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You Don't Need a Weatherman To Tell Which Way The Wind Blows

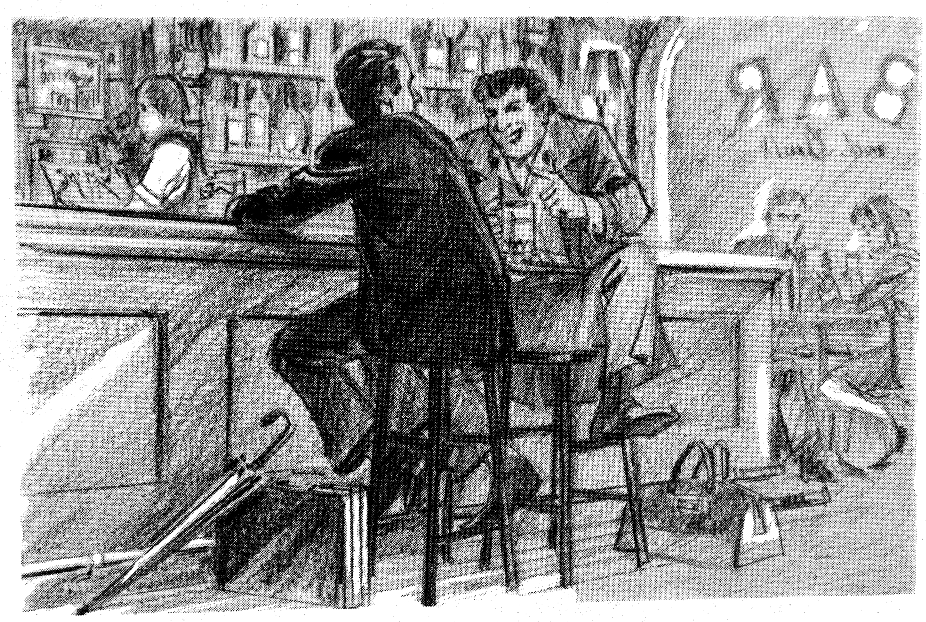
John Garamendi, California's politically-ambitious insurance commissioner, wants to enforce Proposition 103 with a vengeance and roll auto insurance rates way back.

In New Jersey, where auto insurance is the costliest in the nation, Allstate recently announced plans to withdraw from the market when it didn't receive the rate increases it asked for.

What the action in California tells us is what we already knew: that people are mad as hell about high insurance premiums and don't want to take it anymore. What the New Jersey brouhaha tells us is that insurance companies feel the same way about insurance regulators.

But voters have spoken loudly when it comes to insurance; they've said they want something for nothing: low rates, whether or not they're justified. Politicians don't consider that an unreasonable request, since there are many more policyholders than insurance companies.

That's politics. And that's a shame.



"My insurance commissioner can whip your insurance commissioner."

Safety First

We recently met with Peter Hutchings, the executive vice president and chief financial officer of The Guardian Life Insurance Company.

The Guardian is not your a typical big life insurance company. It marches to the beat of a different drummer and has been out of step with many of the financial innovations of the late twentieth century. While other companies boldly went where no life insurance company had gone before, the Guardian stayed home. While others raked in billions selling Guaranteed Investment Contracts, the Guardian plugged away at what it knew best. If this sounds like an indictment, it isn't: it's a commendation, because the Guardian's past shows that plain old good sense isn't a bad strategy. It shows that prudence, simplicity, and frugality can pay off.

So what is it that the Guardian does that's so different from what others do? For starters, it has no high-yield guarantees or debt and has never bought junk bonds or junk real estate. In other words, it didn't stretch for yield during the 1980s. Instead, it concentrated on investment-grade bonds with intermediate-to-long-term maturities. As president Arthur Ferrara noted in the company's low-key

1990 annual report, "These produce high yields on a consistent basis."

The Guardian, which has received the highest ratings from Best's, Standard & Poor's, and Moody's, has been around since 1860 and has paid a dividend every year since 1868. These days it has 3,800 employees and more than 3,000 agents.

We were curious to learn The Guardian's secret to success, so on a brisk October morning we headed down to its world headquarters on 17th street and Union Square, "the low-rent district," as Peter Hutchings calls it. The twenty-story landmark building (which is carried on the books for $868,588, about the price of a small condo in Trump Tower) stands in sharp contrast to the lavish Equitable Building uptown. There are no grand public spaces, no marble, no wood paneling, no inlaid tile, and no expensive art. To say that the executive offices are understated would be an overstatement; they are plain and sparse. Peter Hutching's office, for example, has a big desk, a conference table, and a couch. The walls are decorated with inexpensive reproductions of impressionist paintings and photos of family and vacations.

Peter, who is forty-eight years old and vaguely resembles the actor Scott Glenn, was wearing a blue suit, white shirt, and red tie. He doesn't look like the high-powered financial type that he is.

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INSURANCE OBSERVER

David Schiff, Editor

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1990 Capitalization Ratios

Capitalization is defined as:

$$\frac{\textbf{Capital + Surplus + MSVR + 50\% of Dividend Liability}}{\textbf{Assets}}$$

The Guardian	14.6%
Northwestern Mutual	9.8
New York Life	8.5
Prudential	8.3
Mass Mutual	6.6
John Hancock	6.5
Metropolitan	6.1
MONY	5.9
Equitable	4.9
Mutual Benefit	4.7

Source: Moody's.

Peter is a sensible man by nature and an actuary by training, and one of the first things he told us was that actuaries' reputation for conservatism is a misconception. Referring to First Executive and Mutual Benefit, he said that while "the great debacles have been asset-side debacles," the industry might well see liability-side problems in the future, due to actuaries' aggressive behavior. "Can the life insurance industry, which hurt itself during good times [the 1980s] do well in bad times [the 1990s]?"

We sat across from Peter and peppered him with questions. "How does a conservative company compete?" was our opener.

"We've never been in volatile segments," he answered without hesitation. "We feel that life insurance is sold person-to-person, face-to-face. We sell through our field force, not through banks, credit cards, or the mail. We're not in GICs or Universal Life. The things we didn't do are as important as what we did. We've been able to produce good returns over extended periods without taking risk." Perhaps that's why The Guardian's lapse rate of 7% is well below the 10% median for the top 150 companies.

Peter told us that The Guardian's historical cost on individual life insurance has been one of the best over the past ten to twenty years, and that size has never been its goal. Although The Guardian is the 47th largest insurance company, its $7.5 billion of assets seem puny when compared to Prudential's $133.4 billion.

Peter continued: "In the eighties people thought we were missing something terrific. For example, we could never see the upside of junk bonds. They're called away if they're good and you're stuck with them if they're bad. It didn't seem appropriate." When The Guardian wants to take some investment risk, it opts for stocks, which comprise 7.3% of assets. It's able to invest such a high percentage (for a life insurance company) of its assets in stocks because its capital-to-assets ratio is significantly higher, and therefore more conservative, than most insurance companies. (See chart.)

The Guardian is tight with a buck. It employs no full-time government lobbyists and doesn't even have a corporate dining room, although there is a cafeteria. Corporate vehicles are a no-no. If the president needs to get to a meeting "there are thousands of little yellow vehicles he can take," Peter said, motioning to taxis on the street. "We can't control mortality or investment returns so we have to be careful with expenses."

We noticed that The Guardian had increased its real-estate exposure dramatically over the last five years. Peter told us they've been writing low loan-to-value situations such as mortgages on New York City co-ops where, for example, there might be a $3 million mortgage on a $20 million building. Of course there's nothing exciting about those, and the interest rates are a lot lower than what's earned on more speculative real-estate investments. But they're safe and profitable.

Many insurance companies have played down the various solvency problems of the last few years, and we wondered what Peter thought about that. "I would disagree with anyone who would minimize the impact of what's happened," he said. "Flight to quality is important." As for guarantee funds, he readily admitted that they've "never really been tested," but pointed out that since almost every insurance product one could ever want is sold by one of the top-rated companies, it wouldn't make sense to go with a lesser-rated carrier. We wouldn't have expected any other sentiment of a man whose company has one of the best balance sheets in the business.

Finally, we wanted to know whether The Guardian might alter its investment strategy or change course. "If GIC spreads ever got wide enough we'd go into it," he said.

Although the spreads look skimpy these days, our guess is that someday they'll widen. But that someday probably won't occur until some more big insurance companies get into serious trouble.

When that happens it wouldn't surprise us to see The Guardian jump into the market.

Annuities 'R' Us

While the Guardian has chosen to stick with the traditional life insurance business, United Pacific Life, a subsidiary of Reliance Insurance, has followed a different path. Its forte is selling single-premium annuities. President Terry Kendel recently joked to the *National Underwriter* that "it's occurred to me more than once to change our name to 'Annuities R Us.'"

Neatly summing up what his company does, he said: "What we really are is a non-bank bank. We sell investment products rather than traditional insurance."

We wonder how long it will be before a bank calls itself a non-insurance company insurance company.

The Bigger They Come The Harder They Fall

In 1912, J.P. Morgan shocked a skeptical Senate committee by testifying that character, not money or property, was the basis of commercial credit. J.P.'s standards seemed woefully antiquated during the 1980s when the zeitgeist was buy now and refinance later. As wheeler-dealers took over corporate America with nominal down payments and loads of debt, substandard character as well as substandard collateral became commonplace, and Michael Milken's maxim, "Capital isn't scarce, vision is," turned out to be just a fancy way of saying "A fool and his money are soon parted."

Gary Schulte's *The Fall Of First Executive, The House that Fred Carr Built*, "an insider's account of the biggest insurance failure in history," (HarperCollins, $21.00) is an unambitious history of the junk-bond-loving life insurance company that, as a major player in the funny-money game, shook up the sleepy life insurance industry, helped change the face of corporate finance, and then went bust.

When Schulte signed on as First Executive's chief marketing officer in 1986, he expected to "be exploring new frontiers and traveling at the speed of light." After all, First Executive was such a hot sell that much of his job consisted of *turning away* prospective agents. Despite ultimately losing most of his net worth, Schulte calls the subsequent five years "the richest" of his career. That's due to the soft-spoken, avuncular man at the heart of the story, Fred Carr, the one-time gunslinging money manager who first achieved fame during Wall Street's go-go years when he ran the high-flying Enterprise Fund, which collapsed shortly after his departure in 1969.

Carr was teaching a postgraduate finance course at UCLA and still managing money when, five years later, he joined the troubled First Executive Corporation, then the 355th largest life insurance company in America. He quickly solved the company's debt problem "through a long series of complex transactions" and began building sales by creating annuity products to be marketed by stockbrokers.

With the advent of financial deregulation and high interest rates, Carr understood that life insurance wasn't the mortality business anymore, it was the investment business, and the key to success was the spread—taking money in at one rate and reinvesting it at a higher rate. The introduction of interest-sensitive products such as Universal Life, where the investment component was a key feature, revolutionized the industry. Agents no longer had to sell on the basis of need; instead, they could offer highly competitive investment vehicles. First Executive didn't invent interest-sensitive policies any more than Michael Milken invented junk bonds, but it stepped to the forefront and never looked back.

Although life insurance is—according to the old adage—"sold, not bought," Carr realized that interest-sensitive policies were product driven. That is, the company offering the highest credited interest rate would get the order. The key to the business, therefore, was to invest at a higher yield than your competitors do. But most insurance companies experienced similar investment returns, because for a variety of conservative reasons they usually invested in high-grade bonds and long-term mortgages. Enter Michael Milken.

In an obscure academic treatise written in the 1950s—*Corporate Bond Quality and Investor Experience* —W. Braddock Hickman had shown that a diversified, low-grade (junk) bond portfolio outperformed a high-grade bond portfolio over time, despite experiencing a higher default rate. Milken turned theory into practice and spread the gospel to insurance companies, savings & loans, and investment funds. It was a sound idea because junk bonds still offered good value in the late 1970s and early 1980s.

Although First Executive became Drexel's largest customer—as the "underwriter to the underwriters," First Executive bought into almost every Drexel deal—Schulte has no insight into the Milken-Carr relationship, and his story that they sat down over lunch in the 1970s and "decided to change the course of the financial services industry" sounds like myth rather than fact.

It became a game of "My actuary can beat your actuary," with First Executive's successfully taking on all comers.

Unfortunately, Schulte has made the decision to ignore the guts of the business, the investments: "We [who is 'we'?] won't spend much time analyzing the Milken-Drexel-junk bond saga" he says, since it's been covered by others. That's a little like analyzing Richard Nixon's presidency and choosing not to spend much time on Watergate or foreign policy.

Propelled by the rocket fuel of junk bonds, Carr achieved returns 25-30% greater than many of his well-known competitors, and, in turn, offered that to policyholders. It became a game of "My actuary can beat your actuary," with First Executive's successfully taking on all comers.

Schulte does do a nice job of explaining how Carr arranged his company's balance sheet. Liabilities (which, basically, are the policyholders' money) were structured by their duration, ability to be called upon demand, and probability that they might be called. Assets were invested with interest-rate exposure, liquidity, and yield in mind. The idea was to match the duration of the assets with the persistency of the liabilities, thereby minimizing interest rate and reinvestment risk and (in theory) locking in the spread, or profit. Carr did this better than anyone else, Schulte tells us.

First Executive's greatest growth didn't come from traditional, or even semi-traditional life insurance products, but from single-pay products like annuities and Guaranteed Investment Contracts, which involve only one large premium payment up front. For an insurance company in the asset accumulation game, these are the ultimate products. Key factors in First Executive's growth were its A+ Best's rating and AAA Standard & Poor's rating. Without these it wouldn't have had the imprimatur necessary to attract large sums of money. By the end of 1989, single-pay products accounted for $13 billion of the $16 billion of policyholder liabilities, and the company owned $8 billion of junk bonds. First Executive had become the fifteenth largest life insurance company in America.

The book gets bogged down at this point. Schulte devotes 41 pages to Carr's low-overhead management style, followed by 18 pages of the teetotaling vegetarian's innocuous sayings ("These are the good old days,") and harmless antics such as throwing a pajama party for top producers. There are also long descriptions of lavish (for the insurance industry) sales junkets that would bore even a diehard *Lifestyles of the Rich and Famous* fan.

Schulte's biggest failure, though, is his inability to come to grips with the fact that junk bonds—*because* they were such disastrous investments in 1989 and 1990—ultimately caused First Executive's collapse, and he keeps looking to lay the blame elsewhere. He calls First Executive the victim of "psychomedia risk," which he explains as: "Even though you do everything right, something unexpected will happen, which creates the perception of failure although the facts don't support it. . . . When this occurs . . . the result is a crisis of confidence . . . which leads to an avalanche of policyholder surrenders."

Schulte believes that the company's problems—particularly the "run" on its assets in 1990 and 1991—were "created by the media," and that the chief antagonist was Joseph Belth, an Indiana University professor of insurance who publishes the *Insurance Forum*, an obscure monthly newsletter. Although Schulte concedes that the curmudgeonly Belth is a man of integrity, he makes the ridiculous assertion that Belth (a George Polk award winner) began criticizing First Executive because it was a "circulation booster" that allowed him to become the "propaganda minister for the eastern mutual" life insurance companies. Schulte just can't admit that First Executive's surplus relief transactions, dubious collateralized bond obligations, reserve credits, and reckless concentration of investments defied the spirit, if not the letter of the law, and were dangerous to the well-being of policyholders.

Because he's a salesman at heart, Schulte still believes the hype he fed agents for years, asserting that the "pejorative term 'junk bond' . . . became a self-fulfilling prophecy." He repeats the old Drexel/Milken party line that if there are only 800 companies in America that qualify as "investment grade," then "the debt of every other corporation in America [qualifies] as junk," including the loans that banks make to their "prime" customers. This logic is faulty since banks typically made senior, secured loans whereas junk bonds were usually junior and unsecured.

In the end, Schulte can't even make up his mind about his old boss. He says Carr used "poor judgment" but isn't a "crook," (we agree) but adds, "On the other hand, the proverbial fat lady in the First Executive Opera has yet to sing."

Despite the book's hastily put together feel, inaccuracies, and lack of an index, it's readable and provides a decent overview of some major changes that occurred in the life insurance industry during the past twenty years. But readers looking for a juicy exposé should be forewarned: Schulte is no fat lady.

A version of this article by David Schiff originally appeared in The Nation.

The State Fund Follies

The New York State Workers' Compensation Fund is a victim of politics. In 1986 it adopted a more aggressive accounting posture and began discounting Losses and Loss Adjustment Expenses to their present value using a 3½% interest rate. In 1989 it switched to a 5% interest rate. These accounting maneuvers have created $1.25 billion of additional surplus, a giant sum considering that the Fund's 1990 year-end surplus was only $738 million.

This $1.25 billion of extra surplus is—perhaps not coincidentally—just $45 million less than the sum New York State has taken from the State Fund since 1982. That figure—$1.295 billion—is carried on the Fund's books as a non-interest paying "contingent receivable" with no due date. It represents 175% of the Fund's surplus and 27% of its assets. New York State can ill afford to repay this debt; nonetheless, it seems safe to say that someday that money will be needed to pay claims, and will therefore have to be repaid.

The State Fund's 1990 annual report reveals that during 1990 and 1991 the state shanghaied an additional $87.5 million. Here's how: $30 million was advanced to the New York State Urban Development Corporation (UDC) in return for interest accrued at 10% annually. The Fund also purchased, for $57.5 million, the UDC's beneficial interest in some debt service funds that secured certain project bonds issued by the UDC. This transaction, which has no scheduled repayment date or stated interest rate, entitles the Fund to receive periodic payments from the UDC based on the earnings of the underlying securities and reserve-fund releases.

Was there a purpose to these complicated asset shuffles between state agencies? The past asset transfers from the State Fund—which, in budgetary lingo are known as "one-shots" because of their non-recurring nature—were little more than financial legerdemain intended to give the illusion that the state's finances were better than they really were. Were the latest maneuvers more of the same, or were they something else?

We called Albert C. Todaro, the State Fund's Director of Fiscal Management and Investments, and asked him why the State Fund had done these deals with the UDC. He had a simple explanation: "A law was passed that said 'do it.' "

Technically, that's correct. Chapter 190 of the New York State laws of 1990 added two new sections, 87-g and 87-h, to the Workers' Compensation Law. And those laws directed and authorized these transactions. But why?

Bob Hinckley, assistant press secretary in the state comptroller's office, said it was the same old story: "Both of those were one-shots in the 1990-91 fiscal year." As a result of these transactions, the UDC was able to pass along $87.5 million to New York

The Price of Politics: N.Y. State Workers' Compensation Fund (000 omitted)

Assets		Liabilities	
Total Investments	$3,144,003	Losses and loss adjustment expenses	$3,266,246
Contingent Receivable from New York State	1,295,000	Other	761,162
Due from New York State and Urban Development Corp.	151,765	TOTAL	$4,027,408
Other assets	174,794	TOTAL SURPLUS	$738,154
TOTAL	$4,765,562		

12/31/90

State, which the state then counted as revenues. Hinckley explained that the comptroller's office generally frowns on one-shots and has long protested the raiding of the State Fund. So why does it go on? "The governor and the legislature are unwilling to come to grips with the problems we face," he said.

As it turns out, the $87.5 million upstreamed from the State Fund to the state through the UDC represented just a small portion of the $2.71 billion of one-shots the state took advantage of during the 1990-91 fiscal year. Here are a few of the more colorful examples: $28 million was liberated from the Hazardous Waste Remedial Fund; $25 million was taken from the Court Facilities Fund; $6 million was generated when debt-service reserve requirements at the Health Income Fund were reduced; $115 million materialized when a SUNY interest payment was shifted to the next fiscal year; and, odd as it sounds, $30 million was pocketed when the New York State Thruway purchased the Cross Westchester Parkway.

In the 1991-92 fiscal year the dollar volume of one-shots was cut in half, but "much of that is due to a diminishing source of one-shots," Hinckley explained. In other words, there's not much left to take.

Where will it all end? The State Fund still has $3.2 billion in liquid assets, of which $255 million is invested in—you guessed it—New York State bonds. It remains to be seen whether what's left will prove too tempting for the politicians to resist.

Which brings up a good question: Just how safe is it to be a policyholder of the State Fund? Is it as safe as the safest Best's A+ rated company? Probably not. (The State Fund is rated NA-4 by Best's, because, among other reasons, Best's doesn't give an alpha rating to "companies that discount loss reserves to the extent that the anticipated future investment income represents a significant part of their policyholders' surplus." The Fund's discounted reserves do indeed represent a significant part of policyholders' surplus—169% to be precise.

In terms of policyholder safety it's fair to say that the Fund is safer than New York State's general obligation bonds, which are rated A by Standard & Poor's. But an A rating is hardly an unequivocal seal of approval. Only Massachusetts—which is rated BBB—has a lower rating than New York. (The average state's rating is AA. The lowest "investment grade" rating is BBB-.) The State Fund is so dependant upon New York state's creditworthiness because money owed to the Fund by the state and state agencies represents 221% of surplus.

We talked with one of our anonymous sources at Best's and asked him what alpha rating the Fund deserved. Although he didn't say the Fund was a house of cards or an accident waiting to happen—it's not in the nature of rating services to say such things—he did say, "There's no question that they have a large exposure."

In that respect, the Fund is not very different from many other government agencies that face potential financial problems. The federal government can always print more money. New York can't do that, but it has been able to sell bonds, the next best thing. Of course those bonds must eventually be repaid.

Hopefully.

Riding the Railroad to Paradise

One weekend not long ago we decided to visit the The Railroad Museum of Pennsylvania. It took longer than we expected to get to Strasburg, where the museum is located, and the surrounding Amish country wasn't quite as lovely as we remembered it from our last visit to the area twenty years earlier. The museum—a windowless brick monolith rising out of the gently rolling fields—is no beauty but it does have quite a collection: sixty-five units of rolling stock, lanterns, uniforms, timetables, signals, passes, station signs, bells and whistles, photographs, artwork, and other assorted memorabilia from the glory days of American railroads.

The core of the collection comes from the Pennsylvania Railroad, which at its peak operated over 10,000 miles of track, owned 7,000 locomotives and 282,000 railroad cars, and moved more freight and passengers than any railroad in the world.

The Pennsy was formed in 1847 by a group of Pennsylvania businessman, and, over the next few decades absorbed hundreds of other railroads, many of which had fallen on hard times.

By 1880 the Pennsy was the largest industrial employer in the United States, with 95,000 workers, and its tracks snaked through Pennsylvania, New York, Ohio, Michigan, Illinois, Indiana, Virginia, West Virginia, New Jersey, Washington, Delaware, North Carolina, and Kentucky.

The Pennsy and the New York Central fixed prices by buying control of smaller railroads.

Competition was fierce in the free-for-all business climate that prevailed at the time. The B&O, the Grand Trunk, and Cornelius Vanderbilt's New York Central all competed vigorously for traffic by slashing freight rates. The Pennsy secretly rebated money to John D. Rockefeller's Standard Oil.

In a corner of the museum stands a larger-than-life-size sculpture of Alexander Cassatt, one of the rail giants of yesteryear. Cassatt, an engineer, able executive, and visionary, became the president of the Pennsylvania Railroad in 1899. "He restored profits," writes Tom Buckley in *The New Yorker* "by establishing what became known as a 'community of interest' with the New York Central. The two railroads, like sovereign states, established spheres of influence by buying enough stock in smaller lines to end rate-cutting wars." Cassatt's greatest accomplishment, however, was gaining direct access to New York City. This entailed the planning and construction of the New York Extension, the cornerstone of which was Pennsylvania Station in Manhattan.

Although the Pennsy was the "standard railroad of the world," until Pennsylvania Station was completed, passengers had to debark in Jersey City and take ferries to Manhattan's west side. The monumental Pennsylvania Station—it was based on the Roman Baths at Caracalla and was the largest privately financed construction project of its time—was a *through* terminal that let the Pennsy capitalize on its more direct route to Chicago than that of its archrival The New York Central.

The New York Extension included two tunnels under the Hudson from New Jersey, tracks across Manhattan, and four tunnels under the East River to the western tip of Long Island. There the rails linked up with the Long Island Railroad at the Sunnyside railyard, then turned north, climbed a giant ramp over Queens, crossed the churning Hell Gate Channel on the world's largest arch bridge, and eventually met up with the New Haven Railroad.

The Hell Gate Bridge was, in Buckley's words, the Pennsy's "triumphal arch." Still, it was debatable whether, in 1917, it was sensible to build a four-track bridge when a two-track one would have been satisfactory for the foreseeable future. *The Railway Age Gazette*, however, noted that, "The Pennsylvania, it is true, builds for 50 years in the future."

"If the Pennsy had known what was coming in fifty years," Buckley writes, "it would not have built the Hell Gate, or anything else," because passenger cars, trucks, and airplanes would gradually chip away at the rails' dominance.

By the 1960s the Pennsy was in such financial straits that Penn Station, "one of the great structures of the industrial age," was torn down and replaced by the characterless Madison Square Garden and a complex of ugly office buildings.

In the spirit of the times, the Pennsylvania Railroad then turned itself into an ill-conceived conglomerate. It bought pipelines, real-estate development companies, amusement parks, and a manufacturer of aluminum truck trailers. In 1968 it merged with the New York Central, to form Penn Central. Two years later it went bankrupt. The passenger lines were taken over by Amtrak and the rest of the railroad eventually became Conrail.

At The Rail Road Museum of Pennsylvania we were reminded of the Pennsy's golden years when we viewed the *Lotos Club*, an 82-foot long deluxe sleeping car produced by Pullman in 1913. By the 1920s, 100,000 people a night slept on the nearly 10,000 cars operated by Pullman, making it "the largest hotel operation in the world." Also on view was the *Western Maryland Business Car #203*, a "mansion on wheels." Four executives could travel on this car, which included two master bedrooms, a dining room with mahogany paneling and ornate silverware, a stainless steel kitchen, a smoking parlor, and a live-in staff of three.

After wandering around the museum for a while, we decided to take a ride on the Strasburg Rail Road, located right across the street. The Strasburg, one of the oldest railroads in the country, was formed fourteen years before the Pennsylvania Railroad. Its long decline began at the turn of the century when a trolley was built between Lancaster and Strasburg, thereby eliminating passenger traffic. By 1958 freight traffic had dried up too, and petitions for abandonment were filed. That year a group of rail enthusiasts purchased the railroad and set about restoring it. Today, the only journey the railroad makes is to the town of Paradise and back.

The nine-mile forty-five minute round trip on the Strasburg's old rail cars pulled by a 1924 Baldwin steam locomotive takes one through the heart of Pennsylvania Dutch country. The right-of-way cuts through fields and farms, and we passed some Amish families in their horse-pulled buggies. It's a pleasant but touristy trip—not that we expected anything else. After all, traveling twelve miles an hour by steam locomotive isn't the most practical means of getting around these days.

Although a brochure told us that "Strasburg has it all," Choo Choo Barn Traintown, the Dutch Treat Motel, the Village Green Miniature Golf, Don's Baseball Cards, and Ed's Buggy Rides are not what comes to our mind when we think of the word "all." Besides, we're the restless type, so we left Strasburg late in the afternoon and took the long way home, heading west to Brownstone, where we dined at the Brownstone Restaurant. (We often get our eating ideas from *Road Food* and *Good Food*, Jane and Michael Stern's indispensable books dedicated to the glories of cheap regional cuisine.) The Brownstone Restaurant is an old coffee shop/diner kind of joint with blue wainscotting, white walls, and checkered tablecloths. Except for two older waitresses with bird's nest hairdos, the place was empty when we arrived a six-thirty.

Our meal consisted of what is known as Dutch cooking. We started with a local specialty called red beet egg, followed by lettuce with sweet hot bacon dressing, homemade baked beans, and scrapple. Scrapple is a regional dish that consists of a pan-fried mixture of pork trimmings (that's a fancy name for pig's feet and assorted scraps) that are mixed with corn meal and shaped into a thin hash-like filet. "Lots of people like it with syrup," our waitress told us, "but we always eat it with ketchup." So that's the way we had it. For dessert we downed a piece of shoofly pie, which the dictionary describes as a rich concoction of "molasses or brown sugar sprinkled with a crumbly mixture of flour, sugar, and butter." As if that wasn't fattening enough, we topped it off with whipped cream.

On the way back to New York we listened to railroad songs, among them "The City of New Orleans," Arlo Guthrie's great lament for the demise of passenger trains, the title of which is based on the old Illinois Central daylight coach service to the Gulf, the *Spirit of New Orleans*. This was "the train of the ordinary man, as was the Illinois Central itself," writes Terry Pindell in *Making Tracks: An American Rail Odyssey*. And it was along that route that John Luther (Casey) Jones ran his locomotive at top speed into another train and inspired the classic folk song.

That night, as we drove along the highway, we decided we wanted to spend some time riding the steel rails, viewing an America that is mostly unknown these days.

We'll let you know what it's like.

Long Term Disability

It troubles us that brokers—particularly property-casualty ones—are overlooking what may well be the biggest growth industry in the insurance business: Long Term Disability, commonly referred to as LTD.

Demand for LTD is growing rapidly, and the market is extremely under-penetrated. 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 93 million employees who have no coverage.

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

Age	Rate of Disablement per 1,000 lives
Under 40	2.06
40-44	3.54
45-49	5.60
50-54	7.84
55-59	13.39
60-64	17.21

Source: Society of Actuaries.

They Said It

"If a company is going to become insolvent, then if a rating agency precipitates that happening sooner than later, it is doing everyone a favor."

Peter Hutchings, Chief Financial Officer
The Guardian Life Insurance Company

New York DBL

The state of the New York State DBL market is a subject that is, of course, near and dear to our hearts. Although several years ago many were predicting that this market would become stagnant—that a few insurance companies would divvy it up in a cartel-like fashion—this hasn't materialized. In fact, the opposite occurred. Today there are more aggressive players underwriting DBL than at any time in recent memory. (We're proud to say that a number of these companies were introduced to the market by Emerson, Reid & Company, or have written their business primarily through us.)

Emerson Reid's expertise, market share and number of markets is unrivaled.

The significance of this is something we've said before: No insurance company comes through for you all the time. Therefore, you can't afford to limit yourself to a handful of DBL carriers. Since Emerson, Reid's expertise, market share, number of markets, and competitive posture is unrivaled, we think it makes good sense to do business with us.

LETTERS TO THE EDITOR

I read your Insurance Observer and find it extremely interesting. I want to thank you for providing most interesting information pertaining to our industry.

Robert E. Wiener, CLU
Syosset, N.Y.

Friends describe your publication as one of the best, and now that I've seen a copy I agree.

Dave Goodwin
Surfside, Florida

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.

We are also interested in publishing articles by our readers, so call if you've got a good idea.