, said Bob Reynolds, president of Fidelity Institutional Retirement Services Co., the administrative arm of Fidelity Brokerage Services.

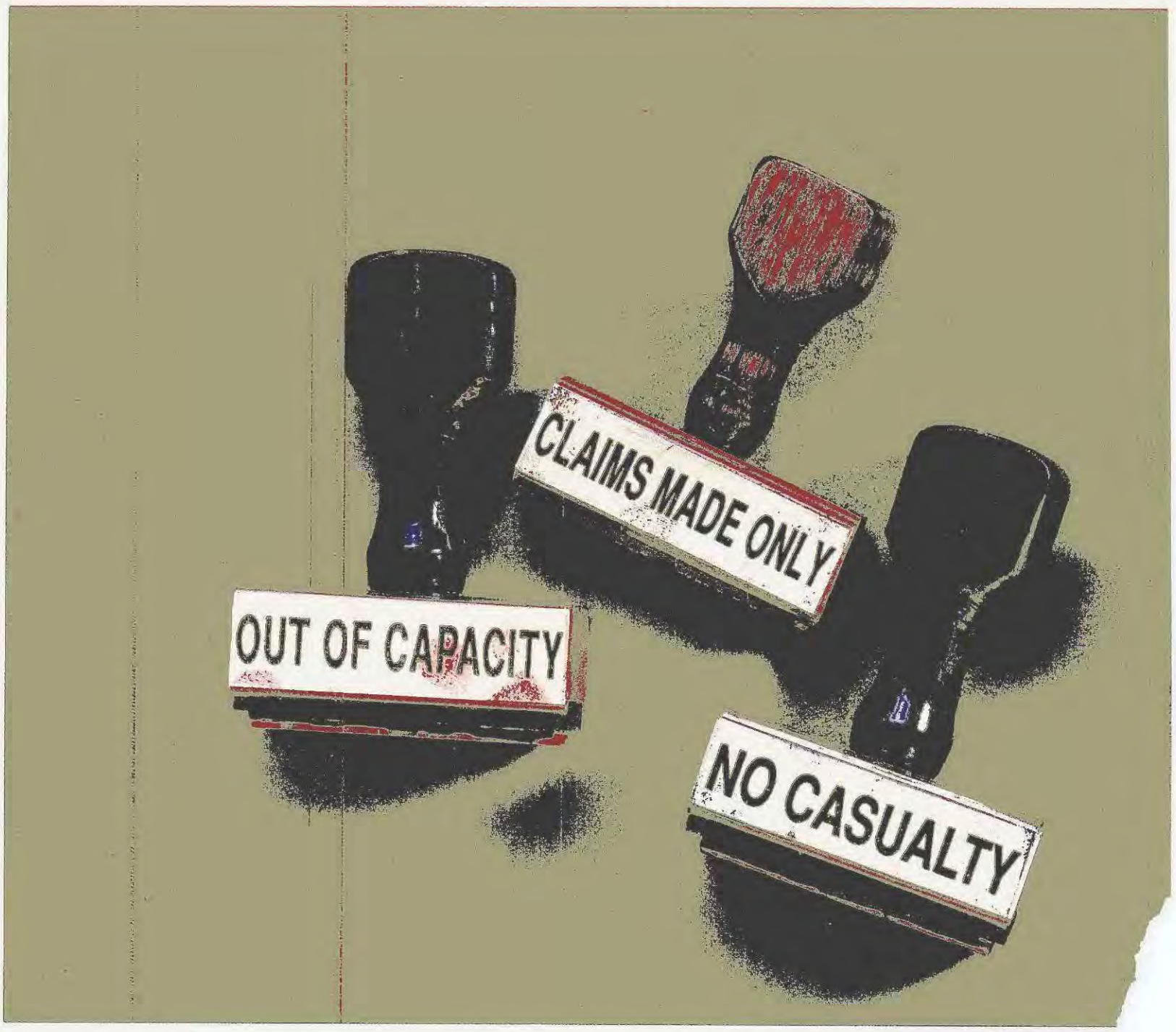
In an effort to meet the market demand for more complete service from each provider, "to the extent possible, all players are offering their version of full service," Ms. Merl said.

For instance, the financial services companies are getting more involved in communications and other traditional consulting-type advice, she said.

And, while consultants cannot act as investment managers, they are offering services that many plan sponsors want, such as daily transfers between investment options, she said.

Another option for plan sponsors looking for one-stop shopping is to select the individual "organizations with the best reputation in the field for" recordkeeping, trusteeship and investment management, suggested Mr. Croyle of Kwasha Lipton. Those providers can then jointly "put together what's very similar to a one-stop bundled package," he said.

Packages like this are generally competitive in price with the bundled packages offered by financial services companies, but have the advantage of greater flexibility, Mr. Croyle said. If the sponsor later becomes unhappy with the services of one provider, ties can be severed with that organization without harming the relationship with the other providers, Mr. Croyle said. ■



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Directory of 401(k) administrators

A

ACTI

7557 Rambler Road, Suite 1050, Dallas, Texas 75231; 214-891-0900; fax: 214-891-0849

Founded: 1968; began offering 401(k) plan administration services in 1982.

Parent company: Distributive Network of America Inc.

Software: Written and maintained by the company; accommodates 30 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Clients' on-line access.

Service area: Nationwide.

Locations: Administrative offices in Gaithersburg, Md.

Staff: 65 total; seven involved in 401(k) plan recordkeeping, administration or consulting.

Clients: No minimum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Leo J. Mott, chief executive officer; Gerald Forrester, chief financial officer; Gene G. Sandefur, vp-operations; Walter E. Fraiser, president.

Contact: Gerald Forrester, 800-362-2284.

ADQ Inc.

1 University Office Park, P.O. Box 8992; Waltham, Mass. 02254; 617-899-9111; fax: 617-899-4303

Founded: 1970; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates 30 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include investment advisory work and GIC negotiations.

Service area: New England and mid-Atlantic regions.

Locations: Consulting office in White Plains, N.Y.

Staff: 80 total; 50 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, five MBAs, one CPA, three ASAs/FSAs, two attorneys.

Clients: 250 total; 10% with 1 to 100 employees, 70% with 101 to 1,000 employees, 18% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 350 participants; largest plan, 7,000 participants; minimum size plan, 100 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Joel M. Disend, president; John Quesnel, David Vangel, managing consultants; Chris Blair, director-marketing; John Geary, consultant.

Contact: Chris Blair; John Geary, 914-682-2062 (Connecticut, New York, New Jersey).

ARS Benefits Inc.

4501 Circle 75 Parkway, Suite B-2190, Atlanta, Ga. 30339; 404-980-1908; fax: 404-859-0837

Founded: 1991; began offering 401(k) plan administration services in 1983 (predecessor company).

Software: Purchased from an outside vendor; accommodates 16 investment funds and six kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide, primarily the Southeast.

Staff: 10 total; four involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs.

Clients: 90% with 1 to 100 employees, 10% with 101 to 1,000 employees. Average plan, 35 to 50 participants; largest plan, 200 participants; minimum size plan, one participant; maximum size plan, 1,500 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Rich Maloney, chief executive officer; Gloria Aaberg, president; Don Walraven, senior vp; Bud Bockoven, vp; Scott King, assistant vp-marketing.

Contact: Gloria L. Aaberg.

AT&T American Transtech

8000 Baymeadows Way, Jacksonville, Fla. 32256; 904-636-1000; fax: 904-636-1182

Founded: 1983; began offering 401(k) plan administration services in 1986.

Parent company: American Telephone & Telegraph Corp.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Locations: Consulting offices in 28 locations nationwide.

Staff: 2,000 total; 250 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs, CPAs, ASAs/FSAs and attorneys.

Clients: 100% with more than 5,000 employees. Average plan, 25,000 participants; largest plan, 300,000 participants; minimum size plan, 10,000 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: John Foster, president/chief executive officer; Nancy Dreicer, vp-inbound direct marketing services; Frank Cobbin,

Continued on next page

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Continued from previous page
vp-outbound direct marketing services; Charlie Stambaugh, vp-marketing/sales; Brad Benton, executive director-employee benefits administration services.

Actuarial & Employee Benefit Services Co.

310 Terrance Ave., Cincinnati, Ohio 45220; 513-221-0612; fax: 513-221-1533

Founded: 1955; began offering 401(k) plan administration services in 1984.

Parent company: Continental Associates Inc.

Software: Written and maintained by the company, accommodates 10 investment funds.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Ohio, Kentucky, West Virginia, Michigan.

Staff: 24 total; four involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one attorney.

Clients: 13 total; 77% with 1 to 100 employees, 23% with 101 to 1,000 employees. Average plan, 30 participants; largest plan, 400 participants; minimum size plan, one participants; maximum size plan, 1,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $1 million total; $25,000 from 401(k) plan administration.

Principal officers: Carl R. Schlotman, James T. Schlotman.

The Administrative Management Group Inc.

3800 N. Wilke Road, Suite 250, Arlington Heights, Ill. 60004; 708-577-6000; fax: 708-577-6038

Founded: 1982; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates unlimited investment funds and kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full

Continued on page 26

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Guide to directory of 401(k) plan administrators

The third annual directory of 401(k) plan administrators contains information on companies that provide services like recording enrollment, maintaining participants' accounts and handling account activity. A firm must offer these services on an unbundled basis; it may or may not be responsible for clients' investment management.

The directory is published as an editorial service. There is no charge to be included; however, companies must respond to a *Business Insurance* questionnaire.

Listings begin with the company name, address, year **founded**, year the company began offering 401(k) plan administration services and **parent company** (if any).

Next, details on **software** used, **administration** services provided, and **client support** services offered are described.

Following, the **service area** and **locations** of branch offices are given. Details on **staff** and 401(k) **clients** follow. How the company **charges** for its services and **1991 gross revenues** when provided by the company are given.

Names and titles of **principal officers** and a **contact** person complete the listings.

Although every effort is made to print complete and accurate listings, *Business Insurance* is unable to verify all information provided by companies.

If your company offers 401(k) plan administration service and you would like to be included in next year's directory, please write Sarah E. Polster, Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

Following are the complete professional designations for those abbreviated under the staff heading: **ASA** is Associate, Society of Actuaries; **CEBS** is Certified Employee Benefit Specialist; **CPA** is Certified Public Accountant; **FSA** is Fellow, Society of Actuaries; **MBA** is Master of Business Administration.

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Continued from page 24
share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Services also include enrollment software, projection software, loan software, data management.

Service area: Nationwide.

Staff: 76 total; 41 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include eight MBAs, two CPAs, two ASAs/FSAs, one attorney.

Clients: 254 total; 4% with 1 to 100 employees, 68% with 101 to 1,000 employees, 24% with 1,001 to 5,000 employees, 4% with more than 5,000 employees. Average plan, 770 participants; largest plan, 9,000 participants; minimum size plan, 250 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: John Salajka, chief executive officer; David Goldenberg, chief operating officer.

Contact: John Salajka.

Alexander & Alexander Consulting Group Inc.

125 Chubb Ave., Lyndhurst, N.J. 07071; 201-460-6600; fax: 201-460-6677

Founded: 1934; began offering 401(k) plan administration services in 1976.

Parent company: Alexander & Alexander Services Inc.

Software: Written and maintained by the company; accommodates 20 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity clients' on-line access with voice response action, written communication of plan features to employees Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include investment services consulting, plan audits, vendor selection, systems consulting, plan design and communication consulting.

Service area: Nationwide.

Locations: Administrative and consulting offices in Atlanta, Baltimore, Dallas, Los Angeles, Philadelphia, St. Louis. Consulting offices in Boston; Detroit; Greenwich, Conn.; Minneapolis; New York. Pittsburgh; Richmond, Va.; San Francisco; Tampa, Fla.

Staff: 1,225 total; 60 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 205 total; 3% with 1 to 100 employees, 30% with 101 to 1,000 employees, 60% with 1,001 to 5,000 employees, 7% with more than 5,000 employees. Average plan, 1,000 participants; largest plan, 50,000 to 60,000 participants; minimum size plan, 100 participants; maximum size plan, unlimited participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $231 million total; $7 million from 401(k) plan administration.

Principal officers: The Alexander Consulting Group Inc.: A.M. D'Alessandro, chairman/chief executive officer; Donald Cleveland, president/chief operating officer; Alexander & Alexander Consulting Group Inc.: A. Norman Crowder, chairman/chief executive officer; Richard J. Anthony, president/chief operating officer.

Contact: Mark W. Kimble, managing director-corporate information, 201-460-6641.

American Capital Marketing Inc.

2800 Post Oak Blvd., Houston, Texas 77056; 800-231-3638 ext. 507; fax: 713-993-4215

Founded: 1927; began offering 401(k) plan administration services in 1985.

Parent company: Primerica Corp.

Software: Purchased from an outside vendor; accommodates 60 investment funds and 30 kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include submission of the summary plan description to the Department of Labor, preparation of IRS 5500 series forms, manuals.

Service area: Nationwide.

Locations: Consulting offices in Atlanta and Fort Collins, Colo..

Staff: 21 total; 19 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, one MBA, one attorney.

Clients: 40 total; 90% with 1 to 100 employees, 7.5% with 101 to 1,000 employees, 2.5% with 1,001 to 5,000 employees. Average plan, 175 participants; largest plan, 4,200 participants; no minimum size plan; maximum size plan, 5,000 participants.

Charges: Determined by number of participants, amount of assets under management, frequency valuations.

1990 gross revenues: $100 million total; $250,000 from 401(k) plan administration.

Principal officers: Don Powell, chief executive officer/president; Don McMullen, Robert Peck and Alan Sachtleben, executive vps; Paul Hilstad, general counsel.

Ameritas Life Insurance Corp.

5900 O St., Lincoln, Neb. 68510; 402-467-1122; fax: 402-467-7885

Founded: 1887; began offering 401(k) plan administration services in 1985.

Software: Purchased from an outside vendor; accommodates 64 investment funds and nine kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include prototype document, plan design and proposals, government reporting.

Service area: Nationwide.

Staff: 28 total; 20 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include three CEBSs, one MBA, two CPAs, three ASAs/FSAs, one attorney.

Clients: 31 total; 85% with 1 to 100 employees, 15% with 101 to 1,000 employees. Average plan, 38 participants; largest plan, 475 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, time and expense, frequency valuations.

1990 gross revenues: $307,447 total; $52,765 from 401(k) plan administration.

Principal officers: Lawrence J. Arth, president/chief operating officer; James R. Haire, senior vp-financial operations; Norman M. Krivosha, executive vp-administration.

Contact: Joseph Roy, 402-467-6977 or Jessie Waller, 800-745-9995.

Ameritrust

900 Euclid Ave., Cleveland, Ohio 44115; 216-737-4089; fax: 216-621-4971

Founded: 1894; began offering

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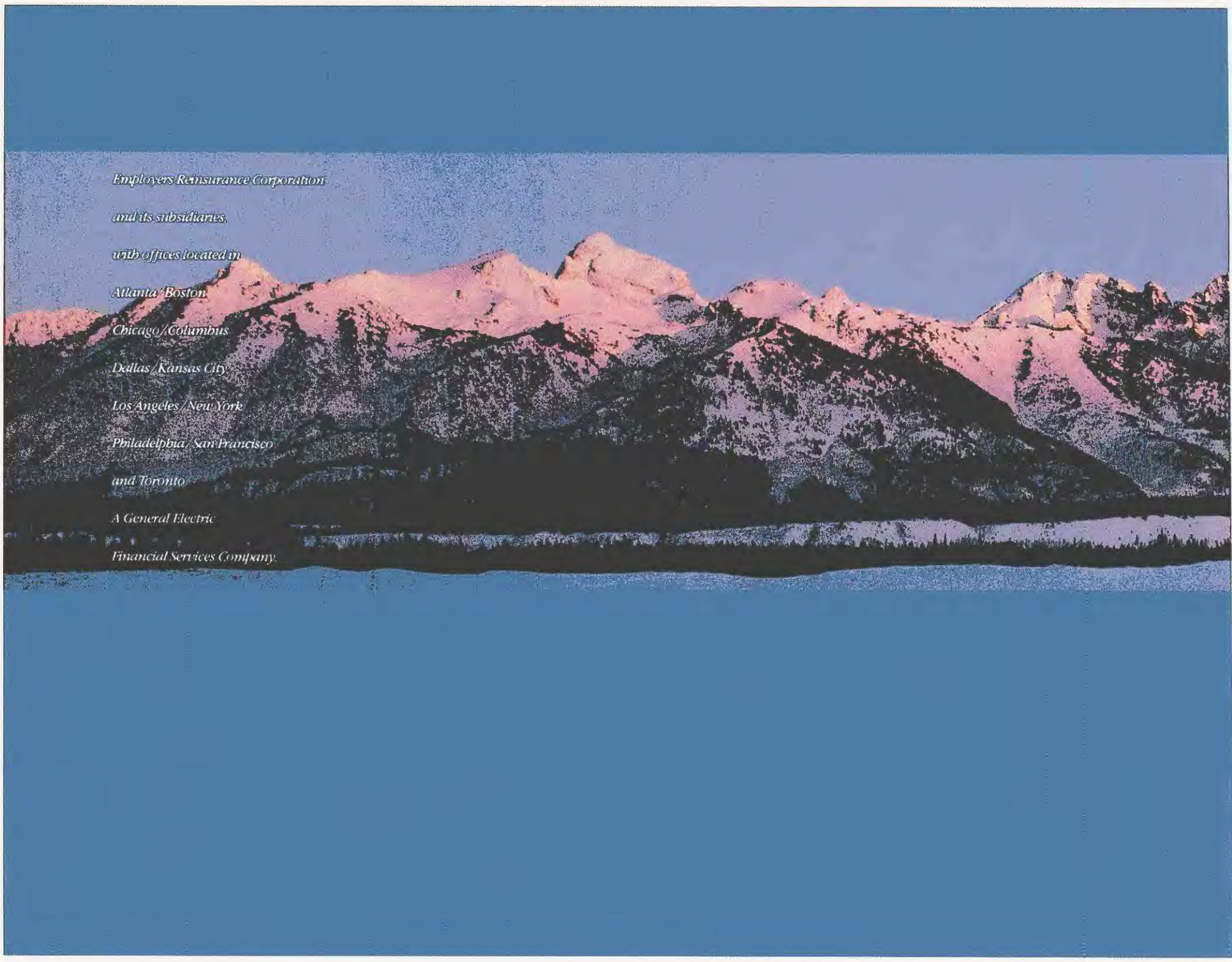

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401(k) plan administration services in 1979.

Parent company: Ameritrust Corp.

Software: Leased from an outside vendor; accommodates unlimited investment funds and 35 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include maintenance of prototype plan documents, on-site enrollment meetings, preparation of government forms.

Service area: Nationwide.

Locations: Consulting offices in Fort Myers, Palm Beach Gardens and Tampa, Fla.; Elkhart, Indianapolis and Kokono, Ind.; Sturgis, Mich.; Cincinnati, Cleveland and Columbus, Ohio; Austin, Corpus Christi, Dallas, El Paso and Fort Worth, Texas.

Staff: 1,250 total; 150 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 253 total; 36% with 1 to 100 employees, 44% with 101 to 1,000 employees, 17% with 1,001 to 5,000 employees, 3% with more than 5,000 employees. Average plan, 411 participants; largest plan, 14,357 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, frequency valuations.

Principal officers: Frank I. Harding, president/chief executive officer; Gary W. Queen, senior vp; Lonnie Parr, executive vp; George C. Fetko and Peter Corrado, vps.

Arnold & Co.

1301 W. Long Lake Road, Suite 225, Troy, Mich. 48098-6348; 313-641-8686; fax: 313-641-7885

Founded: 1972; began offering 401(k) plan administration services in 1984.

Software: Purchased from an outside vendor; accommodates 48 investment funds and eight kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Other services include drafting of enrollment workbook and tax impact illustrations.

Service area: Nationwide.

Staff: 15 total; 12 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one ASA/FSA.

Clients: 100 total; 75% with 1 to 100 employees, 20% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees. Average plan, 45 participants; largest plan, 2,250 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Craig C. Arnold, president.

B

Bank of America

1 S. Van Ness, San Francisco, Calif.; 415-241-7567

Founded: 1904; began offering 401(k) plan administration services in 1983.

Parent company: Bank of America Corp.

Software: Purchased from an outside vendor; accommodates 15 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: Nationwide.

Locations: Administrative and consulting offices in Seattle, San Francisco and Los Angeles.

Staff: 125 total; 25 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include three MBAs.

Clients: 15% with 1 to 100 employees, 75% with 101 to 1,000 employees, 10% with 1,001 to 5,000 employees. Average plan, 350 participants; largest plan, 3,000 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Warren Metzger, John Marino, Deborah Boone, Shirley Schenk, Greg Munson.

Benefit Administration Services Ltd.

401 E. Capitol St., Suite 413, Jackson, Miss. 39201; 601-969-1286; fax: 601-354-4085

Founded: 1984; began offering 401(k) plan administration services in 1988.

Software: Written and maintained by the company; accommodates three investment funds and three kinds of contributions.

Administration: Uses unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Other services include plan document participant statements and Form 5500 C/R.

Service area: Sun Belt states.

Staff: 14 total; three involved in 401(k) plan recordkeeping, administration or consulting.

Clients: Three total; 100% with 101 to 1,000 employees. Average plan, 270 participants; largest plan, 510 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: John Nicholson, chairman; Tom Brown, president; Leslie D. Ashford, vp.

Contact: Marcus Glenn.

Benefit Concepts Inc. of Rhode Island

396 Wampanoag Trail, East Providence, R.I. 02915; 401-438-7100; fax: 401-438-5420

Founded: 1980; began offering 401(k) plan administration services in 1984.

Software: Purchased from an outside vendor; accommodates unlimited investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Rhode Island and southern New England.

Staff: 15 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA.

Clients: 100 total; 55% with 1 to 100 employees, 45% with 101 to 1,000 employees, 10% with 1,001 to 5,000 employees. Average plan, 100 participants; largest plan, 1,200 partici-

Continued on next page

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- Monthly Update of Major Changes
- Monthly Newsletter
- VHS Tape Catalogue (in-process)
- Membership to National Self-Funding Educational Coalition

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pants; no minimum size plan; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: F. Jay Hoder, John W. Hoder.

George Beram & Co. Inc.

233 Needham St., Newton, Mass. 02164-1502; 617-965-1200; fax: 617-244-5569

Founded: 1982; began offering 401(k) plan administration services in 1982.

Software: Leased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Northeastern states.

Staff: 65 total; 15 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two attorneys.

Clients: 100 total; 20% with 1 to 100 employees, 75% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees. Average plan, 400 participants; largest plan, 2,000 participants.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: George Beram, president; Phillip G. Bruno, executive vp; Nicholas Ardelahad, executive vp; Stuart D. Green and Ruth A. Ryals, vps.

Boatmen's Trust Co.

100 N. Broadway, St. Louis, Mo. 63102; 314-466-3806; fax: 314-466-3964

Founded: 1889; began offering 401(k) plan administration services in 1981.

Parent company: Boatmen's Bancshares Inc.

Software: Purchased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include benefit payments, performance measurement, prototype plans, Form 5500 filing, comprehensive investment management, customized enrollment material, customized statements.

Service area: Nationwide.

Locations: Administrative and consulting offices in Kansas City, Mo.

Staff: 800 total; 210 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 16 CEBSs, 33 MBAs, three CPAs, four ASAs/FSAs, 10 attorneys.

Clients: 145 total; 35% with 1 to 100 employees, 50% with 101 to 1,000 employees, 14% with 1,001 to 5,000 employees, 1% with more than 5,000 employees. Average plan, 800 participants; largest plan, 5,100 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: John Peters MacCarthy, chairman/chief executive officer; Rollin C. Woltjen, executive vp; Stephen Faries, Lyle R. Brizendine and Richard W. Hibbs, senior vps.

Contact: Richard W. Hibbs, 314-466-3802.

Booke & Co.

310 W. Fourth St., Winston-Salem, N.C. 27101; 919-748-1120; fax: 919-725-7285

Founded: 1941; began offering 401(k) plan administration services in 1977.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Locations: Administrative and consulting offices in Birmingham, Ala.; Chicago; Columbus, Ohio.

Staff: 339 total; 86 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 22 CEBSs, 15 MBAs, 13 CPAs, 25 ASAs/FSAs, six attorneys.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Continued on page 30

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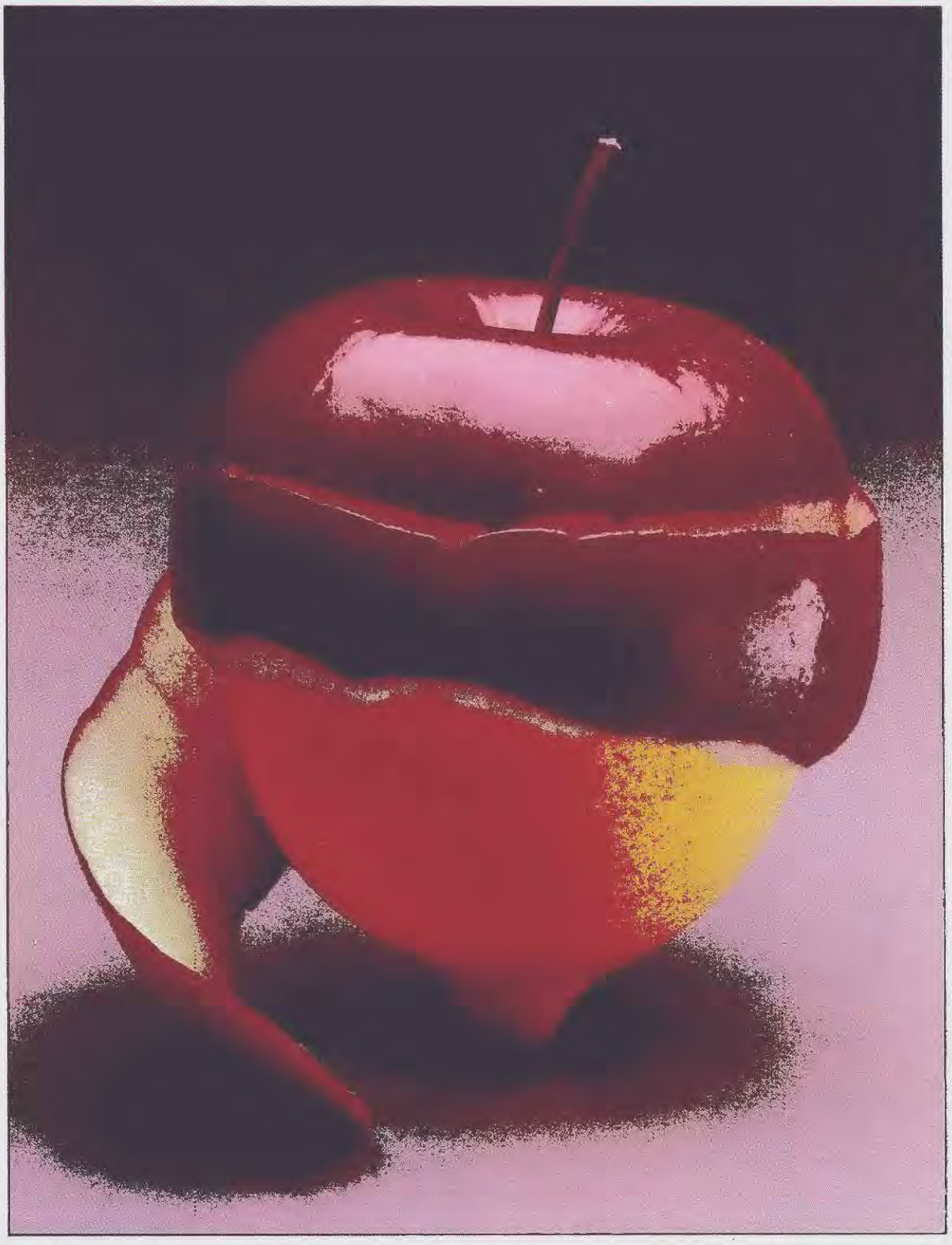
Amwest



The Bitter Reality Of Many A Tempting Offer.

You know the kind of offers we mean. The ones where they claim to be 401(k) experts. When it comes to service, they promise you the world.

They even say you can have a discount if you're not "completely satisfied."

It really is tempting. So you bite. And then it starts.

Reports arrive late and riddled with inaccuracies. Investment options are limited. Record keeping is horrendous and enrollment assistance virtually non-existent.

Those who do enroll come to you for answers. Your 401(k) "experts" don't have them. Finally, you demand the discount they promised and they try to defend their performance.

Or maybe they do allow you the discount. Is this kind of grief really worth it?

At ITT Hartford, we don't think so. Neither do the hundreds of companies we provide 401(k)'s to. And transferred accounts are our specialty.

That's because we know how to tailor a plan that meets the needs of employer and employees alike.

This includes meeting *all* government rules and regulations. It also includes eight separate investment options, individual employee counseling, a loan administration package, annual anti-discrimination testing and savvy investment managers.

What's more, everything from quarterly statements to benefit payments is accurate and timely.

To get to the core of your 401(k) problems, call Chuck Clinton, Vice President, Asset Management Services, at (203) 843-8032. Or write him at ITT Hartford Life Insurance Companies, P.O. Box 2999, Hartford, CT 06104-2999.

You couldn't pick a better 401(k) provider.

ITT HARTFORD

Continued from page 28

Principal officers: Donald C. Ingram, president; Roger L. Vaughn, executive vp/chief actuary; Joseph H. Ely and Linda P. Holleman, senior vps.

Contact: Joseph H. Ely.

Buck Consultants Inc.

2 Pennsylvania Plaza, New York, N.Y. 10121; 212-330-1000; fax: 212-695-4184

Founded: 1916; began offering 401(k) plan administration services in 1973.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include voice response systems/services, pc-based inquiry and transaction system, integrated data system, administrative forms and manuals, investment supervisory services, plan document preparation, loan administration consulting, benefit statements, preretirement planning seminars.

Service area: Nationwide.

Locations: Administrative and consulting offices in Atlanta; Boston; Chicago; District of Columbia; Fort Wayne, Ind.; Honolulu; Houston; Los Angeles; Pittsburgh; San Francisco; Secaucus, N.J.; Stamford, Conn.

Staff: 1,380 total; 168 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 11 CEBSs, 36 MBAs, six CPAs, 111 ASAs/FSAs, 33 attorneys.

Clients: 375 total. Average plan, 1,500 participants; largest plan, 40,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $151.3 million total.

Principal officers: William E. Geigerich, president/chief executive officer; Frederick W. Rumack, director-401(k) consulting; Pat Amendola, director-administrative services group; Lowell Tanzer, director-administrative consulting services.

Contact: Carolee Martin, manager-marketing, 201-902-2555.

C

C&B Consulting Group*

231 S. Bemiston, Suite 400, St. Louis, Mo. 63105; 314-725-0114; fax: 314-725-2724

* To become WF Corroon on Jan. 1, 1992.

Founded: 1905; began offering 401(k) plan administration services in 1983.

Parent company: Willis Corroon P.L.C.

Software: Purchased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include investment placement consulting, design or audit in-house recordkeeping systems, client loan systems.

Service area: Nationwide.

Locations: Administrative and consulting offices in Atlanta; Baltimore; Cleveland; Dallas; Knoxville and Nashville, Tenn.; Orlando, Fla.; Pittsburgh; San Diego; San Francisco; Seattle; Stamford, Conn.; Wichita, Kan.

Staff: 450 total; 54 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs, CPAs, ASAs/FSAs, attorneys.

Clients: 500 total; 40% with 1 to 100 employees, 45% with 101 to 1,000 employees, 14% with 1,001 to 5,000 employees, 1% with more than 5,000 employees. Average plan, 500 participants; largest plan, 12,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $70.1 million total; $7 million from 401(k) plan administration.

Principal officers: Warren J. Winer, president.

Chernoff Diamond & Co.

1157 Willis Ave., Albertson, N.Y. 11507; 516-484-2828; fax: 516-484-4755

Founded: 1975; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company and purchased from an outside vendor; accommodates 28 investment funds and seven kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include comprehensive plan design, coordination of benefits and related qualified and non-qualified plans, plan drafting, employee seminars, participant integrated retirement services, complete administrative services, related actuarial services.

Service area: Nationwide.

Locations: Administrative and consulting offices in SaddleBrook, N.J.; Williston Park, N.Y.

Staff: 42 total; 17 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two MBAs, one CPA, two ASAs/FSAs, two attorneys.

Clients: 75 total; 42% with 1 to 100 employees, 55% with 101 to 1,000 employees, 3% with 1,001 to 5,000 employees. Average plan, 175 participants; largest plan, 3,000 participants; minimum size plan, 15 participants; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Alexander A. Chernoff, managing partner; Donna Diamond, Benjamin E. Feller, David Yackel, Jeffry Grabel, J. Richard Barlow and Robert Fitzmaurice, partners.

Contact: David A. Yackel, 516-741-7700 or 201-492-3700.

CIGNA Group Pension Division

350 Church St., P.O. Box 2975, Hartford, Conn. 06104; 203-725-2000; fax: 203-725-2052

Founded: 1924; began offering 401(k) plan administration services in 1982.

Parent company: CIGNA Corp.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include enrollment/re-enrollment, trustee, loan administration software.

Service area: Nationwide.

Locations: Administrative offices in Dubuque, Iowa, and Philadelphia. Consulting offices in 30 locations.

Staff: 1,300 total.

Continued on next page

They built the strongest nation in the world. Now FASB's labeled them liabilities.

The new Financial Accounting Standards Board (FASB) regulations require companies to carry retiree health care costs on their books as liabilities.

That's going to make retiree health care costs even more of a financial burden.

According to the Government Accounting Office, the total liability for retiree benefits will be $278 billion. Of that, more than $83 billion will be for prescription drugs. Prescription drugs are the second largest health expense for retirees.

How do you protect your company's financial health while still providing the prescription drug care needed to maintain the health of your retirees?

Managed prescription drug care is the answer.

The PCS MANAGED R_x℠ system is the nation's first and only fully integrated system for managing prescription drug benefits.

Continued from previous page

Clients: 2,500 total; 65% with 1 to 100 employees, 33% with 101 to 1,000 employees, 2% with 1,001 to 5,000 employees. Average plan, 150 participants; largest plan, 22,500 participants; minimum size plan, 10 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $2.1 billion total.

Principal officers: Byron D. Oliver, president; David B. Gerges, vp-financial; Frederick C. Castellani, vp-marketing; Roy H. Bubbs, vp-sales; Thomas J. Quinlan, vp-customer service.

Contact: Mary Ann Langevin.

Citibank N.A.

111 Wall St., New York, N.Y. 10043; 212-657-9316; fax: 212-657-0796

Founded: 1912; began offering 401(k) plan administration services in 1975.

Parent company: Citicorp.

Software: Purchased from an outside vendor; accommodates 2,000 investment funds and 35 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include trust/custody services, brokerage and execution services.

Service area: Nationwide.

Staff: 652 total; 45 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include four MBAs, two attorneys.

Clients: 70 total; 3% with 1 to 100 employees, 57% with 101 to 1,000 employees, 30% with 1,001 to 5,000 employees, 10% with more than 5,000 employees. Average plan, 5,000 participants; largest plan, 78,000 participants; minimum size plan, 500 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Thomas H. Lovell Jr., division executive; Kenneth A. Hines Jr., senior vp; James S. Tsien, Gari Baker and Amelia Soto, vps.

Contact: Christina Loddo Epstein, director-marketing.

Concord Financial Group

156 W. 56th St., New York, N.Y. 10021; 212-492-1600; fax: 212-581-6091

Founded: 1987; began offering 401(k) plan administration services in 1991.

Software: Recordkeeping is provided by an outside third-party; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Other services include cash management, proprietary funds, marketing literature.

Service area: Nationwide.

Locations: Administrative and consulting offices in Charlotte, N.C. Additional administrative office in Tampa, Fla.

Staff: 500 total; 100 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs, CPAs, attorneys.

Clients: No minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Richard Stierwalt, chief executive officer; William Blundin, president; Joseph Kissel, president (Concord Distribution Cos.); Susan West, senior vp-administration.

Coopers & Lybrand Actuarial, Benefits & Compensation

1251 Ave. of the Americas, New York, N.Y. 10020; 800-232-2717; fax: 212-536-2163

Founded: 1961; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include Sections 410 and 401(a)4 and related section testing design and administration for qualified and non-qualified plans, interactive voice multi-media and traditional communications.

Service area: Nationwide.

Locations: Administrative and consulting offices in Atlanta; Boston; Chicago; Cleveland and Columbus, Ohio; Dallas; Detroit; Los Angeles; Louisville, Ken.; Parsippany and Syracuse, N.Y.; Philadelphia; San Francisco; Stamford, Conn.; Tampa, Fla. Additional consulting offices in Houston and Washington, D.C.

Staff: 1,000 total; 140 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include seven CEBSs, seven MBAs, 13 CPAs, 33 ASAs/FSAs, 24 attorneys.

Clients: 28% with 1 to 100 employees, 56% with 101 to 1,000 employees, 11% with 1,001 to 5,000 employees, 3% with more than 5,000 employees. Average plan, 752 participants; largest plan, 40,000 participants; minimum size plan, 100 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $116 million total; $23 million from 401(k) plan administration.

Principal officers: Anthony F. Martin, Andre L. Iha, Gustavo J. Sanchez and Linda B. Xanthos, defined contribution partners.

Contact: Doris L. Brown, manager-communications.

CoreStates Trust & Investment Group

P.O. Box 7558, F.C. 1-3-86-9, Philadelphia, Pa. 19101-7558; 215-786-7960; fax: 215-973-8603

Founded: 1782; began offering 401(k) plan administration services in 1975.

Software: Purchased from an outside vendor; accommodates unlimited investment funds and 30 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Clients' on-line access, written communication of plan features to employees. Consults on compliance issues, employee communications. Manages investment of the plan funds. Other services include prototype plan documents, trustee, custodian, Form 5500 and 1099 tax reporting, mutual funds.

Continued on next page

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This kind of information is vital for retirees because they're often taking multiple medications. And vital for you because it can reduce or eliminate significant expenditures for hospitalization and other types of health care.

Only PCS combines cost controls, concurrent drug utilization review, a nationwide pharmacy network, the information management system and clinical expertise to implement managed prescription drug benefits for your retirees.

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Service area: Nationwide.

Locations: Administrative offices in Pennington, N.J.; Lancaster, Pa.

Staff: 886 total; 70 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, three MBAs, one CPA.

Clients: 200 total; 60% with 1 to 100 employees, 30% with 101 to 1,000 employees, 7% with 1,001 to 5,000 employees, 3% with more than 5,000 employees. Average plan, 400 participants; largest plan, 12,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Edward E. Keidat, senior vp; Francis P. Mitchell, Kenneth E. Buchmann, Thomas J. Holt and Marietta Castellano, vps.

Contact: Marietta Castellano, 215-786-7960; fax: 215-973-8603.

D

Deloitte & Touche

1 World Trade Center, 97th Floor, New York, N.Y. 17048-0601; 212-978-2127; fax: 212-488-7174

Founded: 1978; began offering 401(k) plan administration services in 1982.

Software: Leased from an outside vendor; accommodates 20 investment funds and 20 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include comprehensive human resources consulting and interactive voice capabilities.

Service area: Nationwide.

Locations: Administrative and consulting offices in Boston; Chicago; Dallas and Houston, Texas; Los Angeles; Miami; Minneapolis; Parsippany, N.J.; Portland, Ore.; Tulsa, Okla. Additional consulting offices in Detroit and Grand Rapids, Mich.; District of Columbia; Hartford and Stamford, Conn.; Philadelphia; Pittsburgh; St. Paul, Minn.; San Francisco.

Staff: 250 total; 100 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 20 CEBSs, two CPAs, 10 attorneys.

Clients: 600 total; 33% with 1 to 100 employees, 42% with 101 to 1,000 employees, 15% with 1,001 to 5,000 employees, 10% with more than 5,000 employees. Average plan, 800 participants; largest plan, 12,000 participants; minimum size plan, 10 participants; maximum size plan, 20,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Ainar D. Ayala Jr., Don Behan, Robert Starkey, W. Leon Smith, Richard Berens, Mark Sobel and Susan Achenbach.

Dreyfus Service Corp.

200 Park Ave., New York, N.Y. 10166; 800-762-9523

Founded: 1951; began offering 401(k) plan administration services in 1981.

Software: Leased from an outside vendor; accommodates 99 investment funds and 99 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include customized literature, enrollment support, retirement distribution analysis.

Service area: Nationwide.

Locations: Administrative and consulting offices in Uniondale, N.Y.

Staff: 1,500 total; 68 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 381 total; 54% with 1 to 100 employees, 39% with 101 to 1,000 employees, 6% with 1,001 to 5,000 employees, 1% with more than 5,000 employees. Average plan, 400 participants; largest plan, 18,000 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan,

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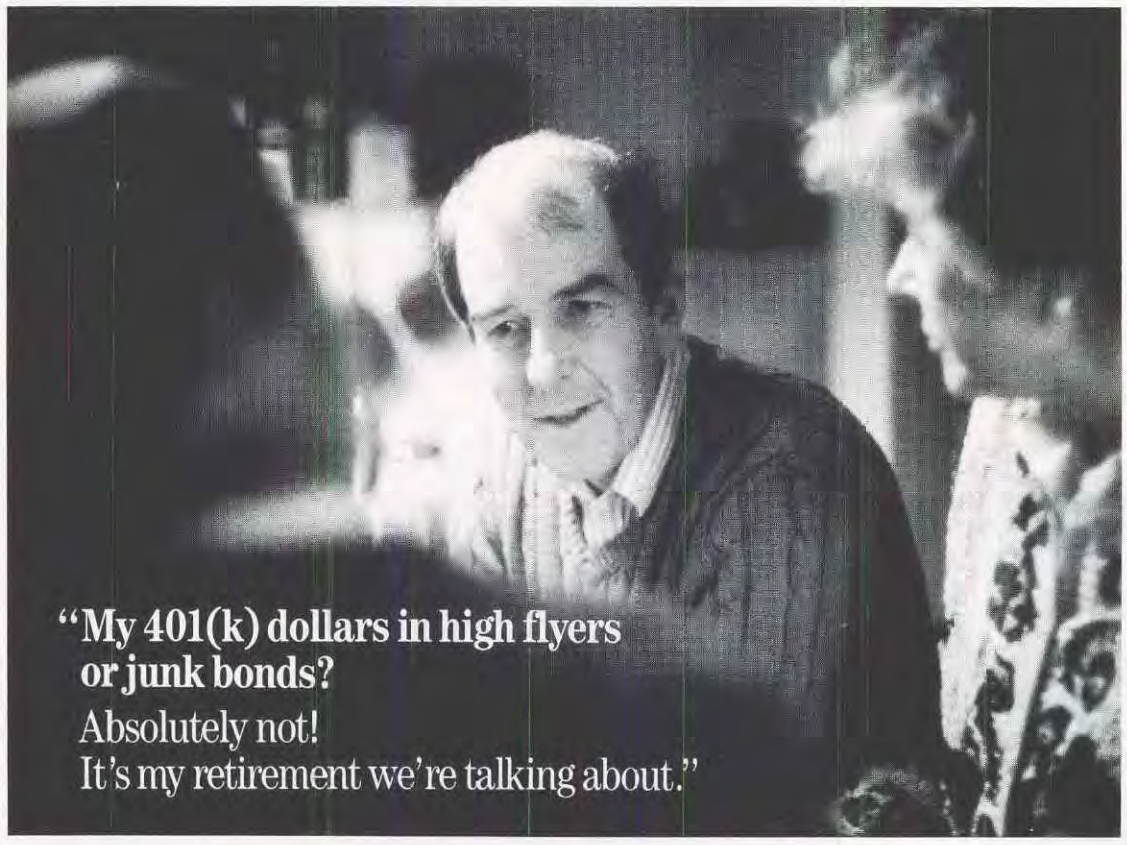

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Unfortunately, not all environmental contamination is as easy to spot. Abandoned underground storage tanks, dioxin, chemical dumps…you may accidentally purchase a major contaminant along with your commercial property.

You probably rely on an environmental audit to find contamination before you buy property. But many audits are inconclusive—or wrong. That leaves you, the property owner, legally responsible for the cost of cleanup even if you didn't contaminate the property. And cleanup and defense costs may total more than the property's value.

ERIC Group offers you "A-rated" liability protection against legally mandated Superfund cleanup of contamination that was undetected at the time you purchased the property. ERIC Property Transfer Liability Insurance can protect you from an expensive surprise.

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ERIC™
GROUP, INC.

Solutions to
Environmental Risk

Continued from page 32
amount of assets under management, frequency valuations.

Principal officers: Howard Stein, chairman/chief executive officer; Joseph S. DeMartino, president/chief operating officer; David W. Burke, chief administrative officer/vp; Mary J. Barneby, president-Dreyfus Group Retirement Plans; Paul Allen, senior vp/national sales director-Dreyfus Group Retirement Plans.

Contact: Ted Brakatselos.

E

EBG & Associates Inc.

Wacker Tower, Ninth Floor, 68 E. Wacker Place, Chicago, Ill. 60601; 312-580-2250; fax: 312-580-2252

Founded: 1978; began offering 401(k) plan administration services in 1984.

Software: Written and maintained by the company; accommodates 10 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, compliance issues. Other services include custom programming and training.

Service area: Nationwide.

Locations: Consulting offices in Falls Church, Va.

Staff: 35 total; five involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one ASA/FSA.

Clients: 150 total. No minimum size plan; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Emmanuel B. Garcia Jr., president; Dee L. Holt, executive vp; Mary Jo Arthur, vp/actuary; M. Teresa L. Garcia, vp-administration.

Contact: Teresa Brennan, sales representative.

Employee Benefit Specialists Inc.

450 Sansome St., Suite 555, San Francisco, Calif. 94111-3313; 415-788-7683; fax: 415-788-7846

Software: Purchased from an outside vendor; accommodates 30 investment funds and 30 kinds of contributions.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Staff: 25 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs, CPAs, attorneys.

Clients: 50% with 1 to 100 employees, 30% with 101 to 1,000 employees, 20% with 1,001 to 5,000 employees. Average plan, 200 participants; largest plan, 1,000 participants; minimum size plan, 50 participants; maximum size plan, 9,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Joan L. Rhodes, Chimane M. Rhodes, Elizabeth C. Juen.

Contact: Joan L. Rhodes.

Employers Life Insurance Co. of Wausau

2000 Westwood Drive, Wausau, Wis. 54401-7881; 715-842-6068; fax: 715-847-8740

Founded: 1966; began offering 401(k) plan administration services in 1985.

Software: Written and maintained by the company; accommodates eight investment options and 12 kinds of contributions.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include participant statements, benefit payments, notification of approaching enrollment/investment change dates, hardship withdrawals, IRS annual reports, top-heavy testing, summary annual report.

Service area: Nationwide

Locations: Consulting offices in Atlanta; Baltimore; Boston; Chicago; Dallas; Detroit; Indianapolis; Kalamazoo, Mich.; Kansas City, Mo.; Los Angeles; Milwaukee; Minneapolis; Newark, N.J.; Philadelphia; Portland, Ore.

Staff: 500 total; 37 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include seven CEBSs, one MBA, two ASAs/FSAs.

Clients: 280 total; 84% with 1 to 100 employees, 16% with 101 to 1,000 employees. Average plan, 55 participants; largest plan, 1,200 participants; minimum size plan, 25 participants; maximum size plan varies by case.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $618,000 total; $442,000 from 401(k) plan administration.

Principal officers: James M. Magalska, executive vp/chief operating officer; Thomas Erickson, vp-group retirement; Jeffrey Zriny, vp-employee benefits marketing; Ross Solverud, director-plan/contract services; Philip Lamer, manager-defined contribution plan administration.

F

Fidelity Institutional Retirement Services Co.

82 Devonshire St., Boston, Mass. 02109; 617-570-7000

Founded: 1946; began offering 401(k) plan administration services in 1978.

Software: Written and maintained by the company; accommodates unlimited investment funds and nine kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include trustee services.

Service area: Nationwide.

Locations: Administrative and consulting offices in Cincinnati and Dallas.

Staff: 627 total; 473 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 494 total; 6% with 1 to 100 employees, 47% with 101 to 1,000 employees, 38% with 1,001 to 5,000 employees, 9% with more than 5,000 employees. Average plan, 1,500 participants; largest plan, 41,700 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan.

Principal officers: Robert Reynolds, president; Michael Mlniac, senior vp-recordkeeping; Ted Lavelle, senior vp-sales; Peter Small, senior vp-marketing.

Contact: Ted Lavelle, 617-570-5632.

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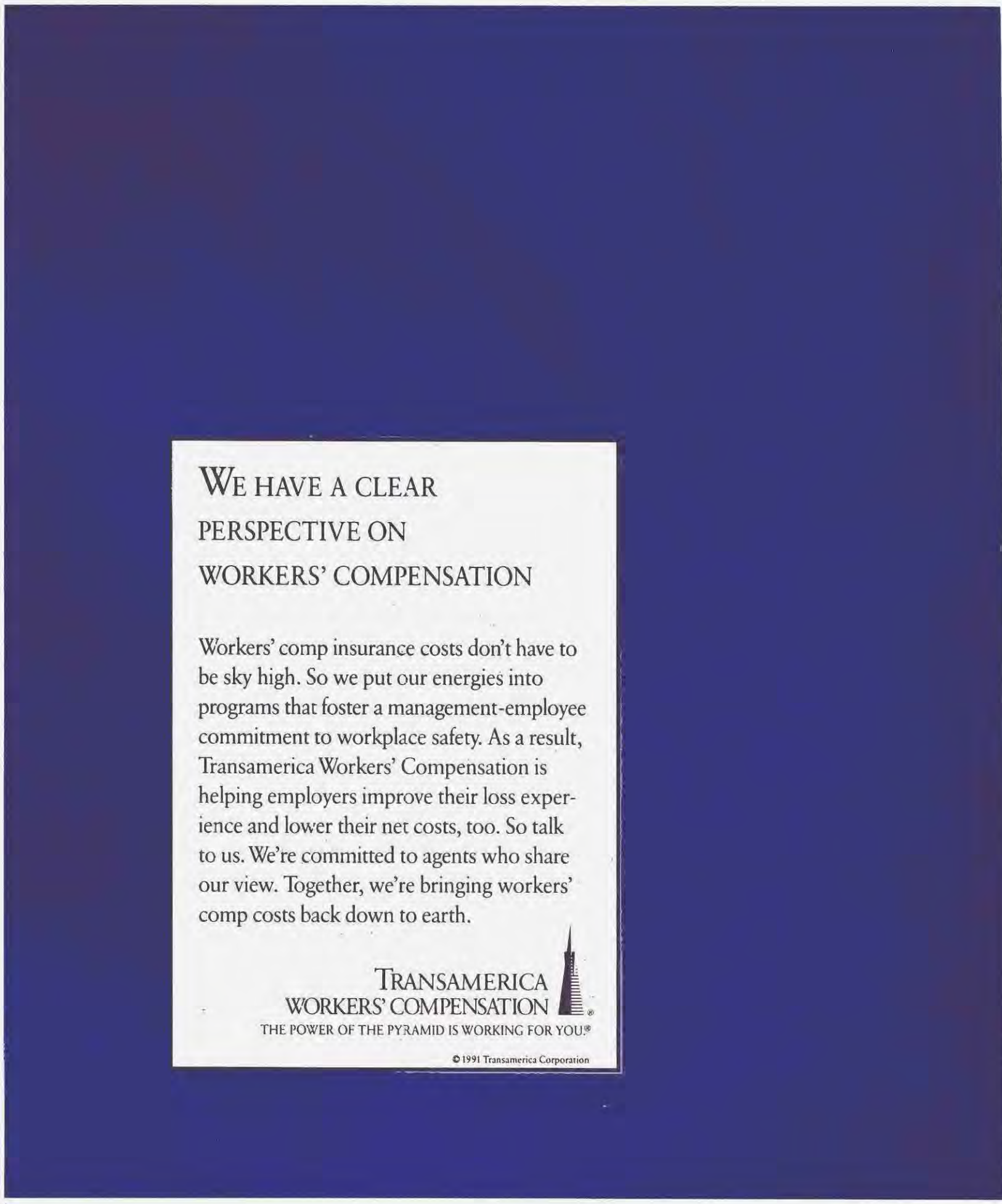

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First Trust National Assn.

180 E. Fifth St., St. Paul, Minn. 55101; 612-223-7000; fax: 612-223-7624

Founded: 1888; began offering 401(k) plan administration services in 1978.

Parent company: First Bank System Inc.

Software: Purchased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include trustee/custodian, prototype plans, benefit payments, performance measurement, master trust, global custody and securities lending.

Service area: Nationwide.

Locations: Administrative offices in Billings, Mont.; Denver; Fargo, N.D.; Milwaukee; Minneapolis; Sioux Falls, S.D.

Staff: 1,168 total; 140 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include seven CEBSs, two MBAs, two CPAs, four attorneys.

Clients: 203 total; 73% with 1 to 100 employees, 16% with 101 to 1,000 employees, 1% with 1,001 to 5,000 employees, 1% with more than 5,000 employees. Average plan, 250 participants; largest plan, 15,000 participants; minimum size plan, 100 participants.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $65.9 million total; $8.1 million from 401(k) plan administration.

Principal officers: John M. Murphy Jr., chief investment officer; Matthew P. Wagner, senior vp; Marvin R. Braun and Stephanie Chester, vps.

Contact: Alan E. Fleischauer, 612-370-4887; Leslie K. Black, 612-370-4711; Tucker B. Dahl, 612-370-4892.

G

Godwins Inc.

549 Pleasantville Road, Briarcliff Manor, N.Y. 10510; 914-747-2002; fax: 914-742-3215 or 914-742-3220

Founded: 1982; began offering 401(k) plan administration services in 1982.

Parent company: Godwins International Holdings and Frank B. Hall & Co. Inc.

Software: Purchased from an outside vendor; accommodates 10 investment funds and 15 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Locations: Administrative offices in Chicago. Consulting offices in 26 locations nationwide.

Staff: 350 total; 55 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CEBSs, three ASAs/FSAs, two attorneys.

Clients: 120 total; 20% with 1 to 100 employees, 65% with 101 to 1,000 employees, 10% with 1,001 to 5,000 employees, 5% with more than 5,000 employees. Average plan, 600 participants; largest plan, 8,500 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: David McLeish, chairman/chief executive officer; Michael Reynolds, president/chief operating officer; Brian Zwarych, chief financial officer; Herbert Grove and Michael Dunigan, divisional managing directors; Kenneth Clarke, Clifford Long, James McKinney, John McNamara, Richard Miller and William Xanthos, regional managing directors.

Contact: Michael Dunigan.

H

Halliwell & Associates Inc.

2 Gateway Center, Suite 1800, Pittsburgh, Pa. 15222; 412-288-0822; fax: 412-288-0863

Founded: 1973; began offering 401(k) plan administration services in 1984.

Software: Leased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include plan implementation, administrative forms design, minimum distributions and hardship distributions, asset balancing.

Service area: Illinois, Ohio, Pennsylvania, Virginia, West Virginia.

Staff: 50 total; 17 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include three CEBSs, one MBA, one CPA, one ASA/FSA, one attorney.

Clients: 43 total; 41% with 1 to 100 employees, 49% with 101 to 1,000 employees, 8% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 280 participants; largest plan, 3,600 participants; no minimum size plan; maximum size plan, 8,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $3.5 million total; $512,000 from 401(k) plan administration.

Principal officers: Paul D. Halliwell, president; David B. Wetherill, executive vp; David B. Thomas, vp; Thomas S. Baily, vp/president-Professional Risk Management Consultants.

Contact: David B. Thomas.

John Hancock Financial Services

200 Clarendon St., Boston, Mass. 02117; 617-572-4565; fax: 617-572-9405

Founded: 1862; began offering 401(k) plan administration services in 1960.

Software: Purchased from an outside vendor; accommodates 90 investment funds and 35 kinds of contributions.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: Nationwide.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Contact: Joseph LoRusso, second vp.

Continued on next page

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Harris Trust & Savings Bank

111 W. Monroe St., Chicago, Ill. 60603; 312-461-2121; fax: 312-987-4181

Founded: 1882; began offering 401(k) plan administration services in the early 1980s.

Parent company: Bank of Montreal.

Software: Purchased from an outside vendor; accommodates unlimited investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include custody, full trustee services, master trust, investment management.

Service area: Nationwide.

Staff: 22 total; all involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two MBAs, three CPAs.

Clients: Average plan, 2,100 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan.

Principal officers: Jon S. Brightman, senior vp/trust department head; Nancy B. Wolcott, senior vp/institutional trust head; Carolyn J. Faehling, vp/defined contribution services head; Bryan K. Garlock, vp/trust sales & marketing head; Tony Sabos, assistant vp/trust salesperson.

Contact: Tony Sabos, 312-461-2366.

Hay/Huggins Co. Inc.

229 S. 18th St., Philadelphia, Pa. 19103; 215-893-0270; fax: 215-875-2833

Founded: 1911; began offering 401(k) plan administration services in 1986.

Software: Written and maintained by the company; accommodates 20 investment funds and 20 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues. employee communications. Other services include enrollment and fund selection.

Service area: Nationwide.

Locations: Administrative and consulting offices in Los Angeles and New York.

Staff: 12 total; 17 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, four ASAs/FSAs, two attorneys.

Clients: 29 total; 10% with 1 to 100 employees, 50% with 101 to 1,000 employees, 30% with 1,001 to 5,000 employees, 10% with more than 5,000 employees. Average plan, 1,073 participants; largest plan, 5,829 participants; minimum size plan, 50 participants; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $14 million total; $1 million from 401(k) plan administration.

Principal officers: Ken Shapiro, president; Kurt Fichthorn and Don Samples, executive vps; Joe Sapora, senior vp.

Hazlehurst & Associates Inc.

400 Perimeter Center Terrace, Suite 850, Atlanta, Ga. 30346; 404-395-9880; fax: 404-512-6230

Founded: 1971; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination testing.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include limitation testing, Form 5500 and SAR/SPD preparation, communications consulting, plan design consulting, personal computer software for loan services as well as employee queries, benefit statements, interactive voice response services.

Service area: Nationwide.

Locations: Administrative and consulting offices in Seattle.

Staff: 170 total; 74 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five MBAs, five CPAs, 14 ASAs/FSAs, two attorneys.

Clients: 110 total; 28% with 101 to 1,000 employees, 51% with 1,001 to 5,000 employees, 21% with more than 5,000 employees. Average plan, 3,000 participants; largest plan, 22,000 participants; minimum size plan, 1,000 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: James G. Pope, president; Ray McKinney, executive vp.

Hewitt Associates

100 Half Day Road, Lincolnshire, Ill. 60069; 708-295-5000; fax: 708-295-7634

Founded: 1940; began offering 401(k) plan administration services in 1973.

Software: Written and maintained by the company; accommodates 15 investment funds and 20 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include comprehensive interactive administration, investment manager evaluation and selection.

Service area: Nationwide, Canada and Puerto Rico.

Locations: Administrative and consulting offices in Atlanta; Bedminster, N.J.; Rowayton, Conn.; Santa Ana, Walnut Creek, Calif. and The Woodlands, Texas. Administrative offices in Toronto and Puerto Rico. Additional consulting offices in Boston; Charlotte, N.C.; Chicago; Cleveland and Dayton, Ohio; Denver; Detroit; Washington, D.C.; Houston and Las Colinas, Texas; Los Angeles; Milwaukee; Minneapolis; New York; Philadelphia; Phoenix; Pittsburgh; Richmond, Va.; St. Louis; San Francisco; Scottsdale, Ariz.; Seattle; Tampa, Fla.

Staff: 3,000 total; 650 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CEBSs, 30 MBAs, 25 CPAs, one attorney.

Clients: 650 total; 15% with 101 to 1,000 employees, 35% with 1,001 to 5,000 employees, 50% with more than 5,000 employees. Average plan, 5,500 participants; largest plan, 90,000 participants; minimum size plan, 1,500 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $297 million total.

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Continued from previous page

Principal officers: Peter E. Friedes, chief executive.
Contact: Barb Van Lieshout.

A. Foster Higgins & Co. Inc.

125 Broad St., New York, N.Y. 10004-2424; 212-574-9000; fax: 212-574-8719

Founded: 1927; began offering 401(k) plan administration services in 1982.
Parent company: Johnson & Higgins.
Software: Leased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions.
Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.
Client support: Toll-free service for account balance inquiries from participants, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues and employee communications. Other services include financial audits, administrative consulting, consulting on investment choices.
Service area: Nationwide.
Locations: Administrative and consulting offices in Los Angeles and Princeton, N.J. Consulting offices in Atlanta; Cleveland; Costa Mesa and San Francisco, Calif.; Dallas; Minneapolis; Stamford, Conn.; Philadelphia; Richmond, Va.; Seattle; Stamford, Conn.; Washington, D.C.
Staff: 1,200 total; 35 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, two MBAs.
Clients: 1% with 1 to 100 employees, 60% with 101 to 1,000 employees, 30% with 1,001 to 5,000 employees, 9% with more than 5,000 employees. Average plan, 1,800 participants; largest plan, 20,000 participants; minimum size plan, 100 participants; maximum size plan, 50,000 participants.
Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.
1990 gross revenues: $152 million total.
Principal officers: John N. Feldtmose, president.
Contact: 212 Carnegie Center, Princeton, N.J. 08543; 609-520-2420.

Holzman Post Ludwig & Schwartz

125 S. Wilke Road, Arlington Heights, Ill. 60005; 708-392-2999; fax: 708-392-1053

Founded: 1977; began offering 401(k) plan administration services in 1983.
Software: Written and maintained by the company; accommodates five investment funds and five kinds of contributions.
Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.
Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues,, compliance issues, employee communications. Other services include assistance in selecting investment vehicles and 415 coordination.
Service area: Nationwide, primarily Chicago metropolitan area.
Staff: 34 total; 16 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CPAs, two attorneys.
Clients: 180 total; 95% with 1 to 100 employees, 5% with 101 to 1,000 employees. Average plan, 50 participants; largest plan, 400 participants; no minimum size plan; maximum size plan, 2,000 participants.
Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.
1990 gross revenues: $2.3 million total; $540,000 from 401(k) plan administration.
Principal officers: Mark Schwartz, president; George Castillo and Thomas J. Dowerty, vps; William C. Ludwig, treasurer; Ira A. Post, secretary.
Contact: George F. Castillo.

I

IDS Trust

2800 Multifoods Tower, Minneapolis, Minn. 55402; 612-372-1915; fax: 612-334-5031

Founded: 1979; began offering 401(k) plan administration services in 1979.
Parent company: American Express Co.
Software: Purchased from outside vendor; accommodates 20 investment funds and 20 kinds of contributions.
Administration: Unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.
Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on employee communications. Manages investment of the plan funds. Other services include daily GIC accounting, company stock accounting, full trustee service.
Service area: Nationwide.

Continued on next page

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Atlanta, GA

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RLI

9025 N. Lindbergh Drive Peoria, IL 61615
800/445-5468

Continued from previous page

Staff: 275 total; all involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 131 total. 9% with 1 to 100 employees, 69% with 101 to 1,000 employees, 49% with 1,001 to 5,000 employees, 4% with more than 5,000 employees. Average plan, 1,816 participants; largest plan, 22,155 participants; minimum size plan, 500 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Gary Anderson, senior vp (IDS Trust); Robert Rudell, senior vp (Institutional Marketing); Ward Armstrong, vp (Institutional Marketing).

Contact: Ward Armstrong.

In Plain English

14501 Antigone Drive, North Potomac, Md. 20878;
301-340-2821; fax: 301-279-0115

Founded: 1977; began offering 401(k) plan administration services in 1988.

Software: Written and maintained by the company.

Client support: Written communication of plan features to employees. Consults on employee communications.

Service area: Nationwide.

Staff: 10 total; four involved in 401(k) plan recordkeeping, administration or consulting.

Clients: Six total; 80% with 1,001 to 5,000 employees, 20% with more than 5,000 employees. Average plan, 5,000 participants; largest plan, 75,000 participants; minimum size plan, 500 participants; maximum size plan, 100,000 participants.

Charges: Complexity of plan, time and expense.

Principal officers: Ronald H. Wohl, president.

Independent Service Co. Inc.

P.O. Box 171, Highway 13 N., Albert Lea, Minn. 56007;
507-373-8216; fax: 507-373-6220

Founded: 1970; began offering 401(k) plan administration services in 1984.

Software: Purchased from an outside vendor; accommodates 10 investment funds and seven kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include complete testing, document drafting, tax form preparation, summary annual reports, summary plan description.

Service area: Nationwide.

Locations: Consulting offices in Minneapolis.

Staff: 21 total; eight involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA, one CPA, one attorney.

Clients: 210 total; 90% with 1 to 100 employees, 10% with 101 to 1,000 employees. Average plan, 60 participants; largest plan, 760 participants; no minimum size plan; maximum size plan, 1,500 participants.

Charges: Determined by number of participants, frequency valuations.

1990 gross revenues: $1.3 million total; $400,000 from 401(k) plan administration.

Principal officers: Paul Overgaard, president; Roger E. Erickson, vp; Robert N. Prentiss Jr., vp-Minneapolis; David J. Woodruff, attorney; Karl S. Milliron, administration manager.

INVESCO Institutional Funds Group

7800 E. Union Ave, Suite 900, P.O. Box 2920, Denver, Colo. 80237;
800-328-1222; fax: 303-930-6455

Founded: 1971; began offering 401(k) plan administration services in 1980.

Parent company: INVESCO MIM P.L.C.

Software: Purchased from an outside vendor; accommodates 10 investment funds and eight kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include use of outside assets with funds, on-site presentations, 401(k) video, no-load mutual funds, managed accounts, pooled GIC.

Service area: Worldwide.

Locations: Administrative and consulting offices in Atlanta; Dallas; Kansas City, Mo.; Los Angeles; New York, San Francisco.

Staff: 75 total; all involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one attorney.

Clients: 130 total; 33% with 1 to 100 employees, 67% with 101 to 1,000 employees. Average plan, 200 participants; largest plan, 610 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $217 million total; $100,000 from 401(k) plan administration.

Principal officers: Craig Cloyed, senior vp; Ritis Skinner, assistant vp; Dan Herzog, manager-retirement plan administration.

Contact: David Altimont, retirement plans specialist.

J

J&K Retirement Administration

5201 Washington, Suite 4, Downers Grove, Ill. 60515;
708-852-8882; fax: 708-852-8901

Founded: 1986; began offering 401(k) plan administration services in 1986.

Software: Leased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Staff: Five total; all involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one ASA/FSA.

Clients: 80 total; 88% with 1 to 100 employees, 11% with 101 to 1,000 employees, 1% with 1,001 to 5,000 employees. Average plan, 86 participants; largest plan, 2,000 participants; no minimum size plan; maximum size plan, 5,000 participants.

Charges: Determined by number of participants, complexity of plan, frequency valuations.

1990 gross revenues: $351,000 total; $183,000 from 401(k) plan administration.

Principal officers: James Hillman, actuary.

K

KPMG Peat Marwick

1 Boston Place, Boston, Mass. 02108; 617-723-7700;
fax: 617-973-2971

Founded: 1897; began offering 401(k) plan administration services in 1965.

Software: Purchased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash ac-

Continued on page 44

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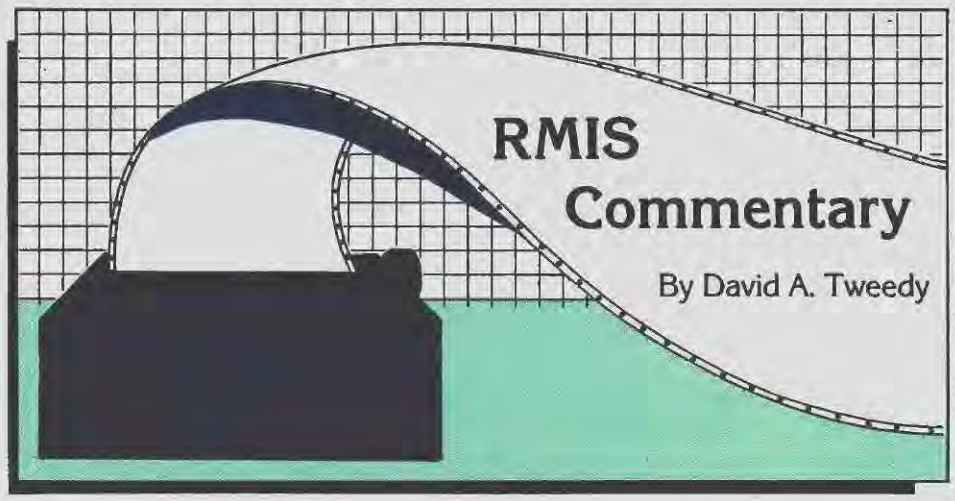
Litigation management

Systems take two approaches in identifying legal costs



AS WE SAW LAST month, the subject of litigation management is becoming as important an issue regarding cost control as medical cost management (*BI*, Oct. 21). With demand escalating for methods or devices to monitor and control legal costs, risk management information system vendors are gearing up their marketing, research and development efforts to accommodate this need.

Actually, most RMIS vendors already have or claim to have a litigation management component within their systems. What is different now is that vendors are spending significant amounts of time on revamping their systems' capabilities to reflect the client demands that they learn from user groups or market research.

In last month's column, I addressed litigation management systems from two broad perspectives: strategic risk management and specific administrative functions. I will continue that theme, using examples from both sides.

Of course, mentioning a particular software or vendor should not be construed as any endorsement. Rather, vendors offer software and services that are illustrative of the type of function I have been describing. There are many others that could be listed as well.

The two types of systems are:

- Strategic risk management litigation software.

Two vendors that have offered strategic litigation management modules for several years are Risk Sciences Group of Atlanta and Corporate Systems of Amarillo, Texas. Most all of the other vendors in the RMIS arena have some sort of litigation management capability, whether it is one of two screens attached to the claims handling system or a separate operating module. Risk Sciences Group and Corporate Systems, on the other hand, have developed separate modules that operate from their claims management systems, focusing on the topic of litigation management from the risk manager's perspective of overview and analysis.

The Risk Sciences Group's module—LMSNET—is designed to operate within a personal computer-based environment and is accessible by a corporation's risk management department, legal department and outside counsel. The module focuses on product liability and other general/auto liability exposures. And, due to a tremendous increase in litigation, workers compensation also is receiving more attention from these types of systems.

The Risk Sciences Group system not only captures and traces the typical data related to a claim—including information on law firms, billing rates, settlement offers and rejections, associate counsel, expert witnesses, courts, judges, plaintiffs' attorneys, etc.—but it also can evaluate the impact of litigation on the company's claims reserves. This is often one of the most difficult variables that a claims professional must judge when deciding how much a lawsuit will affect the organization.

The Risk Sciences Group system also allows some analysis of administrative details in terms of defense counsel billing rates, number of hours billed and other factors. This is not an accounting analysis system and is limited in its claim costs analysis, compared to the second type of litigation software that I will discuss.

Yet, the Risk Sciences Group system does attempt to merge both risk management control issues with certain types of administrative analysis. This gives the risk manager, as well as the general counsel, an ability to evaluate the effectiveness of how litigated cases are managed.

For example, the system can help determine who is controlling the claim: the defense counsel or the claims adjuster. It can ask: What kind of impact on reserves occurs when a case is litigated? How are cases settled and how reasonable are the settlements?

The second product in this category is Corporate Systems' legal tracking system, which is available in both a minicomputer and a mainframe time-sharing format. The Corporate Systems product, like its counterpart from Risk Sciences Group, also is designed for strategic use by the risk manager is cooperation with outside defense counsel or an internal law department. The system will track and search for such topics as judge, expert witnesses, defendants, plaintiffs' attorneys, trial information, lawsuit information, legal diary, outcome verdict discussion, discovery, demand/offer history, insurance information and jury names.

Of course, entering and tracking all of this information can be quite cumbersome, but such detail is necessary to assist the risk manager or the general counsel in analyzing the extent of the litigation in which the company is involved. Using the system, the risk manager can identify trends that are useful in implementing loss control procedures.

Risk managers cannot depend on their third-party administrator or insurer to do that tracking job; they may not have access to this type of a detailed litigation management system.

- Specific administrative litigation software.

Two firms come to mind in discussing the analysis of the reasonableness of the charges by defense counsel and attorneys' effectiveness.

The law firm Stuart, Maue, Mitchell & James Ltd. of St. Louis has developed a proprietary software program that seeks to analyze whether law firm bills are reasonable.

Senior Partner Harry J. Maue commented that some of the practices that his firm has uncovered include attorneys who have billed more than 60 hours in one day by spreading the billings across multiple cases. It was assumed no one would notice. In addition, the firm can identify billings related to files closed for more than a year or billings attributed to attorneys who have not passed the bar.

Typical areas on which the system can focus are the conference discussion, during which several attorneys comment on a particular case, charging several hours of billable time. (I do not completely disagree with this technique; as a consultant, I believe it is often good to get others' opinions on a particularly difficult subject. However, a standard of reasonableness should prevail.)

Another firm, Legalguard, a Philadelphia legal bill auditor, says it caught an attorney who billed for an 86-hour day and $400 for "ground transportation," which turned out to be a limousine rental.

With the property/casualty insurance industry spending $20 billion per year defending claims, Legalguard has identified a definite area of opportunity to assist clients in managing the cost of litigated claims, and the company has designed a proprietary information system to help in this task. Mirroring the medical cost containment industry, Legalguard provides legal cost review, bill audits, analysis of the use of certain legal services, case management analysis and legal data analysis.

Both Stuart, Maue and Legalguard essentially review the defense counsel's work against amounts billed, apply guidelines to identify excess expenses, much like the medical cost management process. Many errors detected are simply mistakes. Others may involve creative billing strategies, which must be taken up with the law firm itself.

Either way, such services will become necessary as the litigation rate continues to soar. In fact, such analyses are not only being used by risk managers but also by insurance companies.

Amica Mutual Insurance Co. of Providence, R.I., employed a litigation management law firm following a 32.5% increase in its claims-related litigation cost of auto liability cases. As a result of the analysis, Amica is receiving bill reductions and refunds from some of its law firms, as well as obtaining training for its claims personnel on litigation management procedures.

In the final analysis, risk managers cannot afford to ignore litigation expenses. Even if they are not experiencing a high frequency of litigation, the severity factor alone in terms of defense costs should be enough to focus attention on how an outside law firm conducted its work, prepared its bill and resolved the case. Also, high-frequency, low-severity types of claims, which are common in workers compensation cases, should not be ignored. A company can slowly be nickled and dimed to death over thousands of claims. This can hurt as much as one large pop on a product liability case.

Both types of systems—the detailed administrative system and the strategic risk management system—can be quite important to a company, depending on the volume of litigation. Although I am not aware of a comprehensive system handling both functions, I do not think it will be too long before one is offered.

Litigation management, like medical cost management, is something that a risk manager must address if he or she wants to contain or reduce the cost of risk in coming years. ■

David A. Tweedy is a senior consultant for Betterley Risk Consultants Inc. in Worcester, Mass. He is the editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. Mr. Tweedy's column on risk management information systems appears the third Monday of the month.

Continued from previous page
counting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include individual investment performance reports, comprehensive benefit consulting and benefit statements.

Service area: Nationwide.

Locations: Administrative offices in Dallas and Los Angeles. Consulting offices in more than 100 locations nationwide.

Staff: 30,000 total; 250 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include three CEBSs, 40 MBAs, 10 CPAs, 25 ASAs/FSAs, 25 attorneys.

Clients: 1,000 total; 10% with 1 to 100 employees, 55% with 101 to 1,000 employees, 30% with 1,001 to 5,000 employees, 5% with more than 5,000 employees. Average plan, 350 participants; largest plan, 20,000 participants; no minimum size plan; maximum size plan, 50,000 participants.

Charges: Determined by number of participants, complexity of plan, frequency valuations.

1990 gross revenues: $2.5 billion total; $15 million from 401(k) plan administration.

Principal officers: John Modonna, chairman/managing partner; James Brocksmith, vice chairman/managing partner.

Kemper Financial Services Inc.

120 S. LaSalle, Chicago, Ill. 60126; 312-781-1121; fax: 312-845-5207

Founded: 1948; began offering 401(k) plan administration services in 1982.

Parent company: Kemper Corp.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: Nationwide.

Locations: Administrative offices in Kansas City, Mo.; Tampa, Fla. Consulting offices in Orlando, Fla.; Philadelphia; Phoenix; Richmond, Va.

Staff: 50 total; all involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 2,800 total; 80% with 1 to 100 employees, 19% with 101 to 1,000 employees, 1% with 1,001 to 5,000 employees. Average plan, 70 participants; largest plan, 4,600 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan.

1990 gross revenues: $800 million total.

Contact: Edward Miner.

Kwasha Lipton

2100 N. Central Road, Fort Lee, N.J. 07024; 201-592-1300; fax: 201-592-9012

Founded: 1944; began offering 401(k) plan administration services in 1970.

Software: Written and maintained by the company; accommodates 99 investment funds and 16 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include check writing, state tax withholding and reporting, administrative consulting, GIC negotiations forms design, custom systems design.

Service area: Nationwide.

Staff: 370 total; 70 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, 11 MBAs, three CPAs, 21 ASAs, 23 FSAs, five attorneys.

Clients: 100 total; 60% with 1,001 to 5,000 employees, 40% with more than 5,000 employees. Average plan, 5,000 participants; largest plan, 125,000 participants; minimum size plan, 500 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, frequency valuations.

1990 gross revenues: 30% of gross revenues from 401(k) plan administration.

Principal officers: David A. Skovron, chief executive partner; Robert S. Byrne Jr., chief operating partner; R.T. Whitman, partner-marketing; James T. Brickman, recording partner.

Contact: R.T. Whitman.

L

LFS Benefit Services

271 W. Cerritos Ave., Anaheim, Calif. 92805; 714-774-8051 or 800-227-3612; fax: 714-239-6862

Founded: 1974; began offering 401(k) plan administration services in 1980.

Software: Purchased from an outside vendor; accommodates 99 investment funds and four kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include standard and custom enrollment communications.

Service area: Nationwide.

Staff: 16 total; two involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 55 total; 85% with 1 to 100 employees, 15% with 101 to 1,000 employees. Average plan, 77 participants; largest plan, 500 participants; no minimum size plan; maximum size plan, 1,000 participants.

Charges: Determined by number of participants, frequency valuations.

Principal officers: Alfred O. Long, president/chief executive officer; Mark E. Long, vp-administration; Marcia E. Lichte, vp-marketing.

Contact: Alfred O. Long.

Larson Allen Weishair & Co.

1800 Interchange Tower, Minneapolis, Minn. 55426; 612-593-6821; fax: 612-593-3457

Founded: 1953; began offering 401(k) plan administration services in 1985.

Software: Purchased from an outside vendor; accommodates 20 investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include trustee and custodial services.

Service area: Nationwide.

Staff: 13 total; 11 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, four CPAs.

Clients: 100 total; 75% with 1 to 100 employees, 25% with 101 to 1,000 employees. Average plan, 50 participants; largest plan, 650 participants; no minimum size plan; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, frequency valuations.

Revenues: $500,000 from 401(k) plan administration.

Principal officers: Gordon Viere, chief executive partner; Charles Betz, Donald Mongeon, Yvonne Olson and Jack Brose, partners.

Contact: Donald Mongeon.

M

Malden Trust Co.

94 Pleasant St., Malden, Mass. 02148; 617-321-1111; fax: 617-324-7806

Founded: 1896; began offering 401(k) plan administration services in 1987.

Software: Leased from an outside vendor; accommodates 10 investment funds and eight kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: New England.

Staff: 21 total; four involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one attorney.

Clients: Eight total; 88% with 1 to 100 employees, 12% with 101 to 1,000 employees. Average plan, 40 participants; largest plan, 200 participants; no minimum size plan; maximum size plan, 1,000 participants.

Charges: Determined by number of participants, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $1.8 million total; $30,000 from 401(k) plan administration.

Contact: Herbert E. Claflin, trust officer.

Mammel, Schropp, Swartzbaugh, Engler & Jones Inc.

175 Embassy Plaza, 9110 W. Dodge Road, Omaha, Neb. 68114; 402-397-7000; fax: 402-398-2458

Founded: 1959; began offering 401(k) plan administration services in 1981.

Parent company: Redland Group.

Software: Purchased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Staff: 114 total; 17 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, two ASAs/FSAs.

Clients: 96 total; 62% with 1 to 100 employees, 32% with 101 to 1,000 employees, 6% with 1,001 to 5,000 employees. Average plan, 200 participants; largest plan, 2,000 participants; no minimum size plan; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Carl G. Mammel, chairman; Gary L. Hurley, vice chairman; Robert F. Swartzbaugh, president/chief executive officer; Omer C. Trout, executive vp/chief operating officer; Donn B. Jones, senior vp; Joseph Smith, secretary/treasurer.

Contact: Donn B. Jones.

Massachusetts Mutual Life Insurance Co.

1295 State St., Springfield, Mass. 01111; 413-788-8411

Founded: 1851; began offering 401(k) plan administration services in 1972.

Software: Written and maintained by the company; accommodates six investment funds and six kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include local representatives.

Service area: Nationwide.

Staff: 180 total; all involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 12 CEBSs, 10 MBAs, five ASAs/FSAs, four attorneys.

Clients: 1,400 total. Average plan, 130 participants; largest plan, 6,000 participants; minimum size plan, 25 participants; no maximum size plan.

Charges: Determined by number of participants, amount of assets under management, time and expense.

Contact: Peter Vogian, senior vp.

Meeker Sharkey Consultants

21 Commerce Drive, Cranford, N.J. 07016; 908-272-8100; fax: 908-709-0414

Founded: 1972; began offering 401(k) plan administration services in 1981.

Parent company: Meeker Sharkey Financial Group Inc.

Software: Leased from an outside vendor; accommodates 50 investment funds and 20 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include enrollment and communications.

Service area: Northeast.

Staff: 15 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one ASA/FSA, one attorney.

Clients: 110 total; 30% with 1 to 100 employees, 65% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees. Average plan, 125 participants; largest plan, 1,600 participants; minimum size plan, 25 participants; maximum size plan, 4,000 participants.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $825,000 total; $375,000 from 401(k) plan administration.

Principal officers: Gerard E. Desmond, president; Myles J. Gilsenan, benefit and tax counsel; John Chaplik, vp/consulting actuary; Lynn Decker, actuarial supervisor.

Contact: Gerard E. Desmond.

William M. Mercer Inc.

1166 Ave. of the Americas, New York, N.Y. 10036-2708; 212-345-7000; fax: 212-345-7423

Founded: 1975; began offering 401(k) plan administration services in the late 1970s.

Parent company: Marsh & McLennan Cos. Inc.

Software: Written and maintained by the company; accommodates unlimited investment funds and all kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include 401(k) modeling through interactive video or personal computer diskettes.

Service area: Nationwide.

Locations: Administrative and consulting offices in 42 locations nationwide.

Staff: 3,650 total; 250 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 1,250 total. 14% with 1 to 100 employees, 28% with 101 to 1,000 employees, 45% with 1,001 to 5,000 employees, 13% with more than 5,000 employees. Average plan, 1,000 participants; largest plan, 53,000 participants; minimum size plan, 100 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $720 million total worldwide.

Principal officers: Robert A. Brochu, president.

Contact: Robert Aglira, 1515 Market St., Suite 400, Philadelphia, Pa. 19102; 215-963-4216.

Metropolitan Life Insurance Co.

1 Madison Ave., New York, N.Y. 10010; 212-578-5733; fax: 212-578-2167

Founded: 1868; began offering 401(k) plan administration services in 1980.

Software: Written and maintained by the company; accommodates unlimited investment funds and kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include financial modeling for participants, enrollment services, asset allocation information.

Service area: Nationwide.

Locations: Administrative and consulting offices in Atlanta; Denver; East Hanover, N.J.

Staff: 300 total; 200 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 97 CEBSs, 23 MBAs, one CPA, three ASAs/FSAs, five attorneys.

Clients: 227 total; 5% with 1 to 100 employees, 36% with 101 to 1,000 employees, 39% with 1,001 to 5,000 employees, 20% with more than 5,000 employees. Average plan, 3,800 participants; largest plan, 275,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, frequency valuations.

1990 gross revenues: $30.1 billion total.

Principal officers: Robert G. Schwartz, chairman/president/chief executive officer; Phillip Briggs, vice chairman; Robert E. Chappell Jr., senior executive vp; Stewart G. Nagler, Ted Athanassiades, senior executive vps.

Contact: Lew De Risi.

Michigan National Bank

P.O. Box 9065, 27777 Inkster Road, Farmington Hills, Mich. 48333-9065; 313-473-3550; fax: 313-473-3094

Founded: 1940; began offering 401(k) plan administration services in 1982.

Continued on next page

A Standing Argument For Limiting Cost.

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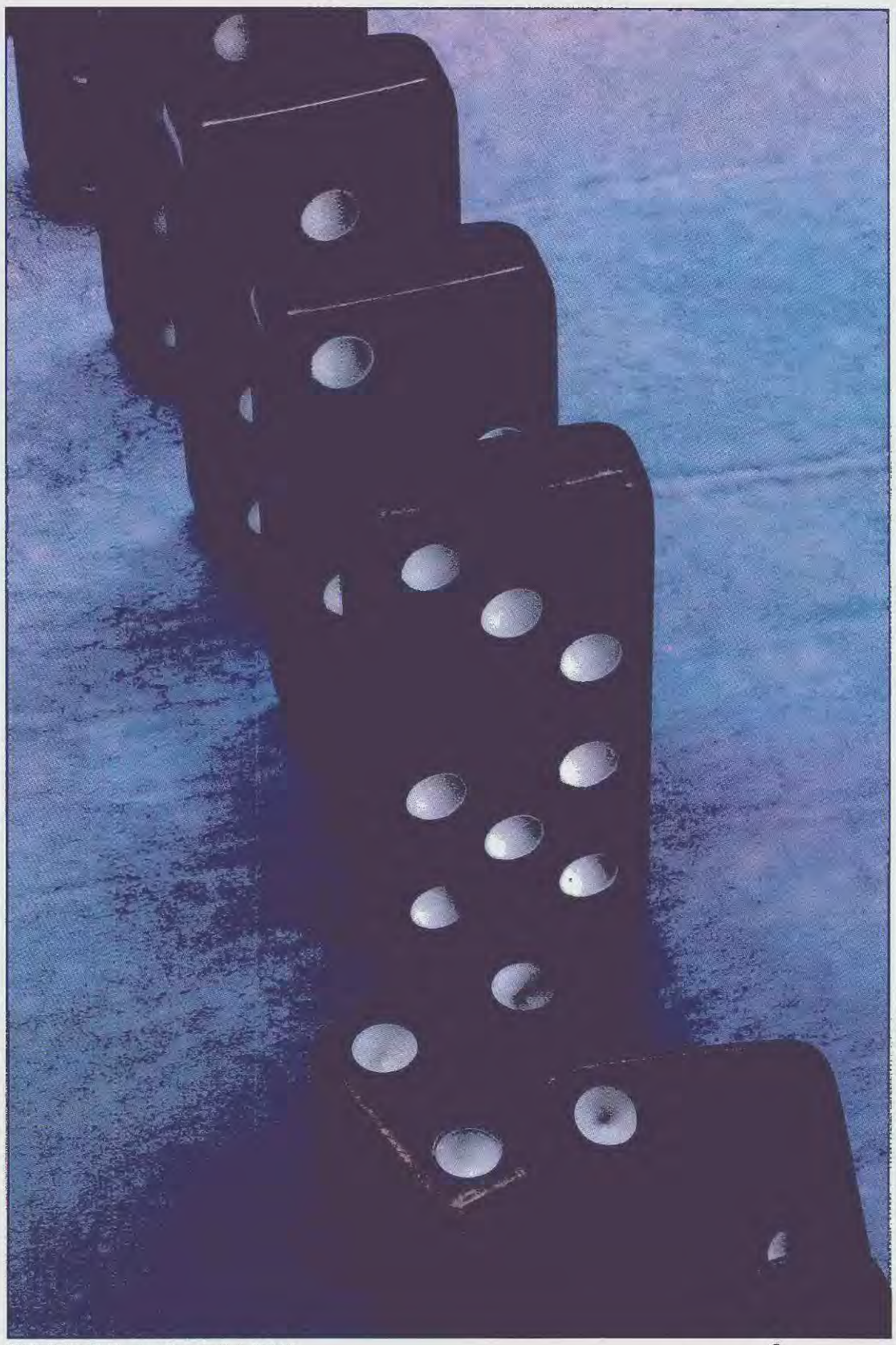

Either way, it means containing the high costs associated with total property coverage.

Most often, insuring to full value still makes the most sense. But for accounts with combined property and business income of at least $10 million at one location or $15 million at two or more locations, insuring to full value may be a needlessly expensive option.

For solutions that stand apart from the rest, contact your local ITT Hartford Regional Office Property Underwriting Department.

ITT HARTFORD

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PROFESSIONAL INSURANCE AGENTS

Continued from page 44

Parent company: Michigan National Corp.

Software: Purchased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include customized participant statements and employee communications programs, fidelity mutual funds at no-load.

Service area: Nationwide.

Locations: Administrative and consulting offices in Grand Rapids and Lansing, Mich.

Staff: 30 total; 21 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one MBA.

Clients: 300 total; 70% with 1 to 100 employees, 29% with 101 to 1,000 employees, 1% with 1,001 to 5,000 employees. Average plan, 85 participants; largest plan, 1,700 participants; no minimum size plan; maximum size plan, 2,000 participants.

Charges: Determined by number of participants, amount of assets under management.

Principal officers: Bob Howard, first vp; Tom Defer and Steff Chalk, vps.

Contact: Steff Chalk.

Miller, Mason & Dickenson Inc.

123 N. Wacker Drive, Suite 1000, Chicago, Ill. 60606; 312-701-4800; fax: 312-701-4855

Founded: 1960; began offering 401(k) plan administration services in 1974.

Parent company: Aon Corp.

Software: Leased from an outside vendor; accommodates 200 investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include database administration, health and welfare consulting, executive compensation consulting, retirement plan actuarial consulting, personal benefit statements.

Service area: Nationwide.

Locations: Administrative and consulting offices in Conshohocken, Pa; Minneapolis; New York; St. Louis, Mo. Additional consulting offices in Houston; Los Angeles and Palo Alto, Calif.

Staff: 430 total; 50 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CEBSs, five MBAs, four CPAs, 10 ASAs/FSAs, three attorneys.

Clients: 186 total; 21% with 1 to 100 employees, 68% with 101 to 1,000 employees, 9% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 550 participants; largest plan, 10,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Daniel T. Cox, chief executive officer; Joseph J. Stahl, president.

Milliman & Robertson Inc.

1301 Fifth Ave., Suite 3800, Seattle, Wash. 98101; 206-624-7940; fax: 206-340-1380

Founded: 1947; began offering 401(k) plan administration services in 1970.

Software: Written and maintained by the company and leased from an outside vendor; accommodates 99 investment funds and 99 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Other services include qualified and nonqualified retirement programs; ESOPs TDAs, deferred compensation programs; investment counseling services to single employer, multiple employer and Taft-Hartley plan sponsors.

Service area: Nationwide.

Locations: Administrative and consulting offices in 25 locations nationwide.

Staff: 800 total; 250 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs, CPAs, ASAs/FSAs, attorneys.

Clients: 1,000 total; 29% with 1 to 100 employees, 54% with 101 to 1,000 employees, 15% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 220 participants; largest plan, 13,000 participants; no minimum or maximum size plan

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $105 million total; $5.2 million from 401(k) plan administration

Principal officers: James A. Curtis, chairman/chief executive officer; Robert Collett, president; Frederic T. Lhamon, national director-pensions.

Contact: Frederic T. Lhamon or Lloyd Robinson.

Mutual of New York

4 Manhattanville Road, Purchase, N.Y. 10577; 914-697-8950; fax: 914-697-3743

Founded: 1843; began offering 401(k) plan administration services in 1985.

Software: Written and maintained by the company; accommodates 20 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting; accomodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include participation and coverage testing, mail statements, quarterly participant statements, 1099/W2P filing, 5300 filing completion, Form 5500 filing completion, 415 testing, top heavy testing, ongoing enrollment support, investment and technical/legislative newsletters.

Service area: Nationwide.

Locations: Administrative and consulting offices in Boston; Charlotte, N.C.; Chicago; Cincinnati; Irvine and San Francisco, Calif.; New Orleans; New York; Philadelphia.

Staff: 625 total; 180 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 10 CEBSs, 13 MBAs, three CPAs, eight ASAs/FSAs, 14 attorneys.

Clients: 553 total; 62% with 1 to 100 employees, 36% with 101 to 1,000 employees, 2% with 1,001 to 5,000 employees. Average plan, 176 participants; largest plan, 3,559 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, amount of assets under management.

N

National Benefit Consultants Inc.

28800 Orchard Lake Road, Suite 210, Farmington Hills, Mich. 48334; 313-932-4020; fax: 313-932-4119

Founded: 1968; began offering 401(k) plan administration services in 1978.

Software: Written and maintained by the company; accommodates 99 investment funds and 99 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include Internal Revenue Service plan filings, compliance and trust asset accounting.

Service area: Nationwide.

Staff: 25 total; seven involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA, one CPA, one ASA/FSA.

Clients: 76 total; 63% with 1 to 100 employees, 37% with 101 to 1,000 employees. Average plan, 70 participants; largest plan, 640 participants; no minimum or maximum size plan.

Continued on page 48

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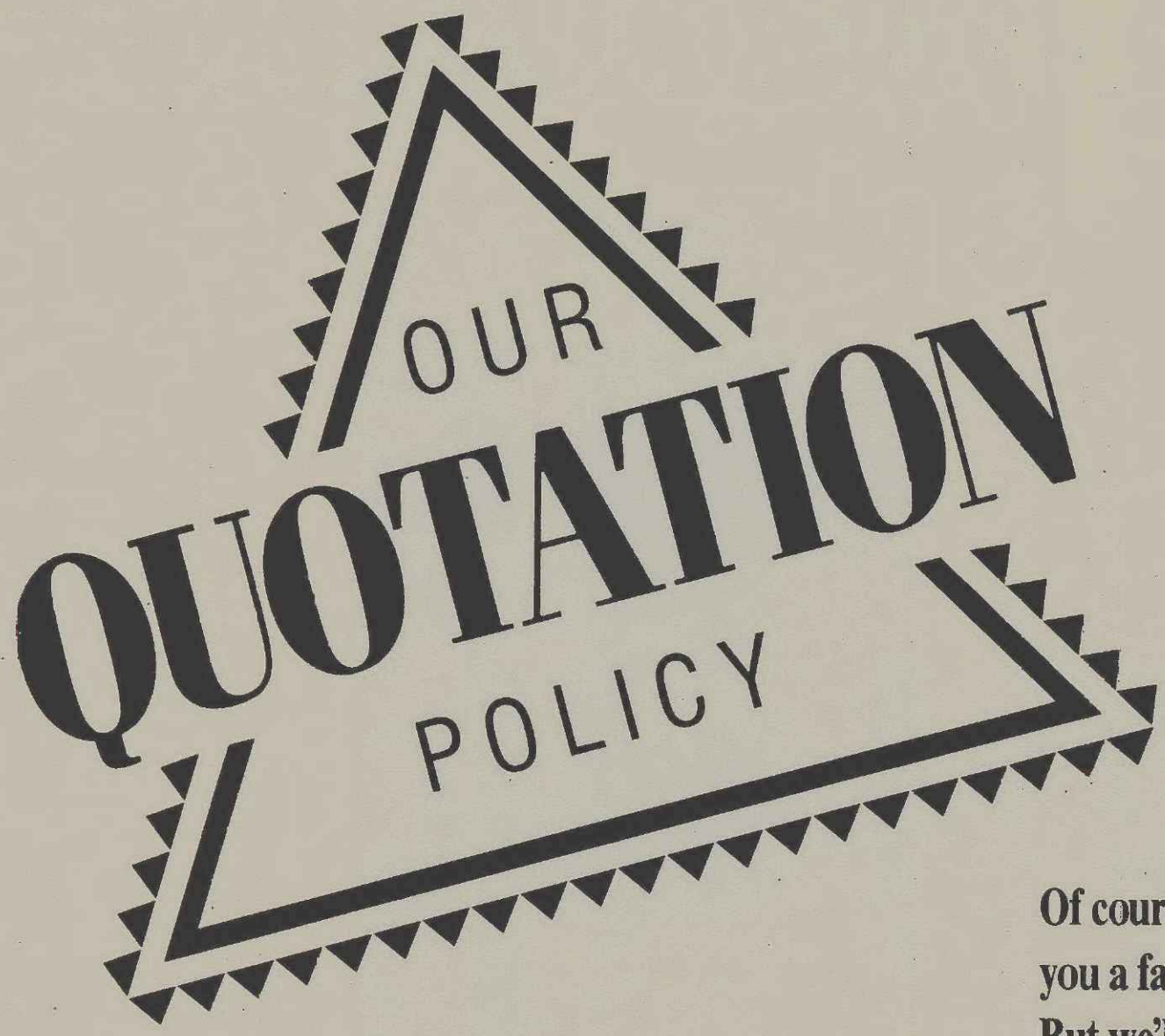

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Continued from page 46

Charges: Determined by number of participants complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Hal Lambert, president; Michael Stacey, vp; Brian Stevens, secretary/treasurer.

National Benefit Services Inc.

6 N. Michigan Ave., Suite 1104, Chicago, Ill. 60602; 312-372-2150; fax: 312-372-7673

Founded: 1978; began offering 401(k) plan administration services in 1982.

Software: Leased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Staff: Seven total; five involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 25% with 1 to 100 employees, 70% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees. Average plan, 100 participants; largest plan, 2,500 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Gerald I. Kalish, president; Karen S. Bonn, vp.

Contact: Karen S. Bonn.

National Securities & Research Corp.

2 Pickwick Plaza, Greenwich, Conn. 06830; 203-863-5635; fax: 203-863-5640

Founded: 1930; began offering 401(k) plan administration services in 1991.

Parent company: Aitko Home International Ltd.

Software: Recordkeeping is provided by an outside third party; accommodates unlimited investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: Nationwide.

Locations: Administrative offices in Frederick, Md.

Staff: Eight involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include CEBSs, MBAs and attorneys.

Charges: Determined by number of participants, amount of assets under management, time and expense.

Principal officers: Mark L. Lipson, president/chief executive officer; David Wallace, chairman; Robert Adler, senior vp; Denis McAvley, senior vp; Lisa Hurley, general counsel.

Noble Lowndes

3 Becker Farm Road, Roseland, N.J. 07068; 201-533-4500; fax: 201-535-1440

Founded: 1930; began offering 401(k) plan administration services in 1981.

Parent company: Noble Lowndes & Partners.

Software: Leased from an outside vendor; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include asset management consulting, executive compensation and general benefits consulting.

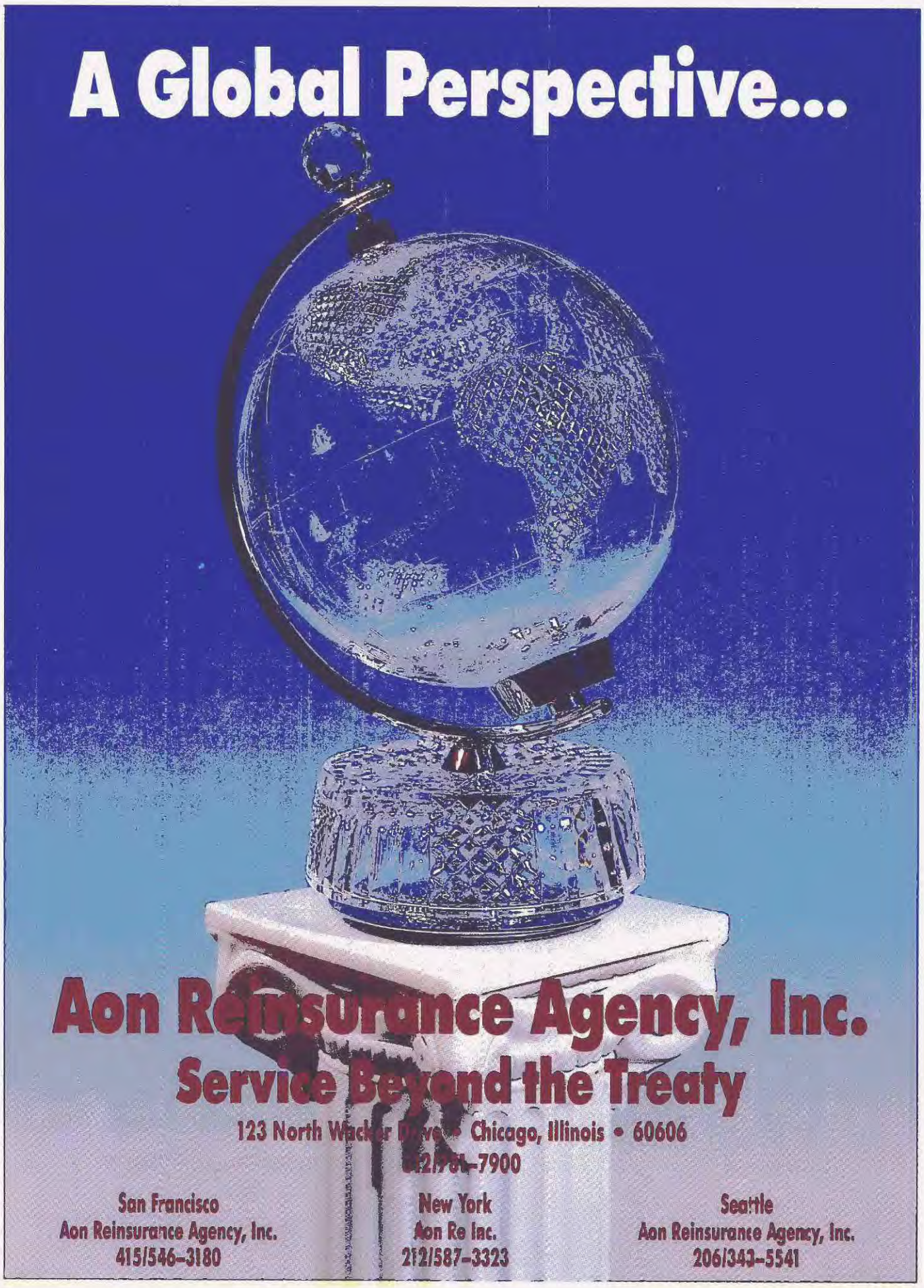
Service area: Nationwide.

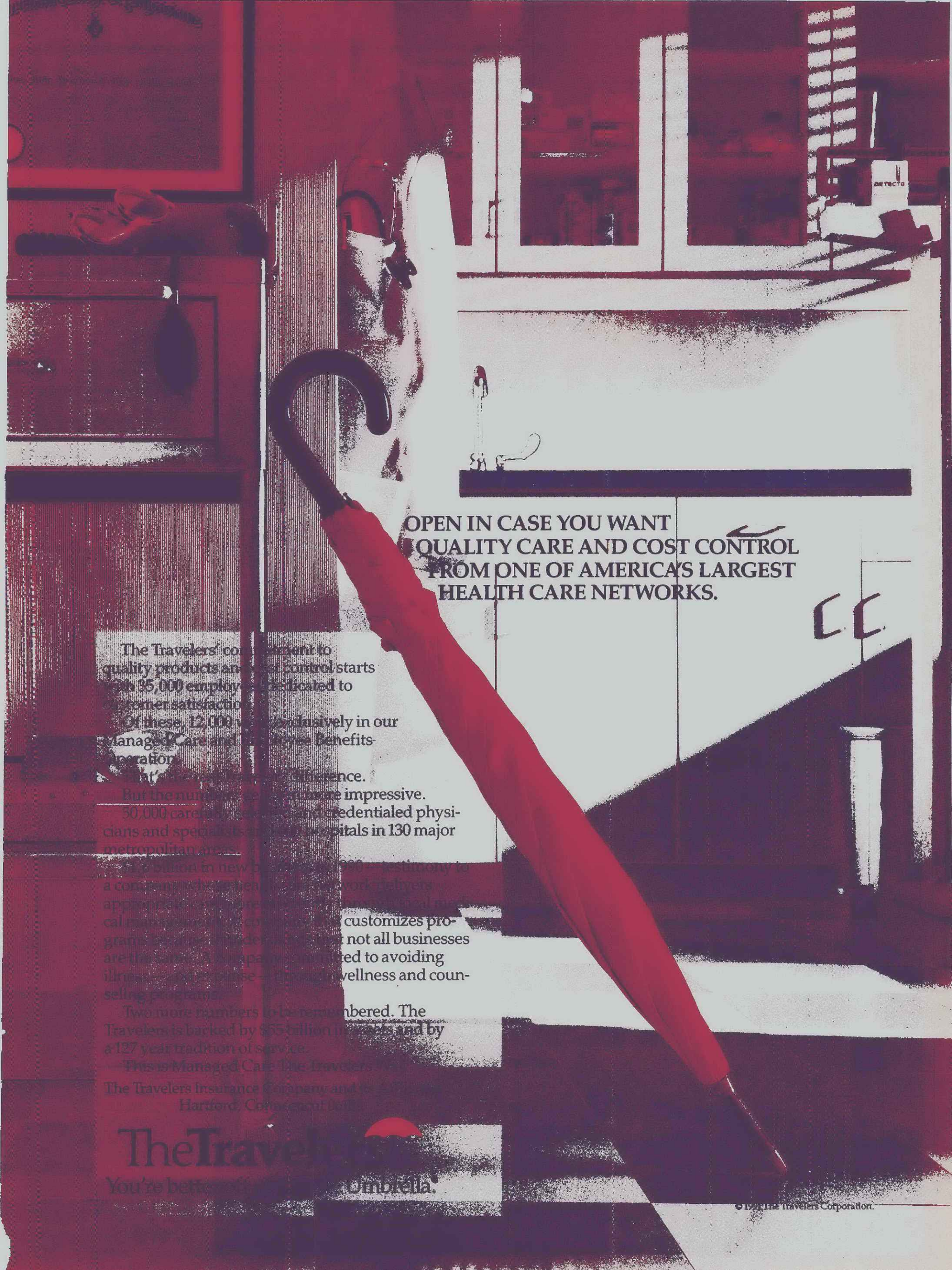
Locations: Administrative and consulting offices in Atlanta; Garden City, N.Y.; Newtown and Philadelphia, Pa.; Garden City, N.Y.; Atlanta. Additional consulting offices in Boston and San Francisco.

Staff: 700 total; 135 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CEBSs, one CPA, two ASAs/FSAs.

Clients: 575 total; 23% with 1 to 100 employees, 65% with 101 to 1,000 employees, 12% with 1,001 to 5,000 employees. Average plan, 375 participants; largest plan, 6,000 partici-

Continued on page 50

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Continued from page 48

pants; minimum size plan, 100 participants; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $46 million total; $13 million from 401(k) plan administration.

Principal officers: Peter Brew, managing director; R. Theodore Benna, regional vp; E.H. Becker, chairman; Alex Sussman, senior vp.

Contact: Kenneth Hunt.

P

Parsons, McKee, Sommers & Co.

Gemini Tower I, 1991 Crocker Road, Suite 350, Westlake, Ohio 44145; 216-871-8611; fax: 216-871-7485

Founded: 1976; began offering 401(k) plan administration services in 1986.

Software: Leased from an outside vendor; accommodates 25 investment funds and seven kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include interactive touchscreen participant planning systems and employee benefit data base systems.

Service area: Ohio and surrounding states.

Locations: Administrative and consulting offices in Cleveland.

Staff: 20 total; seven involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two attorneys.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $1.5 million total; $150,000 from 401(k) plan administration.

Principal officers: John R. Parsons, president; Mark S. Sommers, vp/managing principal; Annette Abramczyk, principal.

Contact: Mark S. Sommers or Gary A. Lydrickson.

T.R. Paul Inc.

14 Commerce Road, Newtown, Conn. 06420; 203-426-8161; fax: 203-270-0927

Founded: 1947; began offering 401(k) plan administration services in 1977.

Software: Written and maintained by the company; accommodates 30 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include health insurance third-party claim administration, cafeteria plans, deferred compensation plans.

Service area: Nationwide, mainly Northeastern states.

Staff: 110 total; 12 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, two ASAs/FSAs.

Clients: 70% with 1 to 100 employees, 30% with 101 to 1,000 employees. Average plan, 200 participants; largest plan, 200 participants; no minimum size plan; maximum size plan, 5,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Robert L. Levy, president/treasurer; Raymond Nelson and Michael Millman, vps; Sharon Morrissey, secretary.

Pension Planning Co.

355 Lexington Ave., New York, N.Y. 10017; 212-867-4100; fax: 212-953-7765

Founded: 1946; began offering 401(k) plan administration services in 1982.

Parent company: Republic Hogg Robinson Inc.

Software: Purchased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications in English and Spanish. Other services include publication of manuals outlining effective plan administration.

Service area: Nationwide.

Continued on page 52

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NOVEMBER CLOSINGS

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issue:	November 18 — Reader Service Bonus Distribution: PIA
closing:	November 5
editorial feature:	Benefits: Pension/Retirement Plans & EBC Award Profiles Directory: 401(k) Plan Administrators
demographic section:	Insurer Topics: Reinsurance Issues/Relations with Intermediaries CPCU Conference Report
issue:	November 25
closing:	November 13
issue:	December 1991 — Reader Service
closing:	November 11
editorial feature:	1991/92 Managed Care Market Repor: — Directory: HMOs & PPOs
issue:	December 2
closing:	November 18
demographic section:	Agent/Broker Topics: PIA Conference Report
issue:	December 9 Bonus Distribution: NAIC
closing:	November 26
editorial feature:	Insurance Regulation & Trends

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Locations: Administrative and consulting offices in Wynnewood, Pa. (Barry R. Milberg Associates).

Staff: 49 total; 15 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one CPA, three ASAs/FSAs, one attorney.

Clients: 63 total; 71% with 1 to 100 employees, 24% with 101 to 1,000 employees, 3% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 200 participants; largest plan, 5,250 participants; minimum size plan, five participants; maximum size plan, 10,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: 35% of total from 401(k) plan administration.

Principal officers: Donald A. Lockwood, president; Paul D. Robinson, senior vp; Jack Warshavchik and Heather Buyers, vps; Barbara Lein, general counsel.

Contact: Heather Buyers.

Pension Resources

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

Founded: 1972; began offering 401(k) plan administration services in 1979.

Parent company: Friedman, Eisenstein, Raemer & Schwartz.

Software: Purchased from an outside vendor; accommodates 25 investment funds and five kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include administrative and actuarial services for all types of qualified retirement plans.

Service area: Nationwide.

Staff: 27 total; 23 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA, two CPAs, two ASAs/FSAs, one attorney.

Clients: 220 total; 70% with 1 to 100 employees, 30% with 101 to 1,000 employees. Average plan, 100 participants; largest plan, 1,500 participants; minimum size plan, 15 participants; maximum size plan, 5,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $2.2 million total; $1 million from 401(k) plan administration.

Principal officers: Michael Schwartz, president.

Principal Mutual Life Insurance Co.

The Principal Financial Group, 711 High St., Des Moines, Iowa 50392-0001; 515-247-5111; fax: 515-247-5930

Founded: 1879; began offering 401(k) plan administration services in 1981.

Parent company: The Principal Financial Group.

Software: Written and maintained by the company; accommodates 12 investment funds and 15 kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include Form 5500 preparation and plan document service.

Service area: Nationwide.

Locations: Administrative and consulting offices in Mason City, Iowa.

Staff: 1,450 total; 921 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 9,421 total; 86.8% with 1 to 100 employees, 12.5% with 101 to 1,000 employees, 0.5% with 1,001 to 5,000 employees, 0.1% with more than 5,000 employees. Average plan, 75 participants; largest plan, 7,200 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management.

1990 gross revenues: $3.3 billion total; $1.8 billion from 401(k) plan administration.

Principal officers: W.F. Gould, J.S. Martin, vps; Larry Zimplemann, R.M. Mur and S.C. Hensley, second vps.

Contact: S.C. Hensley.

Provident Capital Management

1700 Market St., Suite 1412, Philadelphia, Pa. 19103; 215-585-7500; fax: 215-585-7519

Founded: 1847; began offering

Continued on page 54

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SRS Specialty Risk Services

Continued from page 52
401(k) plan administration services in 1980.

Parent company: PNC Corp.

Software: Leased from an outside vendor; accommodates unlimited investment funds and unlimited kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds.

Service area: Nationwide, with concentration in the Delaware Valley.

Staff: 53 total; 31 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, two MBAs, two attorneys.

Clients: 350 total; 50% with 1 to 100 employees, 43% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees, 2% with more than 5,000 employees. Average plan, 140 participants; largest plan, 12,000 participants; minimum size plan, 25 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Thomas Stewart, chief executive officer; Robert Trempe, executive vp; William Erb, senior vp; Marcia L. Hoover, vp.

Contact: Marcia L. Hoover, 215-585-5015.

The Prudential Asset Management Co. Inc.

W.W. Scranton Office Park, 30 E.D. Preate Drive, Moosic, Pa. 18507-1796; 717-341-6200; fax: 717-341-6340

Founded: 1875; began offering 401(k) plan administration services in 1980.

Parent company: The Prudential Insurance Co. of America.

Software: Written and maintained by the company; accommodates 10 investment funds and six kinds of contributions.

Administration: Uses cash accounting, unit value accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include separate accounting for business units or multiple locations, trustee services, company stock recordkeeping and external investment recordkeeping.

Service area: Nationwide.

Locations: Consulting offices in Atlanta; Chicago; Dallas; Florham Park, N.J.; Tampa, Fla.; Woodland Hills, Calif.

Staff: 1,145 total; 215 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include two CEBSs, five MBAs, one CPA, one attorney.

Clients: Average plan, 200 participants; largest plan, 125,000 participants; minimum size plan, 100 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $12.7 billion total.

Principal officers: Harold R. Hopkins Jr. and Steven E. Benson, vps.

Contact: Andrew M. Richmond, national director-marketing.

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Retirement Plans of America

200 S. Broad St., Suite 425, P.O. Box 35, Philadelphia, Pa. 19102; 215-875-8610; fax: 215-875-3592

Founded: 1983.

Software: Purchased from an outside vendor; accommodates 25 investment funds and five kinds of contributions.

Administration: Uses cash accounting and full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Staff: 52 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one MBA.

Clients: 48 total; 96% with 1 to 100 employees, 4% with 101 to 1,000 employees. Average plan, 82 participants; largest plan, 900 participants; minimum size plan, 25 participants; maximum size plan, 1,000 participants.

Charges: Determined by number of participants, complexity of plan, frequency valuations.

Principal officers: JoAnn Massanova, president; Carmen LaVerghetta, vp.

Contact: JoAnn Massanova or Mark Moran.

S

SEI Corp.

680 E. Swedesford Road, Wayne, Pa. 19087; 215-254-1000

Founded: 1968; began offering 401(k) plan administration services in 1971.

Software: Written and maintained by the company; accommodates 30 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include money manager search and marketing support, employee benefit consulting services, plan document coordination, procedural development and defined contribution plan education services.

Service area: Nationwide.

Staff: 1,300 total; 140 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 300 total; 20% with 1 to 100 employees, 60% with 101 to 1,000 employees, 10% with 1,001 to 5,000 employees, 10% with more than 5,000 employees. Average plan, 1,500 participants; largest plan, 30,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

1990 gross revenues: $172 million total; $16 million from 401(k) plan administration.

Principal officers: Alfred P. West Jr., chairman/chief executive officer; Henry H. Greer, president/chief operating officer; Carmen V. Romeo, executive vp/chief financial officer.

Contact: James A. Gurski, 214-689-3464.

Scudder Investor Services Inc.

175 Federal St., Boston, Mass. 02110; 800-541-7701; fax: 617-330-5779

Founded: 1919; began offering

Continued on next page

Continued from previous page
401(k) plan administration services in 1960.

Parent company: Scudder, Stevens & Clark Inc.

Software: Purchased from an outside vendor; accommodates 99 investment funds and 99 kinds of contributions.

Administration: Uses unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants. Consults on employee communications. Manages investment of the plan funds. Other services include investments, prototype plan and trustee services.

Service area: Nationwide.

Locations: Consulting offices in Chicago, Los Angeles and New York.

Staff: 40 total; 32 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA and three attorneys.

Clients: 140 total; 31% with 1 to 100 employees, 64% with 101 to 1,000 employees, 5% with 1,001 to 5,000 employees. Average plan, 200 participants; largest plan, 1,500 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: Scudder, Stevens & Clark Inc. — Daniel Pierce, chairman; Edmund D. Villani, president. Scudder Investor Services — David S. Lee, president; Dennis M. Cronin Jr., senior vp-retirement plans; Paul W. Mercer, vp-retirement plans.

Contact: Paul W. Mercer.

Martin E. Segal Co.

1 Park Ave., New York, N.Y. 10016-5895; 212-251-5000; fax: 212-251-5490

Founded: 1939; began offering 401(k) plan administration services in 1981.

Software: Written and maintained by the company; accommodates 10 investment funds and 10 kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include annual reporting of 1099Rs, Form 5500 reports, SPDs, benefit statements, administrative manuals, preparation and submission of plan documents.

Service area: Nationwide.

Locations: Consulting offices in Atlanta; Boston; Chicago; Denver; Cleveland; Hartford, Conn.; Houston; Los Angeles; New Orleans; Phoenix; San Francisco; Seattle; West Palm Beach, Fla.; Washington, D.C.

Staff: 680 total; 70 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include three CEBSs, five MBAs, two CPAs, seven ASAs/FSAs, three attorneys.

Clients: 80 total; 15% with 1 to 100 employees, 50% with 101 to 1,000 employees, 20% with 1,001 to 5,000 employees, 15% with more than 5,000 employees. Average plan, 600 participants; largest plan, 35,000 participants; minimum size plan, 50 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Robert D. Krinsky, president; Robert D. Paul, chairman; Howard Fluhr, Dale Grant and John Gentleman, executive vps.

Contact: Robert A. Liberto, vp/director-defined contribution services.

Donald F. Smith & Associates

3120 Princeton Pike, P.O. Box 6509, Lawrenceville, N.J. 08648-0509; 609-895-1616; fax: 609-895-1511

Founded: 1966; began offering 401(k) plan administration services in 1984.

Software: Recordkeeping is provided by an outside third-party; accommodates six investment funds and six kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Toll-free service for participants to request account activity, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include plan enrollment, ADP/ACP testing, newsletters, multiple plan testing, top heavy testing, loan administration.

Service area: Nationwide.

Staff: 10 total; five involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one ASA/FSA.

Clients: 50% with 1 to 100 employees, 50% with 101 to 1,000 employees. Average plan, 106 participants; largest plan, 284 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $833,000 total; $100,000 from 401(k) plan administration.

Principal officers: Donald F. Smith, chairman; William B. Stephenson, president; Robert M. Neumann, senior vp: Gerald A. Lister, vp-pensions; Robert Bainbridge, vp-sales.

Contact: Gerald A. Lister.

State Mutual Cos.

440 Lincoln St., Worcester, Mass. 01605; 508-855-1000; fax: 508-856-9385

Founded: 1844; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting, accrual accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include prototypes, investments, recordkeeping, administration, benefit payment, testing, employee communications, government reporting.

Service area: Nationwide.

Locations: Consulting offices in Atlanta; Boston; Buffalo, N.Y.; Chicago; Dallas; Greensboro, N.C.; Los Angeles; Paramus, N.J.; Philadelphia; Pittsburgh; Richmond, Va.; San Francisco; Seattle; Washington, D.C.; Puerto Rico.

Staff: 280 total; 210 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include 11 CEBSs, 17 MBAs, 12 ASAs/FSAs, three attorneys.

Clients: 1,100 total; 36.8% with 1 to 100 employees, 60% with 101 to 1,000 employees, 3% with 1,001 to 5,000 employees, 0.2% with more than 5,000 employees. Average plan, 350 participants; largest plan, 5,500 participants; minimum size plan, 100 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense.

1990 gross revenues: $52.1 million total; $6.9 million from 401(k) plan administration.

Principal officers: Albert W. Buckbee II, vp-retirement and investment services; Richard P. McGirr, vp-retirement & investment services sales; John L. Wentzell, second vp-retirement and investment services marketing.

Contact: Richard P. McGirr or John J. Wentzell.

Continued on next page

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Continued from previous page

J.E. Stone & Associates Inc.

5555 San Felipe, Suite 550, Houston, Texas 77056; 713-622-8930; fax: 713-622-6705

Founded: 1987; began offering 401(k) plan administration services in 1987.

Software: Purchased from an outside vendor; accommodates 10 investment funds and 10 kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) nondiscrimination tests.

Client support: Clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include investment consulting.

Service area: Texas.

Staff: 11 total; five involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one MBA, one CPA, two ASAs/FSAs.

Clients: 22 total; 13% with 1 to 100 employees, 13% with 101 to 1,000 employees, 60% with 1,001 to 5,000 employees, 14% with more than 5,000 employees. Average plan, 1,000 participants; largest plan, 13,000 participants; minimum size plan, 100 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: James Stone, Kenneth Haynes and Thomas McCord.

T

TPF&C

1500 Market St., Philadelphia, Pa. 19102; 215-246-6000

Founded: 1934; began offering 401(k) plan administration services in 1983.

Software: Written and maintained by the company; accommodates unlimited investment funds and unlimited kinds of contributions; software may be used by clients in-house.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) nondiscrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications.

Service area: Nationwide.

Locations: Administrative offices in Atlanta, Boston, Chicago, Dallas, Los Angeles. Consulting offices in 30 locations.

Staff: 5,000 total; 387 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 150 total; 13% with 101 to 1,000 employees, 60% with 1,001 to 5,000 employees, 27% with more than 5,000 employees. Average plan size, 4,000 participants; largest plan, 57,000 participants; minimum size plan, 1,000 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1989 gross revenues: $675 million total; $10 million from 401(k) plan services.

Principal officers: John T. Lynch, chairman/chief executive officer.

Contact: Michael L. Hockersmith, 215-246-6271.

Trust Consultants

155 Bovet Road, Suite 200, San Mateo, Calif. 94402; 415-378-8700; fax: 415-341-7382

Founded: 1971; began offering 401(k) plan administration services in 1983.

Parent company: Marsh & McLennan.

Software: Written and maintained by the company and leased from an outside vendor; accommodates eight investment funds and six kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include employee communications, and employer software services.

Service area: Nationwide.

Locations: Consulting offices in Chicago; Glendale, Calif.; New York.

Staff: 50 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one attorney.

Clients: 90% with 1 to 100 employees, 10% with 101 to 1,000 employees. Average plan, 50 participants; largest plan, 500 participants; no minimum size plan; maximum size plan, 600 participants.

Charges: Determined by number of participants, complexity of plan.

Principal officers: Larry Gilsdorf, president; Mark Weimer, executive vp; Jean Willis, senior vp; Jack Ringlein, chief financial officer; Gloria Erlick, assistant vp.

Contact: Mark Weimer.

V

The Vanguard Group Inc.

Vanguard Financial Center, Valley Forge, Pa. 19482; 800-523-1036; fax: 215-669-4035

Founded: 1974; began offering 401(k) plan administration services in 1982.

Software: Written and maintained by the company; accommodates 400 investment funds and 400 kinds of contributions.

Administration: Uses cash accounting; accommodates loan provisions; performs 401(k) and 401(m) non-discrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Manages investment of the plan funds. Other services include non-discretionary trust services, custodial services, plan level accounting, plan distributions and tax reporting services.

Service area: Nationwide.

Staff: 2,500 total; 400 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 400 total; 5% with 1 to 100 employees, 70% with 101 to 1,000 employees, 20% with 1,001 to 5,000 employees, 5% with more than 5,000 employees. Average plan, 1,300 participants; largest plan, 32,000 participants; minimum size plan, 1,000 participants; no maximum size plan.

Charges: Determined by number of participants, complexity of plan, amount of assets under management, time and expense, frequency valuations.

Principal officers: John C. Bogle, chairman/chief executive officer; John J. Brennan, president; James H. Gately, senior vp-institutional; F. William McNabb, vp/director-institutional sales; John E. Barth, vp-institutional client services; Thomas Grace, vp-institutional operations.

W

Williams, Thacher & Rand

630 Third Ave., New York, N.Y. 10017; 212-949-1344; fax: 212-682-9147

Founded: 1975; began offering 401(k) plan administration services in 1981.

Software: Written and maintained by the company; accommodates 99 investment funds and 99 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) nondiscrimination tests.

Client support: Clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include data collection software, administration manuals, administration consulting, administrative forms design, GIC searches.

Service area: Nationwide.

Locations: Administrative and consulting offices in Baltimore; Denver; Indianapolis; Philadelphia; Richmond, Va.; Washington, D.C.

Staff: 175 total; 45 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include five CEBSs, four MBAs, one CPA, eight ASAs/FSAs, one attorney.

Clients: 175 total; 15% with 1 to 100 employees, 65% with 101 to 1,000 employees, 15% with 1,001 to 5,000 employees, 5% with more than 5,000 employees. Average plan, 500 participants; largest plan, 8,500 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Charles Thacher, Robert Williams, Thomas Rand, Terry Stokes.

Contact: Richard A. Darian, manager-defined contribution services.

The Wyatt Co.

601 13th St. N.W., Washington, D.C. 20005; 202-508-4760; fax: 202-508-4758

Founded: 1943.

Software: Written and maintained by the company; accommodates 99 investment funds and 99 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) nondiscrimination tests.

Client support: Daily valuations, toll-free service for account balance inquiries from participants, toll-free service for participants to request account activity, clients' on-line access, written communication of plan features to employees. Consults on legal issues, plan design issues, compliance issues, employee communications. Other services include GIC placements, trustee searches, fund performance analysis.

Service area: Nationwide.

Locations: Consulting offices in 28 locations nationwide and Montreal.

Staff: 3,700 total; 411 involved in 401(k) plan recordkeeping, administration or consulting.

Clients: 2,041 total; 55% with 1 to 100 employees, 32% with 101 to 1,000 employees, 10% with 1,001 to 5,000 employees, 3% with more than 5,000 employees. Average plan, 747 participants; largest plan, 51,000 participants; no minimum or maximum size plan.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

1990 gross revenues: $440 million total; $60 million from 401(k) plan administration.

Principal officers: Mike Davis, president; Lee Parks, executive vp; William Hartman; Lou Valentino, chairman-defined contribution practice.

Contact: Marjory Kulash.

Y

Yaffe & Co. Inc.

409 Washington Ave., Towson, Md. 21204; 410-494-4100; fax: 410-494-4151

Founded: 1976; began offering 401(k) plan administration services in 1982.

Software: Purchased from an outside vendor; accommodates 100 investment funds and 100 kinds of contributions.

Administration: Uses cash accounting, unit value accounting, full share accounting; accommodates loan provisions; performs 401(k) and 401(m) nondiscrimination tests.

Client support: Daily valuations, written communication of plan features to employees. Consults on plan design issues, compliance issues, employee communications. Other services include trustee and investment manager selection, coverage/benefits testing, legislative updates, client staff training and procedures manuals, maintenance of beneficiary and vesting records, government reporting, customized statements and reports.

Service area: Baltimore and Washington D.C.

Staff: 40 total; 10 involved in 401(k) plan recordkeeping, administration or consulting. Professional designations include one CEBS, one CPA, one attorney.

Clients: 25 total; 20% with 1 to 100 employees, 80% with 101 to 1,000 employees. Average plan, 500 participants; largest plan, 2,500 participants; minimum size plan, 75 participants; maximum size plan, 6,000 participants.

Charges: Determined by number of participants, complexity of plan, time and expense, frequency valuations.

Principal officers: Rian M. Yaffe, president; Judy H. Cox, Thomas F. Filling, Gerard Petrik, Daphne Salsberg, Elizabeth Trainer, Steve Kadlubowski, Sherry Wachter and Jeff Schwartzmann, principals. ■

Motel 6 was losing sleep over its benefits program...

...until QicClaim/2® put their problems to rest.

Human resources personnel at Motel 6 were lodged in a health benefits administration nightmare.

"We found ourselves bogged down in paperwork and claims resolution...stuck between our insurance company and our employees," said Tom Higgins, vice president of human resources.

The QicClaim/2 advantage for Motel 6? "It works."

Then they woke up to the fact that they could serve their 6,000 covered employees better–and more economically–by self-insuring and self-administering their group health program.

So they talked to other human resources executives. They consulted software experts. They sent for information and they reviewed several products. Most software programs left them with reservations.

All but one–QicClaim/2 software from Resource Information Management Systems, Inc.(RIMS).

Higgins quickly discovered what he calls the major advantage of QicClaim/2: "It works."

Even the installation was easy. The program came in four small boxes and plugged right in to Motel 6's existing PC hardware.

When it came to actually paying claims, the motel chain didn't lose any sleep, either. That's when RIMS top training and support staff checked in.

"I could almost run the program just from watching the demonstration, so you know it's easy," Higgins said.

As for QicClaim/2's efficiency, Motel 6 expects a 15-month return on their investment.

Now, when Motel 6 employees have health claims questions, they call their co-workers. And that's a dream come true for staff and the human resources department alike.

If you have a benefits administration nightmare of your own, call us toll-free at 1-800-950-0099 for more information or for a free copy of our video.

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Employee Benefits Communication Awards

The 19th annual *Business Insurance* Employee Benefits Communication Awards competition recognizes outstanding efforts by 18 employers to communicate the value of their benefit programs.

The 1991 competition attracted 227 entries from 176 employers, up from 182 entries from 151 employers a year ago.

Thirty-nine of this year's entries were prepared in-house by employers; the other 188 programs entered were developed with the assistance of benefit consultants.

All told, the work of 34 consulting firms is represented in the competition. Nine of these firms consulted on winning entries.

New categories were created for this year's EBC Awards. Benefits newsletters received their own category for the first time this year. In addition, booklets for the first time could be entered in two different categories: single-subject booklets and series/multi-subject booklets.

The other competition categories include total benefits programs, multi-media programs, audio-visual presentations, personalized correspondence and special projects.

The entries were judged by 11 experts in the fields of employee benefits, communications and marketing, design and production. The entries were scored based on how well they fulfilled each of five basic criteria, including the programs' objectives, strategy, content, presentation and effectiveness.

Profiles of the winners begin on page 58.

BENEFITS NEWSLETTER

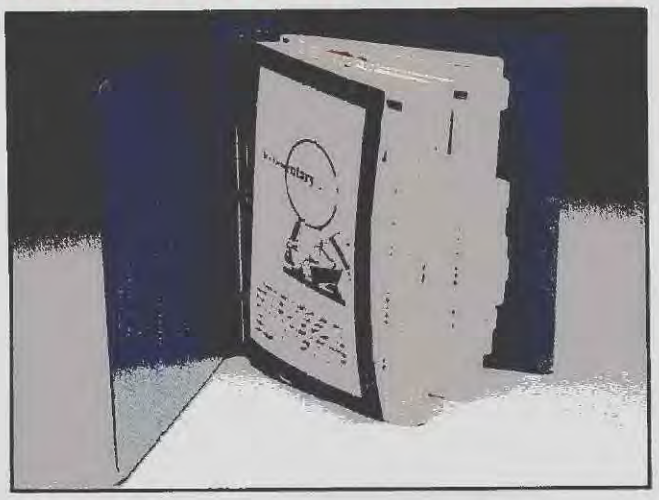
Best of Show:
Public Service Electric & Gas Co.

TOTAL BENEFITS PROGRAM

Best of Show:
Merck & Co. Inc.

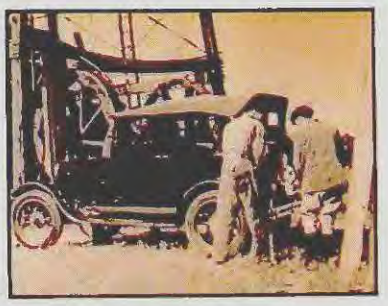
Award of Excellence:
Massachusetts Mutual Life Insurance Co.
Memorex Telex Corp.

SERIES/MULTI-SUBJECT BOOKLET



Best of Show:
Houston Lighting & Power Co.

AUDIO-VISUAL PRESENTATION



Best of Show:
Halliburton Energy Services Group

Award of Excellence:
Jardine Insurance Brokers Inc.
KPMG Peat Marwick

SPECIAL PROJECT

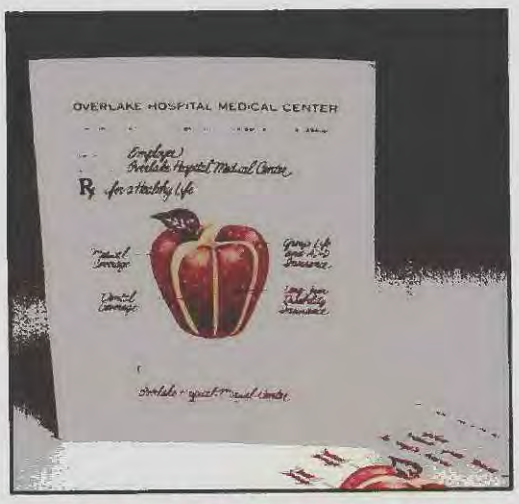
Best of Show:
Southern California Edison Co.

Award of Excellence:
Southwest Airlines Co.
Champion International Corp.

MULTI-MEDIA PROGRAMS

Best of Show:
Gannett Co. Inc.

Award of Excellence:
Newmont Gold Co.



SINGLE-SUBJECT BOOKLET

Best of Show:
Overlake Hospital Medical Center

Award of Excellence:
American Telephone & Telegraph Co.
Husky Oil Operations Ltd.

PERSONALIZED CORRESPONDENCE

Best of Show:
Sara Lee Corp.

Award of Excellence:
GenCorp Inc.

Employee Benefits Communication Awards

Multifaceted campaign touts flexible solutions

Merck hopes flex plan boosts employee morale

By LORI BLOCK

RAHWAY, N.J.—While Merck & Co. Inc. wasn't the first company in the pharmaceutical industry to introduce a flexible benefits program, that didn't stop the company from using the program as a way to make a corporate statement.

"When we jump into something, we want to do it full tilt," explained Jeffrey Turner, director of employee benefits at Merck. "The idea (flexible benefits) isn't terribly novel. But, as a leader in the pharmaceuticals industry, we felt we should be on the leading edge of a benefits program and give employees choice."

The driving issue behind the flex plan was employee relations, Mr. Turner explained, though the company also hopes the program will contain benefit costs.

The emphasis on employee relations in the new benefit program and the accompanying communications effort reflects the fact that Merck has won Fortune magazine's Most Admired Corporation award for the last five years, observed Valerie Wedin, a communications consultant with The Wyatt Co., who worked on the Merck project.

The need to imbue the new program with Merck's positive image led to a multimedia, interactive employee benefits communication effort that garnered Best of Show prize in the total benefits program category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

"It's a high-tech program with high-tech communications for a high-tech company," Mr. Turner said.

Preceding the Jan. 1 implementation of the plan was a six-month communication effort that culminated in a paperless electronic enrollment program in December 1990.

Rather than gradually introduce employees to the flexible benefits concept through memos and newsletters, Merck—with the assistance of Wyatt's Washington, D.C., office—produced a series of videos. Replete with benefit "commercials," the videos were broadcast via the company's in-house video network.

The video series began with a message from Roy P. Vagelos, the chief executive officer of Merck. This video stressed several of the points the company wanted to deliver: There is no such thing as a "typical" Merck employee, hence the need for flexible benefits; rising benefit costs necessitate some employee cost sharing; and, with employees' help, Merck "can continue to have one of the best benefits programs in the industry today."

This first video also introduced the campaign's slogan, "Merck Benefits. Flexible Solutions to Complex Needs." That slogan was used as part of a distinctive logo that appeared on all printed materials.

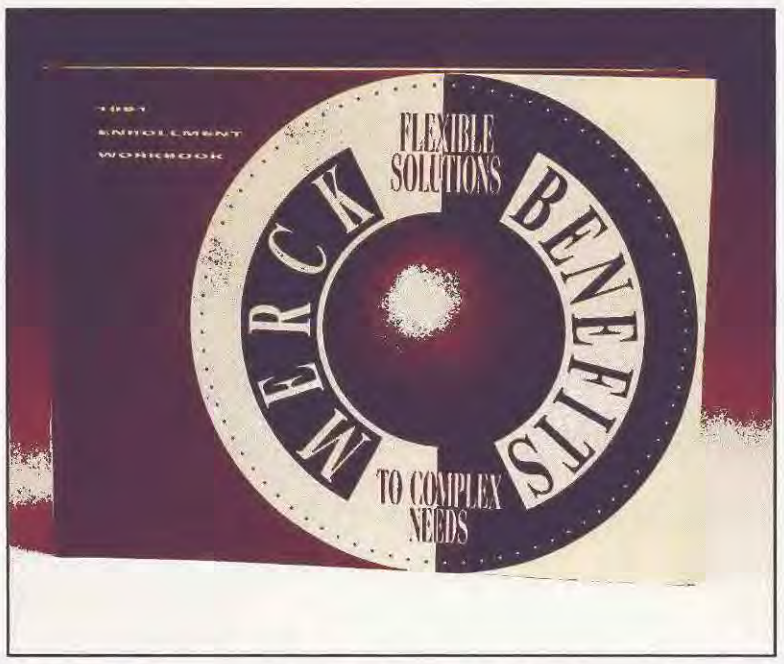
Other videos covered such topics as health-care consumerism (as seen through the eyes of Merck employees), long-term health care and flexible reimbursement accounts. A new video was aired approximately every two weeks from July through September 1990.

The video campaign was reinforced through a series of at-office posters, as well as:

- Two brochures, one announcing the program and another explaining the need for employees to submit a personal identification number for enrollment purposes.
- An informational magazine providing an overview of the new flexible benefit program.
- A personal workbook and personal computer disk designed to guide employees through the benefit selection and enrollment process.
- A fold-out pamphlet that depicted the changes that would occur to employees' paycheck stubs once the flex plan was introduced.

Except for the posters, all the materials were sent to the employees' homes.

"We gave ourselves a double task," Mr. Turner said. First, the company had to introduce and explain flexible benefits *and* the concept of a paperless enrollment, and the company had to address cost containment. It was a tough balancing act, he noted.



Yet at the same time, the paperless enrollment process—in which employees selected their benefit options via on-site personal computer kiosks or touch-tone telephones—enabled Merck and Wyatt to concentrate on the business of communicating. Employees at large Merck facilities used the kiosks, while workers at smaller locations enrolled via touch-tone telephones.

"Because we had the interactive technology, it really liberated us," recalled Ms. Wedin, who now works out of Wyatt's Baltimore office. "With both the phone system and the kiosk system, you have error-free enrollment" because of the double-checks built into the systems.

This assurance of an error-free, paperless enrollment enabled Merck and the consultants to design a workbook that put a greater emphasis on being informative, rather than being foolproof.

In practice, this meant case studies could be presented, illustrating for employees what kinds of choices they might want to make based on their particular circumstances.

Among the case studies were ones explaining the benefit choices made by a 27-year-old single male employee; a 32-year-old single mother; a dual-income "thirty-something" couple; a two-income couple with two children, ages 11 and 14; a one-income couple with three young children; and a one-and-a-half income couple nearing retirement age with two grown children.

These case studies explained what coverage options might be best for these individuals. For instance, employees were told that the single male chose to "go low" on several benefits, like health care and life insurance. He opted instead for a high level of long-term disability insurance.

After reviewing these cases, employees could refer to the explanations of each option and, with the help of a color-coded worksheet, record their choices so they would be prepared for either the computer or phone enrollment.

According to Ms. Wedin, this multimedia approach grew out of work with focus groups. Employees were tired of the newsletter-and-memo approach, she said. Also, the employees were eager to delve into the details, a desire fulfilled through the computer technology and workbook.

The new approach "was overwhelmingly successful," Mr. Turner said. "We did a survey (on the communication program) and got very good responses back."

Overall, the communication effort received a 75% approval rating from Merck employees. The workbook, with the case studies, was the most popular tool, receiving a 94% approval rating, while the interactive enrollment technologies received an 86% approval rating.

Those ratings are gratifying, especially because there was uncertainty over whether interactive paperless enrollment would work. "Suddenly, we were asking people to take an active role in their benefits. That was intimidating to some," Mr. Turner said.

But, in the end, the communication effort and paperless enrollment combined for some satisfying results.

The brochure on personal identification numbers encouraged 97% of Merck employees to submit numbers to the company after the first solicitation, Wyatt reported.

Wyatt also found that a high percentage of Merck employees made deposits to the tax-free health care reimbursement account, signed up for the long-term care benefit option and opted for new medical plan alternatives compared with other groups of employees in the first year a flex plan was in effect. ■

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Mass Mutual uses humor to tout benefits to agents

SPRINGFIELD, Mass.—Massachusetts Mutual Life Insurance Co. used humor, a coherent theme and simplicity to conquer two challenges when educating its 3,500 agents about a new flexible benefits program.

Mass Mutual had to explain the program to a geographically dispersed audience that had little time to spend on administrative concerns, even when those concerns involved their own benefits, explained Peter Wright, an account manager for consultant Hewitt Associates in Waltham, Mass.

So, "rather than try to change their ways, we tried to reach out to their world," Mr. Wright said.

Insurance agents can become inundated with paperwork, pointed out Richard A. Peck, Mass Mutual's agency secretary. So instead of sending newsletters, memos or brochures to agents' offices, Mass Mutual sent an introductory audio tape to their homes.

That way, explained Mr. Wright, the agents could learn about the plan while driving to their next sales call.

Yet because the agents' attention could wander elsewhere in such a setting, Mass Mutual wrapped the message in humor. The tape, dubbed "All Flex Radio," featured a variety of vignettes, including parodies of a nightly network newscast, a Top 40 countdown radio show and a parody of the old "Star Trek."

"We knew when we decided to go flex that we needed to get their attention or it would be the kiss of

Continued on next page

Employee Benefits Communication Awards

Campaign eases electronic enrollment

By LORI BLOCK

TULSA, Okla.—Memorex Telex Corp. turned to the world of computers to overcome some significant obstacles when introducing its new flexible benefit plan, a natural move for a computer manufacturing company.

According to Linda Holmes, manager of employee benefits for Memorex Telex, the communication effort had to take several facts into consideration:

- A series of mergers and acquisitions had created a patchwork of distinct corporate cultures and benefit plans.
- The 5,500 employees that would be covered by the flex plan work in manufacturing, outside sales, administration and management. About 1,000 of these workers speak English as a second language.
- The flex plan was complex and, in many cases, included benefits that were unfamiliar to some employees.

To deal with these complexities, the company sought a simple communications effort, Ms. Holmes said.

Yet, at the same time, Memorex Telex wanted to prepare for future paperless enrollments by persuading at least 40% of its employees to enroll in the flex plan via computer this time around.

Besides meeting the objectives, Memorex Telex's program earned an Award of Excellence in the total benefits program category of the *Business Insurance* Employee Benefits Communication Awards competition.

Working with consultants from Hewitt Associates in The Woodlands, Texas, Memorex Telex developed a communication effort that began with a tone-setting announcement letter sent by electronic mail.

Next came the more traditional tools: a poster; a series of newsletters featuring a flexible benefit logo derived from the corporate logo; and an enrollment kit featuring computer software the employees could use to aid in, or complete, their enrollment.

All of these materials were pretested in focus groups.

The groups "were the real turning point in getting the employees to buy in" to the program, said Maureen McCoslin, a Hewitt communications consultant. "People got really excited about the (computer aspect) and shared that information with their peers," she said.

In the end, 95% of the employees used the software to enroll and submit information, Hewitt says.

Aided by the company grapevine, through which focus group members related their experiences with the computerized system, the company received an overwhelmingly positive response from the segment of the employee population that was least computer literate.

In the end, 95% of the employees used the software to enroll and submit information, Hewitt reported.

The software, which was designed with prompts to ensure that employees correctly complete the enrollment process, made the process much easier. In many cases, employees bypassed the enrollment guide altogether and relied on the software to take them through the process.

"I think people have gotten to the point where they just don't read printed material," Ms. Holmes said.

However, for those who did use the printed materials, the experience was similar to using a computer.

"In our book, we tried to maintain a lot of white space. . .and give it a computer look," Ms. Holmes said.

Fred Halperin, another Hewitt consultant who worked on the project, recalled that the consultants were told they could not use any "buzz words," like "coinsurance" in the printed materials.

Memorex Telex also wanted the print materials to be color-coded and filled with helpful icons, while using terminology consistent with the software.

The result was a "deceptively simple" series of newsletters and enrollment guide, Mr. Halperin said. ■

Mass Mutual

Continued from previous page

death," Mr. Peck said, adding that the company had just six weeks to introduce the program and enroll agents.

But instead of a disaster, Mass Mutual's effort resulted in a high early-enrollment response rate and an Award of Excellence in the total benefits program category of the *Business Insurance* Employee Benefits Communication Awards competition.

"We broke new ground" with the tape, Mr. Peck said. "People had to admit that they got a sense of what was going on and it prepared them for the packet" that followed.

The packet featured the Pilot's Handbook, which reinforced the theme that the agents had to earn their wings—produce enough business—to qualify for the flexible benefits program.

The packet also catered both to those who wanted lots of information about the plan and those who only wanted a simple overview that would enable them to quickly complete the "Pre-Flight Checklist" enrollment worksheet, Mr. Wright said.

Once the worksheet was completed, agents could call a toll-free number to electronically enter their selections; agents who had any additional questions could also call the "FlexLink" hot line and speak with a benefits representative.

To entice the agents to register quickly, the insurance company sponsored a drawing for leather flight jackets or aviator-style sunglasses.

According to Mr. Peck, 80% of the agents enrolled quickly enough to be eligible for the drawing.

Still, observed Mr. Peck, "in a large group, you're not going to please everybody. The audio tape was not appreciated by the older population." In addition, some agents thought Mass Mutual spent too much money on the program, he said.

—By Lori Block

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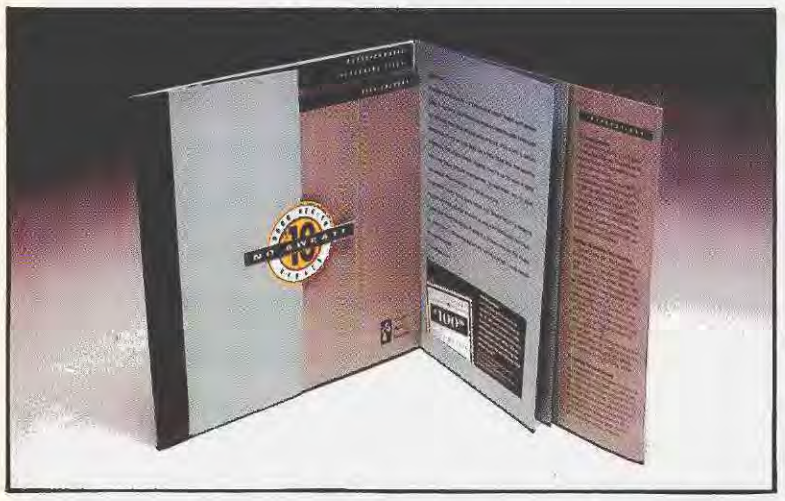

Company seeks renewed interest in wellness plan

By SARA J. HARTY

ROSEMEAD, Calif.—Results are not in yet, but hopes are high at Southern California Edison Co. that an updated communications effort will increase participation in a 2-year-old health promotion program.

After initial enthusiasm wore off, enrollment in the program—which offers $10 monthly rebates on benefit expenses to employees who pass five health tests—had begun to decline.

Such drop-offs are typical for this sort of program, but Southern California Edison set out to fight employee apathy with a communications program designed to increase participation, especially among spouses, said Jacqueline Belknap, a health care communications associate for the Rosemead, Calif., utility.

The brochure the utility designed in-house to win over employees also won Best of Show in the special projects category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

The company's Good Health Rebate program is a part of Healthflex, a flexible benefits package the company offers as an alternative to health maintenance organization coverage, said Ms. Belknap. Open enrollment for Healthflex is held every November.

To be eligible for rebates, Healthflex members must annually undergo tests for weight, blood pressure, cholesterol and blood sugar levels. Also, participants are tested for an elevated level of carbon monoxide, which can be related to smoking. Those with acceptable results receive a $10 rebate on their expenses for health benefits every month. People who fail on one or more of the standards, but enroll in a program to improve in that area, are still eligible for the rebate.

With participation decreasing, Ms. Belknap said Southern California Edison set three specific goals for its communications effort:

- To increase overall participation rates to 44% from 41%.
- To increase participation among spouses to 35% from 30%.
- To increase the number of employees who return for a screening from the previous year to 82% from 77%.

A brochure was sent to all 18,000 employees at home. By sending the information to the home address, Southern California Edison hoped to increase the chances of spouses hearing about the program.

Past research found that most employees were attracted to the program first by the $10 a month rebate and second for information on their own health risk levels, Ms. Belknap said. Southern California Edison tried to capitalize on both of those motivational forces in the renewed push for participation.

The front of the brochure is split vertically by color, one half is green-blue and the other half is imprinted with an enlarged design of a $10 bill. A black border runs along the vertical edges and the yellow, white and black logo "Good Health Rebate—No Sweat" is printed in the center of the cover.

On the inside of the brochure, a six-page booklet takes up three-quarters of the right side. Printed in the same green-blue and black used on the cover, this booklet explains the rebate program in detail.

A black and white rectangle on the bottom of the booklet's first page details a raffle that is open to all employees but aimed at participants in the program. The raffle winner receives a $100 gift certificate to any sporting goods store, a prize that the benefits staff felt reflected the original purpose of the health rebate.

The last quarter of the brochure's right-hand page is a gray strip printed in black that is meant to save time for employees who are already familiar with the program. Facts on program eligibility, scheduling and preparation prior to screening are provided in an at-a-glance format.

The left side of the brochure has a vertical flap that comes halfway across forming a pocket, again bearing the logo "Good Health Rebate—No Sweat" around a $10 sign.

Tucked inside are two gray and black booklets. One lists all the screening sites for each division and the dates the site will be in operation. The other opens up to two health questionnaires—one for the employee and one for the spouse—that must be filled out for screening.

At the time of the screening, the employee receives a risk factors booklet, which is designed to fit into the same folder.

The risk factors booklet describes each test that was performed, with blanks for the employee to fill in the test results. Acceptable levels are provided for the participants to compare against their own results. Information is provided for employees who are trying to get one of the factors under control.

For example, employees who need to control cholesterol levels are told to seek the advice of a physician, maintain their ideal weight and limit their fat intake. Tips on limiting fat intake are provided.

Employees fill out evaluations of the program after taking the health screening, and an unofficial review of the evaluations has revealed that most employees found out about the good health rebate from the communications brochure, said Kurt Hobbs, supervisor of preventive health education. ■

Reader Reply Service
Products & Services Listing

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InsurerTopics

A special editorial section sent exclusively to insurers and reinsurers

New services satisfy both teams' goals

Demand rises for high-tech information

By MARK A. HOFMANN

Ceding insurers' demand for enhanced service from the reinsurance industry is growing.

And the services they seek—whether from intermediaries or directly from reinsurers—revolve around one consideration: information.

Reinsurers and intermediaries have traditionally offered a certain number of services to ceding companies, including information on the quality of reinsurance offered and loss control services. But the demand by insurers for these and other, non-traditional services has risen in the past few years, sources say.

And intermediaries, stung by flat reinsurance rates, have looked to boost revenues by offering ceding companies a broader array of services (*BI*, Nov. 4).

The information sought by cedants ranges from information on reinsurer financial security, to determining the impact of catastrophes, to gauging the effect of a reinsurance program on a cedant's standing in the eyes of regulators and rating agencies. Other services include operations consulting, market forecasting and claims consulting.

Market intelligence is "absolutely" one of the key services sought by ceding companies, said James Talley, senior vp and manager of the reinsurance department of Chubb & Son Inc. of Warren, N.J. Even though the intermediaries draw pretty much from the same "menu" of reinsurers, players occasionally move in and out of the market, Mr. Talley explained.

"I think market intelligence, particularly in trying to forecast the near-term impact of a change, is important. We handle that through direct conversation with our clients," said William R. Coleman, executive vp and chief operating officer of Alexander Reinsurance Intermediaries Inc., an Alexander & Alexander Services Inc. unit in Stamford, Conn.

"The property catastrophe market is contracted" and, as a result, cedants are relying on the intermediary to thoroughly research the worldwide reinsurance market, said Philip W. Mitchell, managing director and chief executive officer of TPF&C Reinsurance, a Towers, Perrin, Forster & Crosby Inc. unit in Philadelphia.

Mr. Mitchell added that insurers also seem to now be relying on intermediaries much more heavily for market security analyses than they did a few years ago.

"I would say that the emphasis of our relationship with reinsurers and intermediaries is much more loss-related" than it was a decade ago, added Mr. Talley of Chubb & Son. He said that one of the first things a ceding company wants from its intermediaries is a security review of its reinsurers.

Market security is a top concern, agreed Richard J. Williams, senior vp-staff underwriting/claims and reinsurance for Allendale Mutual Insurance Co.

The Johnston, R.I.-based insurer deals with roughly 300 reinsurers, and must track those companies to protect its own financial interests, he explained. The search for security includes tapping reinsurance intermediaries' market intelligence to add to Allendale's own assessments, he said.

Mr. Williams added that Allendale has had some of its reinsurers audit some of the insurer's operations. "This supplements our own audit process," he said. While the outside audits have not detected anything the home office didn't already know, he said that having the additional oversight gives him a higher "comfort level."

Another form of intelligence Allendale sometimes seeks from its reinsurers is advice on improving operations, said Mr. Williams. Reinsurers are a good source for this advice because they can draw upon the experience of certain clients to help others streamline internal processes, he explained.

But not all insurers seek the same reinsurance services, Mr. Williams pointed out. "Our needs are somewhat different than other insurers." Catastrophe modeling programs, for instance, are of little interest to Allendale. They are of most value to companies that underwrite homeowners coverage and Allendale is not in that business, he explained.

Regional and medium-sized insurers find catastrophe modeling especially attractive, said Willis T. King Jr., chairman and chief executive officer of Wilcox Inc. of New York, the Johnson & Higgins reinsurance brokerage unit.

These models can show an insurer's exposure to various perils of various magnitudes at various locations. For example, an insurer with a large exposure in the San Francisco Bay area could use a computer model to determine how great its losses would be within a particular ZIP code if an earthquake measuring 7 on the Richter scale struck the area. The same program could measure the potential insured damages of an earthquake measuring 6 or 8 as well.

Programs also exist for projecting losses from hurricane damage, Mr. King noted. "The software is so good it looks just like a radar map the weathermen use," he added. The difference is that graphics are in color and the event is speeded up, he said.

But catastrophe models have value beyond measuring the natural exposures facing an insurer.

The catastrophe information can be added into a larger model that provides "the ability to take reinsurance programs—both existing and proposed"—and determine how they would affect the ceding companies' ability to meet regulatory financial requirements in the event of a major loss, said Wilcox's Mr. King.

"If you have a large, multistate company writing property business, before you do a financial analysis, you have to do a catastrophe analysis," he explained.

In addition to its in-house capabilities, Wilcox gets nationwide catastrophe data from outside sources like Travelers Corp. and Hartford Group Inc. Both companies have sophisticated systems for collecting and evaluating the data (*IT*, Oct. 16, 1989).

Basic modeling has been done on personal computers for four or five years, Mr. King said. But the advent of powerful PCs has spurred the process along, he said.

Enhanced software and modeling techniques have made difficult functions relatively easy, he said.

"You may be able to show a com-

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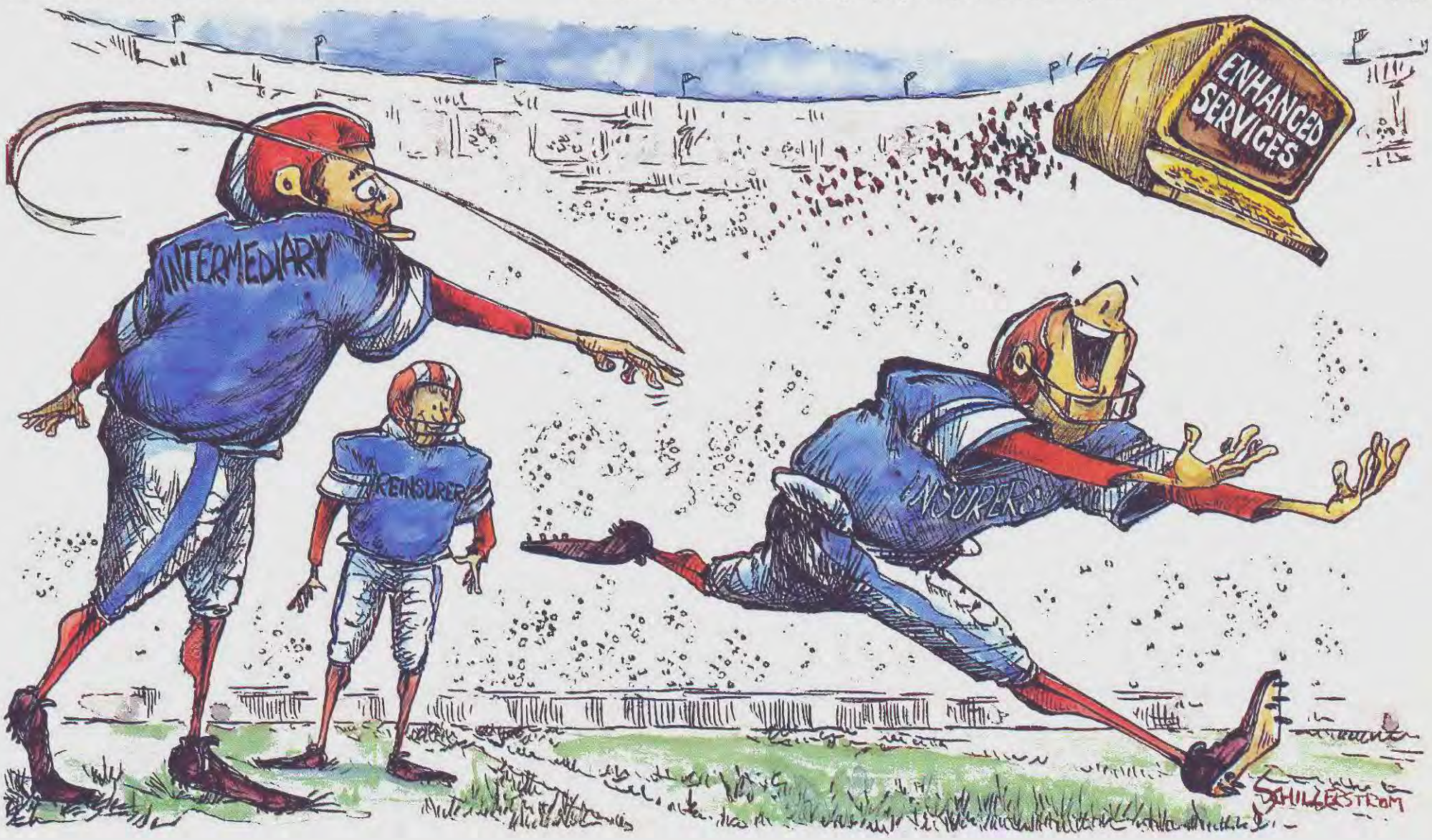

Insurer Topics

Flexibility crucial after dreaded pink slip arrives

By MARK A. HOFMANN

For the insurance company professional who's spent his or her working life in the insurance business, the pink slip looks like a death warrant.

But industry outplacement experts counsel that there is indeed life after insurance.

Flexibility is the secret to living that life, they say.

And, given the dynamics of American business as a whole, with its emphasis on downsizing for survival, flexibility is a trait more and more insurance professionals will be called upon to exhibit during the 1990s.

"The demand (for outplacement services) is increasing as things begin to change and unfurl in the insurance industry," said Clyde Meredith, president of the Meredith Co. in Minneapolis and a co-founder of the Lincolnshire Group Inc., a national network of independently owned outplacement firms.

As in other industries, jobs in insurance are going to be eliminated, Mr. Meredith said. Big companies will get bigger, but still may need fewer employees. And smaller specialty "boutiques" won't be hiring in large numbers, he said.

Louis Masterson, president of Louis Thomas Masterson & Co. of Cleveland and another co-founder of Lincolnshire, agreed, adding that the insurance "implosion" is occurring five to seven years behind that of other, non-service industries like the steel industry.

Accompanying a drive toward mergers and downsizing is increased use of sophisticated technology, Mr. Masterson said. That further cuts down the number of people needed for basic tasks.

"Computers are both a godsend and cause for reducing employment," he said.

One major problem facing newly out-of-work insurance professionals is that they know little about other fields, Messrs. Masterson and Meredith agreed.

Most people in any "mature" industry, which includes insurance of all kinds, have spent most of their lives working in that industry, Mr. Masterson said.

"People in the insurance indus-

Continued on page 60D

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Services

Continued from previous page

pany that by buying more quota-share reinsurance, it can improve its return on equity," Mr. King said.

One of the biggest factors in successful modeling is getting everyone who can add to the program involved and thus taking advantage of growing sophistication in each area, said Mr. King.

As an example, he noted that Wilcox has set up a separate room where employees from different operating units can swap software and brainstorm about different software uses for clients.

Catastrophe modeling can be an important part of financial modeling, agreed Mr. Mitchell of TPF&C Re. "We were in the forefront of being able to model the impact of our clients' reinsurance program on their overall financial results," he said.

Mr. Mitchell said that TPF&C Re also analyzes the impact of an insurer's reinsurance program on key financial ratios, including the IRIS tests used by insurance regulators. State regulators and private rating agencies like A.M. Best Co. have grown more conservative in their assessments of insurer finances, he pointed out.

Financial modeling is particularly in demand for small and regional insurance companies, he said.

Smaller insurers also turn to TPF&C Re to act as an "in-house consultant," he said. For example, the smaller ceding companies have shown a heightened interest in determining how to deal with pollution coverages for their own customers, Mr. Mitchell said. If necessary, TPF&C Re will bring in specialists from its sister risk management consulting company, Tillinghast, to provide additional expertise, he said.

Alexander Re's Mr. Coleman also noted that the intermediary can tap expertise beyond its office walls when needed. "We can selectively call upon actuarial and other statistical services from the A&A sister organization when required," he said.

The types of services requested of intermediaries are also often requested of direct writers like American Re-Insurance Co., said Mike Jones, the Princeton, N.J.-based reinsurer's senior vp-domestic operations. American Re, a unit of Aetna Casualty & Surety Co., does not market its reinsurance coverage through intermediaries.

"A number of our clients who have begun to make acquisitions within the insurance industry have sought us out" to serve as consultants on due diligence, said Mr. Jones. The demand has been such that American Re has been "beefing up" its staff to deal with the requests, he said.

Mr. Jones said that because American Re's customers tend to be small to medium-sized insurers, the reinsurer often performs tasks that would be performed in-house by national insurance companies.

Claims consulting, for instance, remains a major service American Re provides to cedants, he said.

"We, as others, have access to all the software networks," said Mr. Jones. "There's a wealth of information many of our clients don't have the wherewithal to access." ■

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Job cutbacks

Continued from page 60B

try have grown up in it and have never spent much time outside the industry," said Mr. Meredith. "A person says, 'I've never had to look outside the industry.' It's a very traumatic thing," he added.

But, according to Mr. Masterson, it may be easier to survive a downsizing in insurance than in many other fields. "There is a great transferability of skills" in the insurance industry," he said.

Steel industry executives, by contrast, had a harder time when they were laid off. Skills needed to prosper in that industry, with its heavily unionized blue-collar workforce and a "macho" way of doing things, weren't necessarily the skills needed in a service-oriented economy, he said.

But displaced insurance professionals must first recognize that their skills can be useful in other careers, and this isn't always easy, said Mr. Meredith.

Mr. Masterson

"Historically, the insurance industry has been somewhat paternalistic," he said. People have stuck with the industry for their entire careers. When those careers end abruptly, they're bewildered because they've never thought of themselves as anything other than insurance people, he said.

"It's like saying, 'I've got an insurance-shaped head,' " said Mr. Meredith. That's particularly true of insurance executives, he added.

"Most people will have drifted into a career," said Mr. Meredith. "They're older and wiser but less knowledgeable about how to make a change."

Yet, these displaced professionals have a considerable pool of transferable skills, Mr. Meredith said, including marketing, sales and a good feel for operations in general. His firm, he added, aims to help "people determine what their talents are."

When working with groups, two- or three-day workshops are run to convince people that "there is life after the insurance industry," he said. Those workshops and other services are designed to help people negotiate and evaluate a new career.

For individuals, the approach could include research into a new industry, financial planning, resume services, spouse counseling and tapping into a nationwide job bank, Mr. Meredith said.

"There is no particular or special field outside the industry" to which displaced insurance professionals gravitate, he said. High-level executives tend to go to other insurers, he said. Middle managers often find employment in the health care field, the public sector or as entrepreneurs, he said.

And, "the No. 1 industry that people who leave the insurance industry go to is the insurance industry," said Mr. Masterson, whose firm deals almost exclusively with clients whose annual salaries exceed $100,000.

Many displaced insurance executives also become consultants. These people don't hang out their own shingle, but instead sign on with national consulting firms, he said.

And just because a job has been eliminated doesn't mean that the work has vanished as well, Mr. Masterson stressed. He said that when a $100,000 per year job is cut, the company saves an additional $25,000 or so in benefits, possibly the same in secretarial costs, plus the cost of office space.

A consultant can do the same work for a "ballpark" estimate of about one-third of the costs, he said. In addition, because the consultant doesn't spend the same amount of time in meetings or discussing things unrelated to his or her core function, the consultant may end up working more effectively on a specific project, Mr. Masterson said.

Remaining flexible is the key for displaced executives, he said. Otherwise, they will not recognize the career options available.

When insurance industry employees lose their jobs, they're bewildered because they've never thought of themselves as anything else, says Mr. Meredith. 'It's like saying, "I've got an insurance-shaped head," ' he adds.

Mr. Meredith said that the first thing he does when counseling displaced professionals is to ask them to total up all that they think they've lost in losing their job, as well as all that they have left. The positive side of the ledger is generally much fuller than the negative side, he said.

"Then I tell them God engineered them to be successful in half a dozen careers," said Mr. Meredith.

"They have a temporary career—and that is to provide a new one," he said. ■

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Insurer Topics

Study views solutions to auto coverage costs

"Auto Insurance Reform in America: A Market-Based Approach"

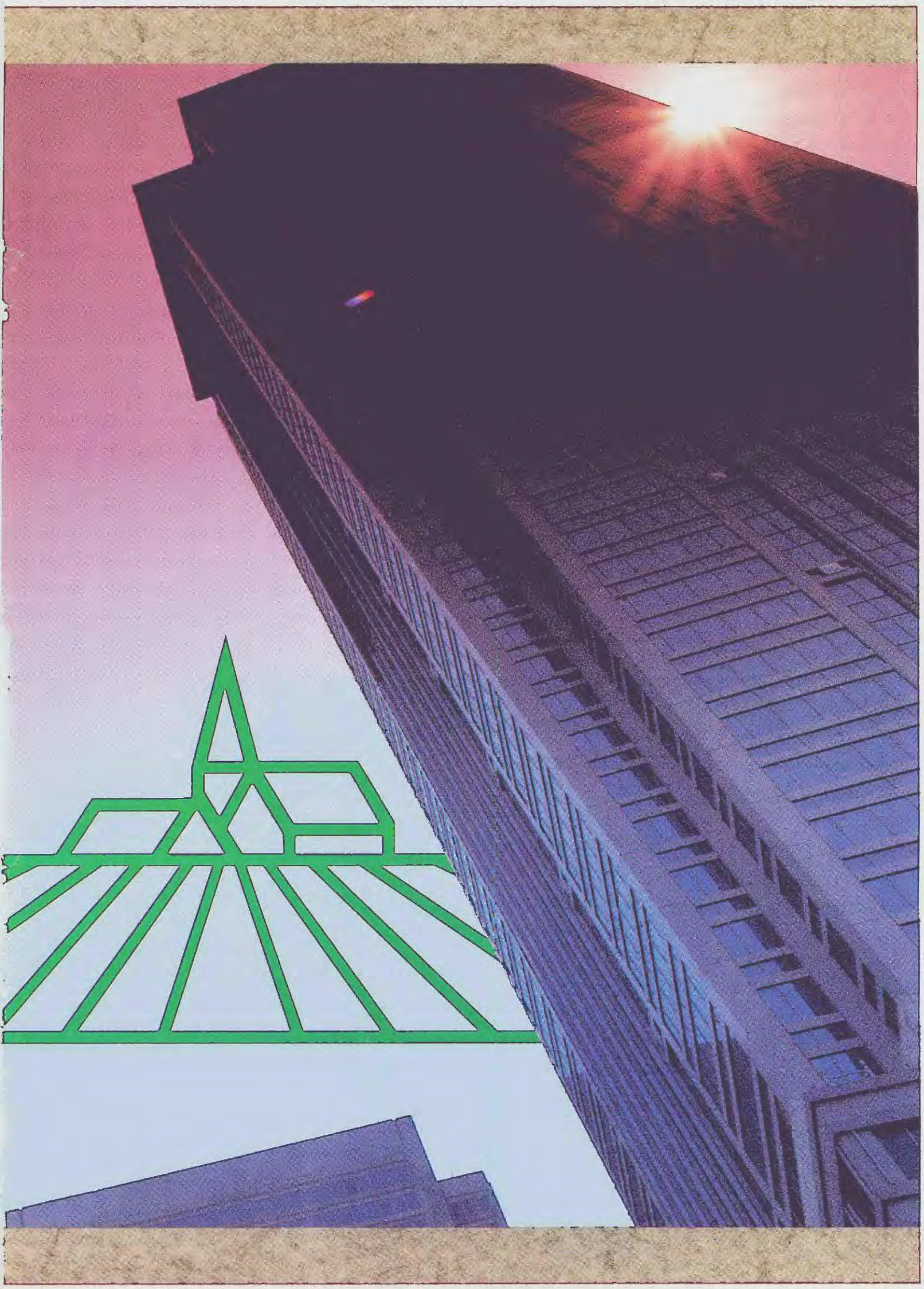
Published by McKinsey & Co. Inc., 555 California St., San Francisco, Calif. 94104
No charge

By MARK A. HOFMANN

International business consultant McKinsey & Co. Inc. has added its voice to the chorus of business, consumer and insurance interests calling for reform of the personal auto insurance marketplace. Like the recently published "Hit Me—I Need the Money" by Marjorie M. Berte (*IT*, Sept. 16), the McKinsey study stresses marketplace dynamics, rather than government intervention, as the most sound solution to a nagging problem.

Books & ideas

The authors define "market-based solutions" as "changes in insurance product design or insurers' cost-control approaches that will encourage insurers and other providers (e.g., automobile repair shops) to compete on the basis of innovative cost-reduction strategies."



According to the authors, "Most auto insurance reform proposals focus on solving the problems of affordability and availability through increased regulation and expanded extra-market solutions. The basic problem with these solutions is that they tend to focus on the symptoms, not the causes, of the auto insurance affordability problem. The result is an incessant political battle in which the costs of the auto insurance system's failures are simply shifted from one group to the next."

The authors write: "We believe that if private insurers are to remain the dominant providers of auto insurance in the United States, they must create competitive products that reward consumers for lowering insurance costs. A simple example would be a policy discount for consumers who agree to repair their cars at body shops that have negotiated parts and labor discounts with the insurance company. For this and other examples to succeed, consumers' buying decisions must be linked to cost control strategies through the design of the insurance policy. Many of these changes in policy design, pricing and cost management would have to be approved by each state's insurance department or legislature."

Insurance companies currently act as what the authors call a "black box" that absorbs increased external costs and passes them on to consumers as higher insurance costs. Under a market-based approach to auto insurance, the insurance companies would break insurance costs down into identifiable components and show consumers the sources of the costs.

The market-based approach would involve insurers offering customers product options with discounts directly linked to the options' impact on costs.

"Consumers will not, and should not, give up economic rights or benefits without direct compensation," write the authors.

Chief among the market-based solutions advocated by the McKinsey study is allowing consumers to choose between being covered under a no-fault insurance policy or under a traditional third-party liability policy.

The authors note that the consumer choice system in Pennsylvania requires a 12% premium difference between no-fault and third-party liability insurance prices.

According to the McKinsey study, discounts of as much as 20% to 25% would be possible for consumers who chose the no-fault option.

"This consumer-choice approach to insurance cost reform focuses consumers' buying decisions on the costs associated with claims compensation systems and provides them with economic incentives to choose the more cost-effective alternative. As a result, most consumers would abandon the more expensive tort-based system and the average cost of auto insurance would be reduced," says the study.

The study also advocates allowing consumers to choose so-called "direct repair" programs somewhat like those already offered by such insurers as Northbrook, Ill.-based Allstate Insurance Co. and San Antonio, Texas-based United Services Automobile Assn.

The existing programs don't offer consumers a discount, but rather guarantee that the work done will be high-quality. The McKinsey survey authors advocate taking the concept a step further and giving policyholders a premium discount for dealing with repair shops that have been approved by the insurer. This

Continued on next page

Insurer Topics

Reform proposal

Continued from previous page

option, which the authors liken to the preferred provider programs offered by health insurers, would allow insurers to lower costs by negotiating volume discounts on labor and some parts and passing some of the savings on to consumers.

In a related vein, the authors recommend granting a discount for the use of replacement parts not made by the original manufacturer if those parts are cheaper. They note, however, that the value of such an option would depend on the availability of the cheaper parts.

The authors also recommend offering discounts for using alternative dispute mechanisms to solve claims disputes with insurers and coordinating the payment of medical benefits between auto and health insurance policies in the event of an accident. Throughout the discussion of the market-based approach to cost containment, the study features a sample insurance policy that shows how much choosing each option will save the policyholder.

The use of this graphic reflects the authors' desire to make the survey as readable as possible, said Paul Hasse, the San Francisco-based McKinsey consultant who is the study's chief author. To achieve this, the study also places synopses of major points in the margins of most pages. In an interview, he said the authors intended to create an easily accessible study to explain both the fact that insurance is cost-driven and that "there really are ways to use the market to drive down costs."

Mr. Hasse said using the market, rather than relying on regulation to drive down costs, was "key." The study also sought to show that harnessing consumer buying power is critical in any attempt to hold down costs, he said.

The study does not, however, ignore the public sector entirely.

"The success of any effort to lower the cost of auto insurance ultimately depends on state legislatures. Many of the factors that are responsible for rising insurance costs can be controlled only through legislation involving the court system, criminal law, state-run insurance programs, etc.," say the authors.

According to the study, a market-based auto insurance system can lower coverage costs significantly only if public-sector leaders:

- Support legal reform and fraud reduction legislation to reduce the underlying costs of insurance.
- Promote competition among insurers while protecting consumers from the risk of insurer insolvency.
- Provide auto insurance to the economically disadvantaged through cost-effective programs that do not compete with the private sector.

Market-based reforms present insurers with an opportunity to transform "a crisis into an opportunity," say the authors. The agenda they present is an ambitious one that will require coordination among insurers, public-sector leaders and consumers. However, the authors more than make the case that the effort has the potential to pay handsome dividends for all involved, particularly given the unsatisfactory performance of the current auto insurance systems in too many jurisdictions.

•

Single copies of "Auto Insurance Reform in America: A Market-Based Approach" are available for free by writing to Paul Hasse, McKinsey & Co., 555 California St., San Francisco, Calif. 94104.

Insurer image meets the press

By MARK A. HOFMANN

NEW ORLEANS—To the public, the insurance industry is a heavily regulated army of file clerks in green eyeshades, a national business journalist contends.

And that constitutes a significant image problem, says Stratford P. Sherman, a member of the board of editors at Fortune magazine in New York.

Mr. Sherman participated in a panel discussion with other business journalists titled, "Solutions, Act II: The Media and Insurance," during the annual meeting of the Society of Chartered Property & Casualty Underwriters in New Orleans late last month.

Responding to the contention that insurers do not receive favorable treatment even when they deserve it —like when they pay claims quickly after a disaster—Mr. Sherman said that the public isn't interested in the fact that insurers are doing their job. Insurers shouldn't expect any pats on the back for doing what they're paid to do, he said.

Earlier in the conference, Roxani M. Gillespie, the former California insurance commissioner, had said that the media will "always be against us" as long as editors and reporters think that the public doesn't like the industry anyway (*BI*, Nov. 4).

Ms. Gillespie said that the media present what their consumers believe to be true, according to session moderator Steve Paris, the outgoing president of the Malvern, Pa.-based Society of CPCU and a managing partner in the Boston law firm Morrison, Mahoney & Miller.

Kathryn J. McIntyre, editor and associate publisher of *Business Insurance*, took issue with the comments made by the former regulator.

"We are not giving our readers what they want to read. If we did, we wouldn't be doing our jobs," Ms. McIntyre said. She then called on insurance industry leaders to be more candid in discussing industry issues.

"The press will respond to whatever it perceives to be true," added Fortune's Mr. Sherman. "We feel that the industry has a heck of a lot of problems."

Ms. McIntyre warned that the property/casualty insurance industry doesn't do itself any good by sending bogus messages to the public.

As an example, she cited the industry's offering of false anecdotes in support of its position on tort reform. In the late 1970s, insurers cited a supposedly true story about a man who attempted to use a lawn mower to trim a hedge, injured himself and then sued the manufacturer for product liability, said Ms. McIntyre.

Insurer ads featured the story, and it was cited as the unvarnished truth by industry executives promoting product liability law reform.

Although the story was presented as a legendary example of the faults of the product liability system, it was actually just that—a legend, Ms. McIntyre said. A *BI* reporter attempting to track down the source of the story discovered that there was no verifiable source (*BI*, Oct. 31, 1977).

Beamed in by satellite from Los Angeles, another panelist said that the public and press simply don't understand many of the issues affecting the insurance industry, like tort reform and punitive damages.

In addition, "the legal system and the insurance system are butting heads all the time," said Dennis Richard, the producer of the cable television program "The Premium Dollar Today," which is sponsored by the Society of CPCU and Reliance National Insurance Co. "You have lawyer-bashing and insurance-bashing," he said.

He noted that when Reliance initially announced its plan for "The Premium Dollar Today," some industry figures were "appalled" that the program would deal with controversial topics and would feature consumer advocates and others critical of the industry (*IT*, June 18, 1990).

But Reliance decided to go ahead and take the risk, Mr. Richard said. He noted, though, that consumer advocates like Ralph Nader have declined repeated invitations to appear.

Mr. Richard said that another factor leading to the insurance industry's poor image is that insurers don't talk with one voice.

However, panelist Mary Jane Fisher, a Washington correspondent for the National Underwriter, retorted that she doesn't think that the insurance industry should speak with one voice.

But unless there is some unity, the industry is going to have problems moving forward, Mr. Richard replied.

"The insurance industry has to talk to the public. Certainly the industry can't take the fall for all the problems out there," he said.

Panelist Carol DeGraw, editor of the Surplus Line Reporter in New Orleans, noted the insurance industry's internal debate over the future of the McCarran-Ferguson Act doesn't mean a lot to the public.

"The average person who buys insurance doesn't know what McCarran-Ferguson is, nor does he care," she said.

Fortune's Mr. Sherman made clear that such lack of knowledge of the insurance industry's arcana is not limited to the general public.

"Not every reporter is a genius. Not every reporter is well-versed in the intricacies of insurance," Mr. Sherman said. "What is important is that your side gets told. You have to be activists."

BI's Ms. McIntyre said that education could help remedy that lack of understanding.

A member of the audience argued that because the media can't be relied on to present its case fairly, it's up to the insurance industry to educate the public. "We need to teach it in the schools. We owe it to them to teach it," he said.

When Fortune's Mr. Sherman replied that for the industry to do so would open it to charges of "brainwashing," several listeners disagreed. They cited industry-supported efforts such as the Indianapolis-based Insurance Education Foundation's "Choice-Chance-Control" program, now in its third year, as examples of how insurance can be taught in high schools (*IT*, Aug. 21, 1989).

Mr. Sherman said that he isn't opposed to the insurance industry providing funding and materials for voluntary insurance education. He added, however, that most high school students don't even take introductory economics courses. Many, in fact, manage to graduate without mastering basic literacy, he said.

Meanwhile, several comments from the audience indicated that listeners shared Mr. Richard's view that the insurance industry is the subject of unfair criticism.

For example, one audience member noted that the insurance industry was among the first institutions to press for mandatory seat belts and airbags in automobiles, but the industry is accused of having ulterior motives when its representatives point this out.

Another listener complained about the press in general, holding that the press follows a selective version of the truth.

Mr. Sherman replied that publications do edit material because they have to.

And Ms. McIntyre noted that the insurance industry doesn't always make itself available to the press.

For example, while insurers like to point with pride to their handling of claims in the wake of catastrophes such as hurricanes, not one insurer would give permission for a *BI* reporter to accompany its claims adjusters in the wake of 1989's Hurricane Hugo, she said. ■

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Insurer Topics

Controlling runaway litigation costs

By KATHRYN J. McINTYRE

NEW ORLEANS—Insurance companies can better manage litigation costs if they adopt a corporate culture that is a "catalyst for innovative and creative litigation management programs," an insurance company claims expert contends.

Too often, an insurance company's corporate culture instead fosters "risk aversion and promotes indecisiveness," maintains James P. Schratz, vp-major claims for Fireman's Fund Insurance Co. in Santa Rosa, Calif.

Insurers' response to the fraud by a group of Southern California attorneys known as the "Alliance" is a case in point, Mr. Schratz said at a seminar on controlling claims costs during the annual meeting of the Society of Chartered Property & Casualty Underwriters last month in New Orleans.

The Alliance included about 20 law firms in Southern California that controlled both the plaintiff and the defense side in numerous "scam cases," he said.

"These attorneys bilked insurance carriers out of approximately $100 million dollars," according to Mr. Schratz. He later explained that this was a conservative estimate and does not include the insurance companies' sizable costs of investigating and litigating the alleged fraud (*BI*, Aug. 26; April 2, 1990).

One reason they were successful, according to Mr. Schratz, was that "insurance companies had not taken certain risks and made decisions necessary to control legal costs.

"The companies did not hire outside auditors or private investigators. When the adjusters on the front line became suspicious, they did not believe they had the support of senior management to successfully fight the Alliance attorneys. They did not take the risks or make the decisions necessary for fear they would fail, thereby guaranteeing their failure," Mr. Schratz said.

Of the 25 to 30 insurance companies that were swindled, Mr. Schratz noted, only Fireman's Fund—now an Allianz A.G. Holding unit—and two other insurers sued the lawyers group.

In addition, Mr. Schratz warned against the "defensiveness that develops within any one department, branch or office" when another unit of the insurance company offers excellent suggestions on how to reduce attorneys' fees in a particular case.

"It is important to develop a culture that encourages the person to take the risks and keep on pressing his or her suggestions while at the same time trying to eliminate the defensive attitude."

Mr. Schratz during the seminar outlined the litigation management program adopted by Fireman's Fund.

First, the insurer centralizes all high-dispute or so-called "Cumis cases."

"Cumis cases" are those in which there is a dispute between the insurer and the policyholder over coverage. Under a 1984 California state appellate court ruling involving Cumis Insurance Society Inc., if there is a dispute between the insurer and the policyholder over coverage for the claim, the policyholder is entitled to an attorney of its choice—at the insurer's expense.

Although there are many attorneys hired by policyholders with whom the insurer does not have billing disputes, Fireman's Fund does centralize all these Cumis cases with two or three adjusters to guard against billing disputes, he said.

The adjuster sends the policyholder's chosen lawyer a "form letter setting forth the ground rules under which Cumis counsel will be retained and compensated," he explained.

"The letter also sets forth the numerous reporting requirements and billing requirements," Mr. Schratz said.

For insurers that don't have Cumis cases, Mr. Schratz recommended that they review their claims to "determine in which geographical area or what type of claims has the highest legal expense and then consider centralizing those claims with a few adjusters.

Fireman's Fund's second approach to litigation management is to computerize information on law firms by their 1099 Internal Revenue Service form and to review that information monthly.

The list of firms is reviewed to determine which have incurred a great deal in fees.

The adjuster involved is contacted for more information about the case to determine if it requires close supervision by the home office, Mr. Schratz said.

The third approach used is to hire an independent firm to audit legal bills exceeding a certain amount. At Fireman's Fund, that amount generally is in excess of $400,000 to $500,000, Mr. Schratz said.

These audits in the initial stages of cases "can clearly establish the ground rules for what is acceptable" in billing practices, he said. In addition, "a successful audit may not only prevent future billing abuses but may also result in obtaining substantial amounts of money from the law firm for the insurer."

And, Mr. Schratz said, "audits can result in substantial savings in indemnity payments. When counsel realizes that bills are going to be audited every month by independent auditors, and that legal fees are not going to be as high as anticipated, there is increased motivation to settle the case."

Auditing is to be done on-site. If the law firm refuses the on-site audit, "we won't pay," Mr. Schratz said.

Instead, the amount billed is deposited into an interest-bearing escrow account until the law firm consents to the audit, Mr. Schratz explained.

In selecting a legal auditor, Mr. Schratz recommended that an insurer determine whether:

- Auditors conduct on-site reviews in the law firm's office.

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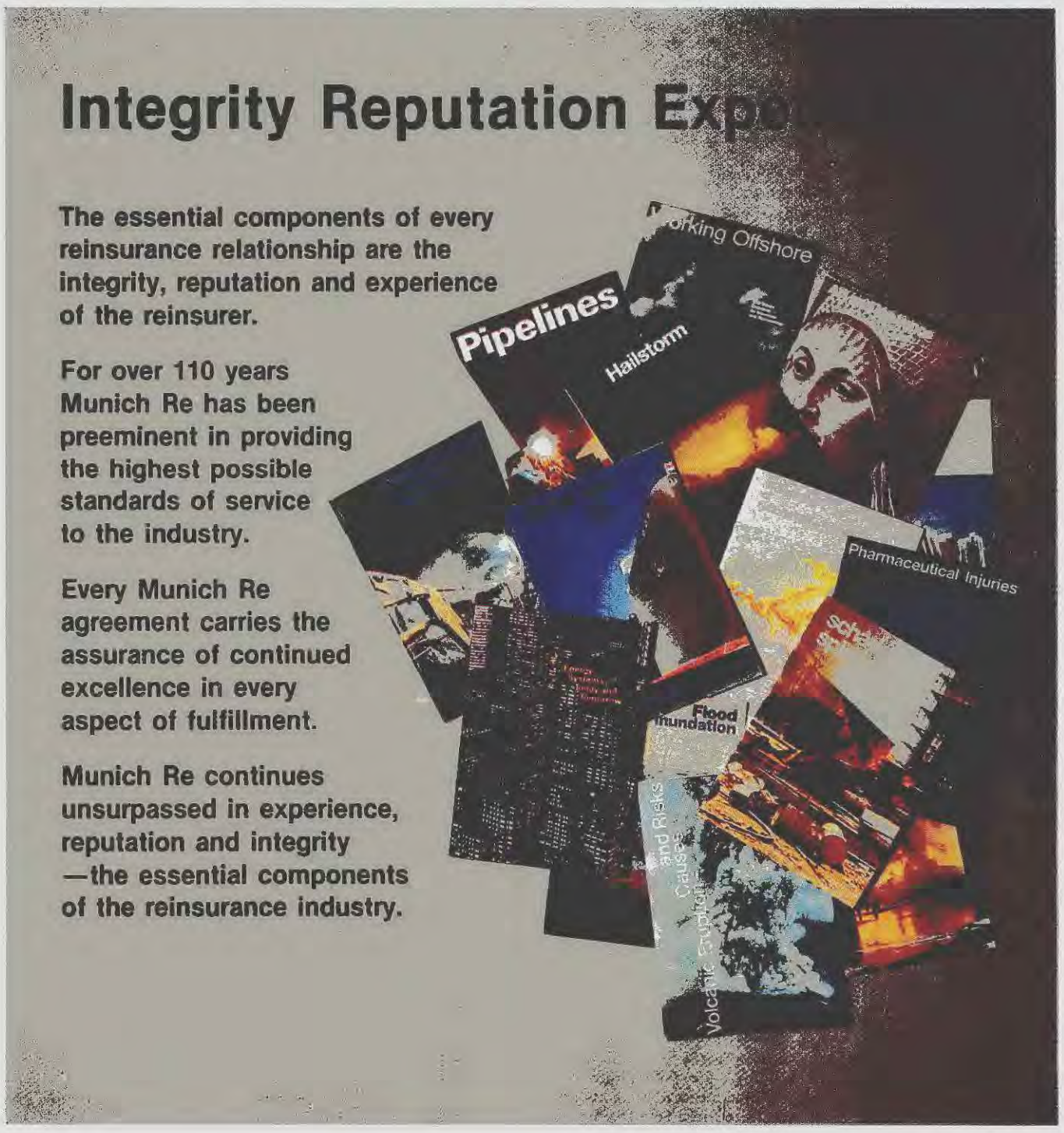

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Litigation costs

Continued from previous page

- Auditors interview all the attorneys and paralegals who worked on the case.
- Auditors review the entire claims file and legal file instead of merely reviewing the bills.
- The auditing team consists of both attorneys and accountants.
- The attorneys on the team have trial experience.
- The auditors will testify at an arbitration or trail.
- The methodology of the audit meets the highest standard of auditing practices.
- The auditors' compensation is appropriate. Compensation based on a percentage of bills reviewed or amount discounted is subject to criticism, he suggested.

Legal bills lower than $400,000 are audited in-house, he noted.

Fireman's Fund has a fourth approach to respond quickly and aggressively to suspected billing abuses.

It has assembled a team of expert attorneys and independent auditors to investigate potential billing abuses. The team includes the legal auditing firm of Stuart, Maue, Mitchell & James of St. Louis; Rich Edwards of the San Diego law firm McNitt, Edwards & Schraner; Jack Pierce of the law firm Barger & Wolen in San Francisco; and G. Robert Blakey, a University of Notre Dame law professor who was a primary author of the federal Racketeer Influenced & Corrupt Organizations act.

Mr. Schratz noted that this "extensive program" was developed after "four painful years" of being involved with the Alliance attorneys.

Mr. Schratz encouraged insurance company management to develop a specialized unit to deal with insurance fraud, including staged auto accidents and fraudulent workers compensation claims.

This unit, he said, should:

- Work very closely with local law enforcement agencies, but be prepared to proceed with civil litigation as well.
- Focus on the rings of doctors, lawyers and cappers—persons acting as lures or decoys—and not the individual claimants.
- Work with the Westport, Conn.-based Insurance Crime Prevention Institute and other industry organizations.
- Realize that sometimes other insurers may not join in a suit alleging fraud.

"You must be prepared for being out there in front of most other insurance companies if your company is to successfully fight fraud," he said. "While you can try to convince other carriers to join your lawsuit, too much time and energy can be spent coordinating these efforts instead of prosecuting the cases. Realize the benefits of going it alone."

- Publicize victories in combatting fraud.

"Do not enter into confidentiality agreements. If an impartial trier of fact has determined the civil liability of various attorneys or doctors, other insurance companies, our insureds and the general public should be made aware of that fact," he stressed.

Mr. Schratz especially encouraged contact with the media to "get our point across." The contact should be made by the person working on the claims file, not the public relations department, he said.

"If you are working on a big fraud investigation, bring the media in early on," he suggested. The information can be presented on an ongoing basis if the reporter will agree to hold the news until the investigation is complete, he said. ■

Add auto premium to gas price: Tobias

By MARK A. HOFMANN

NEW ORLEANS—Renowned financial writer Andrew Tobias has a radical proposal for solving the personal automobile insurance affordability crisis.

Get your coverage when you get your gasoline, suggests Mr. Tobias, whose books include "The Invisible Bankers," a controversial 1982 study of the insurance industry. Mr. Tobias also is a contributor to several financial publications, as well as a frequent television commentator.

He calls his plan "pay-at-the-pump" no-fault auto insurance. As keynote speaker at the annual meeting of the Society of Chartered Property & Casualty Underwriters in New Orleans late last month, he challenged an audience of insurance professionals to consider the merits of such a plan, even though it would likely put some of his listeners out of business.

"The current auto insurance system is horribly wasteful," said Mr. Tobias. Victims of serious accidents are not adequately cared for, he charged, while nuisance claims are overcompensated.

On top of being "inhumane," the existing system costs too much, said Mr. Tobias, adding that money that could be used to pay claims is now siphoned off by routine paperwork and attorneys' fees.

"I believe in efficiency. We've got to run as lean and as mean as we can," he said.

Mr. Tobias suggested that pay-at-the-pump auto insurance would increase efficiency by bypassing insurance agents and inefficient insurers. Why sell auto insurance one policy at a time when many states require motorists to carry it by law, he asked.

What would happen if workers compensation or Social Security were sold the same way? Or if the defense budget depended on one individual contribution at a time? he asked.

Mr. Tobias proposes adding the cost of insurance to the price of gasoline as a surcharge of 50 cents or 75 cents per gallon. He claimed that this would require no extra forms and no extra paperwork for consumers, because state governments already have bureaucracies set up that collect gasoline taxes. The same bureaucracies could be put to work collecting the no-fault auto insurance premiums, he said.

The money would go into an insurance fund. The states also could add portions of car registration and drivers licensing fees to the fund, so that states could tinker with risk underwriting techniques, like "charging the young more for being young," Mr. Tobias said.

Mr. Tobias stressed that his system would retain a role for private insurers, even though the state would be collecting the premiums.

When the state issued drivers licenses, it could randomly divide people into groups of the same number, he said. Insurers would then bid on servicing these blocks of business, although the number of blocks each insurer could assume would be limited initially to some percentage of the market as a whole, Mr. Tobias said.

The insurers would then receive premiums from the fund and would be responsible for claims handling and adjusting, investing premiums and generally doing what they do now, except that they wouldn't underwrite or market policies, he said.

After a claim had been handled, consumers would receive a satisfaction questionnaire on which they'd be asked to rate the insurer's performance. If the consumer was dissatisfied, he or she would have the opportunity to complain to the state government.

At the next year's auction of blocks of business, companies graded above-average by claimants would be allowed to bid for a greater share of the market. Those with poor marks would be restricted.

Mr. Tobias

In addition, consumers would be allowed to buy additional coverage above the state-mandated minimum from any insurer they wished, Mr. Tobias said. States would be able to set their own coverage minimums.

Drivers with poor records would be penalized through harsher fines than is now the case, said Mr. Tobias. The fines collected would be added to the insurance fund along with pay-at-the-pump revenues.

According to Mr. Tobias, the pay-at-the-pump system would immediately eliminate 15 cents from every premium dollar because neither underwriting expenses nor agent commissions would have to be paid. He said the system would also save consumers at least 100 million man-hours per year, based on each policyholder spending about an hour per year filling out insurance-related forms.

Mr. Tobias says the pay-at-the-pump system would solve the problem of uninsured motorists.

The system would be like the old industrial life insurance business, in which agents collected a few cents from policyholders every week to pay for life insurance, he said.

Mr. Tobias also said such a system would immediately solve the problem of uninsured motorists.

Another benefit would be environmental, said Mr. Tobias. Politically, gas taxes are extremely unpopular with consumers, and even modest increases can lead to public outcry. But if the price of gas goes up owing to the cost of insurance, the impact on gas consumption would be the same as a tax, he said. Then, because of reduced auto use, there would be less pollution, a more favorable balance of trade and fewer accidents, he contends.

The system would be run on a no-fault basis, Mr. Tobias said. Pain-and-suffering awards would be made according to a graduated scale, he said. "We cannot afford as a nation to give everybody who has an accident millions of dollars," said Mr. Tobias. As a result, the court dockets would be less crowded, he said.

"There would be no lawyers, no ambulance-chasers. We'd be sending rehabilitation specialists after ambulances, not lawyers," he said.

Mr. Tobias likened his proposal to a scientific breakthrough that would nearly eliminate all accidental fires. If such a breakthrough occurred, he asked whether insurers be willing to accept it even though it would cut profits.

He admitted, however, that there might be a few drawbacks to the systems, noting that if the system were implemented on a state-by-state basis, drivers could escape the insurance charge by crossing the nearest state line to fill up. He suggested that the system might best be tested first in a non-contiguous state, like Alaska, in order to avoid this problem. ■

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1 ☐150 or less 2 ☐151 - 499 3 ☐500 - 999 4 ☐1,000 - 4,999 5 ☐5,000 or more 6 ☐Unknown

3. My title is best defined as:
A ☐Administrative Mgt B ☐Financial Mgt C ☐Risk Mgt D ☐Benefits Mgt E ☐Loss prevention Mgt F ☐Other _____

4. My purchasing involvement for the requested products is to:
1 ☐recommend only 2 ☐specify 3 ☐approve

5. Do you now receive a personally addressed copy of Business Insurance?
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Employee Benefits Communication Awards

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Firm quizzes workers on health habits

STAMFORD, Conn.—An attractive and user-friendly health questionnaire has proved to be an effective part of a comprehensive health and fitness program for Champion International Corp.

Champion has had an extensive health and fitness program for its 23,000 employees for the last 10 years, said Jeri Medrea, director of health services for the paper producer based in Stamford, Conn.

Salaried employees receive a copy of the questionnaire in their health plan enrollment materials, and all employees at some worksites are given the opportunity to fill out the questionnaire at employee meetings.

Employee responses to the questionnaire are compiled into individualized health care assessments that are designed to help the employees choose healthier lifestyles.

In addition, Champion receives aggregate data from the responses that help the company with long-term plans for the health and fitness program, Ms. Medrea said.

The desire for an updated and more user-friendly questionnaire led Ms. Medrea to The Wyatt Co.

The health risk appraisal questionnaires that Champion had been using were "copy heavy and less attractive," said Valerie Wise, a communications consultant with Wyatt in Washington, D.C.

Wyatt developed the health questionnaire with help from health experts and worded the questions as clearly and simply as possible, Ms. Wise added.

In some cases, "the best feedback is no feedback," Ms. Medrea said. There have been no complaints about the questionnaire, and when questioned, employees say the format looks nice and is easy to read.

The result earned an Award of Excellence in the special projects category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

The covers of the questionnaire and individual health care assessments are identical. Centered on the cover of both pieces of literature is a picture of a red and blue runner—who could be either male or female—running down a tree-lined path. Underneath the picture, printed in teal, is the "Champions for Life" logo used in conjunction with promotional materials for the wellness plan.

An introductory page to the questionnaire assures employees that completed questionnaires will be reviewed only by Wyatt consultants and that Champion officials will see only data in the aggregate.

Each page of the questionnaire is printed on Champion paper. Teal headers introduce each section, which question employees about blood pressure, cholesterol and diet, tobacco and alcohol consumption, travel and personal safety, general health, workplace issues and health issues for women.

The health improvement plan follows a similar layout. Participants are reminded of their specific answers and told whether they fall within healthy parameters. When necessary, suggestions are made as to lifestyle changes that could reduce their health risks.

If the employee's responses fit into a healthy lifestyle, the employee is congratulated and told how a friend or family member could reduce their health risks. Included are addresses of helpful associations, like the American Heart Assn.

Although the health improvement questionnaire "is not a stand-alone program, it is an important part of the total wellness program," Ms. Medrea said.

—By Sara J. Harty

Holiday promotion boosts 401(k) participation

Oh, the weather outside is frightful,
But this plan is so delightful
If retirement's what you crave
Start to save, start to save, start to save.

DALLAS—Employees at Southwest Airlines Co. were greeted during the holiday season last year with a succession of red and green postcards inscribed with this ditty and three other Christmas tunes suitably altered to fit a 401(k) plan promotion.

The unorthodox postcards were part of a communication effort aimed at increasing participation —especially among lower-paid employees—in the company's 401(k) plan.

The effort won an Award of Excellence in the special projects category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

Concerned that any everyday benefits promotion would go unnoticed during the holiday season, the company decided to incorporate a seasonal theme, said Libby Sartain, director of benefits and compensation for the Dallas-based company.

Benefits staffers at Southwest Airlines worked with consultant William M. Mercer Inc. of New York on the project.

Apparently the strategy worked. After Jan. 1, enrollment rose to 55% of eligible employees from 44% previously.

And those figures may understate the increase, Ms. Sartain said. Actual enrollment rose by 42%—to 4,162 employees from 2,932—but the number of eligible employees also increased over that period to 7,608 from 6,622.

Augmenting the cheery postcards were black and white posters of frames from the classic movies "A Miracle on 34th Street" and "It's a Wonderful Life" that were put up in the offices.

Each poster carried an inscription in the corner: "With the Southwest Airlines 401(k) Plan, You Can Create a Miracle on Any Street" or "With the Southwest Airlines 401(k) Plan, You Can Create a Wonderful Life."

Following this, in smaller letters, was the message that tied the whole program together: "Give yourself a special gift this season. Join the 401(k) plan. The gift that keeps on saving." This message was also printed on the backs of the postcards.

Smaller versions of the posters were sent to the employees at home in an envelope that contained a plan description, enrollment forms and a candy cane.

Employee feedback was very positive, said Jenny Stephens, manager of the 401(k) plan.

There were a few complaints, though.

"In a big mailing like this, sometimes an item will be left out of a few envelopes. We had some calls from employees who wanted to know what happened to their candy canes," Ms. Stephens said.

—By Sara J. Harty

Employee Benefits Communication Awards

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Sara Lee's 'snapshot'

Statements tell executives where they stand

By MICHAEL SCHACHNER

CHICAGO—To provide top executives with a clear, practical explanation of their benefits and compensation, Sara Lee Corp. put together a personalized statement intended to be used as the framework for an individual's financial planning.

The "Rewarding Excellence in Management" statement, which was mailed at the beginning of the year to 226 of Sara Lee's key domestic executives, clarifies and categorizes benefits, stock options, savings plans and how benefits fit into an executive's total compensation package.

The 11-page, laser-printed statement features five separate color-coded sections including a special pull-out section focusing on an executive's total compensation.

The pull-out displays how long- and short-term bonuses, stock options and standard benefits compare with base salary and provides executives with a concise tool to use with financial consultants.

"For years we produced comprehensive benefit statements that alerted our management people about the amount of benefits they were due. But we thought a year-end snapshot of the entire package would really help them in their long-term financial planning," said James C. Clousing, director of employee benefits for the Chicago-based conglomerate.

The sleek 6-by-11-inch booklet, which has a gray cover and silver pinstripes, captured Best of Show in the personalized correspondence category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

The total cost of producing and distributing the personalized statements was about $50,000.

The project was prepared by Sara Lee staff with help from consultant William M. Mercer Inc. in Chicago.

"This is really a unique explanation of total compensation for Sara Lee," explained Jane Lump, a principal in Mercer's Chicago office. "It's very understandable and explains the types of benefit decisions executives have or have not made over (the) years."

"We decided that it was time to portray the value of Sara Lee's total compensation package. We figured that if we put something together that was both fancy and small, the recipients would probably be more inclined to page through it and examine the segments that are relevant to them," said Mr. Clousing.

On page one of the booklet is a message from John H. Bryan, Sara Lee's chairman and chief executive officer.

Readers then move on to separate topical sections that are highlighted by flecked, colored borders that match the color of the cover of the corresponding handbook that is provided to executives.

The first section on income protection is highlighted by a mustard-colored right-hand border. This section explains short- and long-term disability plans.

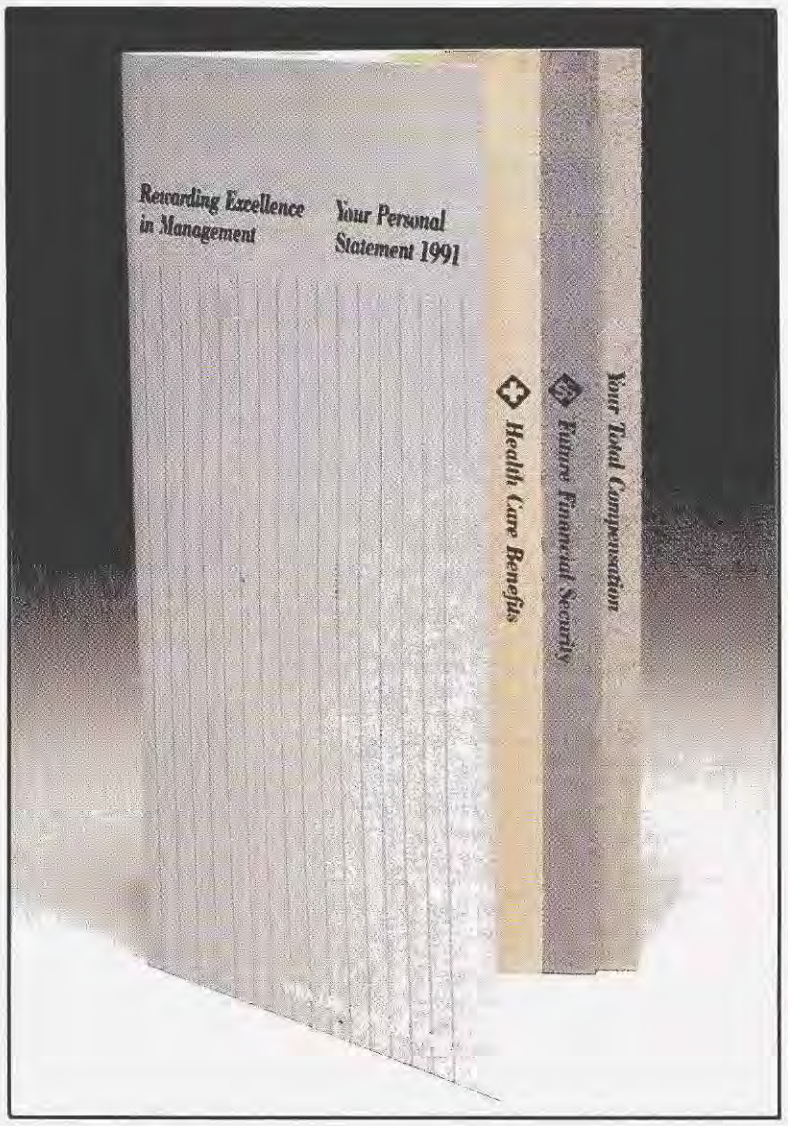
The next segment, which has a rose-colored border, focuses on survivor benefits and explains the executive life insurance program, travel and accidental death benefits, as well as a summary of the total value of an individual's life insurance, 401(k) savings plan account, an employee stock ownership plan, vested stock options and deferred compensation.

"This is the first time we included a survivor benefits section in an annual statement," said Ms. Lump. "Executives have such a mix of non-traditional savings and benefit plans that we thought it would be good to fully explain them and their combined value."

In the middle of the booklet is a peach-colored section detailing health care benefits. The section explains what type of medical benefits, deductibles and out-of-pocket requirements the individual has chosen. It also explains prescription drug and dental benefits.

This section is followed by a dark-gray section on future financial security, which spells out how much an individual has accrued in a 401(k) account and the cash value of a person's employee stock ownership plan account.

In addition, the financial security section tells an executive how much he or she has accrued in the company's defined benefit pension plan and makes a projection of what his or her annual retirement benefit will be.



The light-gray total compensation fold-out section allows the reader and financial planners to compare benefits like stock options, bonuses and other perquisites with base salary.

The section permits executives to see how fixed pay compares with variable pay or how short-term pay relates to long-term pay.

The section also includes detailed graphics on the number of stock option shares that have or have not been exercised, gains on exercised options, vested shares and other elements of Sara Lee's executive stock programs.

"We had never really broken down stock options before. This gives an executive and his planner all the information they need on exercised and non-exercised options," said Mr. Clousing.

The statement fits into a plastic cover that is designed to fit into an executive's three-ring benefits and compensation binder.

The back of the annual statement has a cutout window allowing the executive's name and address to show through. The personalized booklet was mailed to employees in a white envelope with a cellophane window for the name and address.

Mr. Clousing said executive feedback about the project has been very positive.

"This program has got good reviews from our people. It gives them a feeling that they're part of Sara Lee," he said. ■

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Personal approach—to 3,000 workers

By MICHAEL SCHACHNER

FAIRLAWN, Ohio—When GenCorp Inc. employees asked for a better explanation of their benefits, the company's employee benefits department responded with a groundbreaking personalized total compensation communication package.

The package was sent to about 3,000 salaried and non-union hourly employees at their workplace in July. It included: a personalized report on the employee's compensation, including benefits; a handbook explaining all facets of compensation and benefits; a summary of all medical and dental expenses incurred by the employee during the previous year; and an employee response form.

The personalized correspondence project called "Your Total Compensation Package" marked the first time that the aerospace, automotive and polymer products company thoroughly spelled out direct and indirect forms of benefits and compensation for its employees.

And the package captured an Award of Excellence citation in the personalized correspondence category of the *Business Insurance* Employee Benefits Communication Awards.

"Employees expressed that they wanted to know more about their benefits and how they relate to pay. We had done a number of benefits communications projects in the past, but this is much better than anything we did before," said Charles G. Salter, GenCorp's director of employee benefits.

"We want employees to view benefits as a part of total compensation, and we want them to look at benefits in the context of direct and indirect pay. This package provides them with a clear understanding of total compensation and it allows them to sit down with family members and financial planners and talk about the future," Mr. Salter explained.

Within the package is a personalized "annual report" that clearly explains total compensation, detailing the value of an employee's direct pay and indirect pay, like benefits.

The 12-page report also contains information on health care, disability and retirement benefits, as well as information on survivor benefits and miscellaneous items.

Communication consultants from Hewitt Associates in Lincolnshire, Ill., completed the first draft of the annual report, after which Mr. Salter and the benefits department at GenCorp took over.

The annual report booklet has six color-coded sections that match corresponding sections in the compensation handbook. It also contains a general letter from Mr. Salter and Charles R. Patton, GenCorp's director of compensation and payroll services.

Both the annual report and the 1991 total compensation handbook were laser printed on recycled paper.

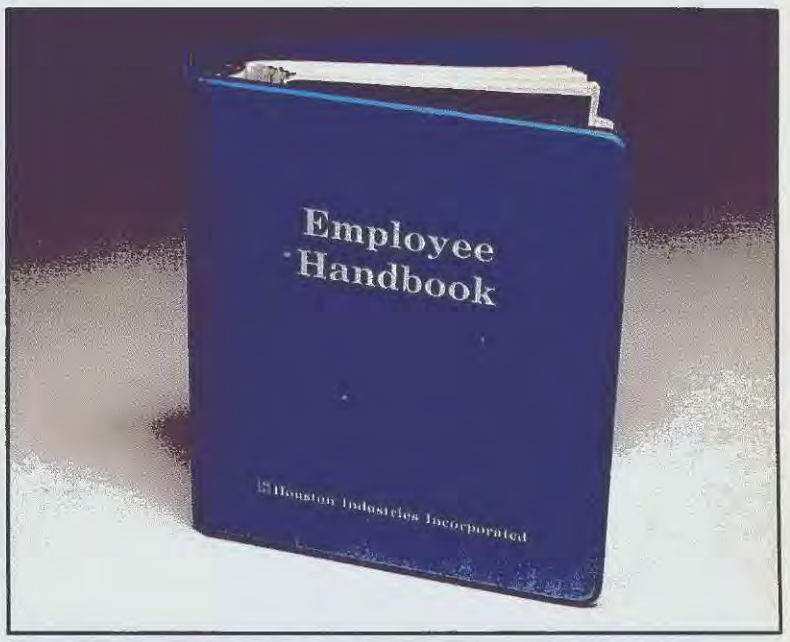
The package, which cost about $75 per person, also contains a personalized summary of health care and dental expenses for the previous year. The information in the summary was provided by Aetna Life Insurance Co., the third-party administrator of GenCorp's self-insured health care plan.

"The summary is something that we had never seen done before by any company," said Sandra Barnett, a communications consultant with Hewitt Associates. "It's really a great tool for future planning, and it's another message to employees on the value of their benefits."

—By Michael Schachner

Employee Benefits Communication Awards

Texas utility's effort shines among benefit handbooks



By LORI BLOCK

HOUSTON—Most employee benefit departments would relax after successfully introducing a new medical plan.

But that was not the case at Houston Lighting & Power Co.

The introduction last January of SelectCare, a new point-of-service medical plan, brought many changes to the company, thus rendering major portions of the company's existing employee handbook obsolete. But that wasn't entirely a bad thing.

The company handbook had sported "the same format for a long time" and no longer really captured the attention of the utility company's 12,000 employees, said Kaye Reznick, the corporate benefit specialist responsible for overhauling the handbook.

Ms. Reznick explained that the company wanted to create a book with a different look—one that would "attract employees" and get them to read it. The result, she said, "is an easy reference (that) also meets the requirements as a summary plan description."

The effort also garnered the Best of Show award in the series/multi-subject booklet category of the *Business Insurance* Employee Benefits Communication Awards competition.

The project was orchestrated primarily by Ms. Reznick, under the leadership of Cynthia Mudd, the supervisor of benefits projects and communications at Houston Lighting & Power.

Ms. Reznick designed and produced the booklet, which was issued in June, on her personal computer. It was the first time the handbook was put together entirely in-house, Ms. Reznick noted.

The effort eliminated the need for any outside assistance and cut production costs by more than half.

However, the reduction in cost was not accompanied by any reduction in convenience for both employees and benefit department staffers. The company chose to continue using a binder notebook format, which Ms. Reznick said "makes it easy to update."

The notebook also features tabs that identify each of the major sections. Each section has its own table of contents, which makes the handbook even easier for employees to use.

But what really guides the Houston Lighting & Power employees through the mysteries of employee benefits is a Sherlock Holmes-type character who pops up throughout the book, providing employees with boxed "clues" that explain the critical components of their benefits.

This concept is introduced on the cover page, which states: "It's Elementary. . . .Employee benefits can seem complicated, unless you take a little time to investigate. Read your plans, and follow the "clue" boxes until it all seems elementary. It's a rewarding case. You'll discover how to use your BenefitsPlus employee benefits to their full advantage!"

One clue box succinctly explains an employee's health care coverage options. It lists the three options—SelectCare, the point-of-service plan; Traditional Care, a traditional indemnity plan; or no coverage—and then indicates which options are available to those who live within the SelectCare coverage area and those who live outside this area.

Another clue box summarizes the four responsibilities that employees enrolled in SelectCare have:

- "Choose (primary care providers) for yourself and your dependents."
- "Coordinate all care through the PCP."
- "Contact (your) PCP within 48 hours of emergency care."
- "Remember, non-network provider care or care not referred by (the) PCP is paid at SelectTwo (or lower) levels."

Besides discussing the new point-of-service health care plan, the handbook discusses general company information as well as the company's dental plan, group life insurance plan, accidental death and dismemberment plan, long-term disability plan, savings plan, retirement plan and travel insurance plan.

In addition, a section on "events that may occur" discusses what happens to an employee's benefits at the termination of employment, during a leave of absence, in the event of a long-term disability, at retirement, or in cases of death or divorce.

Working on her own, Ms. Reznick rewrote the company's existing handbook section by section, concentrating on the rewrite of the

Continued on next page

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Employee Benefits Communication Awards

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Prescription for success

Hospital's booklet shows flex plan is cure for benefit ills

By JERRY GEISEL

BELLEVUE, Wash.—Overlake Hospital Medical Center has found the right prescription for introducing employees to its flexible benefit plan.

The hospital's 20-page booklet won Best of Show in the single-subject booklet category in this year's *Business Insurance* Employee Benefits Communication Awards competition.

The cover of the 8½-by-11-inch booklet takes the shape of a doctor's prescription, which is filled out with the word "Employee" appearing next to Name while "Overlake Hospital Medical Center" appears next to Address.

The prescription theme continues at the bottom of the cover with the number 1 circled next to Refill while "Overlake Hospital Medical Center" appears again just above "Dispense As Written."

And, smack in the middle of the cover is a bright red apple neatly sliced into sections representing the pieces of Overlake's flexible benefits plan. The largest section, nearly half of the apple, is medical coverage. The others are labeled dental coverage, group life and accidental death and dismemberment insurance and long-term disability insurance.

Designing the booklet cover as a prescription, and using the apple logo—which also appears inside the booklet on pages describing the benefits available in the flex program—conveys two messages, explained Jim Robison, vp-human resources at Overlake, a 31-year-old, 250-bed non-profit community hospital and medical center in Bellevue, Wash.

"We wanted to show that the flexible benefits program had a variety of sections. What a beautiful way with a sliced apple" which also is a symbol of health, Mr. Robison said.

But putting an apple on a page was not enough, according to Beverley R. Maggs, manager of employee communications services at Howard Johnson & Co., a Seattle-based consulting firm that helped design the booklet and write the copy.

"If employees were to come away with one thought, it would be that we are so confident about this program that it could be prescribed to all employees," Ms. Maggs said.

Overlake introduced its flexible benefits program in late 1987 to better control health care costs and to give employees more benefit choices.

As with many employers, Overlake's health care costs had been spiraling. "We had experienced huge increases," Mr. Robison said.

By introducing a flex plan, Overlake could better control costs by making a fixed contribution—in the form of "Benefit Dollars"—that employees could use to buy various benefits.

For example, an employee covered under a working spouse's medical plan might select a medical plan option with the lowest Benefit Dollar price tag—a plan with high deductibles and coinsurance—and increase take-home pay with the unused Benefit Dollars or funnel Benefit Dollars into a reimbursement account to pay uncovered benefit expenses.

"We wanted to give more options, more choices. We wanted to be sure that the needs of all our employees would be met," Mr. Robison said.

For example, Overlake currently offers four medical options, including three indemnity plans and a health maintenance organization.

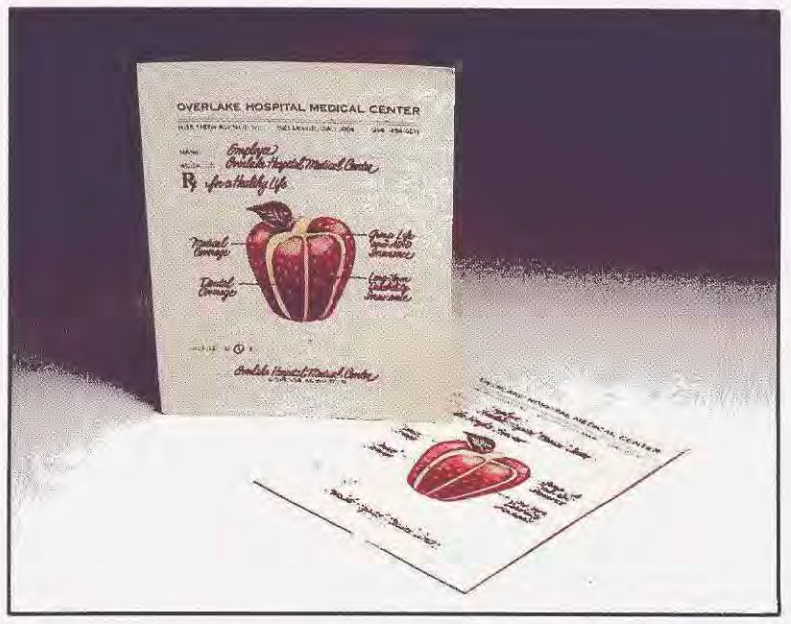
In a clear, direct style, the booklet explains to employees that Benefit Dollars represent how much Overlake will contribute toward their benefits. Each benefit has a specific assigned Benefit Dollar amount.

Benefit Costs, the booklet explains, are the actual monthly premium or cost of the employee's benefits for one month. When Benefit Dollars equal or exceed Benefit Costs, Overlake pays the cost of the benefit.

However, when the Benefit Dollars are less than a listed benefit's cost, employees can use a combination of Benefit Dollars left over from another less costly option or higher payroll deductions to fund the difference, according to the booklet.

Using examples on a chart, one booklet page explains to employees the relationship of Benefit Dollars and Benefit Costs for the medical plan options. The chart contains three family categories—employee only, employee and one dependent and employee and two or more dependents.

One quick look at the chart tells an employee the cost of a medical coverage option and whether he or she will have Benefit Dollars left over or will have to make additional contributions.



Another one-page chart, called Medical Options At-A-Glance, sums up the key cost-sharing features of each of the four medical options.

"It allows instant comparison," pointed out Janie Bovee, Overlake's supervisor of operations/benefits.

Short paragraphs separated by double spaces help make the booklet readable. The pages themselves are a warm beige with green and red borders at the top and bottom.

"The objective is to get employees to read the booklet. Employees won't read a booklet if it looks like an epistle," Ms. Maggs said.

Certain important information is set off in bold type. For example, employees are warned in bold type that the plan will pay only 60% of covered hospital charges if the employee does not follow hospital preauthorization procedures.

"For the first time, employees were making decisions that would affect their pocketbooks. On pocketbook issues, employees have to have all the information. It is not enough to say the information was in the booklet. It has to be in a place where they can't miss it," Ms. Maggs said.

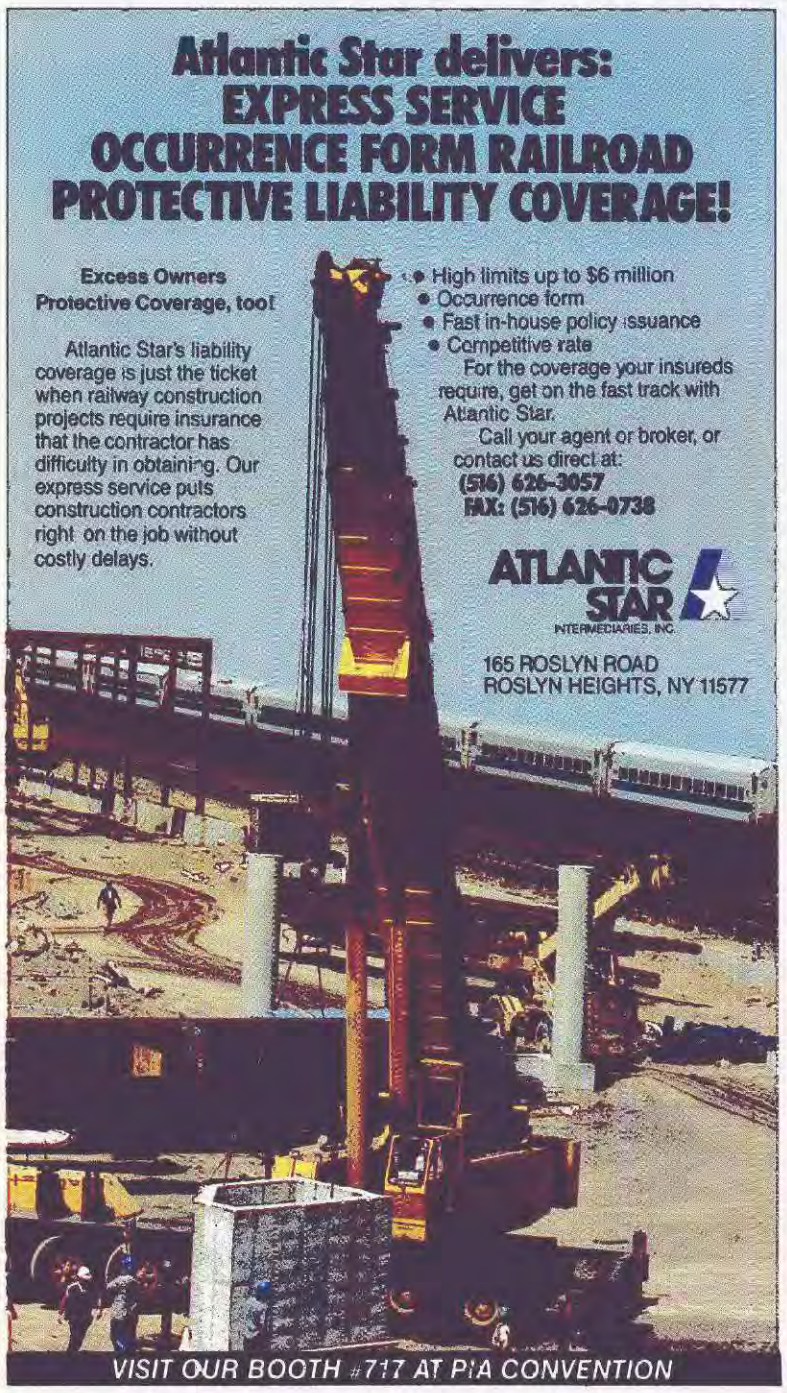
The booklet also provides "Checkpoints," or issues, like the level of financial risk, that employees should consider when selecting medical and dental benefit options.

Through the Checkpoints, "Employees have a better opportunity to make a more informed decision. The more informed employees are, the better their perception of the benefits will be," Mr. Robison said.

The booklet, which was mailed to about 1,200 eligible employees, has not been changed—except for updating of cost figures—since it was first unveiled in December 1987. The booklet, including consulting fees, cost $39,000 to produce.

Mr. Robison believes the hospital's flexible benefits program is one of the factors that has helped keep employee turnover down to about 15% annually. At other area hospitals, the figure is 25%.

"We are doing a lot of things right, including the benefits we offer and the way those benefits are communicated," he said. ■



AT&T lays path to understanding

By JERRY GEISEL

NEW YORK—A new American Telephone & Telegraph Co. booklet helps employees stay on the right path in the company's managed health care network.

The 19-page booklet, which was distributed earlier this year to employees and dependents covered by a new health care network (*BI*, July 23, 1990), uses road and path themes in various ways to explain how the network works.

For example, the first page of the 8½-by-11-inch booklet features the headline "Sign of the Times" and explains why employers are moving in the direction of managed care.

A table of contents on the second page continues the road theme, with a graphic of cars parked at a drive-in movie, with the screen showing "Coming Attractions." The attractions include the page numbers for information on:

- Comparing benefits in and out of the network.
- Which phone calls must be made to receive reimbursement.
- How to transfer medical records to a primary care physician—known as DOC, short for Doctor of Choice—in the network.

Graphics throughout the booklet also build on the road theme. For example, one graphic shows a motorist traveling past an outdoor sign that reads, "The Way To All In-Network Care."

The sign points in the direction of a DOC, who is wearing a laboratory coat and is holding a clipboard. The DOC points toward a building marked "Specialists" further down the road, while a hospital is just past the specialists' building.

AT&T's road theme matched what the company was trying to communicate and won the company an Award of Excellence in the single-subject booklets category of the 1991 *Business Insurance* Employee Benefits Communi-

Continued on next page

Utility handbook

Continued from previous page

medical plan. These sections were then circulated for review by people within the company, the outside vendors that provide benefit-related services to the company and the company's attorneys.

Feedback from these reviews was incorporated into a final rewrite. Then, the entire package was designed on Ms. Reznick's personal computer.

The result is a handbook in which "the information is correct and accurate (while it) covers all the legal bases we need to cover," Ms. Reznick said.

Ms. Mudd goes a little further in evaluating the effort.

"Kaye was given a company achievement award, which is a rare event—they're not given out like candy. The design was a hit as far as we were concerned," she said.

Ms. Mudd added that evaluating the employees' acceptance and comprehension of the new handbook is difficult.

Because the new handbook was released on the heels of the introduction of the new medical plan, it is understandable that the benefits personnel experienced an increase in the number of inquiries from employees, Ms. Mudd explained. Eventually, these inquiries tailed off, she said.

Furthermore, "we don't have a good way to measure who has read a handbook and who has not," Ms. Mudd said. "It's something we are trying to ascertain."

However the lack of formalized feedback does not mean the employee benefits staff has not received any feedback on the new handbook. "It has gotten rave reviews" from employees who take the time to voluntarily comment on the new handbook, Ms. Mudd said.

Although Houston Lighting & Power currently has no plans to drastically change major aspects of its benefits program, that does not mean that Ms. Reznick's work is complete. Employee handbooks are a "constant process," she said, explaining that the handbook is an element of a company's ongoing communication effort, which requires regular updates.

But, she said, armed with the new-and-improved handbook, she now has a vehicle that can readily be altered to convey any changes in company policy or benefits. ■

Oil company's clock shows time for flex benefits is now

CALGARY, Alberta—Husky Oil Operations Ltd. wants its employees to know that the company's new flexible benefits program gives them new options.

AT&T booklet

Continued from previous page
cation Awards competition.

"In a managed care network, you are traveling on a path in which the employee has to make choices each time services are used. We tried to lay out to employees what those choices would be," explained Cheryl Malczyk, a staff manager with AT&T.

"The road draws you through the booklet," said Joanne Dietch, a principal in the Saddle Brook, N.J., office of TPF&C, a division of Towers, Perrin, Forster & Crosby Inc., which helped design the booklet and edit the copy.

The booklet is written in the snappy, journalistic style that research indicates AT&T employees prefer, Ms. Malczyk pointed out.

Rather than bog readers down with long explanations, the booklet includes two pages of definitions—under the headline "Watch Out for These Words"—of terms like deductible, coinsurance, in-network and out-of-network.

"Instead of stopping copy, we wanted to put definitions in one place. If you know what reasonable and customary is, you can keep on reading. If not, you know exactly where to look it up," Ms. Dietch explained.

The booklet, which was mailed to employees' homes, also provides easy-to-understand examples.

For instance, on one page under the headline "Picture the Savings," a motorist is approaching a road sign. A content-looking stork is resting on the sign with two pie charts comparing how much an employee would pay for a normal delivery of a baby within the network and outside the network.

At a glance, an employee can see that for a $7,394 delivery, he or she would pay $209 toward the cost of services received in-network, while the employee's cost would be $1,200 if providers outside the network were chosen.

"Too many booklets give thousands of numbers. Employees don't care about the math. They care about the results," said TPF&C's Ms. Dietch.

"Information through examples is critical to help employees make informed decisions," Ms. Malczyk agreed.

The booklet also includes a "Quick Summary of Benefits." In column form, employees can instantly see the difference in deductibles inside and outside the network as well as differences in coinsurance charges for benefits like surgical care and chemical dependency/substance abuse treatment received inside and outside of the network.

"It is clear-cut information," Ms. Dietch said.

Thumbnail sketches Ms. Dietch wrote for the booklet were developed into graphics by Designsmith, a design firm in Arlington, Va.

More than 70% of AT&T employees that were eligible for the network and who responded to a company survey said they read the booklet. The booklet was mailed to eligible employees in July. The network now covers about 84,000 AT&T employees and dependents.

"Employees said: 'It is easy to read. It provides everything I need in one place,' " Ms. Malczyk said.

The booklet was developed over a four-month period, she said. ■

Husky, a Calgary-based oil company, is delivering that message starting on the front cover of its flexible benefits booklet.

The cover features a large letter O in the shape of clock with dots circling the O. A smaller O-like clock leads into the title of the flexible benefits program "Options at Work."

Using a clock-like image conveys what Husky was trying to do when it launched its flexible benefits plan. The image helps show "that you have different options at different times in your life," explained Connie Edlund, Husky's manager of special projects.

The clock-like image also illustrates "that the time has come for flexible benefits, while symbolic of the different phases of life," added Ruta Skelton, a consultant in Toronto with Hewitt Associates, which worked with Husky in producing the booklet.

Husky's effort won an Award of Excellence in the single-subject booklets category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

The 34-page booklet was distributed last year at employee meetings before the Jan. 1, 1991, introduction of the flexible benefits. It is divided into sections describing the benefits—medical, life insurance, employee accidental death and dismemberment, long-term disability and vacations—offered through the program.

These sections are rich in detail. For example, the section explaining Husky's Health Care Expense Account, similar to flexible spending accounts that U.S. employers often offer, is spread over two pages explaining how the account works.

Throughout the booklet are "Tax Tips," detailing whether it is tax-effective to use flex dollars to purchase certain benefits.

"We have lots of engineers who want technical information," Ms. Edlund said.

The booklet itself is divided, much like a newspaper, into seven sections with a table of contents, titled "Headlines," that briefly describes each section.

"It is a fast-track way of going through the booklet," Ms. Skelton said.

Graphics are used to illustrate some of the sections. For example, a palm tree appears in the vacation section, while a piggy-bank, with a Husky-dollar, in the shape of a coin going into the top of the piggy-bank, is in the Health Care Expense Account section.

"We wanted employees to read the booklet, but we also wanted to lighten it up," Ms. Edlund said, explaining the use of art in the booklet.

In designing the booklet, Husky used recycled paper. "Canadians are quite cost-conscious, especially those in the oil industry. They would resent a glossy, glitzy effort," Ms. Edlund said.

The booklet cost about $25,000 to produce.

Ms. Edlund said Husky has had extremely positive feedback from employees.

"Employees have said for the first time they understand how their benefits work," Ms. Edlund said.

Ninety-five percent of employees responding to a voluntary feedback form included in the booklet reported they understood Options at Work fairly well or very well, while 97% said the booklet and enrollment form included with the booklet were easy to understand.

—By Jerry Geisel

Utility's newsletters win praise for detailed data

By CHRISTINE WOOLSEY

NEWARK, N.J.—Many employers think workers do not like to be bothered with a lot of benefit plan details and information.

But Public Service Electric & Gas Co. learned otherwise after conducting several employee focus groups in early 1990.

In fact, the information PSE&G employees wanted is information that many employers have sought to communicate to their workers in one way or another for years.

For example, the employees said they wanted to receive "information geared to help them make better use of their benefits," said Richard D. Quinn III, benefits planning manager for the Newark, N.J.—based utility. In addition, employees requested "more background information on what's going on in benefits so when decisions are made (by the company), they don't seem like surprises."

PSE&G employees also said they wanted to receive more information about their existing benefits, rather than simply receiving information when benefit plan changes are made.

"As one participant said, 'We probably do have good benefits—but we don't know what we have!' " Mr. Quinn recounted.

Armed with this feedback, PSE&G launched a new benefit communications campaign designed to meet employees' information needs.

The program not only won praise from PSE&G employees, dependents and retirees, but garnered the utility the Best of Show prize in the newsletter category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

Called Spectrum, the benefits newsletter is a new and improved version of PSE&G's previous benefit communications.

Employees formerly received benefit information primarily from bulletin board messages and from the old benefit newsletter: a plain, typewritten page that more often than not wound up unread in employees' waste baskets, Mr. Quinn explained.

The new Spectrum newsletter uses four-color graphics, cartoons and text to explain various aspects of PSE&G's medical and dental benefits and savings and retirement plans.

One newsletter, for example, gave employees and dependents tips for faster, easier medical and dental claims payments.

"You can make a difference in how quickly your claim is processed (if you) follow these steps," the newsletter states. Nine steps are outlined, including advice on how to accurately complete claims forms.

PSE&G also designed Spectrum to eliminate any misunderstanding employees may have about the purpose of health insurance.

The feeling that health insurance is designed to pay 100% of all medical bills is "one of the biggest misconceptions that came out of the employee focus groups," Mr. Quinn said. "We took great pains to explain to employees how they can best use their benefits, thereby enhancing employee appreciation for the plans."

PSE&G also wanted "to begin to realign expectations about the role of benefits in providing individual and family security," Mr. Quinn said. "We wanted to establish a new baseline of expectations—away from 'the old plan' and toward 'what other companies provide' or 'what's needed today,' " he noted.

Focusing the benefit newsletters on what employees want to know—rather than just what employers feel they should know—is vital to a successful communications effort,

Continued on next page

3

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Newsletters

Continued from previous page

said Karen A. Barnes, a consultant with Hewitt Associates in Bedminster, N.J., who works with PSE&G on the newsletters.

"The failure of a lot of benefits communications is they are designed from management's point of view. But the employee focus groups held at PSE&G make sure the messages we give are of interest to employees," she said.

One Spectrum newsletter was devoted to explaining the importance of retirement security. Using cartoons to illustrate the concept of retirement income as a three-legged stool, the newsletter explains to employees that one of the legs "represents Social Security to which both you and your employer contribute while you're working. The second leg represents your company-provided retirement plan benefits, which are earned through years of service. The third leg is your personal savings. . .perhaps the most overlooked and undervalued factor."

Mr. Quinn said the use of cartoons to illustrate benefit concepts covered in the newsletters has been a great success.

When developing ideas for the cartoons, "we sat down and said 'What do we want to highlight on this page?' " he explained. PSE&G then hires a professional artist to draw the cartoons.

The cartoons, however, are not intended to detract from the importance of employee benefits messages, Ms. Barnes said.

"We present strong messages using cartoons and lighter language. A lot of companies don't want to discuss" things like cost containment "in anything but black and white—or at best maroon and gray. But Mr. Quinn's idea is that you have to get employees' attention first before you can tell them something," Ms. Barnes explained.

"Management accused us of using marketing to communicate benefits, but I told them that's exactly what we are doing" and it works, Mr. Quinn said.

PSE&G distributes the newsletters to 5,000 salaried and 8,000 hourly workers—predominantly long-service, male heads-of-household. Retiree newsletters are sent to 5,500 retired employees and 1,300 surviving spouses, most of whom reside in New Jersey and Florida.

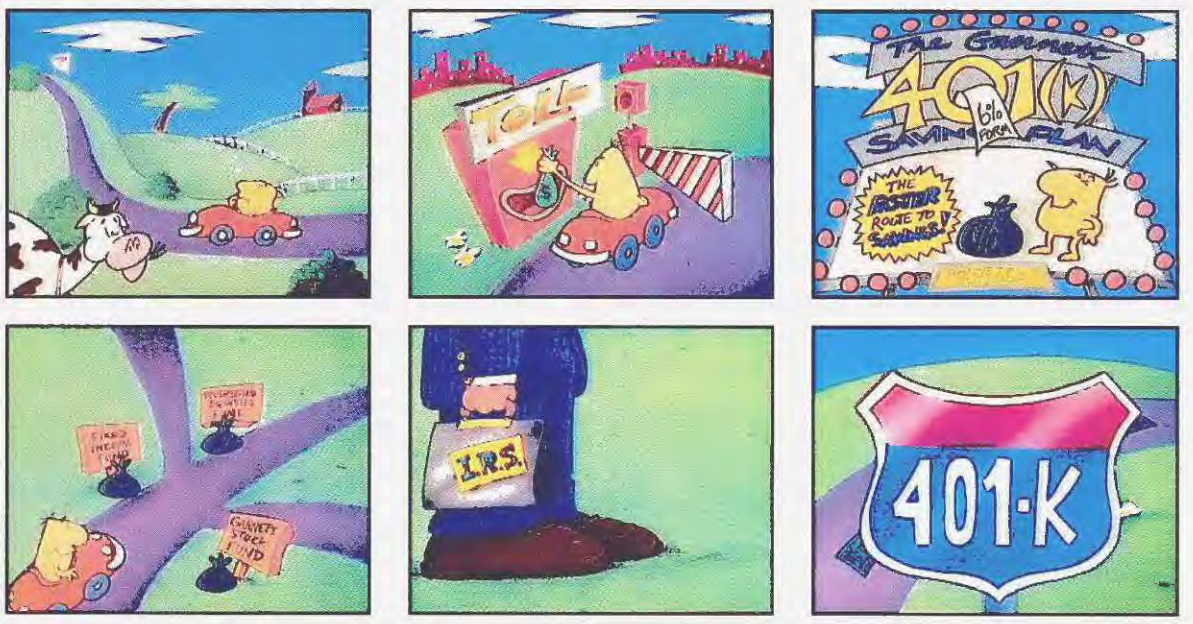
"Spectrum was extended to retirees to answer their special information needs and provide more information in print," helping limit phone calls to benefits administrators, Mr. Quinn said.

"We decided to issue Spectrum on an as-needed basis rather than quarterly or bimonthly," Mr. Quinn said. "We want to be sure each issue has something to say," while a more scheduled approach "tends to lead to issues that aren't really necessary," he said.

"We also decided to address just one benefits area in each issue, so employees could better understand and assimilate the content of each issue," Mr. Quinn said. However, he noted, "in the future we may begin to link benefit areas to provide a 'total security' perspective."

After a year of newsletters, PSE&G solicited feedback on Spectrum via a response card included in annual benefit statements.

"We learned that 86% of respondents read all or most of each Spectrum issue," Mr. Quinn said. And, 86% of respondents also said they "find Spectrum very or somewhat valuable in understanding PSE&G benefits." ■



Road to retirement savings

Multifaceted program drives home Gannett's 401(k) message

By MEG FLETCHER

ARLINGTON, Va.—Launching a retirement savings plan for a diverse workforce is never easy, especially in a recession.

So multimedia giant Gannett Co. Inc. turned to humor to generate employee interest in its 401(k) program.

Most notably, the company used a boldly colored, animated videotape of a yellow, pear-shaped character cruising in a sports car on "The Faster Route to Savings."

In addition, a winding teal-colored highway with a 401(k) interstate-type route marker provides a unifying image for other materials promoting the plan, which went into effect on July 1, 1990.

The other materials include "teaser" posters, a highlights brochure, an enrollment book with an application form and built-in sliding calculator, and a reminder flyer.

The campaign attracted more than employee interest: It won the Best of Show award in the multimedia category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

At this time, about 44% of Gannett's 32,000 eligible full-time and part-time employees nationwide have contributed about $30 million to the plan, according to Joan M. Passerino, Gannett's manager/retirement programs.

To be eligible, employees must work at least 1,000 hours annually and not be represented by a union unless their union negotiates to participate in the plan.

"All age, education, ethnic categories and income levels are represented" among Gannett's employee population, "which includes professional, technical, service and clerical categories," according to Lincolnshire, Ill.-based Hewitt Associates, which worked on the project.

The employees work for 82 daily newspapers, 10 television and 15 radio stations, as well as the largest outdoor advertising group in North America, the consultants said. Employees work in 41 states and the District of Columbia.

For 1991, any whole percentage of pretax pay totaling between 1% and 10% for non-highly paid workers and 1% and 6% for highly paid workers can be deferred to Gannett's 401(k) plan. Employees can choose the level of deductions at the start of any calendar quarter.

For every dollar an employee saves up to 4% of pay, the company will contribute 25 cents in the form of Gannett stock, said Roxanne V. Horning, Gannett's director/employee benefits.

An employee becomes 100% vested in the company's contribution after three years of participation.

Initially employees had three investment options—a fixed income fund, a diversified fund or Gannett stock fund. Two others—a bond fund and a money market fund—are being added in January 1992, Ms. Horning said.

Withdrawals are permitted only for financial hardships, under terms and conditions established by federal rules.

The company also plans to establish a loan program in January 1992 that will allow employees to borrow up to 50% of an account balance, excluding the value of the company's contribution, at a fixed interest rate, Ms. Passerino said.

Developing the multimedia campaign to explain the retirement savings plan to workers was "a team effort," said Craig Smith, a Hewitt consultant in Atlanta.

He and consultant David Harwell, also based in Atlanta, focused on developing the video portion of the program.

Hewitt consultants Mary Bailie and Tom Hauser in Rowayton, Conn., helped develop the printed materials.

Gannett's own specialists in video and print helped develop and review the materials, a Gannett spokeswomen said.

Hewitt consultants suggested using an animated character in a video to help explain the plan.

Gannett executives were receptive to the idea, in part because they wanted "to do something a little different," Ms. Horning said.

The specifics of Gannett's 401(k) plan are presented in the six-minute video during the pear-shaped character's drive on "The Fastest Route to Savings" with the help of Gannett corporate images, including flashing billboards, newspapers, a talking car radio and a satellite dish antenna.

In addition, destination signs along the roadway include the locations of several large Gannett facilities.

Using animated references to diverse company operations and locations was probably less expensive than a more realistic approach, considering the cost of sending video makers to those locations to take photographs or videotape, the consultants said.

Gannett executives approved how the plan would be explained in the video based on sketches and a story board. They also made the "leap of faith" required of clients when they approve development of a full video, because they cannot decide whether they like it until it is completed, Mr. Smith said.

The media campaign was first presented to publishers, general managers and other executives of operating units. They were shown the video and given a preview of the promotional campaign through the use of overhead slides and the actual printed materials that would be used.

They found the multimedia presentation "comprehensive and enjoyable," Ms. Horning said.

The video especially "created a great deal of interest in the plan," Ms. Passerino said.

Shortly afterward, local managers presented the same campaign information to employees at meetings. There, employees viewed the video and were given the highlights brochure and the enrollment booklet. The enrollment booklet included an application form, as well as a slide calculator built into its back cover.

Gannett considered presenting the slide calculator separately, but decided to make it part of the booklet's back cover as a way to encourage employees to keep information about the plan together, Ms. Passerino said.

In addition, Gannett subsequently mailed or hand delivered a flyer with a cover memorandum encouraging non-participants to join.

Employees generally responded well: About 41% of all those eligible enrolled following the program's introduction in the spring of 1990, including about 50% of all eligible full-time employees.

Initially, all employees could contribute up to 10% of pay. But, Gannett became concerned about the plan's ability to pass federal non-discrimination tests.

As a result, the maximum pretax pay deduction by high-paid workers was trimmed to 4% by the end of 1990.

After the plan passed the non-discrimination tests for 1990, the company raised that group's maximum contribution to 6%.

The recession may have contributed to low enrollment by lower-paid workers, the consultants commented.

Gannett continues to use the multimedia program to introduce new employees to the plan.

In addition, Gannett continues to use some of the campaign's bolder colors for other benefits communication literature. For example, it used a teal border on a recent benefit statement.

"We would wish that our other benefit programs would be as popular or as much fun as our 401(k) program," Ms. Horning said. ■

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Employee Benefits Communication Awards

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Newmont's gold (candy) bars spur interest

DENVER—Newmont Gold Co. employees received a "bar of gold" in the mail to introduce them to the savings opportunities of the company's new 401(k) plan.

The company launched its retirement savings program in May using a candy bar wrapped in foil that was the same color as the ore the company's hourly workers mine and refine.

The candy bars, which were mailed with announcements of the company's new 401(k) plan, "were a real hit," said Dawn Putaturo, benefits administrator for Denver-based Newmont.

They also paved the way for other components of the company's campaign to introduce the 401(k) savings program to 1,350 hourly, unionized employees. These components included a poster, a 15-minute color videotape and a detailed brochure accompanied by a paper wheel calculator that allowed employees to estimate how much they could save through the 401(k) savings plan.

The campaign received an Award of Excellence in the multi-media category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

Thus far, about 60% of eligible employees have signed up for the 401(k) program, which went into effect Oct. 1 for employees with at least 12 months of continuous service, Ms. Putaturo said.

That enrollment is well above the 35% minimum required by the company's agreement with the Operating Engineers Local No. 3, she noted. The plan does not have to pass typical non-discrimination tests because it was collectively bargained, she said.

One of the most significant hurdles Newmont faced in communicating the new 401(k) savings program was its audience of young, "itinerant" male workers, most of whom are unsophisticated in financial matters, according to David C. Schlakman, a communication consultant with Kwasha Lipton in Fort Lee, N.J., who worked on the project.

But their interest was captured with the help of a theme that blended familiar items—like candy bars and gold ore bars—in a historic and amusing way.

"In keeping with Newmont's gold mining business, we developed a theme for the campaign—'Thar's Gold in Them Thar Hills!'—intended to bring to mind the hills of paychecks that employees could mine for retirement savings," according to Mr. Schlakman.

The campaign materials carried the theme through the use of rich, warm colors and a typeface "with an old-fashioned feel," he said.

In addition, "the image of an old-time miner panning for gold acted as a unifying design element, appearing on each component of the campaign," he said.

The video's storyline featured two Newmont employees taking refuge in an old miner's shack after their car broke down. After calling for a tow truck, one employee, who had already signed up for the 401(k) program, answered questions about the savings plan posed by his colleague and the old miner who owned the shack.

The company took great care to craft the video so that all employees would be receptive to it.

For example, company officials asked that the video feature one employee who was Hispanic to help draw in the largest single minority group among employees.

The video also reflected the company's sensitivity to the religious convictions of some devout Mormon employees, who do not use alcohol or gamble. For example, the company changed the script to replace the miner's jug of moonshine with unlabeled soft drink bottles and to remove playing cards from his table.

In addition, the company dealt with employees' concern about the security of savings in a company-sponsored program, which stemmed in part from an unsuccessful takeover attempt of Newmont three years earlier.

The campaign emphasized that the money an employee saves, the company's 100% matching contributions of up to 2% of pay saved by employees and investment earnings are deposited in an independent trust account that neither the company nor a "Wall Street masked bandit" could touch.

In presenting the campaign, the company learned that information sessions were more effective when held during workdays at the worksite rather than during off-hours at an area hotel, though it was easier for spouses to attend the latter meetings.

—By Meg Fletcher

Halliburton's video stresses partnership

By CHRISTINE WOOLSEY

HOUSTON—Oil and gas producer Halliburton Energy Services Group wanted to be sure its profit-sharing and 401(k) plans provide adequate retirement savings to its employees, even if oil profits dry up.

At the same time, the Houston-based company wanted its employees to understand that today's workers are more responsible than their predecessors for ensuring that their retirement savings are sufficient.

A video called "Partners in Retirement" helped accomplish the task and won Halliburton a Best of Show in the audio-visual category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

"Because the information is so complex, we thought it would be foolhardy to use only brochures," said Donald L. Sheppard, president of Sheppard Associates, the Glendale, Calif.-based communications and consulting firm that worked with Halliburton on the project.

Using video can help reinforce complicated messages, Mr. Sheppard said.

The video was designed to introduce changes to Halliburton's profit-sharing plan and the introduction of a company match to a 401(k) plan.

It was shown to a total of about 20,000 employees in eight different locations during meetings for groups of about 50 workers each.

The video's narrator begins with a historical perspective of work and retirement in the United States, concluding that families used to look only to the government and their employers to help them plan for retirement.

Then the video fades to present day Halliburton employees. "We need to ask ourselves if we'll have enough money for retirement," the narrator says, noting that retirees will have to replace about 65% of their current income to maintain their pre-retirement standards of living. Sources of retirement income include pension benefits, which will generate about 40% of income; Social Security, between 15% and 50%; and personal and tax-deferred savings, 10%.

Halliburton offers employees a profit sharing and 401(k) plan, the narrator points out. And, "both plans just got better."

Now employees are guaranteed a floor benefit at retirement even if losses or lower-than-expected profits hold down or eliminate profit-sharing contributions, explained Lacy Spears, vp of human resources at Halliburton.

Overall during the last 20 or 30 years, the traditional profit-sharing plan had been "very lucrative" for employees, Mr. Spears said. "But over the last five years, with the oil business down, we were looking for some way to put more certainty in retiree benefits."

To determine the guaranteed amount, the company uses a benefit formula that takes into account final average annual pay and years of service after 1990.

For example, at a minimum, "a full guarantee after 30 years of service would equal approximately 40% of an employee's final average pay if the benefit is taken as retirement income at age 65," Mr. Spears explained.

"The floor benefit pays part of employees' retirement benefit at retirement only if his profit-sharing account is less than the amount of his guarantee," or 40% of the employee's final average pay, Mr. Spears said. "Otherwise, the retirement benefit will be paid entirely from the employee's profit-

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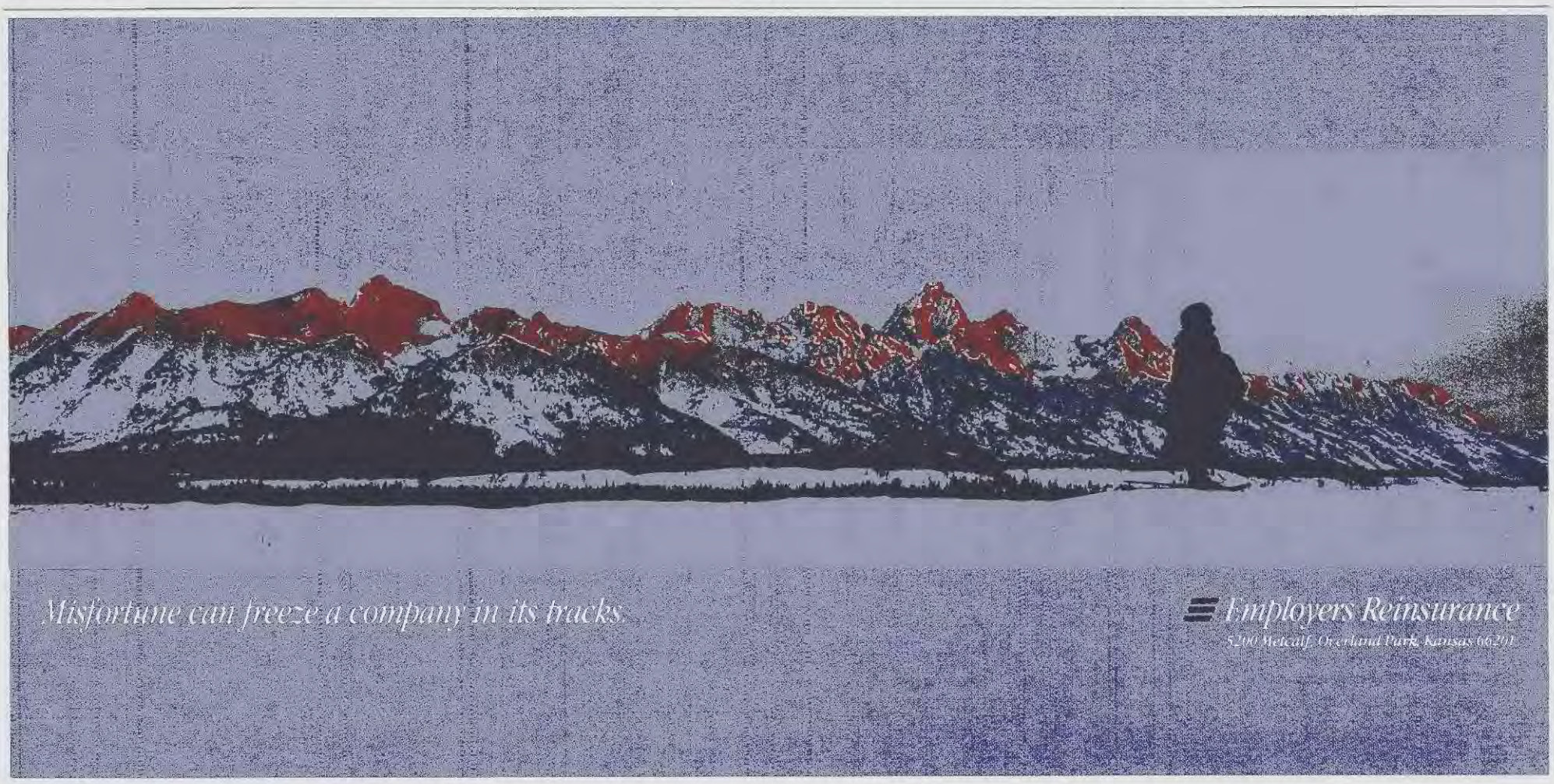

Employee Benefits Communication Awards

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Audio-visual

Continued from previous page
sharing account."

Funds used to guarantee workers a floor benefit will accumulate in one large trust fund rather than in individual accounts.

If profits are adequate, the company's profit-sharing contribution will be more than adequate to fund both the trust for guaranteed benefit as well as individual accounts under the traditional profit-sharing plan.

In years when profits are low, the cost of the floor benefit could reduce the amount of profits allocated to individual profit-sharing accounts.

The video also showed computer modeling that depicted different formulas and scenarios affecting profit sharing, which helped employees understand how the floor plan works, Mr. Spears said.

The company also used the video

'We thought it would be foolhardy to use only brochures' since the plan is complex, Mr. Sheppard says.

to tell employees that Halliburton —which previously did not contribute anything to the 401(k) plan —would now contribute 25 cents for every $1 employees contributed up to the first 4% of most employees' tax-deferred contributions or 6% if the employee is older than 50.

Employees now can choose between two investment funds and can transfer their funds on a quarterly basis.

Explaining the plan changes was a challenge for Halliburton, Mr. Spears said.

"We wanted to impress upon employees that they have a new retirement safety net—the guaranteed floor benefit—and that retirement is no longer solely dependent on profit sharing," Mr. Spears said.

In addition, "we were trying to get employees to recognize that it's to their benefit—as well as the company's benefit—to save money for retirement," he commented.

Before showing the video companywide, Halliburton "test marketed" the video in several different communities and asked for employee feedback.

"We made quite a few changes based on that feedback," Mr. Spears said. For example, he said, many employees requested more detail about the retirement plan changes.

"Pulling people off the job to view the video costs money. If you are going to spend a good deal of money communicating benefit changes to employees, you better sit down and make sure you are giving them enough information," Mr. Spears said.

Both Mr. Spears and Mr. Sheppard agree that video presentations cannot take the place of face-to-face meetings or print materials.

"Video can be used as a tool to help people understand" benefit plan changes, "but it is only a supplement—not a replacement—to face-to-face meetings and print materials," Mr. Sheppard said.

In addition, 480 managers and supervisors went through two days of intensive training so they would be able to answer any questions about the changes.

After the video was shown during group meetings companywide, local managers helped explain the retirement plan changes using overhead materials, Mr. Sheppard said.

The supervisors "did some modeling to illustrate how employees can fill in the gaps between the floor plan and the savings plan to achieve adequate replacement income when they retire," he explained.

Training managers and supervisors was an important ingredient in the communications project, according to Mr. Sheppard.

In addition, materials explaining the plan changes were mailed to employees' homes. Several different brochures described the floor plan and the company match to the 401(k) plan.

Interactive computer diskettes also helped employees perform some economic modeling to get an idea of how much money they should defer to the 401(k) plan to ensure adequate retirement savings. ■

Peat Marwick video gives employees an 'inside view'

SAN FRANCISCO—What appeals to the MTV generation?

Rock videos.

With that in mind, Big Six accounting firm KPMG Peat Marwick in Boston decided to introduce managed health care to its mostly young, college-educated urban professional employees through a video presentation that was cut like a rock video.

The video, "Benefits: An Inside View" tells viewers about the employee benefit changes taking place at the accounting and consulting firm, as well as showing how the video was made.

The effort garnered Peat Marwick an Award of Excellence in the audio-visual category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

"We were looking for entertainment value," explained Charlette Jerace, manager and executive producer in Peat Marwick's benefits and compensation practice in Boston.

"Our people are sharp, classy and sophisticated. We felt that by giving them an inside view of how a video is made—and the interaction of all parties to convey information clearly—that we would come up with a powerful piece," she said.

In the first shot, the David Essex song "Where Do We Go from Here?" plays in the background as the camera zooms in on a young female graphic artist working on a computer.

She receives a phone call from a representative of a client—Peat Marwick—who asks her questions about how the project she is working on for the client is coming along.

The project, viewers learn, involves the introduction of a preferred provider organization and a dental maintenance organization at Peat Marwick.

The client's questions—and the consultant's answers—appear throughout the video as the consultant, the video scriptwriter and the client progress on the project.

The questions and answers cover, among other things, the advantages of managed care, eligibility information, the difference between in-network and out-of-network benefits and how to enroll in the program.

Information on the company's mail-order prescription drug plan, life insurance and business/pleasure accident insurance plans also is covered.

At one point in the video, the consultant, writer and client appear on a sound stage where they are in the process of filming an actor discussing Peat Marwick's benefit plan changes. Between takes, even the actor questions the consultant about provisions in the new benefit plan.

For example, when a sound man yells "Cut!" the actor asks, "How do you pick the providers that are in the network?" The consultant then explains how providers are chosen to participate in the PPO.

"It's important to tell employees how providers are selected because they might think networks" only use low-cost hospitals, Ms. Jerace explained.

The video was mailed to employees' homes with additional print materials, including PPO directories and enrollment forms. "By using this method of distribution, we eliminated the need to call employees in from the field and away from chargeable time," Ms. Jerace said.

"We estimate this saved us in excess of $1 million, which more than offset production and mailing costs." The project cost the company $190,000, she noted.

"There is very little type in the film," Ms. Jerace pointed out. "I can do more with good talent and a well-written script than I can with bullets on slides."

—By Christine Woolsey

Real-life examples give insight into flexible plan

SAN FRANCISCO—Designing a video that emphasizes the human side of employee benefits, rather than technical or economic aspects, was a primary goal for Jardine Insurance Brokers Inc. in communicating its new flexible benefits program.

The flex plan, called Select Benefits, "was designed to underscore the importance of employee choice and decision making," said Stephanie Davis, manager of corporate communications at the San Francisco-based broker.

And, she said, the video used to communicate the plan "put the information into personal terms for the employees."

The effort garnered Jardine an Award of Excellence in the audio-visual presentation category of the 1991 *Business Insurance* Employee Benefits Communication Awards competition.

The video was shown to Jardine's 1,200 employees, including sales, professional and management and clerical staff, at small group meetings earlier this year.

Employees in late 1990 received payroll stuffers announcing a change in their health care plan. In addition, a day or so before the video presentation, the company distributed 24-page brochures detailing the new flexible benefits program to employees.

By using real-life examples, the video highlighted benefit choices open to employees.

For example, a young, single man described why he had enrolled in a health maintenance organization rather than in the indemnity plan: The HMO is less expensive and emphasizes preventive services.

And, a divorced mother of two explained why she chose coverage under the indemnity plan. "I like knowing I can take my children anywhere when they are ill," she said.

"We wanted to engage the audience's attention by showing a range of real employees and coworkers who do similar work and have similar family, financial and personal concerns," Ms. Davis explained.

The video discussed Jardine's medical, dental, vision, flexible spending account, life and accidental death and dismemberment and 401(k) benefits.

Using other employees to explain the plan was helpful, Ms. Davis said. "It wasn't just senior management preaching down to the troops."

However, senior management's commitment to the new plan was communicated during local meetings, she noted.

Underscoring the value of employee benefits was another key objective of the video, Ms. Davis pointed out. "Not taking full advantage of your benefits is like not picking up your paycheck," explained a young female narrator in the video.

However, "we didn't bog the video down with technical information," said Diane E. Fraser, a principal at The Communication Center, the Orinda, Calif.-based corporate communications consultant who worked on the project with Jardine.

Coverage information, including deductibles and co-payments, was included in the brochure employees had already received.

The bulk of the brochure contained general information, Ms. Fraser noted. However, inserts contained customized information for particular employees and locations, "so the brochure could be used for more than one plan year," she explained.

The video, brochures and inserts were put together in two months, Ms. Davis said.

After training personnel representatives to conduct the presenta-

tion, the program was rolled out over one month at a total cost of about $38,000, she said.

—By Christine Woolsey

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Employee Benefits Communication Awards

Firms give workers benefit options

Winning benefits communication programs stress employee choice

By CHRISTINE WOOLSEY

NEW YORK—The employers honored in the 19th annual *Business Insurance* Employee Benefits Communication Awards competition emphasized employee choice as a major theme in their communications efforts, the organizers and judges of the competition say.

Health care consumerism also was a dominant theme in the communications projects.

Communications programs describing flexible benefit plans naturally used employee choice as a theme, but the concept "really stood out in all of the programs," said Ronnie Drachman, director of communications for *Business Insurance* in New York.

"There is more diversity in the workforce, so employee choice becomes an ever-increasing issue," explained Richard Bevins, manager of personnel and compensation at Houston-based Shell Oil Co. and one of the judges of this year's EBC competition. Shell won second place in the multi-media category last year (*BI* Aug. 6, 1990).

Mr. Bevins also pointed out that health care consumerism was a fairly dominant theme this year. "The importance of sound consumerism when purchasing health care is a reflection of national concerns about health care costs."

Mr. Bevins

Employers "clearly addressed health care consumerism—whether they were talking about an indemnity plan or a flexible benefits plan," Ms. Drachman agreed.

"Almost every program addressed—briefly or in great detail—the rising costs of health care and employee benefits. Companies are trying to make their employees much more aware than they were before of how health care and their use of health care affects the cost of benefits," she said.

"It was clear that the health care issue and the issue of employees taking more responsibility in how they receive health care services and who they receive those services from" was important to employers, pointed out Cynthia Morton, another EBC judge and director of marketing at ERISCO Inc., a New York-based unit of Dun & Bradstreet Corp.

"The overall implication was employees have to take more responsibility for their choices. Even in retirement programs and 401(k) programs, there seemed to be more of an effort to get employees to understand" that they are responsible in part for creating adequate retirement income, she said.

Employers used both print and videos to relay these messages, noted Ms. Drachman. And, she said, the recession has not deterred companies from producing benefits communications.

"It's obvious that communication is still of tremendous value to companies out there," she said. "Even employers faced with hard times are putting a lot of time and money into effective communications."

It's important to spend money on employee communications because it can make workers feel appreciated, said Steve Goldthwaite, one of this year's judges and a designer with Temel Inc., a graphic design firm in Boonton, N.J.

"Very often a company will produce nice, flashy brochures for its clients. But it makes employees feel more valuable when they receive readable, thoughtful communications about their benefits, because employee benefits are an important part of their overall compensation," he said.

However, Mr. Goldthwaite cautioned that "employers should not spend so much money on their benefit communications that their employees say, 'This is overkill. I would have rather had an extra $100 in my paycheck.' It's a matter of degree."

Ms. Drachman said she and Barbara Dalton, *BI*'s special projects coordinator, were "totally overwhelmed" by the 227 U.S. and Canadian programs entered in the contest this year, up from 182 U.S., Canadian and Australian entries last year.

The 227 programs represented benefit communications programs at 176 different corporations.

"Very high-caliber companies participated in the competition, which indicates to me that employers see the contest as something valuable," ERISCO's Ms. Morton said.

Mr. Herbert

Ms. Moore

Mr. Goldthwaite

Mr. Alcala

"The entries ranged from very expensive to very efficient but not very costly programs," she said.

The companies submitted entries in eight categories: personalized correspondence, audio-visual presentations, multi-media programs, special projects, total benefits programs, single-subject booklets, series or multiple subject booklets, and benefits newsletters.

The greatest number of entries—49—fell in the total benefits programs category, Ms. Dalton noted. The programs could be presented using any medium and typically communicated a company's full range of benefits, she said.

The next largest category—with 38 entries—was the single-subject booklets category. And, personalized correspondence—which included benefit statements or booklets with personalized information like wage data—was the third-largest category with 34 entries.

Thirty-nine entries were prepared in-house, while outside consultants assisted with the other 188.

Among the 188 consultant-aided entries, 105 were submitted by the consultants on behalf of their clients. Thirty-four individual U.S. and Canadian consulting firms were represented in this year's competition.

Hewitt Associates was the leader with six awards, Ms. Dalton said. Next, with two awards each, were The Wyatt Co. and William M. Mercer Inc.. Kwasha Lipton won an award, as did TPF&C, the benefit consulting division of Towers, Perrin, Forster & Crosby Inc.; Howard Johnson & Co.; Sheppard Associates; and The Communications Center.

Eleven experts in employee benefits, communications, marketing, design and production judged the entries. Entries were scored from zero to 20 on how well they fulfilled each of five basic criteria: the program's objectives, strategy, content, presentation and effectiveness.

"The judges are not judging the companies' benefits programs; they are judging the overall effectiveness of the communications effort," explained Ms. Dalton. "Clearly communicated objectives are as important a component to the judging as the programs themselves."

The judges for 1991 EBC competition were:

- Christy Moore, manager of compensation and benefits for Acuson Corp., a medical diagnosis equipment manufacturer in Mountain View, Calif.
- Penelope Geismar, corporate communications manager in Detroit for Crain Communications Inc., which publishes *Business Insurance*.
- Ms. Morton of ERISCO.
- Judy Nelson, manager of marketing and support services for GAB Business Services Inc. in Parsippany, N.J.
- Jim Herbert, director of benefits at GATX Corp. in Chicago.
- Bill Bisson, publisher of Pensions & Investments magazine in New York.
- Seymour Shelist, vp at Premier Graphics in Chicago.
- Elizabeth Greenberg, associate advertising manager of Reliance National Insurance Co. in New York.
- Mr. Bevins of Shell Oil Co.
- Mr. Goldthwaite and Carlos Alcala, designers with Temel Inc.

The EBC winners will be honored at a luncheon today at the Waldorf Astoria Hotel in New York. ■

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Maine pullout

Continued from page 2
"reallocate" insurers' residual market losses beginning next year. Details of the proposal have not been released.

Other options being considered include delaying approval of the withdrawal requests and seeking state funds to set up an already-authorized competitive state fund, which would be a new coverage option.

Employers have told Gov. John R. McKernan Jr. that the withdrawal of so many insurers would be "devastating" and "a calamity," the governor's press secretary reported.

A Maine employer without workers compensation insurance and unable to self-insure "would have no choice but to cease its operations," said Joel Russ, vp and general counsel of the Maine Chamber of Commerce & Industry in Augusta.

Maine is not an isolated case.

Workers comp insurers have withdrawn from several states—including Rhode Island, Texas and Louisiana—citing low rates and rising costs, especially due to residual market assessments that insurers must pay if they write workers comp coverage on a voluntary basis in a state.

Last week, for example, Liberty Mutual Insurance Co. said it would stop writing the coverage in Rhode Island (see related story).

Most Maine workers comp insurers announced they would withdraw from the state in 1987, but legislative reforms—including the employer residual market surcharge and the abolition of a cap on premium increases—encouraged some insurers to return (*BI*, Nov. 30, 1987).

Maine's most recent dilemma surfaced when a group of large workers comp insurers filed the 60-day required notice asking the state Insurance Bureau to amend their licenses to eliminate authority to write workers comp in Maine, mostly by yearend. Some of the insurers filed their notices late last month, while others had filed the notices earlier.

The insurers write about 89% of the state's $300 million in workers comp premium volume, including coverage written in the residual market, said Richard Johnson, an actuary with the Maine Bureau of Insurance who was appointed acting superintendent of the bureau last week.

Mr. Johnson said the insurers that act as residual market servicing carriers that have filed withdrawal notices are: American Fidelity Co. of Montpelier, Vt.; Commercial Union Insurance Co. of Boston; Hanover Insurance Cos. of Worcester, Mass.; Hartford Group Inc. of Hartford, Conn.; Maine Bonding & Casualty Co. of Portland, a Maryland Casualty Co. unit; Travelers Corp. of Hartford, Conn.; and United States Fidelity & Guaranty Co. of Baltimore.

In addition, insurers that do not act as servicing carriers that are seeking to withdraw are: Canal Insurance Co. of Greenville, S.C.; Peerless Insurance Co. of Keene, N.H.; and Royal Insurance Co. of America of Charlotte, N.C.

Many insurers said their current withdrawal plans were not prompted by a recent antitrust suit by employers that charged that workers comp insurers conspired in 1987 to force the repeal of the cap on rate hikes (*BI*, Sept. 23).

Instead, most insurers said they decided to withdraw because of Maine's long history of inadequate rates and ineffective reforms, despite some recent good faith efforts.

"If there is poison in the water of a pond and all the fish die, they didn't collude—they just died," said Glenn Tippy, vp-underwriting for Continental Insurance Co. in New York, which is still writing a "tiny" portion of voluntary market coverage in Maine.

Some insurers said they filed their notices of withdrawal primarily as a defensive measure.

"We don't want to get left holding the bag for residual market losses," said Rick Cote, Hanover's vp-underwriting. "It's our hope that something can be worked out so that we don't have to implement our withdrawal plan."

While the governor and state insurance officials have been meeting with insurers about the deficit allocation proposal, other steps are also being examined, Mr. Johnson said.

For example, the state could attempt to postpone insurers' implementation of their withdrawal plans, though a 1987 court ruling supported Liberty Mutual Insurance Co.'s decision to withdraw from the Maine workers comp market.

Other observers are discussing the possibility that the Legislature, which is expected to meet in special session on other matters before the end of the year, could appropriate money to establish a competitive state fund authorized by the Legislature earlier this year, said Joseph A. DiGiovanni Jr., vp of the New England region for the American Insurance Assn.

However, the state's fiscal crisis may make that an unlikely option, insurers said.

Mr. Johnson noted that three major insurers have not announced their intent to withdraw from the workers comp market, though their combined writings total only about 11% of the state premium total.

Two of the insurers—CIGNA Corp. in Philadelphia and Continental Insurance Co. in New York—have filed notice with the NCCI that they wish to withdraw as a servicing carrier for the assigned risk plan.

Aetna Life & Casualty Co. of Hartford, Conn., also writes workers comp coverage in Maine, though it plans to limit its voluntary writings to policyholders paying more than $750,000 in annual workers comp premium nationally. In addition, Aetna is reviewing its status as a servicing carrier, a spokesman said.

The NCCI, which manages the state's residual market plan, is taking the steps outlined by state rules to replace servicing carriers that have announced they will withdraw. Since no insurers have volunteered thus far, the NCCI is soliciting proposals from vendors like third-party administrators to serve as servicing carriers, though they would have to affiliate with an insurer, said Bill Vieweg, an NCCI assistant vp.

Meanwhile, with the turmoil in the commercial workers comp market, there has been a "tremendous increase" in self-insurance, said John Melrose, executive director of the Maine Council of Self-Insurers in Hallowell.

The number of group self-insurance programs increased to eight from two over the past several months, he said. Those programs now represent dozens of employers, including auto dealers, municipalities, school districts, truckers, oil dealers, McDonald's Corp. franchises, hospitals, nursing homes and merchants.

In addition, two more groups are expected to be established by yearend, and six more groups may become operational next year, Mr. Melrose said. ■

Liberty Mutual to leave R.I. comp market

BOSTON—The nation's largest workers compensation insurer plans to withdraw from the Rhode Island workers comp market.

Boston-based Liberty Mutual Insurance Co. plans to stop writing workers comp coverage in Rhode Island effective Dec. 31. It will cancel all Rhode Island workers comp policies as of that date.

Liberty Mutual wrote 28.2% of all workers comp premiums in Rhode Island in 1990, according to A.M. Best Co.

The insurer is leaving the Rhode Island workers comp market, where most policies are written in the residual market, because of the state's "continued failure to deal with the widening gap between workers compensation claim costs and state-approved rates, and the lack of any meaningful relief apparent in the near future," according to a statement by Gary L. Countryman, the company's chairman, president and chief executive officer.

Liberty Mutual cited similar problems four years ago when it withdrew from Maine, the only other state in which it has terminated its license to write workers comp insurance (*BI*, Sept. 28, 1987).

Since 1987, Liberty Mutual has written more than $74 million in voluntary workers comp premiums in Rhode Island.

Its losses from the voluntary market, combined with residual market assessments of nearly $94 million over those four years, have generated a total loss of more than $106 million after investment income, the company said.

"Rhode Island is the most severe example of problems facing workers compensation insurers across the country today," Mr. Countryman said. "The failure of state government to keep workers compensation rates in line with escalating claim costs has made workers compensation insurance unprofitable in far too many states—so many that workers compensation is unprofitable on a national basis."

Liberty Mutual's decision to withdraw stemmed from the accumulation of problems over time and not the governor's recent refusal to allow a rate increase, said Thomas J. Driscoll, its legislative counsel.

The governor last month blocked implementation of a 55% rate hike for the residual market and 45% rate hike for the voluntary market that a hearing officer had previously recommended.

"Across the country, calls by Liberty Mutual and others committed to strengthening the workers compensation system through meaningful reform and rate adequacy have resulted in improvements in a few states," Mr. Countryman said. "But more often than not, our call has largely been disregarded. Ultimately, an insurer must choose between its workers compensation customers in hopelessly unprofitable states and the need to protect its financial health for the benefit of all of its remaining customers."

Spokesmen for the governor's office have contacted Liberty Mutual about the company's withdrawal, Mr. Driscoll said. While Liberty Mutual executives are willing to talk with state officials, that is not an indication the insurer will change its mind, he said.

Liberty Mutual says it plans to continue writing other lines of insurance in Rhode Island.

Aetna Life & Casualty Co. of Hartford, Conn., does not expect to be significantly affected by its competitor's withdrawal, a spokesman said. Aetna began reducing its share of the voluntary workers comp market in Rhode Island in September 1990 and now writes less than 3% of the voluntary market, he said.

Spokesmen for the Rhode Island Department of Business Regulation, which regulates insurance, did not return telephone calls.

—By Meg Fletcher

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Punitive awards

Continued from page 1
the award in light of *Haslip*.

But, the Georgia court last month ruled 3-0 to affirm the original decision and to uphold Georgia's system of awarding punitive damages, even though Georgia judges are not required to weigh any specific factors when reviewing punitive awards.

"Because deterrence is based on factors other than the actual harm caused, we reject the notion that punitive damages must necessarily bear some relationship to the actual damages awarded by the jury," said Justice Willis B. Hunt Jr.

The Georgia court found that the $1.3 million punitive damage award was reasonable because it could deter future wrongdoing.

The plaintiff was severely burned and taken by ambulance to a Gwinnett County hospital, even though the hospital did not have adequate facilities to treat him. He was then flown by helicopter to a facility with a burn unit that is not part of the Gwinnett County hospital system.

The helicopter crashed en route to the hospital, causing minor injuries to the burn victim. Several days later, he died of his burns.

The plaintiff's estate sued the hospital authority, alleging that it admitted patients to local hospitals to generate revenues even when better care was available elsewhere.

The estate was awarded $5,001 in nominal compensatory damages and $1.3 million in punitive damages.

In seeking U.S. Supreme Court review, the authority argued that the punitive award was so much higher than the actual damage that it violated its right to due process.

The U.S. Supreme Court vacated the punitive award on March 18 and remanded the case.

In affirming the award on Oct. 18, the Georgia court held: "The actual harm to the decedent (in the helicopter crash) was slight, but the potential harm to patients in other circumstances supports the (award) here. The purpose of punitive damages, after all, is to deter such conduct."

The court also said: "Surely the process is not rendered unconstitutional by permitting the deterrence of potentially dangerous conduct at a point in time when the injury is slight and when only nominal damages may be involved. Society's interest would seem better served by deterring objectionable conduct at the first opportunity so that potentially greater injury might be avoided."

In the Haslip case, the U.S. Supreme Court approved of the procedures used in Alabama that require trial and appellate judges to carefully review punitive damage awards using specific criteria.

Alabama judges are instructed to look at how much the defendant profited from the wrongful conduct and the defendant's profitability in determining whether an award is appropriate.

Neither of these guidelines had been established when the Georgia case went to trial. However, in 1987, the Georgia Legislature amended state law to allow the introduction of the defendant's wealth when setting punitive damages.

But, Judge Hunt questioned: "Of what benefit. . .is scrutiny of those elements by the reviewing courts? Any review of them in an effort to ensure that punitive awards are not grossly out of proportion to the conduct and the ensuing damages would be entirely a matter of conjecture or, at least, a matter of opinion based on extraneous factors.

"Punitive damages do not survive court scrutiny because they can be accurately measured and adjusted by court-imposed guidelines," the court concluded. "They survive. . .because of their historical acceptance."

Thus, the court affirmed the award and Georgia's procedures for awarding and reviewing punitive damages even though they are less structured than Alabama's procedures.

Defense attorneys would not comment. The burn victim's attorney would not return phone calls.

Georgia Trial Lawyers Assn. President William S. Stone praised the Georgia Supreme Court ruling.

"The time to stop bad conduct is before someone is maimed or killed," said Mr. Stone, a Blakely, Ga., attorney. "The fact that the defendant was lucky enough not to cause serious injury should not be a factor in the award of punitive damages."

Mr. Stone predicted that the punitive damage award in this case would cause the hospital authority to rethink its policy of bypassing care at nearby hospitals.

"And, the only way punitive damages will remain a deterrent is if there's no limit on juries," he said.

Martin Connor, president of the American Tort Reform Assn. in Washington, D.C., said it was "a curious opinion," because the Georgia Supreme Court interpreted *Haslip* as requiring nothing.

He suggested that the Supreme Court might accept certiorari in this case. "A human reaction on the part of the court would be to accept certiorari because of the cavalier way in which *Haslip* was treated."

●

Hospital Authority of Gwinnett County vs. Jones, Georgia Supreme Court; No. 46956.

INTERNATIONAL

Japan explores risk management

Risk managers still rarity for most Japanese firms

By KATE McILWAINE

TOYAMA, Japan—Risk management is a new term for Japanese corporations, and very few companies in Japan have professional risk managers.

However academicians and risk managers in Japan say this will soon change. Changes in the Japanese business environment, including financial deregulation and increasing overseas trade, are spearheading the development of risk management.

The status of risk management in Japan was a primary topic at Japan's first International Symposium on Risk Management, held Nov. 4-8 in Toyama.

Professor Isao Takei, a member of the economics faculty at Toyama University and credited as the first person to teach risk management as an academic discipline in Japan, organized the conference.

Even though risk management was first taught in Japan 17 years ago, there are still relatively few risk managers at Japanese corporations, Mr. Takei noted.

Tadashi Maruyama, risk management counselor for Koa Oil Co. Ltd. in Tokyo and president of the Tokyo-based Risk Management Center Co. Ltd., which offers risk management courses, was one of the first corporate risk managers appointed in Japan.

INTERNATIONAL SYMPOSIUM ON RISK MANAGEMENT

Further coverage of the International Symposium on Risk Management in Toyama, Japan, will continue in next week's issue.

Junji Yoshida, general affairs secretary-risk management group for the Tokyo-based oil company Idemitsu Kosan Co. Ltd., heads a team of three professional risk managers, but Mr. Takei noted that such an arrangement is still unusual for a Japanese company.

"There aren't very many full-time corporate risk managers yet," Mr. Takei noted. "There may be as many as 20 if you really looked into the market, but I only know of several."

Japanese companies in the past viewed their risk exposures as limited, he explained. Catastrophes were well-covered by insurance in Japan's highly regulated, tariff-based market. In addition, Japan was not a litigious society.

"Natural hazards have been covered by natural disaster relief boards, and the government has been doing a great job in keeping financial stability (of companies) through disaster relief," Mr. Takei said.

Since most risks were insurable at standardized rates, risk consciousness was not a necessity, he continued. Japan had been isolated from other countries and concepts developed overseas, like risk management, have not spread easily to Japan, he said.

"But risk management has suddenly become a key word for businesses and lots of attention is now being paid to it," he said.

Mr. Takei explained that Japan has restructured its social, business, education, financial and eco-

Continued on next page

Many organizations in Japan promote risk management

TOYAMA, Japan—While several organizations represent risk management interests in Japan, there is no single organization that represents the growing number of Japanese risk managers on a wide-scale basis.

INTERNATIONAL SYMPOSIUM ON RISK MANAGEMENT

The International Risk Management Society of Japan is an affiliated member of International Federation of Risk & Insurance Management Assns., noted Professor Isao Takei, a risk management professor at Toyama University.

However, it will take one to three years before a more formal association is established that could be considered a Japanese equivalent of the Risk & Insurance Management Society Inc. in the United States or the Assn. of Risk & Insurance Managers of Australia, he said.

Dr. Kailin Tuan of Temple University in Philadelphia, in a 1989 paper on the development of risk management in Asian nations, noted that there are nine organizations, including the Japanese Society of Risk Management, that represent risk management interests in Japan.

Shinjiro M. Go, general manager-risk management department for The Fuji Fire & Marine Insurance Co. Ltd. in Osaka, said at Japan's first International Symposium on Risk Management that he knows of seven industry groups representing risk managers and risk management academics: the Japan Non-Life Insurance Assn.; the Building Maintenance Assn. of Japan; the Japanese Industrial

Continued on next page

Judge tells broker to pay $2.1 million to underwriters

By GAVIN SOUTER

LONDON-A Lloyd's of London broker has been ordered to pay 24 Lloyd's underwriters a total of $2.1 million for failing to inform them of the full details of a policy that was placed under a binding authority.

The decision confirms that a broker owes a duty of care to an underwriter if it undertakes to examine a risk on the underwriter's behalf, an attorney says.

The London High Court ruling by Justice Waller comes eight years after the policy was written and four years after a claim on the policy was settled by the underwriters for $3 million.

The original policy was issued in April 1983 by Atlas Underwriters Ltd. of Richmond, Va., to Landbank Equity Corp. of Virginia Beach, Va.

Atlas was authorized under binding authorities "going back some 20 years" to issue coverage on behalf of Lloyd's underwriters and Excess Insurance Co. (U.K.) Ltd. of London, a unit of Hartford Group Inc., according to court papers.

The policy guaranteed more than $150 million in mortgage-backed securities sold by Landbank to numerous financial institutions (*BI*, Aug. 10, 1987).

However, Lloyd's syndicates are forbidden from writing financial guarantee insurance under the Committee of Lloyd's Agreement 25, issued in November 1965, and Excess has a company policy of not writing such coverage, court papers said.

Atlas forwarded the premium to Lloyd's broker Gibbs Hartley Cooper Ltd., but neither GHC nor the underwriters were informed of the nature of the policy, said Justice Waller. He noted that since 1974 the underwriters had trusted Atlas to issue policies without first sending them to London for approval.

However, in October 1983, both the lead syndicate on the risk—syndicate 400, now managed by Cuthbert Heath Underwriting Ltd. —and Excess heard from third parties that the policy might cover financial guarantee risks, the judge said.

Atlas was then asked by the underwriters to cancel the policy from its inception date.

Atlas responded by saying that the policy carried endorsements that made financial guarantee claims contingent to a physical loss; that the earliest date the policy could be canceled was Oct. 31, 1983; and that there was no real risk of claims under the policy, the judge noted.

However, Atlas did not cancel the policy.

In November 1983, representatives from GHC visited Atlas in the United States and it became clear to them that the policy did cover financial guarantees, despite the endorsements, the judge said.

Continued on next page

European reinsurers expect profits to rebound in 1991

By DON LEWIS KIRK

A trio of some of Europe's largest reinsurance companies are reporting that profits were depressed in 1990, but they predict slight improvement in 1991.

Schweizer Rueck-Konzern—or Swiss Re Group—says group net profits were down 14.2% in 1990 to 216 million Swiss francs ($169.6 million at year-end 1990 exchange rates) from 251.6 million Swiss francs ($163.3 million at year-end 1989 exchange rate) the previous year.

Muenchener Rueck-Konzern—Munich Re Group—saw group net profits fall 40.6% to 104.9 million deutsche marks ($57.9 million at June 30, 1991, exchange rates) for the 12 months ending June 30 from 176.6 million deutsche marks ($106.3 million at June 30, 1990, exchange rates) in fiscal 1989/90.

And Koelnische Rueck-Konzern —Cologne Re Group—reports a 51.5% decline in profits to 26.4 million deutsche marks ($14.6 million) for the year-ending June 30, compared with 54.4 million deutsche marks ($32.8 million) in fiscal 1989/1990.

Executives from all three reinsurers blamed record winter storm losses in 1990 for the decreased profits.

Swiss Re's underwriting losses from the storms amounted to 620 million Swiss francs ($486.7 million), according to Arnold Saxor, chief executive of the Zurich-based reinsurer.

Munich Re Chief Executive Horst Jannot said total losses from the 1990 winter storms amounted to 1.2 billion deutsche marks ($662.4 million) for the Munich-based reinsurer.

It was the second-worst loss in Munich Re's history, he said. Only the San Francisco earthquake of 1906 and subsequent fires proved to be more costly to the 101-year-old company.

Cologne, Germany-based Cologne Re's 1990 results also were greatly affected by storm losses, according to Chief Executive Jurgen Zech.

But all executives were optimistic that 1991 results would show improvement.

Swiss Re Group's Mr. Saxor noted that while group profits were lower, gross premiums for the group in 1990 were up 1.2% to 14.88 billion Swiss francs ($11.68 billion) from 14.7 billion Swiss francs ($9.54 billion) in 1989.

And Swiss Re Group expects a "considerable" increase in premiums in 1991, Mr. Saxor said. The group plans to restructure to shed any money-losing ventures and refocus its energies on reinsurance, direct insurance and financial services, he said.

For reinsurance alone, Swiss Re Group's net profits dropped to 141 million Swiss francs ($110.7 million) last year from 176 million Swiss francs ($114.2 million) in 1989.

Gross premiums for reinsurance increased only 1% to 4.78 billion Swiss francs ($3.75 billion), compared with 4.73 billion Swiss francs ($3.07 billion) in 1989.

According to Mr. Saxor, reinsurance in Europe is now more prone to competitive underwriting cycles, taking on the character of the U.S. property/casualty insurance marketplace.

As a result, Swiss Re intends to follow a strategy of very selective underwriting, he said.

Direct insurance comprised only about half of the group's overall premiums last year and only 36% of profits.

Among Swiss Re Group's better performing direct subsidiaries were two German insurers.

Swiss Re General Director Werner Seifert reported that Magdeburger Versicherungs Group in Hannover and the Vereinte Versicherungen in Munich gained 200,000 new policies in 1990, largely due to a larger market following the reunification of Germany.

Magdeburger increased gross premiums in 1990 by 2.8% to 1.09 billion deutsche marks ($729.3 million at year-end 1990 exchange rate), while Vereinte increased premiums 8.7% to 4.37 billion deutsche marks ($2.92 billion), Mr. Seifert said.

Munich Re Group reports that despite "extreme" losses from the European storms last year, the group posted "satisfactory" premium growth in fiscal 1990/91.

Group premium volume was up 3.3% to 14.28 billion deutsche marks ($7.88 billion) in fiscal 1990 from 13.82 billion deutsche marks ($8.32 billion) in fiscal 1989.

And Muenchen Rueckversicherungs A.G., the group's lead reinsurer, posted a 4% increase in premium volume to 13.16 billion deutsche marks ($7.26 billion) in fiscal 1990, compared with 12.65 billion deutsche marks in ($7.62 billion) the previous year.

Munich Re A.G. finished the year relatively unscathed after tapping contingency reserves, Mr. Jannot said.

The group's "equalization fund" stands at 1 billion deutsche marks ($552 million), after 171.7 million deutsche marks ($94.8 million)

Continued on next page

GLOBAL BRIEFS

INTERNATIONAL

Japan

Continued from previous page
nomic sectors over the past several years. This "has caused unprecedented changes and dynamic risks have become, suddenly, more important for CEOs and CFOs. There has been a management awakening."

The increased awareness of risk also has been spurred by environmental liabilities, mergers and acquisitions, and litigation overseas, he added.

Mr. Takei predicted a burgeoning of risk managers and a proliferation of risk management departments in major corporations will occur.

Hitachi Corp., for example, established a risk management department in October, and Japan Airlines Co. Ltd. started a risk management department on April 1, he said.

Toshiro Kojima, manager-risk management office for Tokyo-based Hitachi Ltd., noted that its Hitachi Corp. subsidiary is a diversified manufacturing company with 300,000 employees and 800 subsidiary companies, of which 150 have overseas operations. The company motto is "contribute through technology."

"As technology increases, so do the risks," Mr. Kojima said.

Hitachi had previously taken a piecemeal approach to risk management with different departments—including accounting, industrial relations, international, general affairs and the president's secretariat—having responsibility for their own risk management programs.

"Risk management has functioned in the past, but on its own, and it was not called risk management. One month ago, we set up an integrated department," he said.

At Tokyo-based Nissan Chemical Industries Ltd., Nobuo Yamanaka, associate director-technical division, is responsible for risk management, though the company does not yet have a designated risk manager.

Mr. Yamanaka said Japanese chemical companies formerly had taken an engineering approach to loss prevention, but are now recognizing that was an inadequate approach.

"There is corporate-level recognition of the increasing need to create departments for risk management. In the near future, a risk management committee (at Nissan Chemical) will be formed, and engineering will be just one part of it," he said.

Nissan Chemical had always considered buying liability insurance as the most appropriate method of dealing with its liability exposure and has made some sizeable compensation payouts, he noted.

Mr. Yamanaka said he was attending the Toyama conference to learn more about how risk management functioned internationally.

'As technology increases, so do the risks,' says Toshiro Kojima, the risk manager for Hitachi.

Idemitsu's Mr. Yoshida said his company's increasing overseas operations had opened its eyes to the need for risk management.

Mr. Yoshida, whose department was established in 1985, attended a risk management course 17 years ago and subsequently tried to persuade the company to set up a risk management department.

"As an oil company, we have gigantic risk exposures," he noted, explaining that a large earthquake is Idemitsu's largest risk and that the company was fully insured for that risk.

Loss control measures also have been implemented, he said. For example, all company buildings constructed since 1923—when a major quake hit Tokyo and Yokohama, killing 300,000 people—are earthquake-resistant.

Pollution is another major risk for Idemitsu.

"In the future we may export to the United States and will therefore have major liability exposures," Mr. Yoshida noted.

The political risks faced in many countries where Idemitsu is already operating overseas, including Latin America and some Southeast Asian countries, are another key issue for the risk management department.

Export trade insurance is provided by a government-run program through the Ministry of International Trade and Industry, Mr. Yoshida said, but corporations still must consider terrorism, kidnap and ransom and war risks on their own.

Meanwhile, Mr. Takei said the Japanese insurance market is being deregulated, along with other aspects of the country's finance sector, and it was "foreseeable that there will be major changes in three to five years" which would "to some extent" speed the growth of risk managers among corporations.

Keidanren, the 6,000-member Japanese federation of employer organizations and a major sponsor of the Toyama conference, is "the most influential business group and they know the need and significance of risk management—otherwise they would not have sponsored this conference," Mr. Takei said.

Masahiro Hori, an analyst in the domestic affairs department of the Tokyo-based Keizai Koho Center, the public relations arm of Keidanren, said the employer group is helping its members adjust to the changes in the Japanese business environment.

Risk management is a powerful tool to help companies cope with restructuring of the business environment and must be built into corporate structures, he said.

Mr. Takei noted that because insurance in Japan has been "well under control with good services and corporations have been happy with the services," risk management and insurance sectors in Japan are not "confronting each other."

Risk management problems instead have come from dynamic changes as a result of restructuring, globalization and lower interest rates, which make financial dealings more competitive, Mr. Takei said. "The way business is done has changed dramatically." ■

Risk management groups

Continued from previous page
Advancement Society; the Building Owners & Managers' Assn.; the Risk Management Assn. of Japan; the Institute of Risk Management Research; and the Japan Risk Management Center Co. Ltd.

Mr. Takei pointed out that the Japanese Society of Risk Management and the Institute of Risk Management Research were both academic organizations.

"Industrywise, the Japan Non-Life Insurance Assn. has been involved in some risk management training, as has the Non-Life Insurance Agency Assn," he said

And, the Building Owners & Managers' Assn. has offered risk management courses that were recognized by the government in July, Mr. Takei said.

Kevin W. Knight, president of IFRIMA and risk management adviser for the Queensland office of Australia Post, said at the conference it was disappointing that so many organizations represented risk managers in Japan with so little cooperation between them.

"Here in Japan we have a variety of groups all dealing with risk management or management of risk in a variety of ways. How much greater strength and success they would achieve if they united to address their common goals," he said.

"I am amazed at the lack of unity and cohesion of purpose that has resulted from the fragmented groups that make up the risk management community. One can but wonder at what Japan's contribution to risk management would have been, but for this disunity."

Mr. Knight noted that other nations had initially faced similar problems.

—By Kate McIlwaine

Duty of care ruling

Continued from previous page
However, on their return to London, the broker representatives did not fully inform the lead Lloyd's underwriter of everything they had discovered, Justice Waller said.

"(The underwriter) gained the impression that GHC's investigations in the U.S. had revealed that a false allegation had been made," the judge said. The underwriter "would be under the impression that a policy had been issued which probably should not have been, but which was also in fact strictly within the binder; that it had been canceled from Oct. 31, 1983; and that there was nothing of any real concern," he said.

However, two years later, Landbank went bankrupt and the underwriters faced a large claim on the policy.

"Matters came forcibly to the attention of GHC, Excess and Lloyd's underwriters at the end of 1985, by which time Landbank was bankrupt and loans totaling many millions of dollars were outstanding," Justice Waller said.

The insurers refused to accept liability under the policy, arguing that Atlas lacked authority to write financial guarantee coverage, the judge said.

In August 1986, the insurers were sued by 31 financial institutions in the United States seeking compensation for their losses due to the collapse of Landbank.

The action was settled in 1987 for $3 million, with the Lloyd's underwriters paying $1.275 million and Excess paying $1.725 million.

The Lloyd's underwriters then sued GHC in London's High Court claiming that the broker and its agents were "in breach of contract, negligent and in breach of care," relating to the binding authority.

GHC owed a duty of care to the Lloyd's underwriters to report all of the information, Justice Waller ruled.

Excess joined the Lloyd's underwriters in the litigation against GHC, even though, according to Justice Waller, its underwriter had seen the policy and a telex from Atlas to GHC that gave details of the coverage.

The judge ruled that GHC had undertaken to look into the details of the coverage on behalf of the Lloyd's underwriters and that the underwriters were reliant on the broker's report for their information, not on their contract with Atlas.

Consequently, GHC owed a duty of care to the Lloyd's underwriters to report all of the information it had discovered, Justice Waller ruled.

However, since Excess had seen documentation of the risk, it was not reliant on GHC for information, he ruled.

The judge ordered GHC to pay $2.1 million in damages to the Lloyd's underwriters to compensate them for the claims they had to pay on the policy and a portion of their legal costs.

The importance of the case is that it reinforces rulings previously made in non-insurance related cases that an agent assumes a duty of care when he undertakes to investigate the details of a contract on behalf of a party to whom he is not bound by contract, said the plaintiffs' lawyer, Clive Boxer, a senior partner at Fishburn Boxer in London.

"Normally, a broker is the agent of the assured and negotiates the best terms he can get for him with the underwriter. Here was a case where the broker is held liable in damages to underwriters because he had assumed a duty of care," Mr. Boxer said.

Consequently, if an underwriter in the future asks a broker to investigate a policy and he refuses to do so, "the underwriter will read between the lines" and treat the policy with suspicion, he said. ■

GLOBAL BRIEFS

Continued from previous page
were withdrawn to cover storm losses.

The reinsurance company posted underwriting losses of 962.3 million deutsche marks ($531.2 million) in fiscal 1990, compared with 647.4 million deutsche marks ($389.9 million) in fiscal 1989.

Investment income for the reinsurer was up 2.1% to 1.691 billion deutsche marks ($933.4 million) in fiscal 1990 from 1.656 billion deutsche marks ($997.2 million).

As a result, Munich Re A.G. posted net profits of 66.9 million deutsche marks ($36.9 million) in fiscal 1990, compared with 67.2 million deutsche marks ($40.5 million) the previous year.

Cologne Re Group's Mr. Zech said increases in premium income from life, liability and accident insurance in 1991 should help the group's profits return to a "good level" after 1990 storm losses tore a hole in that year's results.

Mr. Zech said that the reinsurer's capitalization is "too low" in relation to its international standing. As a result, effective Jan. 1, 1992, it plans to offer existing shareholders the option of purchasing an additional share of common stock for every four they now hold.

Meanwhile, the group's premium volume in fiscal 1990 increased a healthy 16.9% to 3.24 billion deutsche marks ($1.79 billion) from 2.77 billion deutsche marks ($1.67 billion) the previous year. The major growth factor was foreign business, Mr. Zech said.

Net premiums totaled 2.8 billion deutsche marks ($1.55 billion) in fiscal 1990, up 15.3% from 2.4 billion deutsche marks ($1.45 billion) in fiscal 1989.

Despite the group's increased premiums, Mr. Zech called last year "difficult."

Cologne Re Group's underwriting losses increased to 187 million deutsche marks ($103.2 million) last year from 94.5 million deutsche marks ($56.9 million) in fiscal 1989.

Investment returns, though, were up 13.6% to 284 million deutsche marks ($156.8 million) in fiscal 1990 from 250 million deutsche marks ($150.6 million).

Typhoon losses

TOKYO—Japanese property/casualty insurers report unprecedented claims for damage caused by Typhoon Mireille, dubbed No. 19 by the insurance industry, which hit Japan in late September.

Direct insurance payments by the 25 non-life insurers are estimated at 290 billion yen ($2.23 billion at current exchange rates), according to the Marine & Fire Assn. of Japan. This is the most ever paid for damages from a single typhoon anywhere, the group says.

Yasuo Goto, chairman of the association, said that the influence on underwriting profits will vary from company to company, but added that some firms will likely draw down their catastrophe reserves in order to cope with the typhoon losses.

Most claims are for residential properties that suffered wind or water damage. Typhoon No. 19 also caused some damage to the nation's forestry industry, power lines and railways.

Mr. Goto, who also is president of Yasuda Fire & Marine Insurance Co. Ltd., estimates that the company's direct insurance payments from the typhoon will reach 30 billion yen ($230.9 million).

Two-thirds of Yasuda's total payments were covered by reinsurance. The degree to which typhoon claims dampen profits for the year ending March 31, 1992, will depend on what portion of the remaining 10 billion yen ($77 million) is paid from the company's catastrophe reserves, Mr. Goto said.

Typhoon No. 19 creates further headaches for Lloyd's of London, which has been racked by catastrophe losses in recent years.

Reinsurers of Japanese non-life insurers are expected to pay out around 500 million pounds ($888.5 million at current exchange rates) to cover typhoon damages. Lloyd's accounts for about half that total, industry sources say.

After posting a record loss for the 1988 underwriting year, Lloyd's estimated that it would also incur huge losses for the 1989 and 1990 accounts (*BI*, Sept. 2; July 1). Profits are projected for 1991, though, assuming no major catastrophes.

The typhoon is the third worst in Japan's post-war history, following the Toyamaru Typhoon in 1954 and the Ise-Bay Typhoon in 1959.

—By Judith Rawnsley

J&H in South Korea

NEW YORK—Johnson & Higgins has formed a new retail brokerage subsidiary to serve clients in South Korea.

Seoul-based Johnson & Higgins of Korea Ltd. has a staff of 12 employees, led by Andrew W. Haaser, country manager for Korea. Mr. Haaser previously was director of sales and marketing for J&H in Brazil.

The office's other staff members are South Koreans.

Johnson & Higgins of Korea will be a member of UNISON, the global brokerage network cofounded by J&H. ■

Employers, unions in coalition endorse play-or-pay mandate

By JERRY GEISEL

WASHINGTON—The drive to overhaul the nation's health care delivery system and require employers to offer health care coverage is picking up support from business and labor organizations.

But some observers say the endorsement of a health care coverage mandate and a plan to limit health care spending by several major employers—with more endorsements expected—does not mean a majority of the business community is ready to support such changes.

The National Leadership Coalition for Health Care Reform, a Washington, D.C.-based organization composed of about 50 major employers and several labor groups, unveiled the comprehensive health care reform proposal last week.

While about two dozen employers have signed on to the coalition's package, not all coalition members support all of the package.

Among the employers endorsing the package are Bethlehem Steel Corp., Chrysler Motors Corp. and Dayton Hudson Corp. Among the labor organizations signing on to the package are the Service Employees International Union, the United Food & Commercial Workers International Union and the United Steelworkers of America.

And, the coalition expects more employers to endorse the coalition's package of reforms, said Executive Director Peggy Rhoades.

The proposal includes several elements, including:

- All employers, under a "play or pay" approach, would either have to offer a health care package with specified benefits and cost-sharing provisions or be subject to new federal payroll taxes.
- The health care plan that employers would have to offer to escape the new payroll taxes would have to include maximum deductibles of $200 for individual coverage and $400 for family coverage; cover 80% of most health care services; and cap annual out-of-pocket expenses of $1,500 for individual coverage and $3,000 for family coverage.

Under the proposal, employers could require employees to pay up to 80% of the premium for individual and family coverage. The coalition estimates that the premium would be $1,432 for individual coverage and $3,270 for family coverage.

- Employers that do not offer health care plans meeting those standards would be slapped with a new tax equal to 7% of payroll, while their employees would be hit with a tax equal to 1.75% of their wages.

Those taxes would be used to partially fund a new public health care plan—known as Pro-Health—for the nation's uninsured. The coalition estimates that 62 million people would receive coverage from the new public plan, including workers whose companies would find the payroll taxes less costly than offering a health care plan.

- All employers, including those with health care plans, would be assessed a new fee of 0.5% of an employee's wages up to the Medicare taxable wage base, which currently is $125,000, to help fund coverage for the nation's uninsured. The same 0.5% tax would be imposed on workers.
- A new National Health Review Board, composed of representatives from the public and private sector, would establish annual targets for total health care expenditures. This target then would be submitted to Congress for approval.

The intent of the target would be to gradually reduce health care inflation so that cost increases ultimately equal the annual growth in the gross national product.

The National Health Review Board also would set specific payment rates for health care services. To eliminate cost-shifting, all payers—insurers, employers and the government—would be bound by those rates.

Payment of charges based on those rates would constitute payment in full. Thus, physicians and hospitals could not impose additional charges on patients, a practice known as balance billing.

Many elements of the coalition proposal already are contained in legislation introduced in Congress. The play-or-pay approach is included in legislation introduced in June by the Senate Democratic leadership (*BI*, June 10). And, similar health care cost controls are a key feature in legislation introduced in early August by House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill. (*BI*, Aug. 19).

"What the coalition's plan would do is level the playing field of competition. The companies that until now have offered no health insurance would have to compete not at a disadvantage, but on an equal footing with those that have offered it all along," the coalition said in its proposal.

Walter Williams, chairman and chief executive officer of Bethlehem Steel, explained that under the current health care system employers with health care plans are picking up the costs of the uninsured through cost-shifting by health care providers.

"Cost shifting has been devastating to us and is a major negative on the international competitiveness of American companies. In fact, cost shifting may be the most important factor in the destabilization of the U.S. health care system," Mr. Williams said.

But while the coalition expects more employers to sign on to the idea of a health care mandate, the concept arouses virulent opposition from some business groups.

A health care mandate "removes the flexibility business needs. Some employers, particularly in a recession, simply cannot afford to offer a health care plan," said Carolynn Miller, a legislative representative at the National Federation of Independent Business in Washington, D.C., a small business group.

Ms. Miller said the argument raised by coalition members that they face cost shifting because not all employers offer coverage is absurd.

"These are huge employers with tremendous clout as buyers of health care services. They can negotiate deep discounts. They are not being cost-shifted," Ms. Miller said.

"This document is a statement by a coalition, but there is a much larger group of employers yet to be heard from," said Frank McArdle, a consultant with Hewitt Associates in Washington, D.C.

"A health care mandate will continue to be a very contentious issue for employers," said Dirk Van Dongen, president of the National Assn. of Wholesaler-Distributors in Washington, D.C., and a founding member of the Health Care Equity Action League, a recently formed lobbying group of employers opposed to mandated health care coverage.

But the coalition's package demonstrates there is growing interest among employers in a public policy solution to the nation's health care crisis, said Dr. Roger Taylor, a consultant with The Wyatt Co. in Washington, D.C. ■

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PUBLISHING: DECEMBER 9

AD CLOSING: NOVEMBER 26

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PBGC proposal

Continued from page 1

The size of the PBGC's priority claim would be capped at the greater of 30% of a company's net worth—which is the current limit —or 10% of unfunded pension obligations. That 10% floor would rise by two percentage points a year until it reaches 50% in the year 2012.

For example, assume that under the new test an employer has $100 million in unfunded pension benefits and no net worth. If the company filed for bankruptcy and terminated its pension plan next year, the PBGC would have a priority claim of $10 million. If the same employer terminated the plan in 2012, the PBGC would have a priority claim for $50 million.

Proposing an objective standard —the percentage of unfunded pension benefits—for determining the size of a priority claim is intended to stop protracted litigation between employers and the PBGC over assessments of a bankrupt company's net worth.

However, the PBGC would be allowed to attempt to recover the entire amount of the unfunded liability for special pension benefits, known as shutdown benefits. These benefits are payable by a pension plan only when a special event, like a plant closure, occurs. Shutdown benefits often are not funded by employers, resulting in a massive liability to the PBGC if plants are shut down and the benefits are triggered.

The legislation also is intended to clarify bankruptcy law and overturn the recent federal court ruling that essentially gives employers in Chapter 11 bankruptcy the green light to stop funding their pension plans.

Under the legislation, unpaid pension contributions also would have priority status in a bankruptcy. For example, pension contributions that come due after a company has filed for bankruptcy would have administrative priority one, which is the highest of the eight priority levels in bankruptcy procedures.

PBGC officials say that without enactment of the legislation, the court ruling will expose the agency to billions of dollars in pension liabilities from financially troubled firms that will have little incentive to fund their pension plans.

"We could see $4 billion to $5 billion in additional liabilities," said PBGC Executive Director James B. Lockhart III.

That would send PBGC premiums spiraling. The premiums already have risen sharply in recent years because the amount of liabilities the agency has assumed following the terminations of underfunded plans. The PBGC's deficit now exceeds $2 billion.

The PBGC and other pension experts warn that employers with well-funded plans ultimately will tire of supporting the unkept bene-

Continued on next page

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Continued from previous page

fit promises of other employers through ever-rising premiums.

Companies with well-funded plans then may terminate their plans, leaving the PBGC with a smaller and smaller base of employers paying premiums and setting in motion a vicious circle of rising premiums and fewer employer-sponsored pensions.

"If nothing is done, the health of the private pension plan system will be jeopardized," said Chris Bowlin, associate director of employee benefits at the National Assn. of Manufacturers in Washington, D.C.

"At some point, employers will say: 'It (the higher premiums) isn't worth it,'" said Carol Connor Flowe, the PBGC's general counsel.

"It is a very scary scenario," added Mr. Lockhart.

However, it is a scenario that Congress can avoid by enacting the needed reforms, benefit lobbying groups and PBGC officials say.

They note that if an employer's creditors know a company's pension obligations will have to be met before obligations to other creditors, they will be more cautious in extending credit to firms with underfunded plans.

"The fact that creditors will look to the level of funding of pension obligations before extending credit may lead companies to avoid underfunding plans to start," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

"Other creditors will pay attention to a company's pension obligations," agreed Kathleen P. Utgoff, a former PBGC executive director and now an economist with the law firm of Groom & Nordberg in Washington, D.C.

"If the PBGC could recover significant amounts in bankruptcy, employers would not have the same incentive to terminate underfunded plans. Creditors would treat underfunded pension plans as a real debt. This creates a market-based incentive for better pension funding and a much sounder insurance program," said Mr. Lockhart.

'Other creditors will pay attention to a company's pension obligations,' says Ms. Utgoff.

The PBGC legislation, though, faces considerable hurdles. As many as six congressional committees will have jurisdiction over the legislation, which could slow the bill's progress.

In addition, the legislation likely will face opposition from bankruptcy attorneys, who may be concerned that there will be fewer assets left for other creditors to collect if the PBGC's claims are given priority status.

The legislation would "take a lot of assets off the table and potentially to the government," noted Frank McArdle, a Hewitt Associates consultant in Washington.

"You have many competing interests involved. You have the interests of PBGC premium payers and you have the interests of a company's creditors. Striking a balance of these competing interests will be difficult to achieve," Mr. McArdle added.

PBGC officials note that many of the provisions it is seeking already are included in the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code and that it is simply seeking to add those provisions to the Federal Bankruptcy Act.

At the same time, clarifying the PBGC's status as a creditor in bankruptcies and increasing its chances of obtaining recoveries is much better public policy than other alternatives, PBGC officials say.

PBGC officials say Congress has other alternatives, none of them very attractive.

For example, if the agency's deficit continues to widen, legislators could cut back on PBGC benefit guarantees to plan participants.

Alternatively, Congress could keep increasing the PBGC premium, eventually resulting in an employer rebellion and the collapse of the PBGC insurance program, which now protects the pension benefits of 40 million people.

The best policy, the agency's Ms. Flowe says, is to be sure that the proper parties—employers who made pension promises and their creditors—are aware that pension obligations must be met. ■

Proposal to widen PBGC obligations stripped from bill

WASHINGTON—The Pension Benefit Guaranty Corp. and business groups are cheering a Senate vote last week that stripped from legislation a provision that would have forced the PBGC to take on $500 million in new pension liabilities.

That provision had been part of a broader bill, S. 243, the Older Americans Act. It would have required the PBGC to guarantee a portion of pension benefits to participants covered by underfunded plans that terminated before the agency was established in 1974.

Under the provision, advanced by Sen. Howard Metzenbaum, D-Ohio, the PBGC would have had to guarantee benefits of up to $75 a year for each year of service to participants of the terminated plans.

Leading up to the vote was a long and often emotional debate.

"This small cushion of money represents a symbol. It tells these hardworking individuals that Congress did not forget them. It recognizes that we made a mistake. We should have covered them under ERISA from the start," Sen. Metzenbaum said.

But Sen. James Jeffords, R-Vt., warned that adding to the PBGC's liabilities would lead to more pension plan insurance premium hikes for employers, and ultimately more companies bailing out of their defined benefit plans.

"My concern is that we are just putting the final nail in the PBGC coffin here and nobody is going to sponsor defined benefit plans," Sen. Jeffords said.

"We have got to say no to fiscally irresponsible legislation. I believe most Americans would put a $500 million entitlement program in that category," said Sen. Orrin Hatch, R-Utah.

Business groups praised the Senate action as one of fairness to employers with defined benefit plans, which fund the PBGC through annual insurance premiums.

"The Metzenbaum provision was patently unfair. The financial supporters of the PBGC are not responsible for pre-ERISA liabilities. The so-called pension losers may deserve help, but not this way," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

PBGC officials said the Senate vote shows that legislators recognize the severity of the agency's financial problems.

By striking the provision, "Congress responded in the interests of 40 million people we currently insure," said James B. Lockhart III, the agency's executive director.

—By Jerry Geisel

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Fed should regulate suits, not insurers: Panel

By MICHAEL BRADFORD

NEW ORLEANS—Congress should concentrate on solving the problems that lead to insurer insolvencies and forget about taking regulatory power away from the states, says a panel of insurance industry observers.

"Instead of getting more involved in regulating insurance, it seems to me the federal government could do everyone a big favor by doing its share to solve one of the underlying problems that the insurance industry faces," said L. Gordon Crovitz, a law columnist and assistant editorial page editor at The Wall Street Journal.

The problem is "too many lawyers are filing too many abusive lawsuits" that lead to "lottery-style damage awards," he said.

That problem "also happens to be one of the main problems that America faces," he said.

The amount of litigation and potential for high damage awards not only "makes insurance a tough business," but it also "drives up the cost to Americans of insuring everything from their cars to their Boy Scout or Little League player," he said.

Mr. Crovitz participated in a panel discussion on federal regulation at the National Assn. of Independent Insurers' 46th Annual Meeting in New Orleans earlier this month.

Pointing to banking and savings and loan regulations, he and other panelists agreed that the federal government already has proved its inability to regulate financial industries.

"The best way to see what the federal government is capable of doing as a regulator is to see what it has done, not what it promises to do in the future," said Lawrence A. Frazier, president and chief executive officer of Farmers Mutual Insurance Co. of Nebraska in Lincoln.

Insurers have failed under state regulation, but they represent only a small number of the insurers doing business, and policyholders have been protected by guaranty funds, Mr. Frazier said.

By contrast, he said: "What is the federal record of solvency regulation of financial institutions? The federally regulated savings and loan industry is in shambles because of catastrophic regulatory blunders by the federal government."

During the last half of the 1980s, around 1,000 banks and 900 savings and loans failed, pointed out James Long, president of the National Assn. of Insurance Commissioners and the North Carolina commissioner.

Bank failures in 1990 have cost the Federal Deposit Insurance Corp. nearly $9 billion, while S&L bailouts are projected to reach $500 billion, he said.

"It's no wonder that public confidence in financial institutions has faltered," Mr. Long said.

But the insurance industry is not in a similar woeful condition, he said. Waning consumer confidence in the industry "is based more on suspicion than on reality," because insurer failures in the late 1980s amounted to a fraction of the number of bank and S&L failures, he explained.

"The debate in Washington has come to focus on whether the insurance industry should continue to be regulated by the states without substantial involvement on the part of the federal government," Mr. Long said. "Questions about the strength of the current state-based regulatory regime have been raised by a number of policy makers both inside and outside the Congress."

There is no question that the state regulatory system is effective, he said.

Naturally, "one might expect a state regulator, such as myself, to advocate the current state-based system of regulation," Mr. Long conceded. "However, the case for state insurance regulation is based not on a desire to maintain the status quo, but upon a clear understanding of the solid record of state regulation."

The choice is clear, Mr. Long told insurers: "Do you want to continue to improve a state regulatory system that has been in existence for 120 years with your strong support? Or, do you want to have insurance regulation by those in Washington who brought you the banking crisis, the savings and loan crisis," deregulation of the telephone and airline industries, and "delivery of the United States mail?"

Mr. Crovitz added that "with friends like Congress, who needs enemies?"

The NAII, through the work of its task force on solvency regulation, has concluded that "our best hope for effective solvency regulation that protects customers, provides affordability and availability of products and allows for a viable industry in the long run, is state regulation," said John R. Graham, executive vp and chief executive officer of Farm Bureau Mutual Insurance Co. in Manhattan, Kan.

Besides being unnecessary, federal insurance regulation could lead to the "economic concentration" of the business with a limited number of insurers, stifle innovation in the industry and increase the cost of regulation, he said.

However, Mr. Graham said it became obvious during testimony earlier this year before the House Oversight and Investigations Subcommittee of the Energy and Commerce Committee, chaired by Rep. John Dingell, D-Mich., that the idea of an economic concentration of business "is not only acceptable, it may be a public policy goal of some of those who support federal involvement."

In fact, "one of Rep. Dingell's staff members told me after our testimony that they thought it would be much easier to regulate this industry if there were only 30 or 40 companies," he contended.

However, state regulation is so entrenched that it would have to remain at least partly in place even if federal regulation is approved. "We're not talking about an either/or proposition. We're talking only about dual regulation," Mr. Graham said.

Such a scenario would be the "worst of all worlds," because it would substantially increase regulatory bureaucracy and create a conflict between the regulatory bodies, he said.

"In my opinion, the only ones who would win from federal involvement in the regulation of our industry for solvency would be the bureaucrats and plaintiffs' lawyers who advocate it," he said.

Even within the industry, though, some people feel that there should be "a limited role for federal regulators, with all other responsibilities remaining with the states," pointed out Mr. Frazier of Farmers Mutual.

They have rationalized the idea of a limited role as "not really federal regulation, and therefore immune from all the arguments historically made against it," he said.

"I disagree," Mr. Frazier said. "If federal regulation as a concept is unneeded, the degree of federal regulation is immaterial. It's something akin to the analogy of being a little bit pregnant."

Some have suggested that insurers could try to cut their losses by helping draft any legislation that would spell out a federal role in insurance regulation. That thinking, Mr. Frazier argued, is flawed.

"Once a coalition measure becomes a legislative bill, its final form and its content are too often dictated by the political exigencies of getting something enacted rather than the needs of all the coalition partners and the consumers that they serve," he argued. "The political patchwork that becomes law is often unrecognizable from the original proposal."

The participation of the insurance industry in shaping a federal regulatory role would only accomplish one thing, according to Mr. Frazier. "And that would be to signal to everyone involved that the question was no longer whether we'll compromise on the issue of federal regulation but, rather, how much?"

Mr. Frazier called for the industry to "remain firm." Saying that "our industry and NAII has been wrong all along on this issue would, in my view, be politically disastrous for this organization" and its members and allies.

And, if the industry compromises or abandons the fight against federal regulation, the result would be "economically devastating for the consumers that we serve," Mr. Frazier said. ■

NAII attendees tackle big issues

NEW ORLEANS—Insurers confronted some of the critical issues their industry faces during the 46th Annual Meeting of the National Assn. of Independent Insurers in New Orleans.

The conference, held Nov. 3-7, featured three general sessions on the prospect of federal regulation of the industry, meeting customers' expectations with quality service and the future of tort reform.

Conference planners left afternoons free for attendees to conduct business in the city or tour New Orleans' French Quarter.

Speakers included Martin Connor, president of the American Tort Reform Assn. in Washington, D.C.; Philip Corboy, senior partner with the law firm Corboy & Demetrio in Chicago; L. Gordon Crovitz, a law columnist and assistant editorial page editor for the Wall Street Journal; Peter Huber, senior fellow with the Manhattan Institute for Policy Research; Jim Long, president of the National Assn. of Insurance Commissioners and commissioner of North Carolina; and Thomas D. Rowe, a University of Virginia law professor.

Information on next year's meeting, which is scheduled for Oct. 25-29 in Orlando, Fla., is available from the NAII at 2600 River Road, Des Plaines, Ill. 60018; 708-297-7800.

Panel calls for reform of judicial process

By MICHAEL BRADFORD

NEW ORLEANS—Significant civil justice reforms are needed to speed up—and lower the cost of—dispute resolution through the U.S. tort system, according to a panel of law experts.

But the experts are divided over how to institute reforms that are fair to policyholders, insurers and attorneys.

The often lengthy discovery process and how it contributes to the high cost of the tort system became the dominant theme of a three-hour panel discussion at the National Assn. of Independent Insurers' 46th annual meeting in New Orleans earlier this month.

A prominent trial lawyer laid nearly all the blame for the inefficiencies of the tort system on the discovery process.

In addition, a law professor called for the passage of tort reform proposals contained in a study commissioned by the American Law Institute earlier this year (*BI*, April 29).

And, another attorney argued that tactics like the use of expert witnesses have to be modified to prevent charlatans from influencing juries.

However, there is a new public awareness and interest in correcting problems with the tort system, according to the president of the American Tort Reform Assn.

"This is a very interesting moment in American legal history," said panel moderator Arthur Miller, a Harvard University law professor, a frequent contributor to television programs and currently legal editor of ABC-TV's "Good Morning America."

"There are powerful forces that seem to be coalescing, directing their energies to the reformation of the litigation system," he observed. "There are massive pressures to obligate the judges to compress this pre-trial process and eliminate the excesses of discovery."

For example, Mr. Miller referred to a 1990 law that requires all federal district courts to develop a plan for reducing expenses and delays (*BI*, Nov. 5, 1990) as well as to Vice President Dan Quayle's recent attention to the inefficiencies of the court system (*BI*, Aug. 19).

"I think we're going to see, in not more than two or three years, some very significant changes in the way cases are managed and handled," because the high cost of the tort system lies in "that sort of dance marathon contest that goes on from institution to settlement, which we call pre-trial discovery," Mr. Miller said.

Philip Corboy, a trial lawyer and senior partner with Corboy & Demetrio in Chicago, also emphasized that discovery runs up the cost of litigation.

"The real problem is not in torts or the substantive rights under torts," he said. "It's in the administration of the tort system.

"The problem is (that) it takes so long" for cases to be resolved, he said.

Mr. Corboy asked, "Why does it take so long to file a lawsuit and to finally get rid of it and spend thousands and thousands of dollars in between?"

Some of his fellow plaintiffs' attorneys say insurers want the case to drag on so they can earn money on reserves set aside for the claim, he said. "You know that's not accurate, because you're paying lawyers for that whole time. All the reserve money you earn is not going to go into your pocket."

Speaking to insurers, he said: "You wouldn't mind if tomorrow afternoon you could settle all the cases in your inventory if you could get rid of them all and start all over." But "lawyers don't like that," Mr. Corboy said. "Lawyers like inventories. Defense lawyers would love the backlog to be 20 years. Look at all the depositions they could take. Look at all the interrogatories they could file."

Still, all but four of every 100 tort suits are disposed of before trial, Mr. Corboy said. And of those that make it to trial, seven of 10 are won by the defendants, he said.

"Our problem—yours and mine—is not to talk about these four cases that are tried under the tort system, but what's wrong with a system that requires us to wait five, six or seven years to get those four cases out of 100 isolated and to somehow get rid of the other 96 by attrition that we call discovery."

Once a legal "cottage industry," discovery has grown into a "mansion industry," he charged. And this, Mr. Corboy said, is "what's causing the hiatus between filing and getting rid of those 96 cases that do not have anything to do with the tort system."

Insurers should push for mandatory arbitration requirements and payment of prejudgment interest in claims disputes, both of which would speed up the resolution of tort cases, Mr. Corboy said.

Both measures are being used successfully by state courts in Michigan. "Detroit does not have a backlog," he said. And while 4% of the cases still go to trial, the object is to get the other 96% disposed of quickly so that they do not interfere with the cases that proceed to trial.

Mr. Corboy also suggested setting up financial penalties for lawyers who intentionally slow down discovery. For example, he said: "If I won't give your defense lawyers information and make them go to court, and they win—if it's an obvious case where I am stonewalling—I should pay for it."

Thomas D. Rowe, a University of Virginia law professor, noted that the authors of the ALI-commissioned study recommended that prejudgment interest "makes economic sense" as a method of breaking up the nation's litigation logjam.

The study, titled "Enterprise Responsibility for Personal Injury," indicated that the specter of prejudgment interest paid from the time of loss to the time of the award often speeds up the resolution of a case, Mr. Rowe said.

The study found that prejudgment interest is needed "to provide full compensation and to reduce the incentive for delay by people who might otherwise be profiting from money that is rightfully that of a plaintiff who eventually gets a recovery," he said.

Peter Huber, a senior fellow of the Manhattan Institute for Policy Research, argued that there is an "emerging theme" of questions about causality in the ongoing debate over tort reform.

"And that is the ultimate question in every court case," Mr. Huber said. "Did that chemical

Continued on next page

Judicial reform

Continued from previous page

really cause that cancer? Did that car defect cause the car to shoot into a swimming pool or down an elevator shaft? Did that doctor really cause the cerebral palsy to the young child?"

In recent years, courts have taken a dramatically different approach to answering these complex scientific questions, according to Mr. Huber. He noted that the use of expert witnesses in such cases has been described as a process whereby "a Nobelist and charlatan are given equal time to present their views in court."

The use of expert witnesses has resulted in many settlements based on so-called scientific testimony that is inaccurate, Mr. Huber said. "If you line up the scientific truth as pronounced in courtrooms in this country vs. scientific truth as accepted by mainstream science, there has been a sharp divergence in the last 10 or 15 years."

Courts, however, are becoming aware of this problem, Mr. Huber said. Indeed, he expects that within several years the U.S. Supreme Court will reinstate stricter standards for the admission of such testimony. "I think when we get that case, we will see a retrenchment from our current let-it-all-in standards."

It is difficult for anyone to publicly support "junk science," said Mr. Huber, author of the recent "Galileo's Revenge: Junk Science in the Courtroom."

So, those opposed to ending the practice of expert witnesses will "have to argue that it is the American way" to allow such testimony.

"Ultimately, what the debate will come down to is simply this: Will we hold the people who make scientific accusations from the witness stand to the same kind of standards of professional competence" as the defendants are held? Mr. Huber said.

The standards to which some defendants are held—those that call for manufacturers to design and produce safe products—was another topic addressed in the ALI study, Mr. Rowe said.

He said a proposal in the study suggests that if a product warning meets government-established standards and the product has no design defect, the manufacturer should not be held liable for injuries sustained from the product's use.

In addition, the study recommended that courts should not be "inclined to hold manufacturers liable for failure to give a warning for an extremely low probability kind of event," he said.

The American Tort Reform Assn. in Washington, D.C., and "the organized plaintiffs' bar" have long been at odds over tort reform, and trial lawyers consistently challenge the association's recommendations, said Martin Connor, president of the business-supported advocacy group.

Mr. Connor agreed, though, that the tort system's high costs stem partly from the lengthy discovery process.

However, he said there is a growing awareness among Americans that the system of dispute resolution is expensive and inefficient.

The public has begun to realize that the system of resolving disputes sends more money to the pockets of lawyers than to injured claimants, Mr. Connor said.

Vice President Quayle piqued some of that awareness earlier this year when he spoke out on what he felt is an excessive number of lawyers and problems with the tort system, Mr. Connor said. He added that many polls taken later showed overwhelming support of Mr. Quayle's position.

And public concern with the tort system is growing as the vice president speaks widely on the topic, Mr. Connor said.

Mr. Corboy said insurers that complain of the high cost of litigating claims can help hold down the costs by becoming more involved in litigation. ■

Industry strives to burnish public image

By MICHAEL BRADFORD

NEW ORLEANS—The property/casualty insurance industry is trying to brighten a public image that a crisis-filled decade has tarnished, says the head of a major insurance trade association.

During the last hard market and in consumer battles like those over Proposition 103 in California, "few of us were naive enough to believe we were loved by the public," said Lowell R. Beck, president of the National Assn. of Independent Insurers, during the group's 46th annual meeting in New Orleans earlier this month.

But as the public's discontent began to "boil over" during those situations, "the depth of the bitterness was, frankly, shocking to me," Mr. Beck said.

During the height of the hard market, "not a week—at times it seems to me not even a day—went by when we were not faced with situations that everyone regarded as critical," recalled Mr. Beck, who marked his 10th year as NAII president at the conference.

Today, the insurance industry continues to face crisis situations on many fronts, including federal efforts to regulate insurance and soaring losses in automobile and workers compensation lines, he said.

In addition, the industry continues to face the challenge of gaining public trust, Mr. Beck said.

To many, the property/casualty insurance industry appears to be in a quieter period today as the public has turned some of its ire toward life and health insurers, he said.

Besides working on industry-specific issues, like fending off federal insurance regulation, the NAII and insurers also are working on sticky consumer-related concerns like how to prevent rate rollbacks while winning public support.

"We're working as hard as we can at the national level, but at the same time we're working on the bread-and-butter issues that we face day in and day out," Mr. Beck said.

If the NAII is successful in its efforts to lower or contain auto and workers comp insurance costs, aid the National Assn. of Insurance Commissioners in its insurance department accreditation program, and lower taxes and expenses that affect rates, "the public will see that we're working for them, and our standing will improve," Mr. Beck predicted.

"Solvency will be a top priority for action in 1992," as the NAII works with the NAIC to improve state regulation of insurance, Mr. Beck vowed.

Mr. Beck defended state regulation of insurers against criticism by Congress that states are not doing enough. "The fact is that states already have proven to be able regulators of solvency. And they have moved rapidly to propose stronger solvency laws and regulations."

But, many of the things the NAII's does are not "headline grabbers," he said.

For example, in its drive to lower costs that boost auto insurance rates, the NAII is pushing for states to improve "the completeness and accuracy of motor vehicle reports" Mr. Beck pointed out. Those reports contain information on, among other things, accidents and traffic violations. "Again, not glamorous, but a very serious issue and problem."

The association also is urging state lawmakers to codify insurance fraud as a crime, enact restitution laws, pass legislation that will curtail black-market activity in automobile parts and toughen title registration laws.

The NAII also is pushing on the state level for tougher drunken driving legislation, Mr. Beck said. ■

Reinsurance renewal

Continued from page 1

lobbies, suites and restaurants. Ceding companies meet with their current reinsurers and prospective reinsurers, giving each an opportunity to say what they have done in the past year and what they intend to do in the coming year.

Indeed, the NAII formally acknowledged this activity by hosting a "business meeting" room of small tables and chairs near the formal program meeting room in the Fairmont Hotel.

The discussion of Hartford's reinsurance program focused not only on the price increase but also on the insurance group's strategy of going to the marketplace early to seek capacity and not trying to negotiate a smaller increase in premiums.

"The Hartford basically asked underwriters what it would cost to obtain the coverage they wanted," said one reinsurer, who called it negotiating with "an open checkbook."

Another reinsurer, however, commended Hartford as smart to seek capacity early and not haggle over price in order to obtain the best reinsurance security.

Hartford currently pays about $21 million for $250 million in catastrophe coverage excess of $35 million, although that coverage could have some holes—as do many insurers' catastrophe programs.

Ramani Ayer, president and chief operating officer of property/casualty operations for Hartford, declined to discuss the specifics of the group's reinsurance program when contacted after the NAII meeting.

Mr. Ayer did confirm that Hartford went to reinsurers early in the renewal season, because "we anticipated market capacity being substantially affected by the slew of losses coming in. We wanted to get the lead underwriters to support our program."

Hartford wants to "maintain our protection so it is adequate to protect our bottom line from adverse events," he said.

Without commenting on what limits Hartford is seeking, Mr. Ayer said he is "optimistic that our capacity needs will be satisfied." He added, however, that "it's hard to speculate what capacity is out there." The amount of capacity available to an insurer is determined by its selection of markets and the types of reinsurers with which a ceding company wants to do business, as well as the reinsurers' appetite for risk, he explained. Without commenting on what Hartford will pay for its catastrophe reinsurance, he said that in negotiating with underwriters, "we wanted to be fair-minded."

New York-based Guy Carpenter & Co. Inc., a reinsurance brokerage unit of Marsh & McLennan Cos. Inc., brokers Hartford's catastrophe reinsurance.

Mark W. Hinkley, senior vp of Transamerica Reinsurance Co. in Stamford, Conn., observed that "when the market is tightening, you move early and bring your checkbook." Only in a soft market should ceding companies wait to renew their coverage and seek better deals, he added.

Without adequate catastrophe reinsurance, a ceding company either has to sell less insurance, raise the price of its insurance to cover its larger exposures or buy more quota-share reinsurance, which is difficult to do, he added.

Some debated whether London underwriters will succeed in obtaining 50% premium increases from other ceding companies, using the Hartford program as a benchmark.

"To the chagrin of our clients," London is quoting catastrophe reinsurance premiums of 25% to 50% more than expiring prices, observed Philip W. Mitchell, managing director and chief executive officer of TPF&C Reinsurance, a Philadelphia-based unit of Towers, Perrin, Forster & Crosby Inc.

"On behalf of our clients, we are resisting those rates, but, even so, there will be significant increases," he said.

As a result, Mr. Mitchell expects ceding companies to assume higher retentions.

Paul B. Ingrey, president of F&G Re Inc. of Morristown, N.J., the reinsurance underwriting unit of USF&G Corp., suggested that London underwriters are overreacting in the pricing of U.S. ceding companies' catastrophe reinsurance. U.S. companies have not sent London the losses that European and Japanese insurers have, he said.

Jerome Karter, director and executive vp of SCOR U.S. Corp. in New York, a unit of French reinsurer SCOR S.A., agreed that the premiums London is quoting for catastrophe reinsurance "are not in relation to the exposure. They are charging as though they can charge whatever they want."

Ceding companies, Mr. Karter said, have to decide "whether they need all that cover or not if there are other ways of funding it."

Indeed, using financial reinsurance products to replace high-priced conventional catastrophe reinsurance was commonly suggested.

If the first layer of a conventional catastrophe program costs as much as 40% of the limit, with a mandatory reinstatement at 100% of the original premium, a company suffering a full limit loss "is not much ahead" with reinsurance, F&G Re's Mr. Ingrey observed. "That directs people's attention to long-term relationships with a funded cover," which, he emphasized, "must contain risk" of loss for the reinsurer in order to be accepted by U.S. regulators.

As such, both buyers and sellers of these programs have to be "stable, profitable companies," Mr. Ingrey said, noting that the marketplace's reaction to USF&G security is "much better than at year-end last year."

USF&G increased its policyholder surplus by $200 million to $1.43 billion at Sept. 30.

Mr. Mitchell of TPF&C Re, however, expects that while more ceding companies will consider funded covers for their catastrophe exposures, few will buy it because they are concerned that too often the amount of risk transfer in the transaction may not hold up against the scrutiny of the Internal Revenue Service, thus denying the tax deduction for the reinsurance premium paid.

Jay Cogswell, divisional director at Bain Clarkson Reinsurance Brokers Ltd. in London, predicted that if London underwriters' catastrophe premiums are considered too high, some ceding companies may consider turning to Continental European reinsurers, which "are not reacting as strongly to recent adverse results and penalizing all comers."

Continental European reinsurers tend to "take a more individualistic approach" to underwriting than London market reinsurers, which are more apt to treat all accounts with the same regard.

Michael Goldberg, vp of Berkshire Hathaway Inc. in Omaha, Neb., whose insurance units write catastrophe reinsurance, defended the higher cost of catastrophe reinsurance. "Losses over the past few years have been very high relative to historical losses and what people expected. Reinsurers have to pass on higher costs."

In addition, Mr. Goldberg said, "the big question mark is, are the last four years an anomaly or a result of a systematic change in weather patterns? If you read this as a systematic change, prices have been and may still be inadequate."

Not all U.S. ceding companies will pay 50% more for their catastrophe reinsurance, said William R. Coleman, chief operating officer of Alexander Reinsurance Intermediaries Inc. Smaller, regional companies with many years of good experience will renew at existing prices, he said. Larger regional insurers will see increases of 10% to 15%, he said.

In addition to price, capacity for catastrophe reinsurance is a concern for ceding companies.

"Everybody's trying to measure what kind of capacity they can get" in the catastrophe reinsurance market, said Richard Matinale, executive vp at Reinsurance Corp. of New York.

Last year, some insurers were finding just 40% to 60% of the coverage they had in 1989, Mr. Matinale noted, and "this year it may be only 60% of last year's."

Hartford's effort to obtain $250 million in limits "will be a very interesting test" of capacity, observed Mr. Ingrey of F&G Re.

Graham McKean, chairman of reinsurance broker Ballantyne, McKean & Sullivan Ltd. in London, said, "there is plenty of capital, but when it comes to catastrophe business, there is a reluctance to use it."

While he has heard some estimates of worldwide capacity for catastrophe reinsurance reaching $400 million, Mr. McKean said, "I would think it is probably unlikely that there is that much available. I think its quite a lot smaller."

But catastrophe reinsurance prices and funded excess-of-loss programs are not the only "exciting areas" of reinsurance, according to Mr. Ingrey.

Excess marine and excess aviation prices also are going up, he pointed out. "It's the first time in three years that I've come to work and there's an aura of excitement," Mr. Ingrey said.

"We're putting on new people" in anticipation of improved market conditions, said Steven H. Newman, chairman, president and chief executive officer at Underwriters Reinsurance Co. in Woodland Hills, Calif.

"The market already has started to turn," Mr. Newman said. "A turn is snaking through the market, class by class," he said, citing the increases in LMX pricing that began two years ago and current increases in catastrophe reinsurance for insurers.

Primary pricing for property insurance will start to go up next year, and casualty will follow in 1993, he predicted.

Following Underwriters Re's acquisition of MOAC Reinsurance Management Co. earlier this year, the reinsurer is hiring marine and aviation underwriters and actuaries.

"We may add a dozen people to the 50 people who are engaged in marketing and underwriting," he said. Today, the reinsurer employs 124.

Within two years, Underwriters Re "hopes to be the domestic leader" in marine and aviation reinsurance, Mr. Newman noted.

While he is optimistic about future market conditions, primary insurance company executives at the NAII meeting were "uniformly glum and resigned to how lousy the market is and how it's not going to change," Mr. Newman observed.

He considers their pessimism a "good sign," because it suggests they will not continue to cut rates to maintain market share in anticipation of higher rates soon.

Ajit Jain, president of the professional liability and specialty risks division of Berkshire Hathaway, predicts it may take another year for primary insurers to pass on the higher cost of their catastrophe cover to insurance buyers. ●

Associate Editor Michael Bradford in Dallas contributed to this report.

Executive Life

Continued from page 2

by state guaranty funds. Such a ruling would also increase the liability of the guaranty funds, Mr. Garamendi has said.

In the latest round of bidding, Altus/MAAF increased its offer to $3.55 billion, including $3.25 billion for Executive Life's junk bond portfolio and $300 million in additional capitalization to finance a new California-domiciled insurer, Aurora National Life Assurance Co., that would assume Executive Life's obligations.

If the Altus/MAAF bid is accepted by the court, Mr. Garamendi expects to have Aurora up and running by year-end.

The result is that policyholders would receive approximately 89 cents on the dollar on amounts not covered by guaranty funds, up from Altus/MAAF's previous offer of about 86 cents.

Altus/MAAF, which has boosted its bid several times, initially offered $3 billion for the company (*BI*, Aug. 12).

In addition, Altus/MAAF improved liquidity for policyholders who want to access their money by lowering policy loan interest rates and reducing a moratorium on policy surrender charges.

The new company would remain in Los Angeles and retain the current Executive Life staff. It would be headed by nine independent directors with diverse business backgrounds, according to Altus/MAAF.

Kenneth O'Brien, former executive vp of New York Life Insurance Co., will serve as Aurora's interim president and chief executive officer.

In contrast, Hellman & Friedman had offered a $1 billion capital cushion to back any losses that Executive Life's junk bond portfolio might have sustained. The bond portfolio would have been used to capitalize a new insurer, Sierra National Life Insurance Co., which would have been led by John J. Byrne, president of Fund American Corp., the former parent of Fireman's Fund Insurance Co.

Because both offers essentially would have provided policyholders the same 89% return, the decision came down to whether the resuscitated insurer should retain the junk bonds that got it into trouble in the first place, according to Mr. Garamendi.

"While both of the final bids are superb, the Aurora proposal satisfies the conditions I established for rehabilitating Executive Life, provides the needed security by removing the junk bonds from the company and is superior since it delivers more money to policyholders," Mr. Garamendi said during a press conference last Thursday at Executive Life's headquarters.

Mr. Garamendi also dismissed critics who asserted that the Altus/MAAF offer for the junk bond portfolio was too low by suggesting that they should have submitted a higher offer of their own.

He added that since there is no ready market for the junk bonds, it is too difficult to determine the value of Executive Life's investment portfolio.

However, in a letter last week announcing its enhanced bid for Executive Life, F. Warren Hellman, president of Hellman & Friedman maintained that the Altus/MAAF offer was "a thinly disguised attempt to buy the bonds in a one-shot deal at a price far below market value.

"The policyholders were victims when the company bought the bonds at greatly inflated prices; under the Altus plan, the policyholders would become victims once again if the bonds are sold off for far less than they are worth," Mr. Hellman asserted.

"We believe the policyholders are better served by an orderly liquidation of the portfolio over time, supported by our $1 billion capital cushion," Mr. Hellman wrote.

Hellman & Friedman will not withdraw its bid, but it also will not attempt to block the Altus/MAAF bid during the court hearings, a spokesman said.

Mr. Garamendi also said he was not concerned that the Altus/MAAF group includes Leon Black, formerly a top executive of Drexel Burnham Lambert Inc., the now-bankrupt investment banking firm that profited from selling junk bonds to Executive Life.

"There is no one in the United States who knows about the junk bond business who wasn't part of that business," Mr. Garamendi said.

Members of the Altus group reacted favorably to Mr. Garamendi's decision, praising the creative bidding process that the Insurance Department plans to use as a model for future insurer rehabilitations.

"Commissioner Garamendi and his staff deserve high praise for the rehabilitation process that they initiated and the way in which it was conducted," said John F. Hartigan, director of transition planning for the Altus/MAAF-led investor group and a senior partner in the Los Angeles office of Morgan, Lewis & Bockius.

"The process has been rigorous, has provided significantly enhanced value for policyholders and has always been handled with only the best interest of policyholders in mind," he added.

Similar praise also came from the insurance industry itself.

"This process demonstrates that the guaranty system works, that state regulation works, and that the insurance industry is committed to protect policyholders," said the American Council of Life Insurance in a statement. The Washington, D.C.-based trade group had backed the NOLHGA bid. ■

Retiree health care liabilities

Continued from page 2

ployers can either reflect their accumulated health care liabilities as a one-time expense or they can amortize the expense over the remaining average service period of employees, or 20 years, whichever is longer.

A spokesman for Detroit-based GM said last week that the company has not yet decided whether to take a one-time hit or amortize the expense.

Recognition of retiree health care obligations could reduce the automaker's stated net earnings by $2.6 billion per year if the expense is amortized over 20 years, assuming a $24 billion total liability, the spokesman said.

He stressed, however, that the accounting rule does not actually require removing any cash from the auto manufacturer's operations. "It has absolutely nothing to do with putting cash into an account."

GM's projected retiree health care obligation is by far the largest among the nation's three major auto manufacturers and could turn out to be the biggest of any U.S. company, observers say.

Dearborn, Mich.-based Ford Motor Co., for example, has announced a charge of "just" $5 billion to $9 billion, while Chrysler Corp. of Highland Park, Mich., has announced a $4 billion to $6 billion charge.

Observers explain that while all three automakers offer comparable retiree health care benefits under their contracts with the United Auto Workers union, GM is three to four times the size of its competitors.

For instance, GM has 350,000 retirees and 350,000 active employees and dependents, a spokesman said. Ford, on the other hand, has 150,000 U.S. employees and about 121,000 retirees, according to a spokesman for that company.

And Chrysler had 88,675 retirees and 79,123 active workers as of 1990, a spokesman said.

Furthermore, GM is more vertically integrated than its two competitors, making more of its own components, said Scott Sprinzen, an auto analyst for rating agency Standard & Poor's Corp. in New York. This means it has a larger number of workers relative to its vehicle output.

GM also has "downsized" itself more substantially compared with Ford, so it has more retirees relative to the number of its active workers, Mr. Sprinzen said.

Last week, S&P put GM's debt on its CreditWatch list, but Mr. Sprinzen said this was coincidental with the announcement about its FAS 106 charge. "This is one of many problems, and there are much more serious ones," he contended.

Companies in other industries that have announced sizable charges under FAS 106 include Armonk, N.Y.-based International Business Machines Corp., which took a one-time $2.3 billion charge against first-quarter earnings (*BI*, April 1). Fairfield, Conn.-based General Electric Co. also took a one-time $1.8 billion charge against first-quarter 1991 earnings (*BI*, Sept. 23).

A recent survey by The Wyatt Co. of retiree medical disclosure information based on 400 of the Fortune 500 companies' annual reports and other company disclosures, indicates that, to date, GM's announced charge looms above those of all other companies.

"I think that is likely to be the biggest one that we'll see," said Gerry Bell, a partner with benefits consulting firm Kwasha Lipton, based in Fort Lee, N.J. "Heck, who's got a bigger company? Nobody, really."

At first, "It just sort of takes your breath away," said Edward J. Davey, a principal with A. Foster Higgins & Co. Inc. in New York. But once factors like GM's size are considered, the charge "has some rhyme or reason to it," he said.

Earlier announcements by Ford and Chrysler also gave some warning of the size of GM's charge.

Meanwhile, more announcements of FASB liabilities are imminent, said Anna Rappaport, managing director of William M. Mercer Inc. in Chicago. "The next 90 days, we're going to learn a lot more" as companies prepare year-end reports, she said.

Under a 1987 Securities and Exchange Commission bulletin, known as SAB 74, employers must disclose as a footnote to their financial statement the impact, if known, of any FASB rules once they are adopted, Ms. Rappaport announced.

"I think there'll be lots of surprises as companies come to grips with these numbers," commented Mr. Davey.

Companies will have to consider their strategies as to whether they should reflect the expense as a one-time charge or amortize it.

A "fair number" of companies are "swallowing hard" and plan to report the liability in one stroke so that their income statements do not suffer for years, said Kwasha Lipton's Mr. Bell.

"Either way, it's going to hurt," he said.

The impact of FAS 106 is one illustration of the disadvantage American manufacturers—with their aging, unionized workforces—face when competing with Japanese companies that now are establishing plants in the United States, which can start out with a clean slate.

Japanese companies don't have to deal with the large numbers of retirees at American companies, which gives the Japanese a significant advantage, said Tim Dull, a senior investment analyst with Brinson Partners, a Chicago-based institutional investor. ■

Update

Family leave bill veto expected

WASHINGTON—A mandatory family leave bill passed by the U.S. House last week fell short of the votes needed to override a threatened presidential veto.

The House voted 253-177 in favor of H.R. 2, a compromise family leave bill that would require employers with 50 or more workers to grant up to 12 weeks of unpaid leave annually to employees for the birth or adoption of a child or for the serious illness of an immediate family member or themselves. In addition, health care benefits would have to be continued as if the employee were still on the job. Employees would have had to work at least 1,250 hours during the 12 months preceding the request for leave to be eligible for the leave benefit.

The measure is nearly identical to a Senate bill, S. 5, approved on Oct. 5. But minor technical differences between the two bills must be settled by a conference committee, which has not scheduled a meeting.

The House bill was about 30 votes short of the two-thirds majority needed to override a veto, though the Senate bill attracted enough votes to override a veto. President Bush vetoed more expansive legislation last year (*BI*, July 9, 1990) and has threatened to do so again.

National Re plans stock sale

STAMFORD, Conn.—National Re Holdings Corp. wants to sell up to $216 million in common stock in an initial public offering, which it will use to reduce its long-term debt and increase the surplus of its reinsurance unit.

In a preliminary Securities and Exchange Commission filing, National Re Holdings, the parent of National Reinsurance Corp., is seeking to sell up to 9 million shares at an estimated $22 to $24 per share.

National Re was purchased last year from Lincoln National Corp. by a group including management and Robert M. Bass Group Inc.

Assuming a $23 per share stock price, proceeds of the public offering will be used in part to reduce the holding company's long-term debt to $200 million from $280 million, and to bolster the reinsurer's statutory surplus by $30 million, according to the SEC registration statement. National Re had $238.1 million in surplus as of Sept. 30. Another $75 million will be allocated to purchase National Re Holdings exchangeable preferred stock held by Lincoln National and Lincoln National's exercise of its common stock warrant in the holding company.

National Re was the 15th-largest U.S. reinsurer, based on $130.4 million in net reinsurance premiums written, in the first half of 1991 (*BI*, Sept. 16).

Study finds distrust of big firms

PALO ALTO, Calif.—Seven out of 10 U.S. citizens eligible for jury duty would be more inclined to believe an individual plaintiff than a corporate defendant before learning anything about the legal dispute, a new survey says.

Only 10% of 500 survey respondents said they would be more likely to believe the corporation's version of events, while 20% said they were unsure which side they would favor before hearing the case.

"Without a context, our culture believes that individuals are more truthful than corporations. However, we have found that biases can be tempered by case-specific facts," said Leonard C. Schwarz, a principal with Metricus Inc., the Palo Alto, Calif.-based independent jury research firm that designed and conducted the study.

A defense attorney agreed. "Human nature being what it is, I'm not surprised by the findings," said Bob Monnin, president of the Defense Research Institute in Chicago. "But once a jury knows the facts, I think they take every effort to uphold their oath," said Mr. Monnin, who is with Thompson, Hine & Flory in Cleveland.

The study also reports that 68% of respondents believe juries usually award too much, but 60% say a $1 million judgment against a big corporation is equal to a "slap on the hand." In addition, only 27% of the respondents believe that a lawyer would never lie to a jury.

Briefly noted

The House of Representatives last week rejected a **bank reform bill**, H.R. 2094, after approving an amendment that would have restricted banks' abilities to sell insurance. The Senate continued to debate its own bank reform bill, S. 543, late last week after approving an amendment that would close a loophole allowing certain Delaware chartered banks to sell and underwrite insurance. . . .Alabama Insurance Commissioner Mike Weaver has approved **workers comp loss cost rate increases** of 30% for the voluntary market and 36.5% for the assigned risk market. As a result, premiums for the assigned risk market will rise 24.9%. Voluntary market premium increases will be determined after individual insurers file expense provisions. . . .California Gov. Pete Wilson has quashed a California Insurance Department emergency regulation that would have effectively barred surplus lines brokers from placing **auto coverage** with non-admitted insurers (*BI*, Nov. 11). . . Lloyd's managing agency **F.L.P. Secretan & Co. Ltd.** will cease trading at year-end. The management of its remaining syndicates—545, 1005 and 366—will be taken over by Sturge Holdings P.L.C. . . .Former Lloyd's of London underwriter **Ian Posgate** is back in court, representing himself in a trial over a stop-loss reinsurance contract covering the losses of his former syndicate. . . .The liquidators of insolvent **Mentor Insurance Co. Ltd.** have announced a minimum first dividend to creditors of 10 cents on the dollar payable on March 31, 1992. They intend to pay at least $60 million of the $790 million that creditors are claiming from the insolvent insurer. . . .The Internal Revenue Service should delay the effective date of its new massive **pension non-discrimination rules**, Sens. Lloyd Bentsen, D-Texas, and David Pryor, D-Ark., said last week. Employers should not have to make crucial decisions regarding pension plan design within a few weeks, the senators say. . . .**Aetna Life & Casualty Co.** announced that $1.3 billion of its $21.8 billion commercial mortgage portfolio may have to be restructured or classified as non-performing within the next year if the loans continue to deteriorate. . . .**Royal Insurance Holdings P.L.C.** may receive a 300 million pound ($531.9 million at the current exchange rate) capital injection from two European insurers to bolster its ailing balance sheet after posting its worst nine-month results ever—a 214 million pound ($379.4 million) pretax loss.

McCarran-Ferguson

Continued from page 1

station."

Mr. Hunter, who supports the Brooks bill, said Rep. Brooks "wants to move the bill through the House and give the Senate time to act" in hopes of having President Bush sign the measure next year.

The bill passed by the subcommittee is identical to H.R. 1663, the Insurance Competitive Pricing Act of 1989, which was approved by the Judiciary Committee last year (*BI*, June 25, 1990), but was never taken up by the full House.

H.R. 9 would, among other things, eliminate insurer's exemptions for:

- Price fixing, a term left undefined.
- Allocating regions or customers among competitors.
- Monopolizing or attempting to monopolize any part of the insurance business.
- Tying the sale of insurance to any unrelated insurance product.

Rep. Hamilton Fish, R-N.Y., the ranking Republican on the Economic and Commercial Law Subcommittee, offered three amendments to H.R. 9. All were defeated.

His proposals would have:

- Spelled out that states are primarily responsible for the regulation of insurance.
- Preserved the right of companies with a small market share of a given line of business to draw upon shared actuarial and trending data.
- Allowed incurred-but-not-reported losses to be considered as a loss development factor in determining historical loss data.

Rep. Brooks, who chairs the subcommittee as well as the full Judiciary Committee, opposed all of the amendments and was supported by all of his fellow Democrats except Rep. Dan Glickman, D-Kan., who voted for Rep. Fish's loss development amendment.

Rep. Brooks called his approach to the McCarran-Ferguson Act a "very moderate" one, aimed only at "pernicious" activities like price-fixing.

During the markup of the bill in a committee hearing room with many empty seats, Rep. Brooks said the industry has offered "various and sometimes contradictory" reasons for maintaining the McCarran-Ferguson Act in its current form.

Rep. Fish countered that the antitrust exemptions granted by McCarran-Ferguson are "justified because of the unusual economic and marketplace realties that face insurers."

As Rep. Brooks lit a cigar, Rep. Fish expressed concern that the bill would prohibit insurers from engaging in collective activities like sharing statistical information despite assurances from the bill's supporters that such activities could continue.

Rep. Fish said that a list of prohibited acts under the bill appear to "apply whether or not the particular conduct may be required or permitted under state law."

He noted the "undefined term 'price fixing' " and questioned whether that could apply to "joint underwriting associations and high-risk pools, where the insurers engage in collective activities so as to provide protection for otherwise uninsurable risks or very high risks."

Rep. Fish also pointed out that the bill would allow the Federal Trade Commission to become involved in regulating insurance. The bill would allow the FTC to regulate insurer trade practices like "advertising, claims procedures, sales practices, underwriting and rating classification, policyholder services and the handling of consumer complaints. Clearly, federal regulation of insurance—far beyond what is now the case—will occur if H.R. 9 is enacted," he said.

"This subcommittee is kidding itself if it thinks that the cost of property/casualty insurance is going to go down if we severely modify the McCarran Act in this matter. How can we logically expect companies to charge less for a product when they will have less information on which to base their pricing judgment?" Rep. Fish asked.

Although all the Democrats on the subcommittee voted for the bill, a trio of Democrats questioned its specifics. Each of the three also called upon Rep. Brooks to keep talking with the insurance industry about the measure.

For example, Rep. Romano L. Mazzoli, D-Ky., worried that the bill's provisions could make it more difficult for small insurers to compete.

Yet, he made clear that he supported H.R. 9 at least at the subcommittee level because it can "send a message to the industry and regulators that they better start doing their jobs."

Rep. Glickman said that while he would vote for H.R. 9 at the subcommittee level, he reserved the right to vote against it at the full committee level.

He said he is concerned that the bill could harm small insurers and said that unless changes were made to placate insurance agents who depend on small insurers, H.R. 9 would be "D.O.A." when it reached the House floor.

He also said that when the question of amending McCarran-Ferguson first arose in the late 1980s, insurers were making money and engaging in some practices that might appear to have been price-fixing. But times have changed, he said. Insurers are not making lots of money and the Insurance Services Office Inc. does not issue advisory rates any more, he said. "I wish I could say that changing McCarran-Ferguson is the panacea" for all the nation's insurance problems, but it is not, he said.

The third Democrat questioning the bill's impact on small insurers, Rep. Edward Feighan of Ohio, was even more blunt than Rep. Glickman about his support: "I would not support this bill as it stands in full committee".

Another Democrat, though, suggested that the bill did not go far enough in limiting insurers' antitrust exemptions.

Rep. John Bryant, D-Texas, suggested with some sarcasm that maybe the exemptions that McCarran-Ferguson gives insurers ought to be extended to any industry—like the oil and gas industry—that feels it needs them.

Rep. Bryant then declared his support for the Brooks bill, saying there is "no justification" for continuing the exemptions.

The subcommittee vote "was not unexpected," said David Farmer, vp-federal affairs for the Alliance of American Insurers.

The Alliance will continue its efforts to persuade members of Congress that repealing McCarran-Ferguson would do nothing to "address questions of availability and affordability" of insurance, he noted.

"It's an exact replay of last year," said Marc Rosenberg, vp-federal affairs for the Insurance Information Institute, a public relations group funded by property/casualty insurers. "Radical changes" in McCarran-Ferguson "run directly counter to concerns over the stability and solvency of insurance companies," he said.

"I was comforted by the fact that you have three Democratic members of the subcommittee who expressed strong reservations about the Brooks proposal and urged that he try to work with us," said Peter Lefkin, vp-federal affairs in Washington, D.C., for Fireman's Fund Insurance Co. He predicted that "strong sentiment on both sides of the aisle" for compromise would ultimately prevail.

Conceding that GOP support for McCarran-Ferguson is not "secure," he predicted that Republican opposition to the Brooks bill will be solid because Republicans consider the measure worse than existing law.

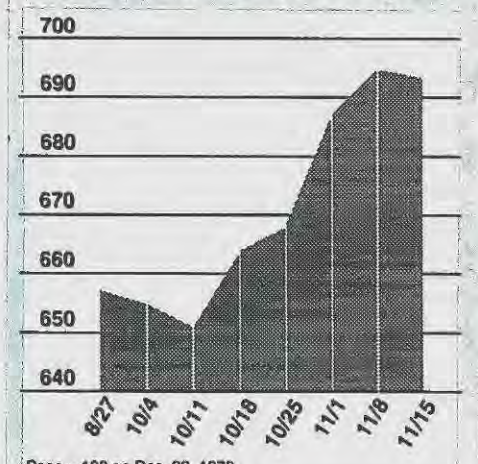
Other observers, though, contend that support for the reform bill is strong.

Linda Lipsen, Washington counsel for Consumers Union, said that the Brooks bill received a "strong vote."

Some Republicans "who say they're in favor of the marketplace" were following the wishes of "special interests and not their ideology" in voting against the bill, she said. But after the Brooks bill is approved by the full committee, some Republicans will support it, she predicted.

Mr. Hunter also predicted that many Republicans would join Democrats in support of the bill. "When it goes to the floor, we'll get a lot of Republicans," he said. "Republicans don't want to go home to their constituents and say, 'I voted for insurance company price-fixing.' " ■

BI Insurance Index



Insurance industry stocks flattened last week as the *Business Insurance* Index fell 0.7 point to 692.9 on Nov. 15 from to 693.6 on Nov. 8. Advancing issues for the week were led by Berkley W.R. Corp., up 10.7%; Pacificare Health System, up 5.9%; and United Fire & Casualty, up 5.7%. Declining insurance issues for the week followed NWNL Cos., down 8.7%; Safeguard Health Enterprise, down 8.6%; and Protective Life Corp., down 8.4%. The most active issue for the period was U.S. Healthcare, with 5.9 million shares traded. The *BI* Index was down 0.1%; the New York Stock Exchange Composite was down 2.3%; the Standard & Poor's 500 was down 2.6%; and the Dow Jones 30 Industrials fell 3.4%.

British Issues

Nov. 14 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commil Union	489	N/M	30.7	6.3	502	489
Genl Accident	483	N/M	35.7	7.4	495	483
Gdn Royal Exch	158	N/M	15.9	10.1	160	156
Royal	291	N/M	34.7	11.9	309	291
Sun Alliance	331	N/M	18.7	5.6	331	319
Brokers						
Bradstock	166	18.9	6.0	3.6	166	166
CE Heath	524	18.2	34.5	6.6	524	509
Hogg Group	203	12.1	10.7	5.3	203	203
Lloyd Thompson	478	24.0	12.0	2.5	478	475
Lowndes Lmbrt	353	17.5	15.3	4.3	354	353
PWS Holdings	84	9.8	4.7	5.6	84	84
Sedgwick Grp	240	22.8	16.0	6.7	243	240
Steel Brrl Jones	329	17.3	16.3	5.0	329	329
Willis Corroon	282	14.8	17.6	6.2	282	279

Source: Philip Olsen, Insurance Industry Analyst, London

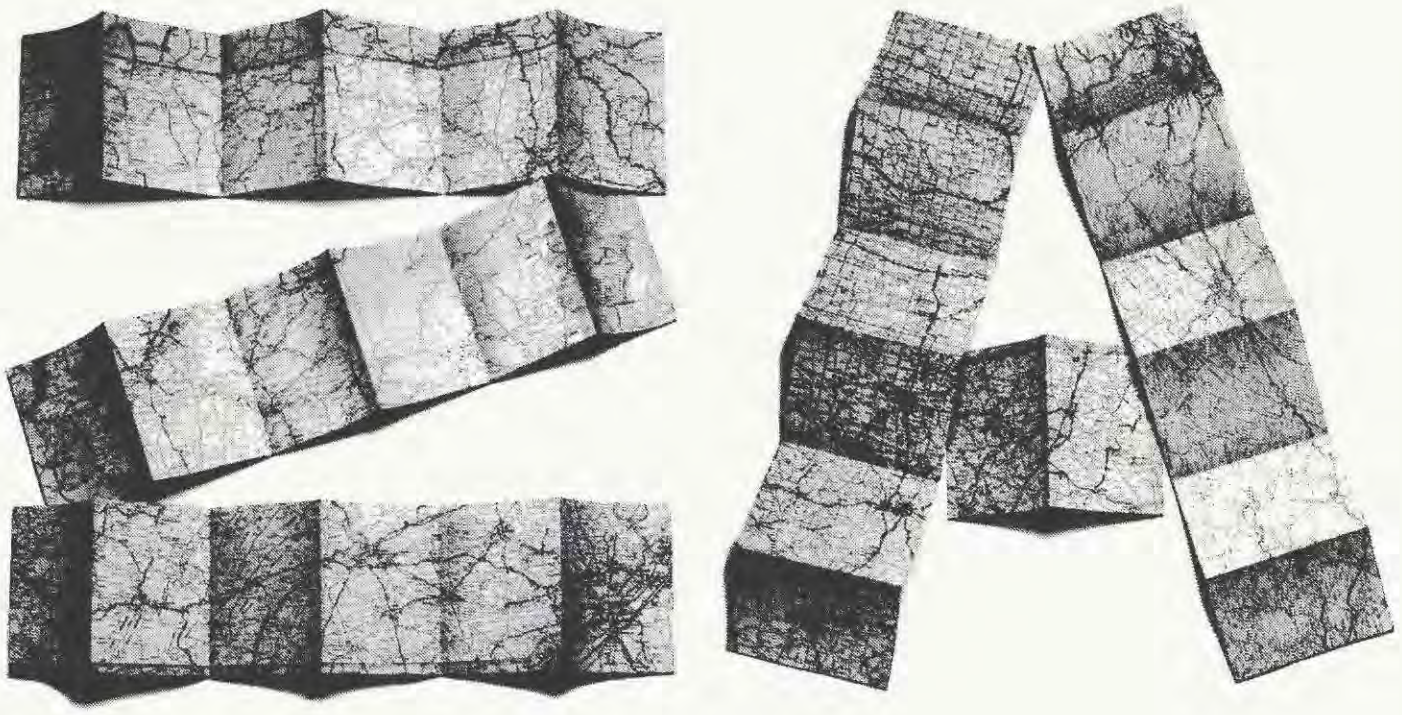
BI Industry Stock Report

NOVEMBER 11, 1991 THROUGH NOVEMBER 15, 1991

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	19.75	-4.24	-14.59	27.63	18.88	322	1.00	5.06	18	9.77	2.02
Gallagher Arthur J. & Co.	NYS	22.63	0.00	-2.69	28.38	19.00	41	0.64	2.83	18	5.88	3.85
Frank B. Hall	NYS	3.38	0.00	-6.90	4.38	2.00	29	0.00	0.00	-5	-5.24	-0.64
Hilb, Rogal & Hamilton	OTC	13.75	4.76	-6.78	17.50	11.25	109	0.40	2.91	24	3.56	3.86
Marsh & McLennan	NYS	73.50	-1.84	-5.77	87.25	69.13	325	2.60	3.54	18	14.77	4.98
Poe & Associates	OTC	11.88	3.26	65.55	12.50	6.50	25	0.32	2.69	13	2.52	4.71
BROKERS	AVERAGE		0.3	7.0					2.4	12		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	28.38	10.73	-24.33	32.25	22.00	234	0.32	1.13	12	23.89	1.19
Berkshire Hathaway Inc.	NYS	8375.00	-1.47	25.47	8375.00	189.06	0	0.00	0.00	-30	4612.00	1.82
ITT (Hartford Group)	NYS	56.00	1.36	16.67	63.00	44.88	1780	1.72	3.07	9	64.01	0.87
Sears (Allstate)	NYS	35.63	-5.32	40.39	43.50	24.38	3753	2.00	5.61	13	37.38	0.95
CONGLOMERATES	AVERAGE		1.3	14.5					2.5	1		
INSURERS/REINSURERS												
AEGON N.V.	NYS	64.75	4.02	3.19	70.63	54.75	18	2.30	3.55	6	N/A	N/A
Aetna Life & Casualty	NYS	38.50	-4.64	-1.28	49.13	31.88	2687	2.76	7.17	8	64.23	0.60
American General	NYS	41.00	-3.81	33.33	43.50	26.50	678	2.00	4.88	10	37.14	1.10
American Heritage	NYS	30.00	1.27	42.86	32.25	19.63	4	1.08	3.60	12	19.25	1.56
American Indemnity/Fin'l	OTC	4.75	-2.56	46.15	7.75	2.75	4	0.08	1.68	14	12.93	0.37
American International	NYS	85.50	-3.53	11.22	102.00	68.13	1482	0.48	0.56	12	45.34	1.89
Aon Corp.	NYS	38.25	-0.97	10.07	41.75	29.75	481	1.60	4.18	11	18.50	2.07
Argonaut Group	OTC	26.00	-1.89	21.88	33.38	19.00	38	0.68	2.62	8	48.26	0.54
AVEMCO Corp.	NYS	23.88	1.60	41.83	27.25	15.50	5	0.40	1.68	18	9.55	2.50
Baldwin & Lyons Inc.	OTC	26.50	0.00	41.33	27.50	17.00	8	0.28	1.06	8	24.29	1.09
Belvedere Corp.	ASE	3.13	-3.85	25.00	3.75	2.00	1	0.04	1.28	13	7.65	0.41
Chandler Insurance	OTC	3.25	0.00	-52.73	7.25	2.13	120	0.00	0.00	-2	5.95	0.55
Chubb Corp.	NYS	68.88	-0.90	26.96	75.25	45.50	1087	1.48	2.15	11	35.19	1.96
CIGNA Corp.	NYS	55.75	4.21	36.39	56.75	36.00	1293	3.04	5.45	11	73.15	0.76
CNA Financial Corp.	NYS	96.00	3.78	39.89	96.00	57.38	86	0.00	0.00	14	70.23	1.37
Continental Corp.	NYS	25.13	3.61	1.01	30.63	22.50	910	2.60	10.35	11	37.83	0.66
Durham Corp.	OTC	36.25	-2.03	29.46	37.75	24.50	31	1.00	2.76	20	28.04	1.29
Fund American Corp.	NYS	66.75	0.38	28.67	67.13	45.00	215	0.68	1.02	11	36.11	1.85
Fremont General Corp.	OTC	23.00	-7.07	58.62	25.25	11.88	242	0.88	3.83	6	19.13	1.20
Frontier Insurance Group	NYS	24.00	-1.03	26.32	25.88	16.03	64	0.00	0.00	9	11.20	2.14
Gainsco Inc.	ASE	11.75	0.00	54.10	12.88	4.50	189	0.04	0.34	15	3.37	3.49
General Re Corp.	NYS	91.00	-1.09	-2.15	102.50	83.75	591	1.68	1.85	13	37.50	2.43
Hanover Insurance Co.	OTC	37.50	1.35	41.51	38.75	22.00	44	0.44	1.17	16	37.44	1.00
Harleysville Group	OTC	18.50	0.00	21.31	21.34	12.16	42	0.64	3.46	9	22.99	0.80
Hartford Steam Boiler	NYS	50.75	-5.14	4.10	63.75	43.63	128	2.00	3.94	14	17.05	2.98
Kansas City Life Ins.	OTC	34.50	2.99	11.74	36.00	30.25	25	1.20	3.48	8	39.22	0.88
Kemper Corp.	NYS	38.00	-3.49	60.00	41.00	19.25	496	0.92	2.42	9	34.20	1.11
Lawrence Insurance Group	ASE	9.50	0.00	35.71	9.63	6.38	3	0.48	5.05	15	4.71	2.02
Liberty Corp.	NYS	45.75	3.98	11.25	48.00	39.00	14	0.92	2.01	14	23.86	1.92
Lincoln National	NYS	52.13	-1.42	21.22	55.25	36.38	465	2.72	5.22	9	45.16	1.15
Markel Corp.	OTC	20.00	2.56	70.21	20.25	10.25	117	0.00	0.00	9	3.22	6.21
Mutual Risk Mgmt. Ltd.	NYS	30.13	-0.82	-	33.50	17.00	211	0.20	0.66	27	-	-
NAC Re Corp.	OTC	24.50	-4.39	-25.76	28.34	19.34	568	0.16	0.65	12	18.90	1.30
Navigators Group	OTC	31.25	-0.79	43.13	35.00	18.75	58	0.00	0.00	18	13.52	2.31
Nobel Insurance Ltd.	OTC	4.50	0.00	50.00	5.13	2.63	246	0.00	0.00	6	7.76	0.58
NWNL Companies	NYS	31.50	-8.70	86.67	37.25	14.38	312	1.40	4.44	8	42.73	0.74
Ohio Casualty Corp.	OTC	44.00	-5.38	7.32	50.25	32.75	926	2.48	5.64	8	36.38	1.21
Old Republic Int'l	NYS	34.00	-1.45	48.63	35.00	19.75	38	0.72	2.12	7	33.09	1.03
Orion Capital Corp.	NYS	32.75	3.97	87.14	32.75	15.50	119	0.92	2.81	9	20.42	1.60
Phoenix RE Corp.	OTC	8.88	0.00	14.52	10.25	6.50	40	0.20	2.25	13	13.30	0.67
Protective Life Corp.	OTC	19.00	-8.43	27.73	23.00	12.50	61	0.84	4.42	8	16.29	1.17
Provident Life	OTC	20.00	-0.62	14.29	24.50	14.38	548	1.00	5.00	6	25.88	0.77
Re Capital Corp.	ASE	14.50	1.75	12.62	18.63	11.75	115	0.20	1.38	12	15.05	0.96
Reliance Group Holdings	NYS	4.50	-5.26	-2.70	7.50	4.25	70	0.32	7.11	3	5.61	0.80
RLI Insurance Corp.	NYS	16.25	1.56	12.07	16.38	11.38	17	0.48	2.95	8	14.41	1.13
St. Paul Companies	NYS	68.00	0.00	8.37	74.25	57.00	155	2.60	3.82	8	52.00	1.31
SAFECO Corp.	OTC	42.13	5.31	28.14	44.75	28.50	1360	1.48	3.51	10	31.50	1.34
SCOR U.S. Corp.	NYS	15.88	-0.78	28.28	16.50	9.63	13	0.24	1.51	9	11.19	1.42
Seibels Bruce Group	OTC	6.25	-1.96	47.06	8.88	4.25	76	0.36	5.76	-89	7.35	0.85
Selective Ins. Group	OTC	16.75	-1.47	26.42	18.00	12.50	97	1.04	6.21	8	18.91	0.89
Statesman Group Inc.	OTC	5.63	1.11	259.88	6.38	1.25	780	0.00	0.00	17	2.48	2.27
Tokio Marine & Fire	OTC	49.50	-1.00	4.76	56.50	40.50	56	0.00	0.00	-	70.93	0.70
Torchmark Corp.	NYS	53.25	-1.84	8.95	58.50	45.63	219	1.60	3.00	12	16.70	3.19
Transamerica	NYS	39.25	0.96	20.31	39.50	29.63	885	2.00	5.10	15	36.56	1.07
Transatlantic Holdings	NYS	35.13	-0.35	28.31	39.38	24.50	119	0.20	0.57	12	18.38	1.91
Travelers Corp.	NYS	20.13	0.63	21.05	25.38	12.50	2214	1.60	7.95	6	41.44	0.49
Trenwick Group Inc.	OTC	26.63	-1.39	15.14	30.00	19.25	108	0.72	2.70	10	21.71	1.23
United Fire & Casualty	OTC	46.50	5.68	32.38	58.00	32.00	0	1.32	2.84	12	35.39	1.31
USF&G Corp.	NYS	6.50	-7.14	-13.33	12.50	6.13	1591	0.20	3.08	-1	11.96	0.54
UNUM Corp.	NYS	75.13	0.84	61.13	75.50	41.25	509	1.04	1.38	12	37.25	2.02
USLIFE Corp.	NYS	46.25	2.49	65.18	46.50	26.88	164	1.64	3.55	10	60.34	0.77
Unitrin	OTC	33.50	-0.37	8.94	41.50	29.25	223	1.00	2.99	13	30.70	1.09
Washington National	NYS	15.38	0.00	41.38	16.00	9.38	49	1.08	7.02	-7	26.86	0.57
USLICO Corp.	NYS	18.00	0.00	13.39	21.00	14.75	36	1.00	5.56	-86	29.44	0.61
Zenith National Ins.	NYS	16.00	-3.03	17.43	18.50	10.25	22	1.00	6.25	133	13.14	1.22
INSURERS/REINSURERS	AVERAGE		-0.8	33.3					3.5	10.4		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	11.25	-6.25	-26.23	29.75	9.88	1615	0.00	0.00	9	5.44	2.07
HMO America Inc.	OTC	12.75	-6.42	96.15	17.13	5.38	926	0.00	0.00	14	0.61	20.90
Pacificare Health Sys.	OTC	27.00	5.88	66.15	42.50	12.50	585	0.00	0.00	14	6.55	4.12
Safeguard Health Enter.	OTC	8.00	-8.57	68.42	8.88	4.13	48	0.00	0.00	19	3.53	2.27
Sierra Health Services	ASE	14.50	4.50	5.45	29.50	9.38	186	0.00	0.00	7	1.78	8.15
United Healthcare Corp.	NYS	63.00	2.86	170.97	64.75	18.38	700	0.06	0.10	30	3.76	16.76
United Medical Corp.	ASE	7.13	1.79	-10.94	10.88	5.88	13	0.20	2.81	12	8.79	0.81
U.S. Healthcare	OTC	33.25	-4.32	13.19	38.00	15.25	5859	0.44	1.32	17	3.38	9.84
HMOs	AVERAGE		-1.3	47.9					0.5	15		
ALL COMPANIES	AVERAGE		-0.6	30.6					2.9	10		

System design: Nordby International Inc.

Who Knows Your Territory Like The Back of Their Hand?



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