



# COMMONWEALTH AUTOMOBILE REINSURERS

225 Franklin Street Boston, Massachusetts 02110

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RALPH A. IANNACO  
PRESIDENT

## TRANSCRIPT OF MEETING

### AD HOC PERSONNEL SUBCOMMITTEE

A meeting of the Personnel Committee was held at the offices of Commonwealth Automobile Reinsurers, 225 Franklin Street, Boston, Massachusetts, on

**WEDNESDAY, DECEMBER 9, 2009 AT 1:00 P.M.**

Committee Members present –

Mr. William F. Hofmann, III – Chairman  
Provider Insurance Group, Inc.

Mr. William J. Cahill, Jr.	The Hanover Insurance Company
Mr. Andrew J. Carpentier	Quincy Mutual Fire Insurance Company
Mr. John V. Kelly	The Commerce Insurance Company
Mr. James M. MacPhee	Liberty Mutual Group
Mr. Robert P. Suglia	Amica Mutual Insurance Company
Mr. Joseph A. Vargas	Vargas & Vargas Insurance

Substituted for:  
N/A

Not in Attendance:  
N/A

**PROCEEDINGS**

*(Meeting began at 1:10 p.m.)*

Mr. Hofmann: Thank you, everybody. As a started to say, we had to wait until we got the recorder on so we can be official. This group has been formulated as a result of the Budget Committee meeting, and we're known as the Ad Hoc Personnel Subcommittee, and we're supposed to report to the full Personnel Committee, of which I am the chairman of that, which is why I made myself chairman of the ad hoc subcommittee to keep life simple.

Basically, and Buddy is going to go through the information as charged and have everybody introduce themselves. Basically, what we're trying to do is to collect information on benefits that are provided within the insurance industry to compare CAR to what is out there in the industry. And, with that, I'll be quiet for a minute and make some comments later and turn this over to Buddy.

Mr. Iannaco: What I thought we could do, as a result of the direction of the committee to get our HR people from the various companies here to gather information, we did ask for people from the various companies to attend. So, I'd like to introduce who is here today. We were going to have Kathleen Moynihan representing Commerce, who is the Senior Vice President of Human Resources at Commerce, representing Commerce at this committee. She was unable to make it today, so Dave is going to substitute for her this morning.

Mr. Hofmann: This afternoon.

Mr. Iannaco: This afternoon, rather. I'm still at the Audit meeting, forgive me. Oh before I begin, I should point out to those people who haven't been here, we function under the Open Meeting Law at CAR, so therefore everything is recorded and we do a very formal procedure. We have an agenda and we will have a transcription of this meeting that will be available, and so anything you say will be on the Record. We want to advise you all of that. And, it is an official Record that does go into our archives.

Continuing, so I said Dave will be representing Kathleen from Commerce at the meeting this afternoon. Next to him Jim MacPhee from Liberty has indicated he would be in today representing Liberty and may be consulting or has consulted with his HR Department and will use them as he sees fit. Jim is a member of the CAR Governing Committee. Joseph Vargas is an agent who is a member of the CAR Governing Committee. Sitting at the far end of the table is Dan Johnston, who is the President of the AIB. And, we were asked to have Dan to come aboard because as an industry funded entity, the AIB has gone through some benefit changes and the committee has asked if Dan

could be present to either answer some question or provide some insight as to what has been happening at the AIB.

Continuing around the table we have Scott Boyd, who is the director of compensation and benefits for Amica Mutual Insurance Company. Bob Suglia who was originally named to the committee has indicated he would be attending some meeting and Scott would also be attending some meetings. Next to Scott is Ms. Luann Smith, who will be representing Quincy Mutual. Luann is the Vice President of Human Resources at Quincy Mutual.

Obviously we all know Bill Cahill, who is the Vice-Chairman of the CAR Governing Committee and General Counsel to Hanover Insurance. To his left is Rosanna Stattler. Rosanna Stattler is the attorney that we have engaged during this benefit review process who has been at the meetings, and who has been advising us as to what legal issues or impairments do exist as we go forward with any changes that we make or contemplate making. Joyce Quinn is obviously our Executive Secretary.

To my immediate right is Erik Barca. Erik is an actuary from Towers Perrin, who has been also commissioned to work with us to review our benefits, and Erik presented an overview of our Defined Benefit Program, 401k program and retiree health issues at the Budget Committee meeting of last month. Bob Alessi is my Director of Human Resources, and Nat Hubley is our Vice-President in charge of our Finance and Actuarial Department. I am Buddy Iannaco, President of CAR. And, the Chairman of the subcommittee is Mr. Bill Hofmann, who is also Chair of the CAR Governing Committee. So, that's an introduction to all of you.

And, while you are here today, we did not expand the original group to other company representatives. When Bill set this up, he thought it would be good to bring in sort of a key, for lack of a better word, members of the Governing Committee, sort of to lay out the parameters of where we think this committee should go to try to keep this ball rolling in a timely fashion. So, that's kind of a quick overview of what we have. And, for those people that are new to this committee, I can tell you that at our Budget Committee meeting we were asked to provide our committee with some budget information and present a budget to them, which we did. And, we have now been directed to commence this Employee Benefit Review, thus the creation of this committee. So, that's sort of a quick scenario of where we are, I think, Mr. Chairman.

Mr. Hofmann:

Yup.

Mr. Iannaco:

And, I'll hand you back your gavel.

Mr. Hofmann:

Thank you.

AHPS

09.03 CAR Employee Benefits

Mr. Hofmann:

I think the concern of many of the Governing Committee members has to do with what kinds and types of benefits are we providing at CAR in relation to what is going on in general in the industry. Of course, this industry includes a tremendous conglomeration of types of entities out there. You know, you've got two agents sitting around the table here who, you know, have very different kinds of benefits that we provide out there for our staff a lot of times than the companies do. You insurance companies, by the way, and again this is just minimal knowledge here, are all over the lot on the kinds and types of benefits that you provide for people. And, then we've got some industry groups like, Dan, representing AIB and the Worker's Comp. Bureau and the Fair Plan, which are, you know, entities in our industry and integral part of what we do. And, their benefit structure, again, is quite different from what looks familiar to me. And, in addition, in my outside life, I'm the Vice-Chairman of the Finance Committee in the town of Belmont. So, I have all kinds of fun looking at the benefits that we provide to employees; the health insurance, the retirement programs, etc., etc.

So, I think where we're really at now, is trying to get—the thing I think is the first thing we need to do in this group, is to collect what it is that people do out there. Meaning, the companies, the agents, the associations, etc., so that we have some sense of what we're actually comparing ourselves to. And, it's more than just what your particular company does, or those in case our particular agencies do, because agents are all over the lot in the benefits they provide. I spent a lot of time talking with agents, and we talk about what kind benefits we provide, and you know, many of us in the agency land, for example, have started to reduce benefits for employees out there. Many of us have not handed out raises for two years in a row now. You know, everybody knows what the economic times are driving out there.

But, I think that the—what I would like to see us do is collect what's going out there and see when we compare it with CAR, where does CAR fit in with the benefit structure, because I think the companies have got some very serious questions on what we're doing and is it too much. Let's just lay it out on the table. Is CAR too generous with their benefits? That's what the real question is and the real issue, I think, has come down to. And, we had two companies that voted not to approve the budget. And, the whole reason came down to, I think, the benefit structure.

So, that's kind of where we are. Buddy are you...

Mr. Iannaco:

I guess. I would defer to the committee for any questions they have. But, perhaps for some of the new of the people that were put on this committee, I can let you know that CAR has three benefits. We have a Defined Benefit Plan that we had recently put a proposal to modify the methodology to collect one's benefit, but we don't have to get into that

yet. As a result of the obvious market downturn of the last several years, we have ended up with a very substantial pension liability. So, one of the things that our Budget Committee asked was that we take a look at that liability and try to come up with proposals that would effectively have a short-term and long-term affect on that liability. So, we, in discussing this at the Budget Committee, talked about modifying the methodology as to how calculate our defined benefit, which would ultimately provide a direction or a lowering of our obligation by 20%. And, that was discussed at the last meeting. Our liability number is approximately \$2.8 million.

And, some of the things that we considered regarding that existing liability included retention of any penalty dollars that were being brought to CAR as a result of our stat reporting requirements to use those to pay upfront toward that existing liability. We don't know precisely what that amount might be. There was a sense that if it was not a material number or a very large number that we should go forward and commence with that thought process. And, we guesstimate that that might be in the tune of \$3 to \$400,000 for the next fiscal year. So, any of those dollars we would apply immediately towards that liability. Any additional cost savings we can develop associated with our budget by reductions in any type of resource expenses, we would also want to use those monies to help offset that liability. So, those were a couple of things we talked about to begin to look at that liability.

We also have a committee meeting scheduled shortly to consider the possibility of enacting a Producer Certification Fee with the potential of those dollars possibly also being used to offset that existing liability. So, those are the things we talked about at the last meeting. So, the Defined Benefit Plan, as I said, is in existence now. Funding requirements, well, you're all familiar with those issues for those of you that have them. There's a seven-year-requirement, I believe, to pay off that liability, and built in additional funds in this year's budget to do that. So, that sort of is that on-going look to date.

We have a 401k plan at CAR with a 6% contribution with a 100% match. That, obviously doesn't...

Mr. Hofmann: It's a 100% match up to 6%.

Mr. Iannaco: Up to the 6% of the contribution, yes. That doesn't obviously bring any liabilities, that's just a financial impact that is on—that is what we presently have. And, then lastly we have a retiree health benefit, which has a very long—large, obvious liability number. So, recently we—it's to the tune of about \$11 million as of September of '08. Is that right? We recently modified our health plan, and as a result of the modifications to our health plan, it affects those costs pretty substantially to the tune of our retiree health cost by some 40%. So, those are succinctly high-level explanations of the three benefits that we have presently at CAR. Again, for some of the new members, obviously the concerns by this committee and the insurers that pay these expenses that they would like to see CAR's benefit costs more in

line with those industry averages and to see what we could do to go about reducing those costs, and certainly to reduce any of those liabilities. So, that's kind of an overview of what benefits we have. And, I believe the companies can certainly speak to what their issues are, but I think that's sort of been the driving factor from conversations I've had with individual members of this committee and our Governing Committee.

Mr. Hofmann: Buddy, what percentage of health insurance does CAR now pay of the—I'm just trying to get this information on the medical plan.

Mr. Iannaco: We pay presently 80%.

Mr. Hofmann: We pay 80%. And, what's the story of the disability – both short and long-term.

Mr. Iannaco: The disability?

Mr. Hofmann: Yeah.

Mr. Iannaco: The liability?

Mr. Hofmann: No, the disability; we provide disability income with employee...

Mr. Iannaco: Long-term disability?

Mr. Hofmann: Yeah. That's a pretty common benefit with the companies all the time.

Mr. Iannaco: Our long-term disability costs—I think I have budget—what we pay for that?

Mr. Hofmann: No, no, no. What is it? Do we pay 80% of the salary if they're out two months?

Mr. Iannaco: Once we go to long-term disability, the insurance company pays that.

Mr. Hofmann: Yeah, I know. So, we provide that at what level?

Mr. Iannaco: After—we have a wage continuation program that's self funded...

Mr. Hofmann: Okay.

Mr. Iannaco: pursuant to our manual. Our wage continuation program is developed by years of service. I'm sorry I don't have that.

Mr. Hofmann: Okay, I'm just thinking...

Mr. Iannaco: I can get that.

Mr. Hofmann: Okay.

- Mr. Iannaco: I don't have that in front of me, I mean, we pay up to a maximum of, I think five months, depending on years of service.
- Mr. Hofmann: Okay, why don't—rather than trying to pin you down right now with it, but that's again, a benefit that I think we ought to get out to people so everybody understands what the disability, because that's, again, another employee benefit that gets provided, okay?
- Mr. Iannaco: Yes.
- Mr. Hofmann: So, we know what the specifics are on that when you can.
- Mr. Iannaco: Sure. We can get that in two minutes.
- Mr. Hofmann: No, no, no.
- Mr. Iannaco: I just have to get our manual.
- Mr. Hofmann: That's okay.
- Mr. Iannaco: Bob, do you know it.
- Mr. Alessi: The wage continuation policy, the short-term disability policy—it works out on a schedule; 100% is paid for six months to a long-term employee. For a short-term employee it's, again according to the schedule, after six months, it goes into a long-term disability program, and that is funded by an outside—we fund an outside insurance company for that. Internally, we fund the wage continuation policy ourselves.
- Mr. Hofmann: Okay. I'm just curious as to what percentage we fund that long-term to.
- Mr. Iannaco: What do we pay the long-term?
- Mr. Cahill: The premium
- Mr. Hofmann: Yeah, what percentage of a person's salary are you replacing? Thank you.
- Mr. Alessi: We pay 100% of salary up to six months for long-term...
- Mr. Hofmann: When you go to six months, are you into the long-term disability?
- Mr. Alessi: Then, you go into the long-term disability.
- Mr. Hofmann: What percentage of your salary do you get paid if you're into the long-term disability?
- Mr. Alessi: 60%.
- Mr. Hofmann: Thank you. Sorry, I wasn't getting the question out there. I'm sorry.

- Mr. MacPhee: How many employees does CAR have?
- Mr. Iannaco: 84.
- Mr. Hofmann: What I'd like to do now is just kind of go around the room and let anybody ask any questions or make any comments. You folks that were listening, we're trying to give you a little background on what's gone on here. So, Erik do you have any comments that you'd like to make at this point. Mr. Cochrane, any comments or questions?
- Mr. Cochrane: Always.
- Mr. Hofmann: Yeah, I know, Dave, that's why I started with you.
- Mr. Cochrane: And, I really, you know, I didn't really intend to be here. It was sort of a last minute thing, because I think we really got to get this to HR people. I don't know. I mean as you ask questions, there's a million details.
- Mr. Hofmann: Yeah, oh, yeah. That's why we're doing it.
- Mr. Cochrane: My only goal, and as I think that we should establish, you know, get in three or five of our HR directors from the companies to work with the consultants...
- Mr. Hofmann: That's what we're going to do.
- Mr. Cochrane: and come up with a few different possible peer groups. And, the Governing Committee can pick who that peer group should be, and then we should try to match up what is offered and try to be—compare it back to that.
- Mr. Hofmann: That's what the goal is.
- Mr. Cochrane: It shouldn't be anything more or anything less. But, you know, the market is changing; there's a million nuances and details. I'm not the right person to go through those details, nor do I want to. All we should do is get back to some kind of cost structure here that's representative of what the new cost structure. I know our company just went through major changes. And, I think the industry is changing, and we want to target where we—where it's going, not where it has been. My only other requirement, and I know Dan is here today, there's a bunch of industry bureaus, but whatever we come up with, should be the same for all of them. There shouldn't be—we shouldn't play one or the other. I mean, the AIB did something, that might be the right answer, or it could be out of this group they come up with a new answer, we should go back to the AIB. But, they should be fair and fair should apply equally to all of them. So, that would be my only...
- Mr. Hofmann: Well, that's one of the reasons why I said, I'm interested in what AIB does, what the Comp. Bureau does and what the Fair Plan does, because those are all similar in my mind to what we are doing here at CAR. It's

an industry service bureau for whatever way you want to describe. So, I agree with you, and part of getting at the variety of people here is to find out what does Commerce do for their benefits. I know you're not the right person to ask. And, I'm not the right person, my agency is. So, Jim?

Mr. MacPhee: I like the way you...

Mr. Hofmann: Why don't you hold on one second?

Mr. MacPhee: Oh, sure.

Mr. Hofmann: We've got some more individuals here we've got to introduce.

Mr. Iannaco: And, this is Sue Lodemore is our insurance expert who was very beneficial in helping us come up with a new health plan, which brought about some substantial savings for us. Instead of a 12.5% increase in our health cost, we actually ended up with a 6% decrease.

Mr. Hofmann: Hi, Sue. How are you? Thank you.

Mr. Iannaco: Good job.

Ms. Lodemore: Thank you, sir.

Mr. Hofmann: Jimmy, go ahead.

Mr. MacPhee: No, I liked the way you framed it, I think, at the beginning, Bill, which was to say, we have to sort of collect information about what carriers are doing and what do agents do, and you mentioned the bureaus. I think that is the right way to do it. It will be interesting to hear what Dan reports today, because that's—he essentially went through that kind of a process where they collected information from the various carriers and used that as sort of the, what is the benefits you're offering and how much do they cost to start his evaluation. So, I think that's the right way to do it. There is the added component of, I think, the agents. And, I have really no understanding of what kind of benefits agents offer their employees. I'm more familiar with what companies would offer. I worry a little bit about relying on what the other bureaus are doing, in that, I would imagine companies would be more responsive to changing market conditions. That doesn't mean I'm saying I disagree with looking at what bureaus are doing, but to me, the fundamental base line is on average, what are carriers doing? My expectation is that the bureaus would sort of trail the carriers in adapting their benefit plans to be more like the carriers, because the carriers would be in the market. That would drive their decision. The bureaus that serve the market place would probably adapt after the fact. So, that was my only thing. I think it's the right way to go about it.

Mr. Hofmann: Thanks. I appreciate. Just remember, Jimmy, the companies are funding all of those bureaus.

- Mr. MacPhee: Yeah.
- Mr. Hofmann: So, you company guys are paying for it out there one way or another. And, I think that there ought to be some—I agree with David. It may be that if we find out that somebody's doing something differently, that it's up to you companies to go back to whoever it is that's doing stuff differently, but we still ought to have them in the group that we're comparing them to.
- Mr. MacPhee: I'm not saying not to.
- Mr. Hofmann: Yeah, I know. Joe?
- Mr. Vargas: I agree with Dave and Jim. I think that that's probably the right way. The right course of action is to see what's out there and see what CAR has, and kind of compare it. I can tell you what I do. We have the 401k, 6% with 3% match. We pay 100% of their health. We have long-term short-term disability.
- Mr. Hofmann: Do you have any openings?
- Mr. Vargas: Don't worry, we're—the three of us are looking at this. But we have short-term and long-term disability and we pay 100% of that also. Again, health insurance, 100% of that, and that's what we do for our employees.
- Mr. Hofmann: Dan?
- Mr. Johnston: I can give you a full over-view of what we do. I don't know if you wanted to go around to the committee members first or not, or if you would like me to do it now?
- Mr. Hofmann: Why don't you go ahead. I think this is trying to get some information to everybody, Dan, so thank you.
- Mr. Johnston: We kind of took this is two parts, probably in 2007 and 2008, we looked at our non-retiree benefits in terms of what we were providing. And, we did some surveys of the industry, and we tried to match our benefits and our salary increases and things like to what the average of the industry was doing. As we came out of that, and I should also add that, unrelated to everything else, last year 2008 we did undergo in the AIB a reduction in a staff of about 40%, which had nothing to do with the benefits; it had more to do with moving to managed competition. But, it sort of did happen at the same time.
- So, as a result of that, we have some very similar benefits, I'm sure to CAR. We have on the non-retiree side, we have an income protection plan almost identical to what Buddy described. It kicks in after six months after which 60% of salary is insured. We had—that's the long-term disability plan. We have health and dental, etc. Our health had been at 80% for about 10 years. Last year beginning in 2009 we went to 77.5%. That's our contribution on the health side, but we had been at

80% for a long time. We have a standard compliment of vacation and sick days that I think pretty much matches what everybody else has. And, we then—we also have a 401k and some other minor benefits.

But, let me speak, though, to the retiree benefits, because the 401k kind of plays into that. We've had—we have three different things going on within the retirement world. We have a Defined Benefit Plan, a Pension Plan, and we're part of the same pension trust that CAR is. We have a 401k Plan with a 6% current match, and we're part of the same trust using Fidelity that CAR and many of the other Massachusetts bureaus belong to. And, we have, defined in our manual, a retiree health defined benefit, whether you're before or after 65, depending on when you officially retire, you can get some contribution to what the government doesn't pay for: the Medicare for instance. So, we have that today for some employees.

Beginning in October of '05, we stopped offering that retiree benefit on health for any new employees that were hired after that date. Frankly, we don't have too many employees in the AIB that were hired after that date, maybe two. But, these same benefits, by the way what I'm saying, applies to both the AIB and the Fraud Bureau, which basically is the same benefit structure entirely. And, in the case of the Fraud Bureau, I've got probably 40% of my staff was hired after that date, because there is more turnover in that group. So, those were all hired without retiree health insurance. And, then at the end of 2007, we no longer—we froze new employees from entering into the Defined Benefit Pension Plan, so anybody hired after that date is only eligible to get into the 401k. It doesn't have the other two benefits at all. So, in that way we're trying to cut our losses and limit our exposure on those two plans. That's how we were up until 2009.

In 2009, we decided to undertake a survey in consultation with our Governing Committee and Budget Committees to see what the industry was doing on these three broad areas. And, toward that end we survey—we got responses from 12 of the 13 companies on the AIB Governing Committee, and it's fair to say that everybody isn't converging on one program; it is all over the map. There are companies still offering generous benefits and some that have trimmed back quite far. We also though, rather—and some have benefits that have been frozen, there's tier changes over the years. So, it's somewhat hard to evaluate. What we tried to do as part of this, is say what are you spending as a percentage of salary on that particular benefit. We asked each company that. And, then what we tried to do is find out what is the average that the industry is spending on these three benefits, and what percentage of the companies are actually offering them. That's sort of what we got to.

Some several months ago as this was partly done, I shared some of this with Buddy, and we now have a final report. I can share this with Buddy after the meeting. I didn't make copies for everybody if it's necessary.

Mr. Hofmann: Thank you.

Mr. Johnston: But, the bottom line is that we used that for evaluation of what we should do with our plan. Now, just so you know, the outcome that we got for the Defined Benefit Plans and the 401k Plans that companies offer, they reported to us, whether you have to accept the veracity of the number, that 7.6% of their salary was dedicated to these benefits.

Mr. Hofmann: So, both the Defined Benefit and the 6% match of the 401k?

Mr. Johnston: Yeah. Well, it wasn't necessarily 6% all the time. Sometimes it's 3%.

Mr. Hofmann: Okay, great. Yeah, I understand.

Mr. Johnston: There's profit sharing involved, which bureaus don't get involved in.

Mr. Hofmann: But, the 401k and the pension came out to 7.6%?

Mr. Johnston: 7.6% of salary and maybe just a hair more for retiree health. But the retiree health was very, very minor in terms of the long-term cost, because a lot of the companies don't do much below 65. Our comparable number to the 7.6% was 19%, so we knew we were too high, and our goal was to get that down, if not to the average, at least closer to the average of where the industry is, because recognizing that the industry does have some things that they can compensate their employee with that a bureau can't, like profit sharing and things like that.

So, toward that end, we made some proposal and had some discussions with several layers of our Budget Committee and eventually our Governing Committee, and eventually then went to both bureau's Governing Committees with these changes. So, effective later this year, well, later in 2010. So, not 1/1, but probably 4/1, 5/1 in that vicinity to give us some time to get the administration of these things up and running, we are going to maintain our Defined Benefit Plan, our Pension Plan for those individuals who already have it, and they will continue to accrue their year's of service and credits toward that plan. However, those individuals who have a pension plan will no longer get the 6% match in the 401k plan. The argument was one or the other, but not both. We have other people who have the 401k Plan who don't have a Pension Plan, and they still have 6% match today. We've changed that to a 6% automatic contribution, so that sort of matches the amount of money that we're going to have to spend long-term on a pensioned employee versus a 401k'd employee.

In terms of the Retiree Health Plan or the Defined Benefit of that, that's not ERISA protected, and we did have outside counsel take a look at that. And, particularly, what you do with that might depend on how you handle what is written as well. But, we are going to convert our current stated benefit to a Health Reimbursement Account. If I may, we have a long-term liability, too. And, our long-term liability—about five or six years ago, we took the position that if we let the long-term

liability run forever long-term, and the market place changes as to which companies are in the market place, then different companies will have to pay that liability 20 years from now versus the ones that may be incurring the benefit today. So, we started to prefund that long-term liability with an annual contribution out of the existing budget. So, we're probably, depending on the bureau, 60% to 80% funded in that area. We're going to take that amount that's already been prefunded and use that to fund the Health Retirement Accounts for our current employees. So, everybody will get something. It will be a notional account placed in trust, if you will. And, if someone then eventually retires from the bureau and is eligible to elect their pension, they will also then get access to a tax protected Retiree Health Reimbursement Account. So, that's the direction that we're going there. We're in the process right now of seeking out an administrator for it.

The other thing that I might mention on the side of the Pension Plan, only because Buddy did bring it up, I should say that at least at last look, we're close to 100% fully funded in both the AIB and the Fraud Bureau. So, we're continuing to provide a little bit more funding in our annual contribution to that plan so that we can get up over 100% in hopes that at some point, the trustees of that plan will allow us to become more or less aggressively invested in equities and more invested in those kinds of investments that won't be at the wind of the stock market. So, that's where we're head with those things. Everybody will still have something on their plate for long-term retirement and those changes are very new. That really occurred just last week.

Mr. Hofmann: Thank you very much, Dan. What do you—at what percentage do you fund in your Defined Benefit Plan? What percentage are you funding it to? What percentage of the people's salary?

Mr. Johnston: Well, it depends on the years of service and there's a factor of the percentage of how many units that you can earn per year, and it changes after how many years. So, the highest you can get, Tom, I don't know if you can help me with that, it's high 40's or 50% or something like that. But, it's the same as CAR.

Mr. Hofmann: 40 to 50%, somewhere between 40 and 50%.

Mr. Johnston: It's the identical plan at CAR.

Mr. Hofmann: So, it gets us somewhere to 40 or 50 if you max out with all the credits.

Mr. Johnston: If you have a 40-year employee, it could, I guess, get over 55% or something like that.

Mr. Hofmann: Okay. Does anybody have any questions of Dan? Thank you very much, Dan, by the way. We appreciate that. Anybody have...

Mr. Cochrane: Just one. And, I of course, may have missed it, but, if 7.6% was the target and you're at 19%, what did you calculate this down to?

Mr. Johnston: We're down around 10% now.

Mr. Cochran: Around 10%?

Mr. Johnston: Yes.

Mr. Hofmann: Jimmy?

Mr. MacPhee: So, I'm on the AIB Governing Committee, and that was one of the reasons that I asked to be on this, because like everyone who has spoken so far, I think we need to sort of try and drive the same type of philosophy through the bureaus. And one question the Governing Committee asked when we were looking at the 401k and the Defined Benefit Plan was Dan's impression of what the employees on the Defined Benefit would rather have, the 401k, or continuing to be funded, or the Defined Benefit Plan continuing to be funded. Is that your recollection as well?

Mr. Johnston: Umm, um.

Mr. MacPhee: So, the Governing Committee wanted to know what the employees that, you know, have that as a benefit would want funded, and that went into the decision that the committee made. I just want to make sure that people understand that.

Mr. Hofmann: I assume we had some taking both, Dan, taking one or the other, right? I mean, people make decisions for 401k and for the...

Mr. Johnston: No, no. It's all based on the year hired.

Mr. Hofmann: No, I'm talking about the ones that had a choice, which is what I think you said.

Mr. Johnston: Well, what I was saying, there's a group of employees that has—is currently receiving benefits under—or contributions under both.

Mr. Iannaco: Under both.

Mr. Johnston: The longer-term employees.

Mr. MacPhee: And, I think we talked at one point about, would you stop accruing additional benefits in the Defined Benefit Plan, but continue to fund the 401k, and we asked Dan his opinion on what the employees would prefer.

Mr. Johnston: Well, we didn't take a formal survey at that point, of course. The staff does not know that this is occurring just yet.

Mr. Hofmann: No, I understand.

Mr. MacPhee: So, I just wanted people to know that.

Mr. Johnston: It's our evaluation.

Mr. MacPhee: And, can I ask you a question, Dan?

Mr. Johnston: Yes.

Mr. MacPhee: So, at the Fraud Bureau, you said there's more turnover, which means you've got more hiring.

Mr. Johnston: Well, during that period we had been growing.

Mr. MacPhee: Yeah.

Mr. Johnston: And, there was a combination of some turnover and growth of staff.

Mr. MacPhee: So did not having the Defined Benefit Plan or the Retiree Medical impede your ability to hire quality people in your mind?

Mr. Johnston: I think we've been able to get the same quality people, and I don't think we've ever lost anybody because of it. And, that's always a question, and it's a fair question.

Mr. MacPhee: Well, that's why I asked.

Mr. Johnston: And, if you go down too far, but if you look around—our feeling is if you look around the market place, where are they going to go if they leave us? And, they're going to come back to the industry that's offering this same set of benefits that we currently have. So, I think it's a neutralizing effect.

Mr. Hofmann: Any other questions? Just so everybody knows, the staff here is a very long-time staff. We don't have a lot of turnover; there's not a lot of new people coming in like you describe at the Fraud Bureau.

Mr. Johnston: Right.

Mr. Hofmann: It does not apply here. We—I couldn't tell you how many new hires we've had in the last year. Have you hired anybody new in the last year?

Mr. Iannaco: No, I put a hiring freeze in two years ago.

Mr. Hofmann: That's right. We haven't had anybody new for two years. That's what I thought.

Mr. Boyd: Well, Amica has historically had a pretty generous benefit plan, but I think like anyone else, we've had to make some changes over the last four or five years with health care and benefits. But, I mean, it actually sounds very similar to kind of what you outlined, Buddy, as far as benefits. I mean, we've also got a lot of long-tenured folks, very low turnover. I think this year it's somewhere at 2% or 3% so far for 2009. So, people kind of stay with us for awhile, and really that's been

because of our generous benefits and compensation package over the years.

So, just to get into a few of the specifics, we do have a Pension Plan. We did change the retirement formula. Going back to 2004 or 2005 it used to be 3% of final average pay. Anyone hired before 1/1/04 had that vesting calculation. After that date, it went to a career average pay. I think its 1% per average after that date. So, you know, our Pension Plan is still, you know, it was overfunded in past years, with the market downturn, I think we're somewhere around the 100% mark now. So, as far as I know there's no plans to freeze that for new employees. We're going to continue to offer that going forward. 401k is the same as CAR, a 6% match dollar for dollar, automatic enrollment. You know it's—I think it's pretty competitive and pretty generous with what you see out there in the market place having both the DB and a pretty good DC program also.

We don't have STD; Amica still has traditional sick and vacation banks. So, we're looking at potentially offering STD, you know next year, if we can figure out how that's going to match. People have huge banks or sick time that have been with us a number of years. So, we do have LTD, it kicks in at the six-month mark. The company pays all that premium that covers 50% of their salary. They can buy-up another 10% to get coverage up to 60% of their salary.

We made some big health plan changes this year, or starting 1/1/10. We've also had a very rich PPO Plan. We've kind of pared that down a little bit this year and incorporated a deductible, increase some of the co-pays. There's co-insurance on kind of the base plan that we've never really had co-insurance. They just paid their \$15 or \$25 co-pay and moved on down the road. Now under the base plan, there's a 10% co-insurance on some of those big dollar services. So, Amica's philosophy is we're going to pay 80%; the employee is going to pay 20% of that base coverage. We also offer another PPO, which is your lower deductible, no co-insurance, it provides some better protection in some areas. And, that's roughly a 75/25 split for the higher plan.

So, we've got a good amount of retirees. Their coverage is very generous. They pay the same as the actives. So, they're offered the base plan; they can pay, you know, the company pays 80%, they pay 20%. If they want the higher plan...

Mr. Iannaco: That's what I pay.

Mr. Boyd: you know, the company pay 75%, they pay 25%. So, I think given what's going on in the retiree health care world, that's very generous for the retirees. So, that's kind of a snapshot of where we're at with our benefits.

Mr. Iannaco: Right.

Mr. Hofmann: Thank you.

Ms. Smith:

Well, Quincy Mutual has offered a wonder benefit package for many years. Of course, like all of us, we've made changes through the years. We do have a Defined Benefit Plan that does provide employees with 25 years of service, they do receive about a 50% benefit based on the five highest years of earnings. We also have a Defined Contribution Plan, we have a 401k Plan. We went with Safe Harbor a couple of years ago, so employees, if they put in 6% of their salary, we match 3.5% on the 6% they put in. So, it's 100% of the first 1% and 50% of the next 5%. It used to be a 3% at 100% of the first 3% the employees put in. So, it was just a straight 3%. We are automatic enrollment, and have been for a few years. And, we are now considering automatic increase as well. Employees can put up into the IRS maximum each year; we do not cap their contributions at 6%. So, we do allow the employees to put in the caps, including catch up contributions.

As far as our medical, as far as our health that we offer. We do not offer any retiree medical at all. We did away with that, probably about 15 years ago, because of some of the complex issues that are involved around retiree medical program. So, we did eliminate that completely. As far as our health, we've been very fortunate. Five years ago we put in a wellness program, in which we work with employees to make certain that they're very much aware of their health for themselves and their family. We've been able to maintain our increases over the past four years anywhere between 1.2% and 2.5% in medical premium increases, which has saved the company quite a bit of money.

We do have a short-term disability program, which is a continuation of salary paid at 80% of the employee's earnings. And, they can stay on that up to 90 days. And, then after 90 days, they go on long-term disability, which is 60% tax free benefits. Our employees are paying a tax on the premium, so they do get it as a tax-free benefit. As far as our overall package, about five years ago, we took the approach not to just look at our Defined Benefit Plan to find—but to take a look at all our benefits, because compensation is a compensation program. It's very important that you not only look at benefits, and I know it can be quite cumbersome, but to also look at the salaries of individuals. We did find out that our salaries were a little bit on the low side being a mutual company that had been around in business for awhile, so had to make some adjustments through the years.

So, it's not just increasing benefits, taking away benefits, but it's coming up with some type of balance, which doesn't end up costing the company too much money. So, it's an ongoing balance all the time. So, we constantly take part in surveys and everything to make certain that our compensation package is pretty much in line with most of the insurance industry.

We also have long-term care benefits, which we offer employees, tuition reimbursement, so there are a lot of other, I call them benefits, not what you would actually retirement benefits. I guess that's about it.

Mr. Hofmann:

Okay. Thank you. Bill?

Mr. Cahill:

Yeah, and that's good. This is very helpful to have the dialog and the discussion. A couple of thoughts that come to mind on really sort of how to proceed, I think since we do have some folks here from the companies that are more focused on these issues, what we talking—on idea is to go out and do a survey basically of peer companies or peer employers. And, one question is what types of questions to include in the survey so that you would actually have a consistent picture. Because, you know, I have information on our company's benefits and plans, but the one thing I didn't include was you question, Bill, that you asked early about disability coverage. I can sort of go from recollection as to what I believe they have available, but I don't think that's really the best way to do it. But, if we really sort of got the same information from each one of the peer companies, and you folks could probably help and identify in what those questions might be.

The second thing is, or may the first thing is, who those peer companies are to David's point. I mean, you know, who are the right ones? I'm sure when you guys are looking at who you compete against quality and highly qualified candidates, you sort of know who your competition is, right? And, we probably—I'm sure folks here have an idea, but you probably could provide some insight as to, you know, who those entities might be. I mean, certainly as David said, I think the AIB is one that we need to be aware and be cognizant of, because it's here and it's quite a similar organization. So, those are perhaps things that could come out of this meeting, Bill, is, you know, a big help for these folks to indentifying those things.

The other thing is, and I'm sure it's probably a function of—you mentioned having discontinued plans, and I'm sure Erik, we started to talk about this the last time, that there is a way that you actually do, you know, transition from one benefit to another. We experienced it at my employer. I've been there now for over 18 years, and we've transitioned from a number of different types of benefit programs. We did have when I first started my employ there, have a Defined Benefit Pension Plan, but we did discontinue that soon after my arrival, so it's been about 15 years since we moved away from that towards, first it was a Defined Contribution Plan, and then we moved towards a 401k with a match, which today the match is the first 6% is matched. But, that is the major retirement benefit. But, there are, you know, sort of transition groups that are involved, and certain folks were grandfathered into that Defined Benefit Pension Plan. And, I know that there's probably a certain amount of analysis that takes place from anybody to sort of understand what the economic impact the organization is of continuing for some group of employees versus discontinuing for another group, that perhaps have more time until they actually would be ready to retire, right?

And, then the other thing that we ended up having is we did end having a Retiree Medical Plan, but we've been transitioning away from over the last five years. But, once again, a group of retirees were grandfathered into that, and then there was a distinction between groups that were closer to retirement versus those that were not. And, then

there was sort of a transition approach that was built into that. But, you know, that's the type of thing that we really haven't gotten into the dialog about that, but I'm not sure that this meeting format really lends itself to that, as opposed to perhaps Buddy and Bill, the experts sort of taking a look at how this type of thing has happened elsewhere and coming back with a recommendation at some point on actually how to do that. But, it's not—my expectation is it's not as if it's just a, you know, it stops one day and it doesn't, you know, certainly new employees it discontinues for, but there's some cut-off point in a transition that usually takes place in these situations. Erik, you're nodding, but that's pretty much the way.

Mr. Barca: Yeah, and I think will be in part, the challenge of doing this type of survey, is I think you need to distinguish between your sort of ongoing costs for the value that your providing to your employees versus any transition or grandfathered benefits that are out, and you know look at each both and in combination you're doing benchmarking, because results can be distorted whether or not you include those grandfathered benefits or not. Typically, when we do these types of surveys, we would look at the value of benefits that are being offered to new employees coming in the door, and so not get into that grandfathered transition benefit given the complexity of that. But, that may not be appropriate in terms of the objectives that you have in front of you. So, I think to, you know, your point, Bill, that is something that I think needs to be decided upfront, how you want to handle those types of transition benefits.

Mr. Cahill: Yeah. One of the questions that comes to mind, too, you know Dan had mentioned it, David, you had asked about it, is the percentage, the cost of the overall benefit package as a percentage of the overall budget. I think that's how it's being portrayed, right? And, whether or not that's a common calculation from employers. If we were to ask of that from other employers, are we going to be able to get that calculation?

Mr. Iannaco: I think we already...

Mr. Barca: Yeah.

Mr. Cahill: You already have that?

Mr. Barca: Well, it's one thing I would—it's another tricky thing, I guess, because costs can vary wildly...

Mr. Cahill: Yeah.

Mr. Barca: from year to year. And, then companies may measure costs differently. You know, for example, in a Defined Benefit world there is some discretion in terms of how much cash you're required to put in each year. So, a company may decide to put in nothing, or they may decide to put in an accelerated contribution. So, you want to make sure you're not having those sort of diversions built into your analysis. Typically when we do these types of studies, what we do is look at the actual

formulas that these plans are provided and translate that into an annual value that employees are getting. And, not necessarily look at the cost, that's a separate issue in terms of what a company may be paying in a given year, but look at the annual value and do it on a set of consistent assumptions across all companies, so you have an apples to apples comparison.

Mr. Cahill: But, is that something that if you did this survey, you're going to actually be able to get, or is it going to be too difficult to ensure that everybody is putting the same factors into the calculation?

Mr. Barca: The way we would approach it, is the survey would be gathering the benefit rules...

Mr. Cahill: Okay.

Mr. Barca: or the provisions. And, then we would take that and convert that into an annual value.

Mr. Cahill: I got you. Okay. But, you'd know that you were doing that?

Mr. Barca: Right.

Mr. Cahill: Okay. Good.

Mr. Cochrane: And, the survey part I think is good, but I think if you, it's my picture of this personnel group, you'd actually have the HR people here to interpret it, because if it's just a survey, you could read it a million different ways.

Mr. Hofmann: That's what he just said, yeah.

Mr. Cochrane: You know, there's quite a few, you know, take the top, you know, maybe 10 companies or something and get some stock companies and some mutual companies, because there's different pressures. You have to look at it totally, as Lynn said in terms of what the overall compensation is. Some companies do go heavy on benefits and light on salary, and you know, go other. But, I think we really got to get to those people, and we're just hearing all this stuff, and I could write it down and we could talk about it, but you've got to get down to what each of those—what that peer group is, and what is the option, and then have, you know, the Governing Committee, I guess, the ultimate body picking what is the peer group you want to track to. But, I think there's—you're going to have to get down to survey, but it's going to have to be a survey, and enlightening survey by talking to those people working with the consultants here. We'll try to send our HR person in.

Ms. Smith: Just to add to expand on what you're saying when you look at the medical, obviously, there's the contribution, there's the cost, but there's actually what does the plan cover?

Mr. Hofmann: What is the actual plan?

- Ms. Smith: The plan parameters. And, so the devil is in the details.
- Mr. Hofmann: Right. Jim?
- Mr. MacPhee: Well, the health might be different in that you know what the cost per employee is this year, and you could know that by company. You could know how much it costs to provide this year's health coverage to the employees. But, so you actually do these surveys where you'll take and you'll look at 10 different companies, get the parameters of their plans and then you know how to compare them across?
- Mr. Barca: Right, and it's—typically it would be a request for summary plan descriptions.
- Mr. MacPhee: Right.
- Mr. Barca: And so then you go through those descriptions of the Pension Plan or the 401k Plan or the Retiree Medical Plan. And, then those would be translated into the benefit values.
- Mr. MacPhee: How difficult is—is it usually difficult to get people to participate in those surveys, or do they generally participate in those surveys?
- Mr. Barca: It's—I would say that, you know, depending on who you're reaching out to and the circumstances, if it's just sort of a blind request, typically the way it would work is if you participate, then you would get access to the results, and our typical rate would be about 30% to 40% of companies would chose to participate.
- Mr. MacPhee: But, at least with this...
- Mr. Iannaco: May I can—we have a HR group that's been meeting for 20 years, and many members of these companies participate in these meetings. And, we've been doing surveys for 20 years as well. So we, as recently as August of 2009, had our last HR meeting that Bob coordinates where we have representatives of 14 companies in attendance where we get information. And, Dan did his survey in whatever fashion he did. But, we have been doing this forever and providing the Governing Committee the results of those surveys. And, we talk about merit increases and Defined Benefits, etc., etc. So, our recent survey has provided us with some information that hasn't really been discussed, but we see that perhaps 14 out the 18 carriers have both a Defined Benefit and 401k match for whatever that may or may not be worth.
- We don't and haven't ever looked at the compensation comparison. You have highly compensated employees as part of that look, and that does sometimes skewer that benefit. That's why Erik's analysis of what the benefits costs is probably a more trued-up survey result that you might want to get. All that being said, we do have an ability to communicate to every carrier that we are conducting, and then we could ask Erik to specifically identify the issues that you people want

addressed, and that might make this effort go along in a much faster pace.

Mr. MacPhee: It sounds like Erik could try and get the benefit plan information for the top 10 writers and understand what do they do for retiree health, what do they do for 401k, what to they do for Defined Benefit Plan.

Mr. Hofmann: I don't think getting the information, Jim, given this industry and knowing that everybody's got a vested interest in this...

Mr. MacPhee: It shouldn't be.

Mr. Hofmann: that I don't think there's going to be a problem getting the basic data. The question is...

Mr. Iannaco: The cost.

Mr. Cochrane: Different stages too, that if there is a lead in to do this.

Mr. Iannaco: Right.

Mr. Hofmann: Yeah.

Mr. Cochrane: I mean, and Dan already started it with—you've got 12 or 13...

Mr. Hofmann: Yeah.

Mr. Cochrane: I mean, you could go to those 12 or go to 13 and start it.

Mr. Hofmann: So, I don't think getting the information...

Mr. MacPhee: It was just my timing, sorry.

Mr. Hofmann: No, no I understand. I just don't think—but the two issues that I just want to—one was the comment about the tuition reimbursement. There are a lot of other benefits that we haven't talked about, which is the point that Jim made. And, I think we need to try and found out if we can, what the biggest ones are that companies do, whether it's tuition reimbursement or whatever else.

Mr. Cochrane: You can look at the package.

Mr. Hofmann: You've got to look at the whole, that's right, you've got to look at the whole deal. The other thing, just to go back to Bill's comment and talking about, you know, changing benefits and so on. We need to keep in mind again, here, we've got a group of long-term employees, and my concern, just purely from sitting in the Chairman's position is taking stuff away from people who are long-term employees. It's one thing with the newer ones, you can do stuff and so on, but the longer-term employees, you know, you're sometimes sort of locked in to what your benefits are for those folks. And, it's great to say as of this date, we can

start doing things for new people. But, anyway, we haven't gotten ourselves in trouble yet, Rosanna.

Ms. Sattler:

Not yet.

Mr. Hofmann:

Would you like to weigh in.

Ms. Sattler:

No, but I was just going to say, the EEOC has a lot of regulations particularly about benefits, and you know, of course they look very carefully at what impact is on the older population, and they have regressions that they want you to run to make sure that you're not discriminating from that point of view. Also, there are, I mean, it's just the cost of doing of business, but it seems like more and more of the class actions relate to the benefit plan, both and pay and benefits, as you can imagine, because everybody is reducing, eliminating benefits, reducing pay, freezing pay and whether or not they are complying with the law when they do that. So, that's just something—it doesn't make it impossible, it just means that you have to be cognizant of it and deal with it up front, otherwise you're going to find yourself at the back end of a problem.

Finally, the Employee Handbook is pretty old and not terribly consistent and offers and has a lot of provisions in here about what people are entitled to, and that obviously would have to get, you know, changed to comply with whatever it is you're doing, so you don't get yourself in trouble by promising something to the employees in the Handbook and then, you know, not giving it to them.

Mr. Cochrane:

Sure, but I mean, I think the key is figure out where you want to go.

Ms. Sattler:

Yup.

Mr. Cochrane:

Then, figure out how to get there.

Ms. Sattler:

Yup.

Mr. Cochrane:

I mean, the evolution seems to be away from the Defined Benefit Programs in general. I mean, our HR was saying that Fidelity totally...

Ms. Sattler:

Yeah, no, no, that's right.

Mr. Cochrane:

So, I mean you've got to figure out what the right answer is and then you come up with a transition that works in the right way, which gets me back to the peer group, you know.

Mr. Hofmann:

Yup.

Mr. Cochrane:

And, I think it's good to collect stuff from the agents, but the true real issue here is what the companies do, and I think you probably want the company...

Mr. Hofmann:

You never liked us agents, anyway, did you?





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