EMERSON, REID'S

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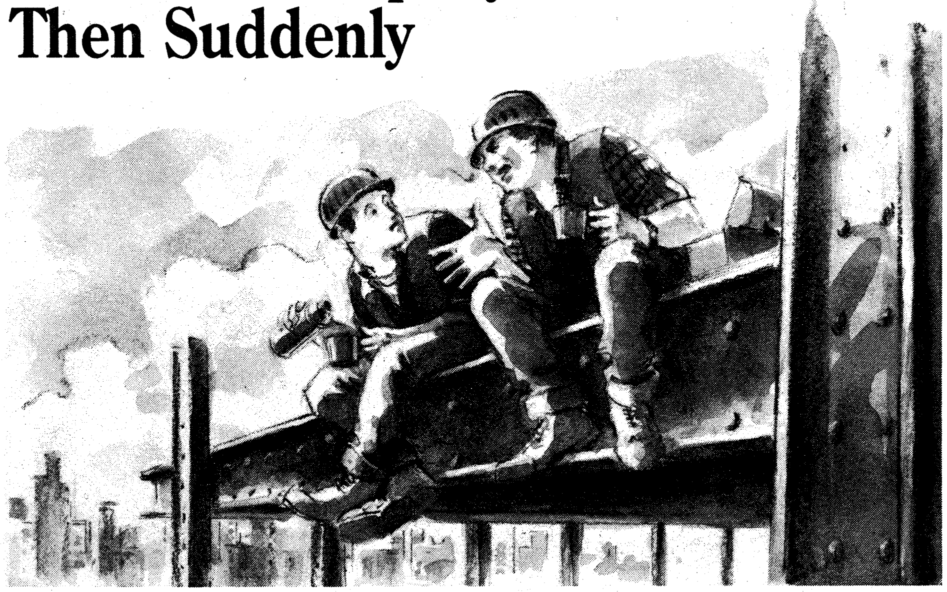
Q: How Does an Insurance Company Go Bust? A: Slowly at First, Then Suddenly



". . . and I say the McCarran-Ferguson Act should be repealed."

Before throwing in the towel to avert a full-fledged run, The Mutual Benefit Life Insurance Company made the usual protests to those who dared question its solvency. On June 27, in a letter to agents, the company called reports of its weakened financial condition "rumors and misinformation." Mutual Benefit asserted it was in a "strong financial position," had "limited exposure to high risk investments," and was not experiencing a liquidity problem. Court papers later showed that at least two of these statements were untrue. Mutual Benefit also asserted that it was no more undercapitalized than (perhaps they meant to say *as well capitalized as*) Mass Mutual, Metropolitan, Minnesota Mutual, MONY, New England, and UNUM.

Just eighteen days after these bold pronouncements, New Jersey's insurance regulators took control of Mutual Benefit, the largest seizure of an insurance company in history. Although the press and the public seem willing to call Mutual Benefit the victim of a run on its assets, documents filed in the Superior Court of New Jersey reveal a somewhat different story. On April 19, 1991, Mutual Benefit met with New Jersey's Insurance Commissioner, Samuel Fortunato, "to advise him of its increasingly precarious financial condition." Mutual Benefit also told the commissioner that it was likely that there would be no profits in 1991 and 1992, and "expressed grave concerns [that] because of its anticipated surplus writedowns" its rating would be downgraded by Standard & Poor's and Moody's. But this information wasn't made public, and Mutual Benefit took pains to deny that a precarious situation existed.

Among those who apparently believed Mutual Benefit's protestations were the rating services. Their credulity raises an important question, one which we've already raised in previous issues: what good is a rating service if it can't tell whether or not a company is safe? Ten days before Mutual Benefit was seized, A. M. Best downgraded the company from A+ to A. An A rating still means "excellent," and one would hardly apply that term to an insurer that was, in fact, as shaky as Joe Namath's knees. In fairness to Best's, it should be pointed out that Standard & Poor's and Moody's also missed the boat. One service that came closer was Weiss Research, which gave Mutual Benefit a C rating. (Of the 1,741 companies rated by Weiss, only 16.2% are rated higher than C+.)

How could those whose lifeblood it is to monitor such things be caught so off guard? Clearly, Mutual Benefit's real estate portfolio didn't go to hell overnight. Granted, it would be difficult to ascertain the *exact date* that Mutual Benefit stopped being an A+ company and became a speculative-grade credit, but it's safe to say that it

Danger Ahead: Mutual Benefit's Finances, 12/31/90

	Ratio of Junk Bonds to: Assets	Ratio of Junk Bonds to: Adjusted Net Worth	Ratio of Problem Mortgages to: Assets	Ratio of Problem Mortgages to: Net Worth
Mutual Benefit	3%	78%	4%	113%
Guardian	3%	27%	0%	2%

	Real Estate to: Assets	Real Estate to: Net Worth	Investment in Affiliates to: Assets	Investment in Affiliates to: Net Worth
Mutual Benefit	3%	99%	7%	198%
Guardian	2%	23%	1%	13%

Source: Insurance Forum, Ellitsville, Indiana.

was a while ago. At year end 1990, nearly 10% of its mortgages were in default and non-performing mortgages totaled 88% of capital and surplus.

If a company can go from an A+ Best's rating to be a ward of the state in less than two weeks, is a Best's A+ rating worth the paper it's printed on, and what does that imply about lesser-rated companies? Since Mutual Benefit's problems became tabloid fodder, all three *major* rating services (Weiss is considered an upstart) have said they would pay more attention to liquidity when calculating their ratings. Best's, to be specific, said it would incorporate a "policyholder confidence factor."

Confidence—like faith, hope, and fear—isn't an easy thing to get a handle on, and measuring it may prove as difficult as trying to catch a greased pig. Until recently people had too *much* confidence in the insurance industry. (We'd bet that the average consumer spent more time choosing a stereo than an insurance company.) Perhaps that's because the 1980s was a decade when everyone wanted to *believe*—despite the facts. The Depression-era mentality of our parents and grandparents had given way to a zeitgeist of easy credit and big spending. It was assumed that debt could be rolled over endlessly and that asset values only went in one direction: up.

Part of the fuzzy thinking that spawned this behavior might be attributed to that classic "less is more" proposition—the Laffer curve—which shows that the apex of the curve is the optimal tax rate. As Kenneth Fisher explains in the *Wall Street Waltz*, "There, the tax-take can't be boosted by raising tax rates, because folks will work less, and it can't be boosted by rate cuts either, because further cuts won't generate harder workers—just less taxes." One slight problem with the Laffer Curve is that there aren't any numbers on it. (Imagine what grade you'd have gotten on your eleventh grade economics term paper if all you'd handed in was a chart with no numbers.) So no one really knows what the ideal tax rate is. It's all guesswork. But the fact that people believed in the Laffer Curve anyway, tells us something about how gullible folks are—they'll fall for anything if you show them a chart and give it a fancy name. The only thing we really know about taxes and government spending is that no matter how much money pours into the government's coffers, more will go out. That's because politicians have as much regard for a budget as Mario Andretti has for the speed limit.

Deregulation also helped muck up the financial landscape. You know the story: As a result of zany tax policy banks and S&Ls helped developers stick office buildings, shopping malls or condos on every level piece of property in America. The lenders got up-front fees, the developers got to roll the dice with someone else's money, and society got stuck with the tab. There was a time when depositors would have shied away from banking institutions that engaged in this type of flagrant behavior, but since the government was guaranteeing depositors . . . well, you get the idea.

And so, many life insurance companies, having been awakened from their somnambulant state by inflation and double-digit interest rates, became the stooges in this high-stakes poker game. As money moved around rapidly in search of the highest yield, the life insurance companies changed their strategies to fit the times, and investment yield became a key feature of their products.

What should you do if your life insurance company is downgraded? "Pray," said Senator Howard Metzenbaum.

The results haven't been pretty. Life insurance companies were always highly leveraged but at least they had hefty profit margins built into their products. That's not true anymore.

Mutual Benefit, for example, had $13.8 billion of assets but just $374 million of surplus. As for profits, who really knows? (The above chart, which shows just how dicey Mutual Benefit's financials looked at year end 1990 compared to The Guardian's, doesn't take into account the $770 million of municipal bonds that Mutual Benefit guaranteed.)

Terrence Lennon, assistant deputy superintendent and chief examiner of the New York State insurance department, recently told a House subcommittee that the life insurance industry underwent "rapid and traumatic changes" during the 1980s. "Volun-

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David Schiff, Editor

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tary surrenders, once a highly predictable occurrence in the aggregate, now can come in waves in response to interest-rate swings or other events beyond the control of insurers," he explained. Too many voluntary surrenders and suddenly you've got a run.

Could a run occur at a healthy insurance company? Mark Puccia, the head of life and health insurance ratings at Standard & Poor's, told the *Wall Street Journal*, "To be frank, there's no financial institution that can sustain a real run on the bank."

Which leads us to ask: are there really any healthy insurance companies? Referring to some of the giant life insurers, former New York State insurance commissioner James Corcoran told us last April, "They're broke, but they're not insolvent." That has a catchy ring to it. Still, we wonder if it isn't a little like calling a disease *fatal but not serious.*

Severe Runs More Likely to Occur

In the July issue of the *Insurance Forum* (published on June 19), in an article presciently titled "A New and Dangerous Era for the Life Insurance Industry," Joseph Belth wrote that Executive Life's failure had sensitized the public, making it aware that it was actually possible for large life insurance companies to go bust, and that "severe runs are now more likely to occur."

Belth pointed out that a new era began in 1979, when E. F. Hutton Life Insurance Company issued the first universal life policy. (Universal life is an interest-sensitive product that offers a higher yield to policyholders and lower profit margins to insurance companies.) This year, in what might be called a fitting touch of irony, E. F. Hutton Life (now called First Capital Life) was seized by the California insurance department, adding some credence to the maxim that those who live by the sword die by the sword.

The life insurance companies have gone to great lengths to spread the message that their industry is sound. Everywhere you look these days they've taken out full-page ads proclaiming their solvency and stability. Stung by headlines such as *The New York Times'* "Financial Plight of a Top Insurer Could Shake Faith in the Industry," and "Conservative Insurer's Woes Threaten Industry," life insurance companies have argued that those who make such statements are fanning the flames of panic and *creating* a problem.

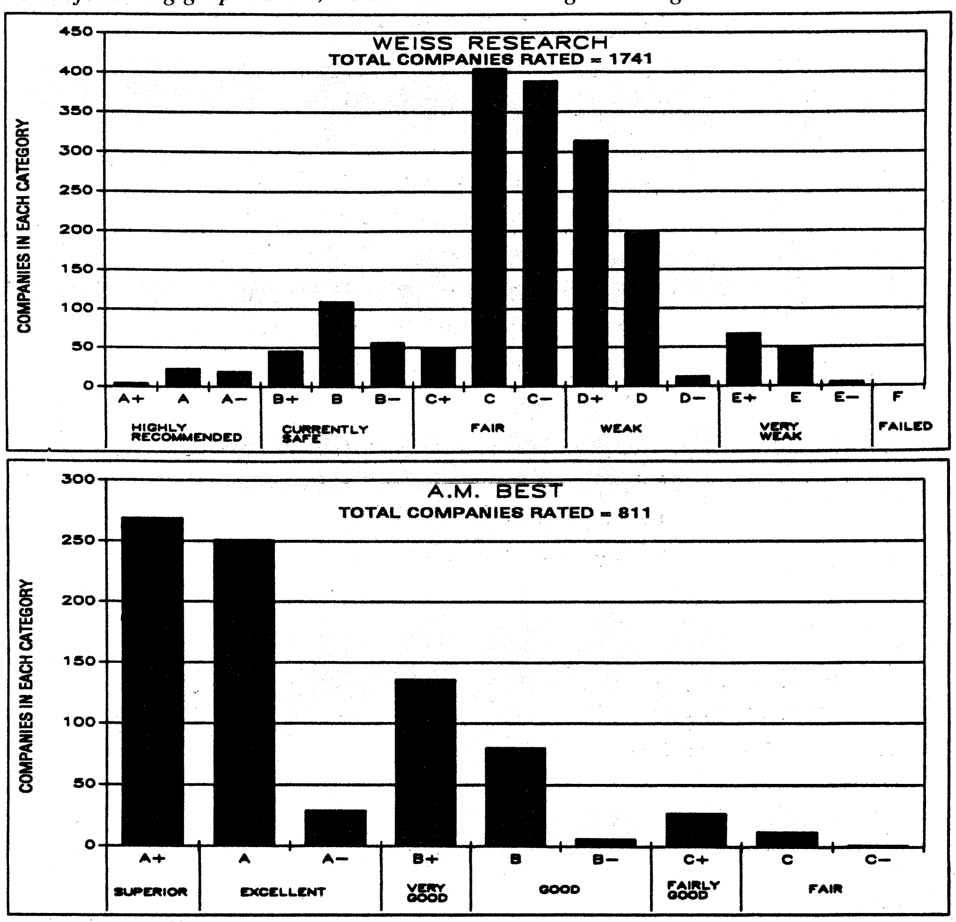
In a recently televised roundtable discussion, a spokesman for the American Council of Life Insurers was outraged when, in response to the question "What should a policyholder do upon learning that his life insurance company had been downgraded?" Senator Howard Metzenbaum answered, "Pray."

Although we think Senator Metzenbaum was being overdramatic—and Jim Bakker isn't around now that we really need him, anyway—worrying about solvency isn't foolish; in fact, accepting as fact that the current situation of semi-panic is overblown might be downright foolish. Let's remember that the whole financial system, bloated as it is with debt and leverage, rests on a foundation of faith. And what does it say for faith in the system when we know that many of the largest banks would be dead meat if the government decreed that they *weren't too big to fail*? While it's probably true that the average life insurance company is in better shape than the average bank, it's also true that policyholders are panicking now and depositors aren't. The reason for this is simple: depositors are protected by the federal government and policyholders aren't.

What about state guaranty funds? New York State, for example, guarantees its resident life and health policyholders and annuitants up to $500,000 per individual and $1,000,000 per group. Although this guaranty fund isn't exactly a secret, state insurance law prohibits brokers from using it as a selling feature. That may be just as

Weiss vs. Best's

As the following graphs show, Weiss Research's ratings are tougher than Best's.



Source: Weiss Research, West Palm Beach, Florida.

well because there's one little caveat to this wonderful guaranty—there's no money in the guaranty fund. You see, New York operates under a post-assessment system, which means that the surviving insurance companies will be assessed to pay for the inadequacies of the defunct insurers. That's dandy as long as problem insurance companies remain isolated exceptions; but if there's an industry-wide solvency problem, watch out. (Mutual Benefit, by the way, is not insolvent. At least that's what everyone keeps saying.)

Which brings us back to the big question: how did Mutual Benefit—the eighteenth largest and fourth-oldest life insurance company in America—go from being the august, conservative company it once was, to what it is today? Why did Mutual Benefit, which survived thirty-three recessions and the Great Depression, bite the dust now? To shed light on this matter we read *Since 1845: a History of The Mutual Benefit Life Insurance Company* by Mildred F. Stone, C.L.U. (Rutgers University Press, 1957). *Since 1845* is not a page-turner. Instead, it's a gentle history filled with stories of when and how Mutual Benefit did the right thing over the years: paying claims that it wasn't obligated to, providing security to thousands, and so on. Still, the book was useful for our purposes, and we've prepared the following brief history:

To say that life insurance was not a popular concept when Mutual Benefit was formed in Newark in 1845, would be an understatement. There were, perhaps, five thousand life insurance policies in America at that time, and life insurance had rather unsavory connotations about it.

Ultraconservative Investment Strategy

Mutual Benefit was started on a shoestring, something we wouldn't advise today. Because there were no American actuarial tables back then, English ones were used. The company's bylaws were conservative, permitting its assets to be invested only in U.S. government, state, and municipal bonds and "mortgages on unencumbered real estate in the States of New Jersey and New York, the real value of which shall in every case be twice the amount loaned thereon."

Within four years Mutual Benefit had over five thousand policies in force, even though *The New York Times* opined at the time: "He who insures his life or health must indeed be a victim of his own folly or another's knavery."

Despite the high death rates from cholera and tuberculosis epidemics in the 1850s, Mutual Benefit prospered and had 7,500 policies representing $25 million of insurance in force by 1860. Total assets were $3.4 million, approximately half of which were invested in mortgages.

By 1869 twenty-five men were kept busy from 8:00 A.M. to 7:00 P.M. six days a week at Mutual Benefit's home office. The Civil War had stimulated the demand for life insurance, and, as with any product or service, whenever there's demand there are always those who will create supply. Stone writes: "Keen competition developed. Unscrupulous and extravagant practices began to appear. The ideal of mutual life insurance as a *cooperative service* became overshadowed by life insurance as a *business* offering big chances of profits for high-powered promoters." Sounds familiar, doesn't it?

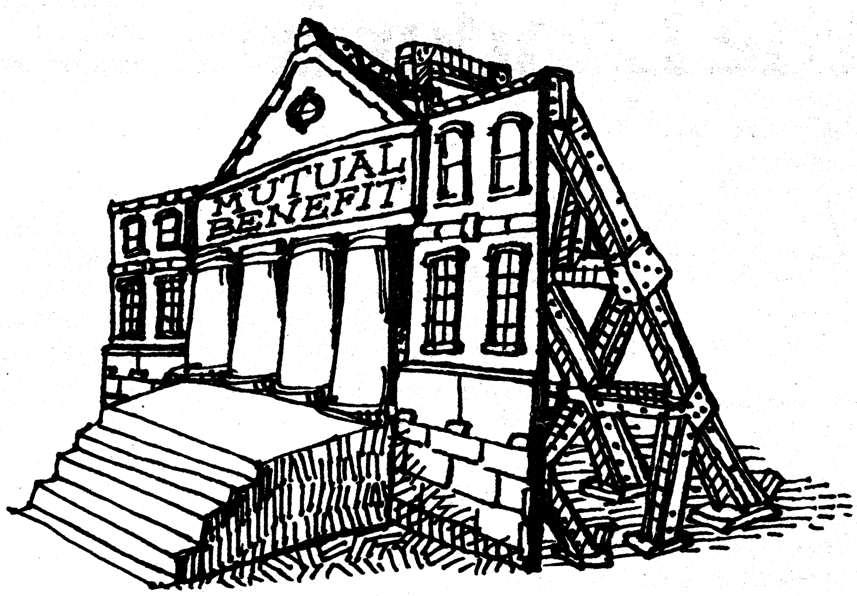
In his 1870 report to policyholders, company president Lewis Grover, a genial-looking lawyer with long sideburns, warned of the dangers associated with this type of behavior. "[There are] one-hundred-and-twenty companies scattered in every section of the country and under all kinds of influences, competing for business and offering all kinds of inducements for it. Aside from the lowering of rates of premium and raising the commission to a fabulous amount, some waive all restrictions to occupation, travel or residence. . . ." This was not the first time, nor the last, that reckless competition would erupt in the insurance industry. Grover predicted that "the coming years will result in a terrible shaking among the companies." He was correct. Two-thirds of the insurance companies he referred to disappeared during the 1870s. In New York State alone, forty-six of seventy-one companies went out of business by 1880, thirty-two of them with a complete loss to policyholders.

In 1879 Grover spoke prophetic words, words that might haunt Mutual Benefit policyholders one hundred and twelve years later, if they choose to ponder them:

> The strength of a life insurance company is not in the dimensions of its business, but in its capacity to give insurance with the utmost safety and economy to its members.
>
> Nothing is gained, and much may be lost, by expansion of business, where expansion does not add to the security, or lessen the cost of its policies.

Two years later, "circumstances" required that Grover resign as president of Mutual Benefit. It's not clear whether he did anything wrong, but Stone describes Theodore Macknet, Grover's successor, as "a team player [who] sought the good of the company rather than self-aggrandizement."

By 1882 Mutual Benefit had begun lending against farms west of the Alleghenies, and the farm-loan portfolio was to increase rapidly after that. Although Mutual Benefit invested heavily in mortgages, company rules forbade employees to "indulge in extravagant or expensive habits, *contract debts* [emphasis added], or otherwise subject themselves to pub-



lic comment or censure."

Mutual Benefit continued to grow and was, according to Stone, a pillar of financial strength. President Frederick T. Frelinghuysen wrote that the Panic of 1903, and the resulting large decline in the company's portfolio, was no big deal: "The depression in the market has been largely in first-class securities [which is just what Mutual Benefit owned], and has been called a rich man's panic. . . . The fundamental principle of our calculation being on a par value, our calculations were in no ways affected by this depreciation . . ."

Commenting on the financial weaknesses of 1907, he echoed similar thoughts: "We have seen market values of certain lines of investment decline, but we have not given the stability of the Company a moment's anxious thought." That type of thinking, while probably reasonable for the financial marketplace of eighty years ago, is certainly out of whack in today's economic environment. Nonetheless, insurance accounting hasn't changed with the times; bonds and mortgages are still carried on the books at their amortized values even though they may be worth far less.

In 1918, when, once again, the company's bond portfolio was underwater, Frelinghuysen reassured policyholders, noting that "we do not have to realize the depressed values, the inflow of cash being always more than sufficient to meet all demands."

Business grew nicely during the 1920s. Stone notes that Mutual Benefit had been an investor in farm mortgages for forty years, and that despite having had to foreclose in considerable numbers during bad periods, the experience overall had been satisfactory. Nineteen-twenty-four was clearly one of the more-than-satisfactory times; Mutual Benefit owned no foreclosed real estate, and the future must have looked rosy because farm investments reached an all-time high three years later.

In 1927 Mutual Benefit built a new home-office building. Stone describes the director's room: "Paneled in rich Circassian walnut, carved at the cornice, with Georgian chandeliers and plaster ceiling ornamentation, the room is rectangular. At one end is a dark Italian marble fireplace, beautifully carved with a design of fruits and flowers. Along one side are leaded-glass casement windows. . . . obviously first quality in every effect but without ostentation and display." With the stock market crash and the Depression just two years in the future, one wonders whether, in those heady Jazz-Age days, Mutual Benefit got somewhat carried away and failed to heed Lewis Grover's dictum of prudence forty-eight years earlier.

The Depression was a difficult period for the insurance industry, particularly the life insurance industry. New business declined, lapse rates soared, and policyholders borrowed against their policies in record numbers. At the end of 1932, policy loans amounted to 27.8% of Mutual Benefit's assets.

Stone repeats the party line when discussing this period: "The Company had no great problem. Even when some bonds defaulted and many mortgages were foreclosed there was still a great stream of money coming into the Company from premiums and interest so that there was no forced liquidation of assets." In the summer of 1991, under economic circumstances not nearly so severe, that would not have been the case.

Mutual Benefit isn't *just* a casualty of bad real estate investments.

On March 9, 1933, in order to prevent a run on life insurance companies, the insurance commissioners of most states declared a "moratorium" on policy loans and surrender values. In most states, this moratorium lasted long after the Bank Holiday had ended.

Stone reports that during the 1929-1939 period, farm mortgages dropped from 33% of assets to 6%, and city mortgages decreased slightly to around 10%. Although foreclosed real estate was over 10% of assets in 1934, Best's reported that "the mortgage situation is fair." Today, with all of Mutual Benefit's woes, the percentage of foreclosed real estate doesn't approach half that of 1934.

Despite the tough times, Mutual Benefit remained a kindly corporate citizen. No home-office employees were laid off, and when the city of Newark couldn't roll over its debt and was on the verge of default, Mutual Benefit and Prudential came through with a $6-million loan.

Mutual Benefit ultimately muddled through the Depression and World War II, but it wasn't until 1949 that the total number of policies in force exceeded 1930's number.

Chastened by the Depression, and perhaps in deference to what it viewed as the call of patriotism, Mutual Benefit increased its government bond holdings from 16.6% of assets in 1940 to 47.7% in 1946, even though Treasuries were yielding less than 3%. Remembering its hundred year old principle, "the first object of a life insurance company is safety," reserves were strengthened in 1944 and 1945.

By 1946 Mutual Benefit had over $1 billion in assets, 12% of which were in real estate mortgages. But the postwar building boom would change all that. Also, in 1945, legislation was passed that allowed insurance companies to invest in real estate directly.

Since 1845 has a happy ending, mainly because the book leaves off in 1957. Stone writes, "The Mutual Benefit Life Insurance Company is a stewardship and service. . . . the ideals of equity, mutuality and trusteeship—the spiritual factors which make the company more than a business—will endure."

The intervening years have not been kind. Mutual Benefit came into the 1980s with a portfolio of mortgages that were safe from a credit standpoint, but low yielding. As other companies began offering higher-yield, interest-sensitive products, Mutual Benefit responded by jumping on the bandwagon. It sold billions of dollars of GICs, mainly to pension funds, and began investing more aggressively (or recklessly.) Not only did Mutual Benefit get burned by its heavy concentration in real estate, it nearly managed to drown while dipping its toes into the leveraged buyout game. One thing seems clear: Mutual Benefit wasn't afraid of making *big* investments. A whopping $1.1 billion of assets was sunk into four loans that are now non-performing. Two of these were real estate, and two were LBOs.

Mutual Benefit isn't just a casualty of bad real estate investments in the heady 1980s; it's a casualty of an arcane way of doing business, of too many insurance companies chasing too few policyholders, and too many lenders chasing too many borrowers. It's a casualty of years of complacency and then days of fear. It's a casualty of the socialization of credit risk and bad federal regulation (too many insured deposits). It's a casualty of the invisible hand, laissez-faire, risk and reward, and competition. It's a casualty of capitalism.

But then, that's the American way.

Mr. Insurance

Last April we decided it might be nice to chat with someone who knows the ins and outs of insurance regulation, so we called up our main man Andy Kaufman and asked him if he could arrange for us to meet such a person. Andy, who's one of the best litigators in town, is a partner at Wilson, Elser, Moskowitz, Edelman & Dicker and he's an all-round nice guy, too. Anyway, he introduced us to his partner James Corcoran, who used to be New York's insurance commissioner.

We had looked forward to our meeting and were hoping that Jim Corcoran would tell us something interesting, like what an insurance commissioner actually does. We know what we'd do if we were commissioner of insurance. For starters, we'd take the Concorde to London to research the insurance market. We'd spend a week or two at Claridge's (and try to find time to visit Lloyd's) before heading to Provence to determine what effect the overcapacity of reinsurance was having on the French countryside. Then, realizing that the availability and affordability of auto insurance are pressing issues, we'd tour the continent with a car and driver, observing the European auto insurance situation at first hand. If, by this time, we still hadn't been impeached, we'd sail for Bora Bora to determine whether or not its residents have a word for insurance in their language.

Jim Corcoran turned out to have a lot more pizazz than we'd expected of a former insurance commissioner. An energetic man with prematurely grey hair and a moustache, he was neatly dressed in a dark suit, crisp white shirt, and blue tie. During our conversation he frequently rose from his desk and paced his expansive photo-filled office. There was a large globe in the corner, and we expected that at some point he'd go over and spin it, but he didn't. Jim didn't mince words, and we found his bluntness refreshing.

"You've got to be a wily guy to be insurance commissioner," said Jim Corcoran.

Before becoming commissioner Jim had been associate general counsel of MONY, a lobbyist in Albany, and a vice president at Prudential. He was rather well-connected politically, and one day he got a call from Governor Cuomo asking him if he wanted to be insurance commissioner.

He did.

"Drunk in the 1980's"

There's plenty to do when you're the commissioner. "You've got to resist everybody," Jim told us. "The governor, special-interest groups . . . There's always a crisis, and there was lot of pressure to deregulate."

In 1983 New York loosened some of its old-fashioned investment restraints, but Jim fought the battle to keep rate regulation. "When you have an industry with guaranty funds, how can you deregulate?"

Our conversation soon turned to junk bonds and solvency, and Jim, not surprisingly, had strong opinions. "This whole country was drunk in the '80s," he said. "The Reaganomics mentality was part of the problem."

In July 1987, after New York placed limitations on the amount of junk bonds life insurance companies could own, Jim testified before a House subcommittee. "The threats to the industry's stability have never been greater," he warned. Although he didn't expect a "gloom-and-doom scenario," he pointed out that no one could predict how junk would fare over the next decade. And he predicted that a "potentially catastrophic shifting of exposure from the Federal Pension Benefit Guaranty Corporation to the various state life insurance guaranty funds" would be the result of the insurance companies' purchase of junks bonds to fund annuities sold to pension plans.

At the time not everyone liked what Corcoran said. "Fred Joseph [the president of Drexel Burnham] tried to get me fired," he said. "Every lobbyist tried to stop me. . . . The pressure—'How can you be right? All these smart guys are doing it.'—was hard to resist."

"So how did you resist?" we asked.

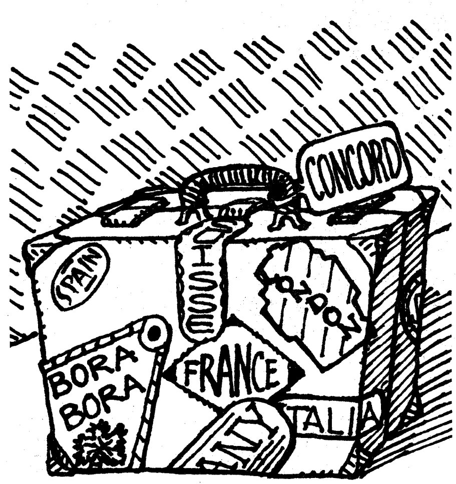
"I'm an arrogant populist," he said with a smile. "You've got to be a wily guy to be insurance commissioner."

We asked Jim if he thought it might be a good idea to do away with state regulation, to turn the regulation of the insurance industry over to the federal government.

"Simple answers to complex problems never work," he responded quickly.

Well then, how about having a federal insurance czar?

"Absolutely not. Every administration comes in with a new philosophy." Besides, "state guys are much more responsive than federal." He illustrated that with a story. "I was once asked—urged—to testify in Washington. In the middle of my testimony, when the cameras stopped rolling, congressmen walked out of the room."



Jim explained that Congress isn't responsive to the issues on a day-to-day basis—which you have to be if you're going to be in charge of overseeing something like the insurance business. "Congress responds to crises," he said.

Get Rid of Guaranty Funds?

Jim also told us that the life insurance industry would have to attract new capital. (Equitable has raised $1 billion since our conversation.) "Someone should chisel 'return on equity' on the [life insurance] companies."

We then brought up guaranty funds, and put forth our opinion that they weren't such a hot idea.

"Politically, you can't do away with them," Jim said. "You could put in a deductible, though." He agreed it wasn't right to guarantee investment products (GICs, annuities, etc.) or large commercial accounts.

The former commissioner doesn't cotton to the idea of financial guaranty insurance either, and he doesn't think banks should be allowed into the insurance business "unless there's the right regulatory structure."

But what about the fact that insurance companies are in the financial services business? He didn't like that much either. "The danger there is the distraction of management."

Nor did Jim think much of our suggestion that insurance accounting be changed. "You can't mark to market," he said. "Matching assets to liabilities" is what's important.

We had got so engrossed in our discussion that we'd lost track of time, but we were reminded of it when Jim told us he had to get going. He gave us a stack of papers and documents to read, we thanked him for being such a delightful conversationalist, and then we took our leave.

On the way back to our office we pondered what Jim had told us. On one hand, it could be fascinating to be the commissioner of insurance. On the other hand, if we didn't get to go to Bora Bora, we're not sure we'd take the job.

They Said It

The insurance industry is always a convenient whipping boy. In an editorial entitled "Bust the Insurance Cartel," *The New York Times* wrote: "The collapse of the multi-billion-dollar Executive Life Insurance Company has riveted public attention on the precarious financial condition of many insurance carriers. But there is another industry problem, just as invidious if less spectacular: price-fixing, restricted coverage and other anti-consumer conspiracies."

Long Term Disability

We don't usually tell insurance brokers what to do, but sometimes we just can't help ourselves. One of the many things that troubles us is that so many brokers—particularly property-casualty ones—are overlooking what may well be the biggest growth industry in the insurance business. What we're talking about is Long Term Disability, commonly referred to as LTD.

Although 85% of American income earners have some form of health insurance, only 27% have *any* form of disability coverage.

Demand for LTD is growing rapidly, and the market is extremely underpenetrated. Although 85% of American income earners have some form of health insurance, only 27% have *any* form of disability coverage. Employees have a much greater chance of becoming disabled than dying. For example, at age 32 a person is $6^1/_2$ times more likely to be disabled for ninety days than to die. Even at age 62 his probability of disability to death is still more than 2 to 1.

Part of LTD's appeal is that today's group policies offer high value coverage at a relatively low cost. As the average life span has increased over the years, so has the average length of disabilities, and in the future it will be the rule, rather than the exception, to have LTD coverage. Herein lies an excellent opportunity for brokers. Think of it: there are ninety-three million employees who have no coverage.

Emerson, Reid has long been recognized as the leading general agent and specialist in the statutory disability market, and we have carved out a niche for ourselves in the LTD market as well. Give us a call. We won't steer you wrong.

New Jersey TDB

Unlike New York, where most of the DBL is written with private insurance carriers, in New Jersey most of the TDB (Temporary Disability Benefits Law) is written through the State Fund, which (obviously) doesn't pay any commissions. That's crazy! Emerson, Reid has a number of very competitive markets that are actively seeking TDB.

In case you need a refresher in TDB, here it is: the law requires employers in New Jersey to provide short term disability benefits to their eligible employees who are unable to work because of an off-the-job injury or sickness.

The benefit is $66^2/_3$% of the average weekly wage to a maximum of $272 per week. Rates are a percentage of the first $14,400 of annual wages per person.

Benefits begin on the eighth day of disability and there is a twenty-six week duration. If an employee is disabled for three consecutive weeks following the waiting period, benefits are retroactive to the first day of disability.

A significant lead time is generally needed to write TDB because there's a decent amount of paperwork involved, so it's important to get started as soon as possible.

Big Real Estate Lenders

Insurance companies holding the largest amount of mortgages and real estate as a percentage of total assets.

	Total Mortgages and Real Estate ($) Billions)	(% of) Assets)
Aetna Life	$20.9	52.4%
Standard Insurance Co.	1.1	51.6
Home Beneficial Co.	0.5	47.6
Travelers Insurance	13.6	46.4
Principal Mutual Life	11.0	46.3
Fidelity Mutual Life	0.5	44.5
John Hancock Mut. Life	12.8	43.2
Teachers Ins. & Annuity	21.4	43.0
Mutual Life of N.Y.	5.8	40.0
Mutual Benefit Life	5.1	39.2

Source: Conning & Co., Hartford Conn., The Wall Street Journal.

LETTERS TO THE EDITOR

"Clammy Cliches"

Enjoyed the June '91 "Observer" and your annual review of the various year end reports. I see you have extracted all the clammy cliches that are in current vogue:

"Repositioning, downsizing, sticking with the basics, being a market leader, targeting niches, restraining growth, making strategic acquisitions, focusing on core businesses."

Isn't it amazing how quickly such phrases are picked up within the industry. It seems that only yesterday the only niche I was interested in was our upstairs bathroom, where I retire for my more serious reading. And a core to me was the part of the apple that goes in the garbage.

I wish that when I started in the business (1954) I began a file on the language of the insurance industry. Just this week a company bulletined us about their consolidation of several offices into one "center." They said this will give them a "leaner organization with better expense control, better focus on their goals and the means to provide better service."

If I had in such a file the notice they used when they first set up the branch offices I am certain the same reasons were given. At least, it sounds awfully familiar.

Anyways, a fine issue, keep up the good work.

J. Patrick Carroll
Ass't Vice-President
A.T. Armstrong, Co.

We love receiving comments from our readers, so please write. Letters should be addressed to David Schiff, Emerson, Reid & Company, Inc., 10 Columbus Circle, New York, N.Y. 10019.