

➤ **Experience Rating**

Pension failure (“National Treasure,” Inside Track, January/February 2007) is not an insurable event, a necessity for any kind of successful risk pooling. Insurance only works if the event being insured against is (a) random in occurrence; (b) of significant economic consequence; and (c) something the insured wants to *not* happen.

Insurance against pension failure fails the first and third of these criteria. Pension failure is anything but random. It is a direct consequence of bad management, bad foresight, or bad luck, but it is not unforeseeable in the sense that it could be diverted, if not completely prevented, if steps were taken well in advance. Moreover, unless there is in place a body of regulations that would make the Internal Revenue Code look like light reading, pension failure will be completely within the control of the plan sponsor.

What could be more beneficial to a struggling business than to be able to

offload a large future liability in exchange for a premium that declines as the business declines? Under ERISA, foisting a pension onto the PBGC has some very nasty consequences for the plan sponsor, but that hasn’t stopped companies from doing it. But it’s done only when it’s in the interest of the business to do so.

One of the earliest forms of employer-sponsored employee benefit coverage was workers’ comp, which began about 95 years ago in the woods in Wisconsin. When the early insurers went to set the initial rates, it was a bit of a crapshoot, but before very long they had a pretty good handle on things. However, shortly after insurers got a solid rating basis, employers began demanding that their group’s rate reflect its own experience. You can find papers in the Casualty Actuarial Society archives dating back to the ’20s on the topic of credibility—how much we should believe an employer’s own experience.

From that day to this, every employer of any size either wants experience rating

if he’s confident he’s “better” than other comparable employers or pool rating if he’s confident he’s worse than the rest. It’s true for workers’ comp and for employer-sponsored medical, dental, life, disability, etc. The same thing would happen with pooling of pension risks, unless there was that body of regulations that makes the Internal Revenue Code look like light reading.

The union plan regarding pensions after World War II was indeed very communal, but even if it had been in place, who would, in 2007, be paying for the legacy industries whose pensions have failed? It is unreasonable, and unworkable, to ask the shareholders of Microsoft to help pay the pension freight for Bethlehem or any of the other steel companies. It’s even more unlikely that they would agree to do so. Bethlehem itself was a victim of evolution—some other country’s steel industry and political landscape made the U.S. steel companies nonviable.

Bethlehem as a steel company did the

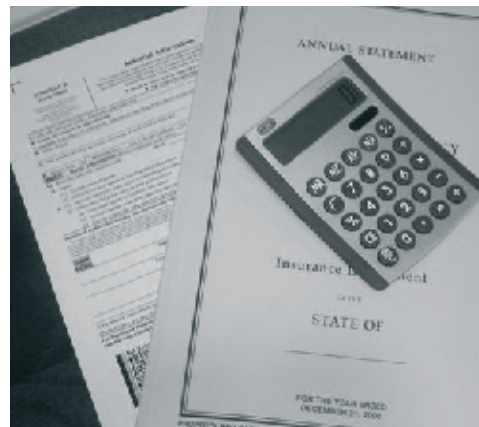
Does your lawyer understand:

- A. The difference between Schedule P and a Schedule B?
- B. IBNR estimates based on the BF method?
- C. Reinsurance commutations?
- D. Viatical settlements?
- E. The ASOPs?

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best it could under the circumstances, but it's not clear their advisers did all they could. If every dollar of pension benefit had been fully funded at the time it was earned, the pension debacle wouldn't have happened, but that's not the way actuaries did their work and it's not what the IRS permitted as a deductible contribution.

I'm obviously skeptical about how this might work. If the program is voluntary, the "bad" pension risks will flock toward it but the "good" ones will want to remain fully experience rated on their own experience. If it's mandatory, we might as well stick with the PBGC. And as you noted, politically it's a non-starter. Interesting in concept, but I don't see how it would work in practice.

DENNIS BARRY
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> Unequal Equation

Tia Goss Sawhney's article in the January/February 2007 issue on applying auto insurance principles to health in-

surance raises a point that is constantly missed. The problem she describes occurs because people confuse "health insurance" with "medical care." When addressing their needs, what they want would be accurately called medical care, not health insurance.

Every time we hear this misstatement occur, as actuaries, each of us should cause the conversation to pause for a moment while we point out that the person is not talking about insurance at all but rather is talking about their medical care desires. Once people start to understand that, then we can engage them in the useful discussions that Ms. Sawhney suggests at the end of the article.

GABRIEL SHAHEEN
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> High-Tech or Rust Belt Pensions

I don't need a few pages to raise some issues regarding the proposal for pooling corporate pension and health risks.

First, this doesn't require a lot of theoretical argument, since there are plenty of

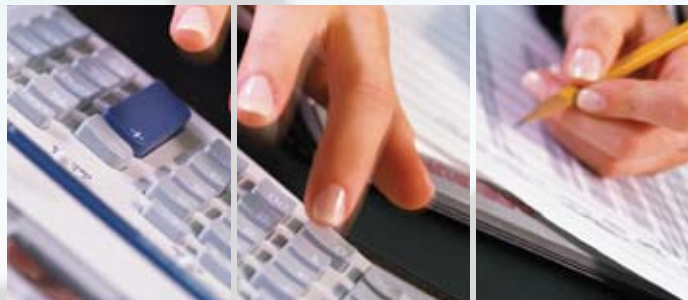
examples of countries where corporate pension and health risks are effectively pooled. This is true in most European Union countries. In these countries, every company pays, generally through taxes, a broad average cost per worker to cover pension and health risks. This gives employers in industries with older workforces a competitive advantage over similarly situated employers in the United States. On the other hand, it gives companies with young, healthy workforces a competitive disadvantage. Do you think it's any accident that most high-tech start-up companies are located in the United States?

Making individual companies responsible for their own pension and health risks has undoubtedly hastened the transition in the United States from rust belt to high-tech. While we probably could have done a better job mitigating the adverse effects of this transition on some workers, overall I think the country is better off.

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