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LIBERTY MUTUAL

January 8, 1992

Mr. Robert H. Simon, Jr.
Research Assistant
Office of Presidential Speechwriting
The White House
Room 111 1/2 Old Executive Office Building
Pennsylvania Avenue
Washington, D. C. 20500

Dear Bob,

It was nice meeting you last Monday. As promised you will find included in this packet background information on the Liberty Mutual Insurance Company. I have included:

* a fact sheet on the company;
* the 1990 annual report which discusses our customer advocacy activities;
* the 1989 annual report which discusses the problems, and offers some solutions, of workers compensation systems;
* bios of Liberty Mutual Chairman, President and Chief Executive Officer Gary L. Countryman and Liberty Mutual Executive Vice President and Chief Operating Officer of Group Markets Robert L. Laszewski;
* a copy of a Laszewski speech on health care reform recommendations given recently at the New England Medical Center;
* five recent news releases on -- our donation of auto-theft tracking devices to help police catch auto thieves to help reduce auto insurance costs, a national release on the problems associated with teen driving with a brochure (provided free to the public) attached, a national release sent last year on the importance of the correct use of child safety seats (brochure attached), one on our recently held seminar for employers on occupational stress, and one on our expansion of our managed care program through PPO networks.

If you have any questions or need further information, please do not hesitate to call me at work at 617-574-5752 or home at 617-648-2321. If I am not available, Rick Kinigson can assist you.

Sincerely,

Diane Turner

Diane Turner
Director -- Media Relations

encs.

ROBERT L. LASZEWSKI

BIOGRAPHY

Robert Laszewski is Executive Vice President and Chief Operating Officer, Group Markets, for the Liberty Mutual Insurance Group. For the last three years, he has participated in our country's public policy debate on health care reform.

Laszewski, a graduate of the University of Wisconsin at Madison with a Bachelor of Science in History and Economics, has written and spoken widely on the subject of health care reform generally and insurance reform specifically. He has appeared in health care features on CNN, NBC and PBS.

Laszewski is a member of the Board of Directors of the non-partisan Alliance for Health Reform, chaired by Senator Jay Rockefeller, and the Board of Directors of his company (Liberty Life Assurance Company of Boston). He has participated on a number of Health Insurance Association of America committees and task forces, including serving as chairman of the Provider Relations Committee and serving on the Board Task Force on Cost Containment and the working group on the ethics of genetic testing and insurance.

He is the author of a series of papers and articles accumulated under the title "Meeting America's Health Care Challenge."

He and his wife, Virginia have two sons Matthew, 11, and David, 7.

THE AMERICAN HEALTH CARE SYSTEM: A CHALLENGE TO CONSCIENCE

Excerpts from an Address to the New England Consultation of Church Leaders

Robert L. Laszewski
Executive Vice President, Group Markets
Liberty Mutual Insurance Group
Boston, Massachusetts

PRESENTED OCTOBER 2, 1990

Recently, I wrote an op-ed piece for a newspaper. In it, I argued that we have a serious health care crisis in America; evident in a number of ways, not the least of which is the 37 million Americans who are "uninsured."

Upon reading an early draft, a friend (and partner in our efforts to reform the health care system) commented, "You began the piece with reference to the 37 million uninsured. You've got to find a new introduction. That isn't going to get anyone's attention. It's like the homeless issue, no one cares. You've got to get their interest by telling the 85% of the population why it's in their best interest to want to fix this system."

My friend's comments were disturbing; but he was right. America is suffering from a crisis in its health care delivery system. It is a crisis that grows in scope and ultimate impact each day. But to 85% of our people, access to the most technologically advanced health care environment is for all practical purposes unimpeded. The crisis may not yet impact middle America in the sense that they or their children cannot receive appropriate care, but it is only a matter of time.

A recent poll comes to mind. In it, people were asked if they were satisfied with their health plan. Most people answered that they were. What was telling, was the source of their satisfaction. Simply, it was a matter of whether they got what they wanted.

A man I respect greatly, Dr. C. Everett Koop, former U.S. Surgeon General, asked me not long ago why policy makers were not coming forth with necessary reform. My response was that I find many people in Washington, D.C., among other places, concerned and motivated to bring forth change, however, the issue is not one that is high enough in the polls for people to demand a dramatic change.

Health care simply is not a top priority in this country because our citizens have not made it one. For all the shortcomings in our political system, it is a republic run by a representative government that takes its lead from the mood of the people. The people are not in the mood to really face this problem. Until they are, health care reform will continue to be a debate that includes primarily those that are disenfranchised and those that have to pay the bill.

The bill is getting bigger every day. Already we apportion 12% of our Gross National Product (GNP) to health care. That is twice the amount of many other modern industrial nations. In the United States, we spend $2,400 per capita for health care through our out-of-pocket expenses, health insurance premiums, and taxes. Our spending has come to the point where the average cost for a family of four is almost $10,000 per year.

The cost continues to rise at an alarming rate. Most employers have seen the cost of their group insurance plans rise by 20% in each of the last three years. Very small employers are seeing average increases of 20%-30%. Each year, more and more employers must drop, or severely restrict, coverage. Last year, 70% of work stoppages had as a major issue — "health benefits."

The sharp escalation in costs has affected government in the same way that it has affected employers. State budgets are virtually under siege as they try to come to grips with Medicaid budgets that have quickly become the largest single expenditure. As costs escalate and tax revenues wane, the scope of public "safety-net" programs falls far short. Today, only 42% of this nation's poor are eligible for Medicaid. If you live in Alabama, the stingiest provider of Medicaid programs, earn over $2,000 and have a family of three, you are not eligible for health care benefits under the program. In one of the most generous states, California, a family of three earning more than $9,000 is expected to supply their own health insurance, which costs a family about $5,000 in most parts of the state.

As I come to learn more about the health care crisis in America, it becomes clear that it claims more and more of the innocent each day. Already, one-fifth of all our children under age 18 have no health insurance. For those who have private insurance, only half of the conventional plans offer well-baby coverage up to the age of two. It has been said that nearly half of all children in our country have inadequate access to the health care delivery system.

The lack of decent access to health care is not just a chronic problem that involves only a certain class, it is a wave that is steadily growing and impacting all of our people. It will not be long before more and more of us will have the "opportunity" to define the problem as a personal crisis.

Why is it that we can rally great resources to help a single child in trouble? Our hearts quickly go out to a little girl trapped in a well, or another suffering some dreaded disease, regardless of their economic class. Two whales trapped under the ice in Alaska can focus our attention on an international relief effort. All of these things are good. Our good works should not be an either/or proposition where we are critical of any one of these acts. Rather, we need to ask ourselves why we seem to know what is right when confronted directly; yet we find it possible to look away from the 58% of the poor that have no rational access to health care.

Health care is not the only social issue that we as Americans are having difficulty coming to grips with. Housing, environment, education, and the drug epidemic are all inextricably linked. There are those of us who have, and there are those of us who do not. The problems go on unchecked and unsolved, and the costs to society continue to grow. Those that were comfortably in the safety zone, more and more find themselves either threatened outright by anyone of these issues, or overburdened by social costs taking the form of taxes and crime. We begin to become a society polarized with those that have enough and those that are far from it.

Many would argue that our society continues to provide the opportunity necessary for anyone of us to do well. And, most often it does. While there may be some form of accountability in having economic consequences for those who are unwilling to make the greatest effort, what of their children? Is it surprising that we have lost so many of these children as productive members of society, when the message we have sent them throughout their childhood is that they must accept the consequences of marginal education, health care, and housing?

This is not meant to be an argument for massive social programs that arguably ruin the incentive to be productive contributors in society. Instead, I would argue that the reform of our basic social programs, such as health care, education, and housing, are a fundamental prerequisite of a society at peace with itself. The bottom line is that none of these things work very well. It should therefore not be a surprise that so much of our society is in trouble.

The American society, with its unique emphasis on the individual, has come to a place where there are simply too many common problems to ignore. We have come to a place where the single greatest threat to our personal safety and security is the growing impact of the common problems we have ignored or otherwise been unable to come to grips with.

It is not my place to comment on the problems of education, housing, and so on, because I do not pretend to be able to offer solutions. But, I believe it is a mistake to look at the health care crisis as unique, and not connected, to all of the other fundamental problems we face. It is also difficult for me to believe that we will somehow face the health care problem and not also learn how to come to grips with these other crises.

The issue at hand is the role individuals must play and the role we play as members of special interest groups. More important to the operation of our political system is the impact various special interest groups play in the debate. This is certainly true of the health care debate. The selfishness that we see on the individual level is even more apparent as we watch various groups jockey to protect their constituencies.

For example, in the health care debate, various players strongly support the notion that the system is broken and in need of great reform. But few, if any, physicians, hospitals, payers, and legal and consumer groups want to be the first to give up their sacred piece of the pie. The debate simply becomes a self-serving, finger-pointing exercise, as one group effectively checks and balances the other while the problem continues to grow at an alarming level.

No small special interest group is government itself; where those who must make state and federal programs work find themselves with too many entitlements for the budgets they receive. The result is government underpayments and regulation that shifts many of the costs of these programs to the private sector. When government underpays, however, providers must make-up for these underpayments by charging more to the private sector. That process is called cost-shifting and it is a form of hidden taxation. Government too is a special interest group which is not above contributing to the health care problem by its selfish behavior.

Not long ago, I found myself in front of a network television camera. The monitor showed the plight of a number of individuals who have found themselves in desperate situations either directly or indirectly because of the way my industry often does business. The on-air question was "So, Mr. Insurance Industry Executive, what do you say about this?"

My answer was simple, none of this has to go on happening. There are solutions on the desks of legislators that can solve these problems today. It is simply a matter of our willingness to act.

I do not pretend to tell you that I have the single best solution. I doubt that there is any one solution or that any one stroke of reform would solve all of this even if it were politically possible. What I will tell you is that a great deal can be done. To the degree that the American people demand that reform should occur, there can and will be positive steps taken. But, nothing is possible without the people demanding it.

I am convinced that our political leadership is generally unwilling to raise the level of consciousness on this issue. However, there are exceptions to that. Senator Jay Rockefeller (D – W. Va.), for one, has shown great courage in demanding that the Pepper Commission, the bipartisan commission on health care reform, deal directly with the issue.

However, most politicians see this as a no-win issue. There is not great support in the country among middle Americans to do something; and the field of land mines known as the special interest groups would be a major barrier in any event. In essence, our national leadership is waiting for the problem to reach a critical stage, one where many middle Americans have become part of the crisis, before they will deal with it.

From where will leadership come that has the courage to expose the issue and then has the courage to offer and sell the solutions? It can come from many arenas, including from those of you in the church and from many of us in business. Clearly, this is an issue of morality and consciousness. As a nation and society, we are looking away from it and the consequences grow daily.

The American consciousness must be raised. In order for it to be raised, it must be challenged. Generally, the politicians aren't going to challenge it. There's an old axiom in politics - don't raise a question you don't have the answer for. Ducking the issue is nothing new in American politics. The politicians are able to duck it because the consumer/voter is willing to let them.

But, we know when issues are raised; when the crisis becomes a personnel one, action can occur. I do not suggest that it is the place for the church to enter a political debate. Our nation has a long tradition of the separation of church and state.

[redacted]

I suggest that there is a place for religious leaders to challenge the complacency that surrounds the issue. It is appropriate for them to suggest that there are solutions and that we need to get on with the job of implementing one or more of them. It is appropriate to question the extent any one solution will go in solving the problem. It is appropriate, critical really, for these leaders to raise the broader issues of health care, education, housing, and so on.

We have a crisis for many Americans in all of these and more. It is wrong for 85% of a society to have so much, while 15% of a society falls farther and farther away from not only many of the basic needs of life, but from a point where our ability to co-exist is impossible without dangerous levels of tension being part of our daily lives.

In my mind, this debate is not about whether we need more "Liberal" programs or another "Great Society" campaign. It is about achieving a basic success for all Americans in restoring functionality to our health care, educational, housing and other critical systems. Today, none of these work very well. We seem willing to look the other way while things only get worse.

Dr. Koop tells a great story about a live-in housekeeper — a devout Christian woman — who helped with the family chores. On one particularly crisis-ridden night, a house guest went into labor and delivered a premature baby at the house. The housekeeper never appeared on the scene. When things had finally calmed down, she finally appeared and was asked why she hadn't been around to help. She replied, " I knew you were having many problems, so I lay in bed and prayed for you all."

The American church is too often laying in bed and praying for us all. It needs to be far more proactive in placing these great social issues in front of our collective faces, where we can't easily turn away from them. And it must be far more demanding that we act on these issues.

This notion of the church being proactive in challenging the American consciousness is not limited to this group of religious leaders. I know of no religion where there lies the ability to turn away from these challenges.

[redacted]

The ability and obligation to act is also with the business community. I recently had the privilege of visiting with the leadership of *Forbes* magazine, a publication I respect very much for its willingness to challenge. Their motto is "the Capitalist Tool." Their unapologetic fervor about the benefits of capitalism rankle some, particularly those who look at the degree to which we have become more of a class society of haves and have nots. But, I am a capitalist, and a believer in the free market system as the best means of creating the efficiency necessary to spread limited resources over the greatest number of people.

When I visited *Forbes*, I made the point that America, and the world for that matter, suffers from any number of critical ills. I believe that those of us in business have a responsibility to use our business acumen not simply to earn a profit, but to earn a profit in ways that minimize the problems that we all face. You see, I see the capitalist tool as just that, a tool. Capitalism is something that we can use to create a socially responsible economic world, or merely something we can use to take from our society without regard to the consequences.

It would be ironic that just as the Iron Curtain is falling because of the failure of Communism to create the necessary wealth to make the people of Eastern Europe secure, we discard the efficiency of the free market system to solve our critical problems. I certainly don't mean to imply that capitalists left to their own devices will act in what is always, or even most of the time, a responsible manner. But, when government is successful in setting clear but limited boundaries, entrepreneurs will figure out a way to play the game and win by meeting their customers' needs.

Simply, we are faced with a number of critical social crises, including a crisis in our health care delivery system. We are not dealing with them. The answers to today's social crisis does not lie in creating a number of "Great Society" programs that throw money at the problems but do not fundamentally improve things. The answer does lie, I believe, in facing the issues head-on both socially and economically. It lies in making our social systems effective and efficient by taking advantage of the efficiencies of our market system and entrepreneurial talent. And the answer includes the knowledge that market forces, and the people who respond to them, will not always act in socially acceptable ways.

In fact, it can be predicted that competition will ultimately sink to the level of the lowest participant. Therefore, it is the place of government to define the lowest acceptable level of performance. Above that definition, competitors should be free to meet their customers' needs.

[redacted]

For example, the insurance industry is not doing enough to cover those who cannot otherwise get insurance, even though they can afford to pay for it. To me the answer is simple, require us to cover all who can afford to pay and I assure you we will figure out a way to do it. In fact, in the face of such a requirement, we are well on our way toward doing just that. I believe that it is this blend of free market efficiency and enforced social responsibility that gives us the greatest hope of making our social infrastructure strong.

America doesn't work as well as it should because its social infrastructure is broken. The health care financing system is a good example of that. Our challenge is to make these systems work. For that to happen we have to get back on course in terms of our values and our ability to execute. I will suggest to you that you have a big role to play in that, and so do I and my colleagues in the business world. To rebalance America's health care system, we need to look to its failings and its potential for reform. Both are significant.

The health care access and cost debate is in full swing now that the Pepper Commission's recommendations for reforming the system have been made public. As is customary for our times, the debate centers on the price tag for reform — in this case an estimated $66 billion for improving the system.

Both the Congress and President Bush have called the cost of and access to health care a major national problem that must be solved. The more than 37 million Americans who currently have no health insurance, or are not eligible for public "safety net" programs, couldn't agree more with Washington.

Ultimately, we must achieve a "seamless" health care system for all Americans that eliminates pre-existing conditions and medical underwriting practices. By doing this, the burden for health care then shifts from the insured to the providers, and on their ability to efficiently manage health care costs and care.

However, our leadership has a dilemma. They've identified the causes of the health care crisis, publicly debated the issues and committed themselves to finding solutions. But the consensus seems to be we don't have $66 billion to spend on health care reform given the budget deficit and the considerable anti-tax sentiment across the nation. Yet despite this "no new taxes" mentality, significant health care reform can begin immediately. Furthermore, it can be started without huge government spending programs, greater deficits or more taxes.

[redacted]

To accomplish this, the reform process must be divided into two phases. The first should deal with the many solutions that can have a fundamental impact on the system without costing great sums of money. With the system in order, the second wave of reform can then tackle the more costly changes that will broaden the "safety net" and provide for adequate reimbursement to providers.

Phase one should start with correcting the primary problem facing our health care system — our inability to manage the dollars we spend. Our country currently spends 12% of its Gross National Product (GNP) on health care, but 25% of what we spend is unnecessary and wasteful. For reform to take place, this practice has to stop immediately. We need to implement solutions that lead to a far more efficient system for managing the private and public money expended on health care.

Here are a number of "revenue neutral" changes that can have a profound impact on the system:

- **Reform insurance industry practices.** Eliminate those medical underwriting and pre-existing condition provisions that unnecessarily exclude so many people. Insurance companies should compete on the basis of how they effectively manage their customers' health care dollars, not on which Americans to exclude from coverage. Much can also be saved by bringing people into a universal system of insurance, especially in administrative expenses now spent on limiting access. People excluded from coverage are often treated much later than they should be, and therefore become more costly to help or receive "unreimbursed" care that is expensively "shifted" to private and public payers.

- **Create a mandated minimum set of health benefits** that provide a basic comprehensive level of coverage but are exempt from the myriad of state mandated benefits. Mandating payment for such things as in vitro fertilization drive up the cost of insurance with benefit requirements that are not essential.

- **Reform the methods by which medical malpractice claims are paid.** The threat of malpractice has created a paranoia among providers about being sued that has an even more dramatic impact on the cost of health care than the cost of malpractice insurance itself. For example, health care providers practice "defensive medicine" by prescribing large amounts of unnecessary treatments. The plaintiff's right to recover should not be curtailed, but appropriate thresholds should be set into place beneath which a system of binding arbitration operates. Clearer and more rational criteria should also be developed for what constitutes negligence.

Above the threshold, a right to sue should be maintained but only after arbitration first takes place.

- **Guidelines should be established by an impartial government agency to measure and evaluate the practice of medicine.** It has been estimated that as much as 25% of the cost of health care is unnecessary and could be avoided. More than anything else, the health care system is inefficient. To make health care more affordable for all of our citizens we must make it more efficient. Practice guideline information can tell practitioners and payers a great deal about the most efficient and effective treatment path. We should not legislate the practice of medicine, but we should do more to make clear what works the best.

- **Mandate payers to provide data.** The same government agency that establishes appropriate treatment guidelines can mandate payers such as insurance companies to supply data that can then be used for further research as to effective treatment patterns, procedures, technologies and therapies. This research would be aimed at creating more efficiency in what is now a very inefficient system.

- **Educate the consumer.** This government agency could also be the source of objective information to better educate the health care buyer. The more the consumer knows about the efficient use of the health care system, the lower the cost and the better the outcome of their decisions.

- **Limit specialty overcrowding.** Public policy should support limiting the supply of physicians in specialty areas that are now overcrowded, and providing incentive for more general practitioners which are in short supply.

- **Establish "Centers of Excellence."** The government agency established to produce practice guidelines and collect data should establish "Centers of Excellence" for hospitals. The notion that one hospital does 20 heart bypass operations each year and another does 200 in the same city is not good for either the cost or quality of health care. The fact that the city of San Francisco has as many M.R.I. machines as Canada speaks to the need for more efficient use of technology. Wasted technology and duplication of expensive and complicated procedures negatively affects both cost and quality.

• **Amend the Medicare hospital reimbursement system** to reduce the redundancy of expensive capital equipment, and not simply permit the pass through of capital investment costs.

• **Establish a uniforms system of filing claims.** To improve the efficiency of all payers there should be one uniform system of electronic filing of claims. Today, far too much is spent on expensive billing systems that could be made uniform, automated and far more efficient.

These reforms are essentially structural changes designed to improve our ability to manage the dollars we spend and to rebalance a health care system that is simply out of control. More importantly, they can be achieved with little or no impact on federal or state budgets.

By completing phase one, our leadership will have implemented solutions that go a long way toward making the system more efficient and affordable for the majority of Americans who have some form of health insurance coverage.

It will also set the stage for our leadership to tackle phase two of the reform process which must address the millions of citizens who continue to live their lives without the benefit of having decent medical care. By most estimates, the price tag for these solutions will be $30 billion. And surely another round of debates.

Whether we move forward in dramatic ways or in increments, we must begin to move forward on this crisis. The health care crisis in America presents us with economic and political challenges. But most of all, it provides us with a challenge to conscience.

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AMERICA'S HEALTH CARE CRISIS: NOW IS THE TIME FOR ACTION.

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AMERICA'S HEALTH CARE CRISIS: NOW IS THE TIME FOR ACTION

by Robert L. Laszewski
Executive Vice President, Liberty Mutual Insurance Group

There is no doubt that America's health care system is in crisis.

As a nation, we spend more on health care than any other industrialized country — in fact, twice as much per person. These exorbitant costs are increasing at a double-digit rate, translating daily into higher taxes, higher insurance premiums and lower take-home pay.

Although the quality of our medical care is unmatched, its system of delivery is too often wasteful and inefficient. While extraordinary medical technology is available to some, the fact is that nearly 37 million Americans are routinely denied access to medical care because they lack public or private health insurance coverage.

Although improving the American health care system has become a national imperative, sound solutions to the problem have proven elusive. Today, however, there are signs that real progress is being made. At this juncture, I am cautiously optimistic about the opportunity to achieve meaningful reform in the health care arena.

A large measure of my optimism is grounded in the work of the Pepper Commission. This bipartisan congressional group was assembled last year to recommend ways to improve access to our health care system. With members from the House and the Senate, as well as the private sector, the Pepper Commission has truly distinguished itself for its leadership on this issue. Much credit for the Pepper Commission's success is due its chairman from West Virginia, Democratic Senator Jay Rockefeller. His patient, focused leadership guaranteed that no tough issues were ducked, no avenue for reform left unexplored.

At the same time, President George Bush has made it clear, most specifically in his 1990 State of the Union address, that he wants answers to a question of national concern — how to provide quality health care for all Americans. The President directed Louis Sullivan, Secretary of Health and Human Services, to report on the problems plaguing America's system of health care delivery. Such activity is clearly the first step toward a health care reform proposal from the Bush Administration.

So, with both the Executive and Legislative branches moving toward a discussion of reform proposals, the environment is ripe for progress on this critical issue. The outlines of a blueprint for health care reform are beginning to emerge. And yet, with opportunity so tantalizingly close, the fierce battle among special interests continues. To protect their own turf, special interests are paralyzing efforts to effectively address issues of health care reform. This has got to stop.

My own industry — health insurance — shares the blame. We have been far too slow in advancing solid proposals for reform, such as the elimination of underwriting prerogatives and pre-existing condition clauses. The truth is, these reforms are in our self-interest and in the best interest of the public. If the private health insurance system is to survive, we must strengthen our abilities to compete in terms of service effectiveness and health care availability, rather than competing to figure out who is least likely to need medical care.

As an industry, and including all who serve the health care system, we must earn our way by creating access to quality health care at a reasonable cost. However, to achieve these goals, each of us must set aside self-interest in pursuit of the common good. Developing access to quality health care at a reasonable cost entails significant reform of the health care delivery system — something neither the government nor one special interest group can accomplish alone. A comprehensive and fundamental reform package requires enlightened commitment from all of us — government, insurance, the medical community and the legal profession.

Happily, I see some movement. By directly confronting insurance issues, the Pepper Commission has helped focus and encourage the insurance industry debate. As a result, some of the most progressive proposals ever to come from the insurance industry have been put forward. And we are not the only group moving to respond to the Pepper Commission's leadership. Many physicians' groups, including the American Medical Association, have submitted very constructive reforms for their profession as well.

Clearly, it is time for special interests to remove all remaining barriers to achieving genuine health care reform. We must mobilize our associates to generate meaningful proposals that further the reform process. Such actions will inform our political leaders of the broad-based support for comprehensive, fundamental health care reform, and the willingness of special interests to put aside their differences.

Now is the time for action. Senator Rockefeller and the Bush Administration are pointing the way. Those of us who make-up the health care system must follow their lead.

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ACCOUNTABILITY --

THE MISSING LINK IN OUR HEALTH CARE SYSTEM

An Address to
The Public Issues Lecture Series
New England Medical Center

ROBERT L. LASZEWSKI
EXECUTIVE VICE PRESIDENT
THE LIBERTY MUTUAL INSURANCE GROUP
BOSTON, MASSACHUSETTS
1991

ACCOUNTABILITY -- THE MISSING LINK IN OUR HEALTH CARE SYSTEM

The American health care system is considered the best in the world. Nowhere is it possible to have access to state-of-the-art medical care as you can in this country.

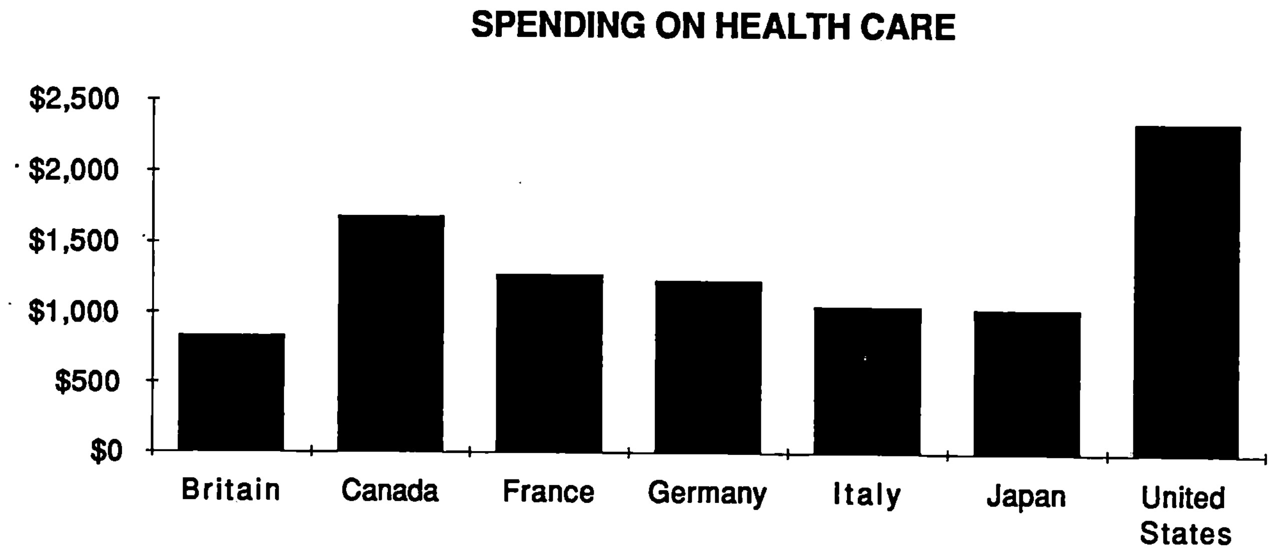
The irony is that, while one can have access to the best possible care, many do not. In a land of health care plenty, there are plenty of people who go without rational access to basic medical care.

In Boston, for example, more is spent on health care than in any other city in the world and Boston has a world-wide reputation for excellence; yet Boston's inner city has an infant mortality rate comparable to that of Malaysia.

Various public opinion polls tell us that Americans are happy with our health care system so long as they personally have access to virtually unlimited amounts and kinds of care.

America is full of health care ironies. Most of us have the best yet some us of have far too little of what could be termed "reasonable access." Why does this happen in a nation that spent $675 billion in 1990 on health care -- about $2500 for every man, woman and child, and twice that of countries such as Germany and Japan, which have far lower infant mortality rates and where life expectancy rates are at least as good as ours?

Spending on Health Care
(Per Capita health care spending in 1989, in U.S. dollars)



Source: Health Affairs newsletter

At this point, it is customary to raise health care financing issues and various legislative and public policy proposals to deal with the problem. But first, it may be more appropriate to look at the problem from another perspective.

The more I study this crisis and the more I am involved with it, the more I come to believe that its solution goes well beyond any legislative proposal or modified reimbursement systems we may choose to implement. Certainly, these kinds of things will be necessary. But, there is no silver bullet waiting to be enacted by state and federal legislatures.

Simply, the solution goes well beyond what government can or should do to us, or for us. It goes to personal accountability.

As Americans we've become a great deal more concerned about what we take rather than what we give. The political debate about health care stands as an example of individuals and special interest groups protecting themselves far more than contributing to or sacrificing for a solution.

WHOSE FAULT IS IT?

The American political system has become a "zero sum game" where various special interests jockey to maintain their piece of the pie. Physicians point the finger at insurance companies, lawyers, government, hospitals and even consumers. Insurance executives, hospital executives, lawyers, government policymakers and consumers simply reciprocate. The only thing we can all agree upon is that it's the other guy's fault.

I recently came upon an article in what I will describe as a mainstream consumer's magazine. The author referred to hospitals' participation in the "great reimbursement racket." The section about physicians began with "Paging Dr. Greed."

Everyone seems to be a villain. And to some extent, everyone is.

We have a system running amok. All of the major players clamor for reform -- usually reform that would impact the other guy. Each of the major players has a point about the other guy, but would do well to be equally forthcoming about their own behavior.

Insurance companies complain about the irresponsible behavior of physicians who refer patients to doctor-owned labs, for example, and physicians who order countless "unnecessary" tests and procedures. Yet, the insurance industry is far less than forthcoming in offering proposals that would reform practices (medical underwriting, to name one) which unfairly exclude people who could otherwise afford to purchase health insurance. The horror stories of people losing their coverage upon suffering an illness, and of whole groups of small businesses being discriminated against, continue to be heard -- with no viable solution coming from the industry.

Physicians complain about the endless paperwork demanded by both public and private payers. They object to its tremendous cost, as well as to perceived intrusions into the physician/patient relationship by utilization management companies. Yet, physicians themselves are slow to initiate controls on these excesses and often shun outcome research to determine what treatment paths work best, believing it to be a step toward "cookbook" medicine.

Hospitals complain about national reimbursement systems and poor government reimbursement levels, yet they often engage in the equivalent of hospital "arms races" as they compete to have the latest technology, even though there may already be enough of it in the community. Recent attempts by the Health Care Financing Administration to eliminate special treatment of hospitals' capital spending have been met by more than a few complaints and cries of "foul", as have its attempts to convince hospitals to add capital costs to normal prices, and thus pay for them like any other business pays for its capital.

Politicians, on the one hand, piously call for health care for all Americans and "courageously" speak out against the excesses of insurance companies, physicians and hospitals, but then refuse to adequately fund the programs they have already implemented. Medicaid, the government program for the poor, now only covers about 45 percent of the needy in our country. A family of three living in Alabama (which has one of the worst programs in the country) and making only $3500 per year, is expected to be able to purchase their own health insurance and life's other necessities on that income. In California, where one of the "better" Medicaid plans in America is in place, a family of three making more than $9500 per year is expected to pay $3,000 - $5,000 per year for health insurance and then pay for other living expenses out of what remains.

Politicians simply haven't kept the promises they have already made, yet they continually make more. And even more outrageously, each one complains that he isn't the problem: it's his colleagues who won't make the "courageous" decisions.

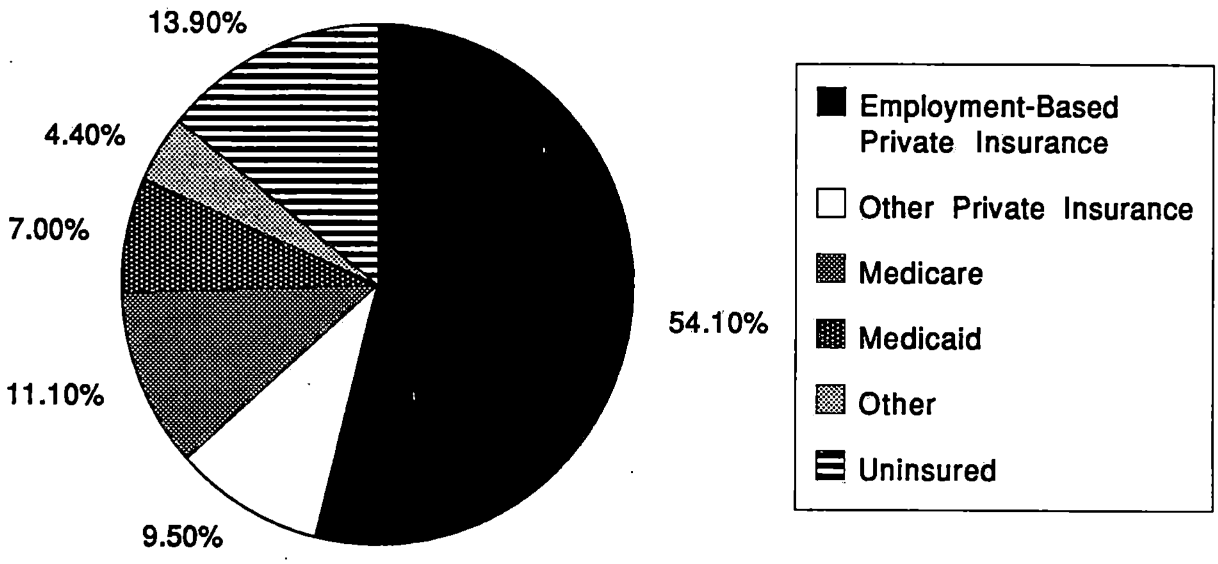
The legal profession has its share of this crisis to be held accountable for as well The trial lawyers seem to have a special ability to play all of the disparate elements against one another under the banner, ironically enough, of "accountability." Any physician who is negligent, so the argument goes, should be accountable for their behavior. Good enough, but unfortunately it doesn't stop there. We have a system that has long since gone past the test of reasonableness when the average obstetrician in Massachusetts pays more than $34,000 each year for malpractice insurance. And the malpractice bill doesn't tell the whole story. The paranoia our out-of-control tort system has created produces additional costs well beyond the expense of malpractice insurance, because physicians and hospitals do things they know to be pointless and wasteful simply to defend themselves from an irrational legal system.

Now we come to the biggest player of all in the health care system -- the consumer. Given the time I have spent in this debate and the many times I have seen our health care financing system referred to as being in crisis, I was more than surprised by a recent "Boston Globe" headline which read: "Poll finds most in U.S. happy with health care." The pollster was quoted as saying that public attitudes could be summarized as "the country is in big trouble, but the place where I live is great."

Consumers continually tell us that as long as they have access to and receive reimbursement for health care for themselves and their families, they are satisfied.

And 85 percent of the population is getting reasonable access to the system -- virtually unlimited access. Consider this, Americans spent $200 million more <u>per day</u> for health care in 1990 than they did in 1989.

Paying the Bills



Note: Some people have more than one form of coverage.

Source: US House of Representatives

America is engaged in a virtual feeding frenzy of health care. Everyone takes; very few give. Everyone demands their rights; very few demand that the rights of others be met.

WASTE = HIGHER COSTS = LESS ACCESSIBILITY = CRISIS

Too often terrible waste in the system, in the form of too many tests, procedures, expensive pieces of high-tech equipment, malpractice suits, underwriting rules and legislative mandates, is defended on the basis of what might be necessary to save a life.

I have a friend who works in a hospital emergency room that has a very expensive Magnetic Resonance Imaging (MRI) machine. He quickly concedes that it is not really necessary, given that there are so many other hospitals in the community that have one. He will even concede that it is sometimes over-utilized. If it were not, the hospital couldn't pay for it and it would not be there for that "seriously injured boy whose life might be lost without instant access to it."

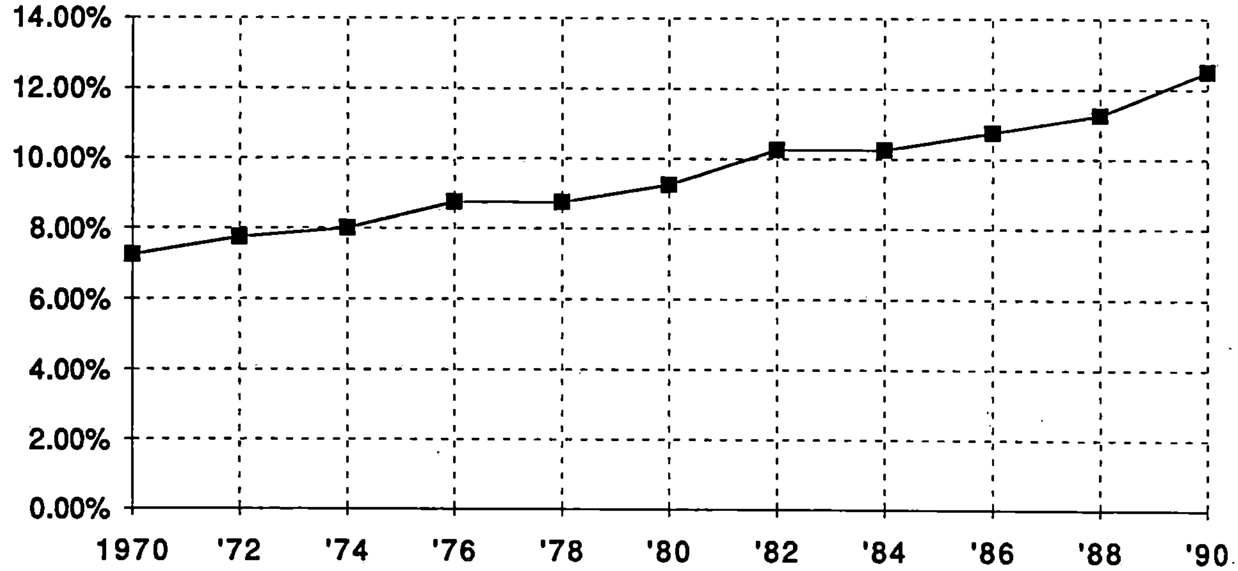
This story has many parallels: the insurance policy that wouldn't be affordable without the ability to exclude "poor" risks; the keeping open of the hospital that is marginal in both price and quality in order to continue a policy of neighborhood care; or the huge malpractice settlement that keeps physicians "on their toes."

All of these arguments make a point in a singular context, but this behavior also serves to undermine broader objectives. That MRI machine might be of value, just as one could argue that certain insurance rules, a marginal hospital, and high malpractice awards serve a value. At the same time, however, each of these contributes to a crisis in both access to and the cost of health care that makes it impossible for between 31 and 37 million people to get either public or private insurance. While 85 percent of our population over-indulges in its health care feeding frenzy, 15 percent of our people don't have access in a rational way, while our national cost for health care exceeds $675 billion and continues to skyrocket by $200 million each day.

ECONOMIC AND SOCIAL IMPLICATIONS

The average employer now pays more than $3000 per employee for health care. The burden our economy carries for the health care excesses of our society is twice that of nations such as Japan and Germany. Health care costs are quickly swamping individual businesses, making some of the smaller ones go without and creating significant competitive problems for all businesses that try to compete in world markets. One way or another we ultimately pay for our excesses and our selfishness. One way we will pay is in higher costs for American goods and services in the world market, which will result in fewer jobs and still more uninsured.

Percent of US Gross National Product Devoted to Health Care



Source: Department of Health and Human Services

In the emerging "new world order," national security and strength will have less to do with how many aircraft carriers we have and more to do with our ability to compete on world economic battlefields. On those battlefields, it will be the strength of our social and economic infrastructure that will make the difference. The success of our educational system, the consequences of crime and drug abuse, and the cost and effectiveness of our health care system will be major determinants of that success.

Today, we have not been successful with problems such as crime, education and health. Not only do we suffer because we spend so much on these things but, even more, we suffer from the impact of those citizens who can't be productive. Each time we fail and one more person joins our welfare system we add to the continually heavier yoke that an ever-shrinking productive segment of our society has to bear.

The cost of caring for a newborn "cocaine baby" can be $200,000 - $300,000 -- or even more than $1 million for a premature infant's medical bills. That "pre-me" is an example of our society's failure to deal with the costs of health care, education, and crime. We might have spent far less if the mother had been eligible for prenatal care, or if the educational system had worked better or if the drug prevention program had worked. But, more importantly than these "ifs" about the failure of society, far less might have been spent if the parent, or parents, had had a sense of individual accountability in the first place.

That cocaine baby can clearly represent a failure of public policy in education, health care, drug prevention and the rest. I can tell you that we find a 7-1 return on investment in prenatal care and, therefore, a reduction in these kinds of tragedies. But it also represents a failure of individual accountability.

Many would label the parents of the cocaine baby as having a "welfare mentality." That is, a mentality of taking without regard to the consequences and cost because they refuse to be accountable for those consequences and costs. Now then, is that "welfare mentality" -- taking from the system without regard to the consequences -- only the domain of the poor?

We are in the midst of a vicious cycle in our health care crisis. As our behavior acts to push costs even higher, the pressure grows to fight harder to keep our share of the pie at the expense of someone else and their share. Insurance companies fight doctors, doctors fight hospitals, consumers fight all of the above and the 85 percent who have find themselves taking from the 15 percent who have far less, while fiscal crises in many states reduce the already inadequate funding of programs such as Medicaid.

This crisis isn't about the concept of public or private insurance or of reimbursement schemes, or about tort reform. It is about our own behavior.

Somewhere, we fell off the track as Americans. This noble experiment of self-determination, freedom to act, personal initiative and rewards for those who worked the hardest, has too often given way to a cruel game of "this is mine and you can't take it."

America isn't always about sacrifice anymore. It's also about entitlements. We aren't about competition and efficiency the way we once were, we are also about rules and regulations that sometimes protect what we have more than ensuring fairness, efficiency and competition.

Our health care crisis isn't just the result of a health care economy in disequilibrium, it is just one image in the collective mirror of what we are becoming. It is the result of what we as consumers, voters, business people and professionals are doing -- or not doing.

And, so, many proposed solutions to the health care crisis reflect our selfishness.

PARTIAL SOLUTIONS AREN'T ENOUGH

Health care rationing. Some argue for "rationing" of health care. The reasoning goes that, with budget limitations it is not only necessary, but goes on anyway as people are denied care most often because of their inability to pay. Rationing of health care may indeed be necessary at some point, especially as we deal with what we spend on expensive and pointless care during what are known to be the last days of life.

Some suggest that a broader form of rationing should occur even when almost everyone involved in the health care debate believes that between 25 and 33 percent of health care expenditures are unnecessary but done anyway for any number of reasons, including consumer demands, to avoid potential malpractice claims, or because providers are just plain greedy. And these figures don't include the waste attributable to the enormous paper bureaucracy in our system. To deny care on the basis of some rationing scheme when so much is being wasted in unnecessary care and bureaucratic redundancy is not defensible. It is that waste which must be our first priority, not who will be cut off.

National health care -- Canadian-style. Others would argue that a national health insurance system, modeled after the Canadian system, is the answer. It ultimately may be if the private sector cannot justify its existence by bringing market efficiency to bear. But I will also suggest that establishing one vast public system to solve all of our health care problems may be nothing more than a selfish quick fix. It's easy for so many to turn to such a system. It gives the promise of access for all, particularly if the cost is like that in Canada.

Some physicians see one government payer, with the hope of far less paperwork, one reasonable reimbursement schedule and universal coverage. Many consumers see access for all, an end to the uninsured and coverage on demand for all needed care. Some in business see lower costs and an end to the terrible escalation in the cost of health insurance.

Really, even with such good intentions, this "silver bullet" solution is too often the continuation of a desire to have our personal needs met without having to worry about the price or the consequences.

There is no free lunch. Giving all Americans a plastic card toward the objective of universal access and lower costs is pie-in-the-sky. A "give-me-the-card-I-can-have-complete-access-and-someone-else-will-pay" perspective is not going to solve our problem. It's just more of the same problem. We cannot provide access to all Americans and still expect the bill to go down or that the rate of increase in costs will automatically abate. In fact, in the 1960s, 1970s and 1980s the cost of health care in Canada rose at a rate equal to or greater than it did in the U.S. The evidence seems to indicate that a "Canadian" solution would not be effective in controlling our greatest threat -- out-of-control health care inflation.

If, as taxpayers, we believe that all Americans should have access to rational care, let's start by covering the 55 percent of the poor who are now excluded by Medicaid and provide for reasonable reimbursement levels for those who treat them.

Too often, those who argue for a Canadian-style system would like to believe that giving everyone a plastic card will somehow bring this whole mess under control. I suggest that sort of thinking is really part of the problem we face: "Let's push the problem off on someone else."

Physicians who are quick to point to Canada as a means to gain one adequate and uniform reimbursement system seem to think that the taxpayer's current reluctance to pay more taxes in order to fund adequate benefits for the poor won't be an issue when it comes to reasonable reimbursement rates for a far more affluent physician community. And those physicians who point to the bureaucratic red tape in the existing systems forget that much of it comes from Medicaid and Medicare. They apparently presume that this will somehow disappear if government has all of the system instead of the 40 percent of it they have now.

And, while many business people are clearly frustrated with the spiralling cost of health care and are anxious to find solutions, the support by some for a Canadian-style system is clearly self-serving. I recently heard one CEO call for such a system because "it would be cheaper" and would therefore enable him and others to compete in world markets. He forgot to mention that his company is generally known to have hundreds of millions of dollars in unfunded medical liability for retired employees -- a liability that would conveniently be shifted to the taxpayer should such a system go into effect.

Too often, people look to a quick-fix Canadian-style health care system because of what it will do for them, more than whether it can really bring costs under control and create broad access for all Americans.

It may be that such a system of global budgeting and simplified administration will ultimately be the only solution. I will tell you directly that, if my industry cannot participate in a private sector solution that both brings costs under control and creates a seamless system so that all Americans at least have basic coverage, then we should have a public system. Any private insurance solution must be one in which we find ways to cover all of those who can afford to purchase health insurance. It should not be the sort of solution that some have proposed, which expects the private insurance industry to keep the "healthy" risks while government is expected to take those we refuse to cover through the creation of state-run risk pools.

Any outcome, whether it be a Canadian-style solution or a reform of the private/public system, will need to entail difficult and somewhat painful steps. Universal access will cost more, at least at first, and each of the key players in the debate will need to give up some of their sacred turf.

COMPREHENSIVE REFORM

Reform cannot come piecemeal and uncoordinated if it is to be effective. Time is running out. More people fall outside the system each year and health care is becoming more and more unaffordable as the crisis grows. Reform will need to be comprehensive if there is any chance of gaining the concessions necessary from the various special interests. It will be far easier for any one party to give up something if it sees another side doing the same.

Given the state of our nation's fiscal affairs and that of so many state and local governments, it is not realistic to expect that all of the necessary steps that government must take can occur at the same time. Nor is it appropriate to believe that government should solve the problem through the creation of some "Great Society" spending program. At $675 billion, we already spend far too much. The challenge is not to spend more, but to get reasonable efficiency and access from what we now spend. The comprehensive reform that is necessary probably cannot happen at once. It is important to recognize the principals that must be achieved over time. I would suggest that the following long-term objectives be included:

1. That a seamless system of universal coverage be created where the needy are covered by government and those who can pay have unimpeded access to purchase insurance on a non-discriminatory basis.

2. That public programs reimburse providers at a reasonable level and that reimbursement programs emphasize primary care as well as preventive programs.

3. That the nation's tort system be overhauled. The right to sue should be maintained, but only after first submitting malpractice claims to arbitration that encompasses "reasonable professional standards" as a defense.

4. That the administrative costs and burdens of the existing system be dramatically reduced through implementation of a common system of electronic claim filing and payment for all payers and providers.

5. That data be compiled and made available to doctors, consumers and payers as to which treatments work and who successfully provides those treatments at the lowest cost. That, based upon this data, we reimburse the most efficient and effective doctors and hospitals.

6. That "Centers of Excellence" be designated to provide expensive and complex high technology and/or high-risk procedures and treatments.

Within the context of these six principles, it is possible to move forward with a number of steps that could have an impact and still require little or no public spending.

1. *Toward a seamless system* -- health insurance reform can be enacted which does away with the "medical underwriting" and "pre-existing conditions" provisions that now serve to exclude people. These provisions should be eliminated. Some reform proposals would allow them to continue with those who would have otherwise lost coverage shifted to state-run pools. Having such pools would simply allow insurers to "cream the market" and pass responsibility for others to the government. If insurance companies are to participate in creating a more efficient system, they must compete on the basis of finding the lowest-cost, highest-quality providers on behalf of their customers, rather than continuing to be adept at whom not to cover or whom to pass off to a government-run pool. These "have-your-cake-and-eat-it-too" proposals fall far short of the kind of reform that must take place.

2. *Toward improved public programs* -- government must move to broaden the safety net for those who cannot afford to purchase health insurance. While fiscal problems preclude immediate broadening of eligibility, existing dollars should be refocused to emphasize primary care, especially for children and pregnant women. To the extent that coverage can be granted to those not now eligible, it should be done first by providing primary care benefits. The uninsured already receive catastrophic care benefits, because no seriously ill individual can be denied care. Limited new dollars should go to preventing these serious illnesses. Our first priority should be to expand primary care benefits for the poor. A dollar spent on prenatal care, for example, saves $7 in catastrophic costs for premature birth.

3. *Toward tort reform* -- tort reform is a much needed effort and can be accomplished without substantial government spending. Much of the system's paranoia can be relieved if, before filing suit, the plaintiff were to submit their claim to arbitration. If the plaintiff felt that the outcome of arbitration was unsatisfactory, they could then bring a court suit. This would serve to resolve complaints more quickly and responsibly while still protecting the consumer's right to sue. In addition, physicians must be held accountable to reasonable standards of care, not to some "god-like" standard of perfection.

4. *Toward lower administrative costs* -- currently, various insurers, government agencies, and Medicare use different claim forms and procedures. The technology has existed for some time that would enable all payers to use one system of electronic claim filing and payment, thereby dramatically reducing the cost and burden of administration. Requiring payers to move to such a standard system would have little or no net cost to the taxpayer in the short run and would save considerable amounts in the public and private systems in the longer run.

5. *Toward reimbursing the most efficient and effective providers* -- a common system for filing claims could be the basis for information on relative costs among providers. In addition, "outcomes" research can tell physicians,

consumers and payers a great deal about the most effective treatment path. The cost to taxpayers would be small and could be paid for by the organizations that use the data.

6. *Toward "Centers of Excellence"* -- the designation by public payers of "Centers of Excellence" would create an environment of reimbursement only for the appropriate number and type of high technology or high-risk/high-cost facilities. For example, only certain hospitals would be designated and eligible to receive public reimbursement for MRI procedures. The number designated would be appropriate to the population and would, therefore, serve to reduce the "hospital arms race." The small cost in tax revenue to administer such a program would be quickly made up in savings.

These steps can provide a meaningful start toward a more rational health care system. Each of these first steps is essentially "revenue neutral," in keeping with contemporary fiscal realities. All the same, however, the most important steps that we can take in America do not require legislation or tax dollars. These steps are about our own sense of responsibility.

The health care crisis is not an isolated issue. The challenges we face in education, the environment, drug abuse and others all come back to the character and the values of our nation.

America became strong because of its selflessness. American business became a world power because of its uncanny ability to serve its customers' needs. Health care professionals became heroic symbols because of a single-minded commitment to the patient's best interests. And the American people were seen for individual initiative while not forgetting their neighbor as they enjoyed the fruits of their individual success.

Our greatest challenge isn't the bill we can get through the next session of the Legislature or Congress. It isn't about getting someone else to act. It is about being willing to take responsibility ourselves. It is about our willingness to be accountable to the other guy. It is about our selflessness and our ability to see the bigger picture. It is about all of us willing to be consumers, insurers, doctors, lawyers, hospital administrators, and policymakers, second; and good citizens, first.

We can debate long and hard about where these values must first begin to rebuild themselves. Should it start with that cocaine-involved pregnant mother in the inner city or with insurance executives, physicians, lawyers, and others with significantly more clout in our society?

The answer is that it needs to start with our individual actions, not with someone else's action. Selfishness is about what we do for ourselves and it is the problem. Selflessness is about what we do for the common good and it is the solution.

Annual Report 1990

The Customer's Advocate

LIBERTY MUTUAL

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When it comes to putting the customer's interests first, no insurance carrier has a stronger — or more comprehensive — record than Liberty Mutual.

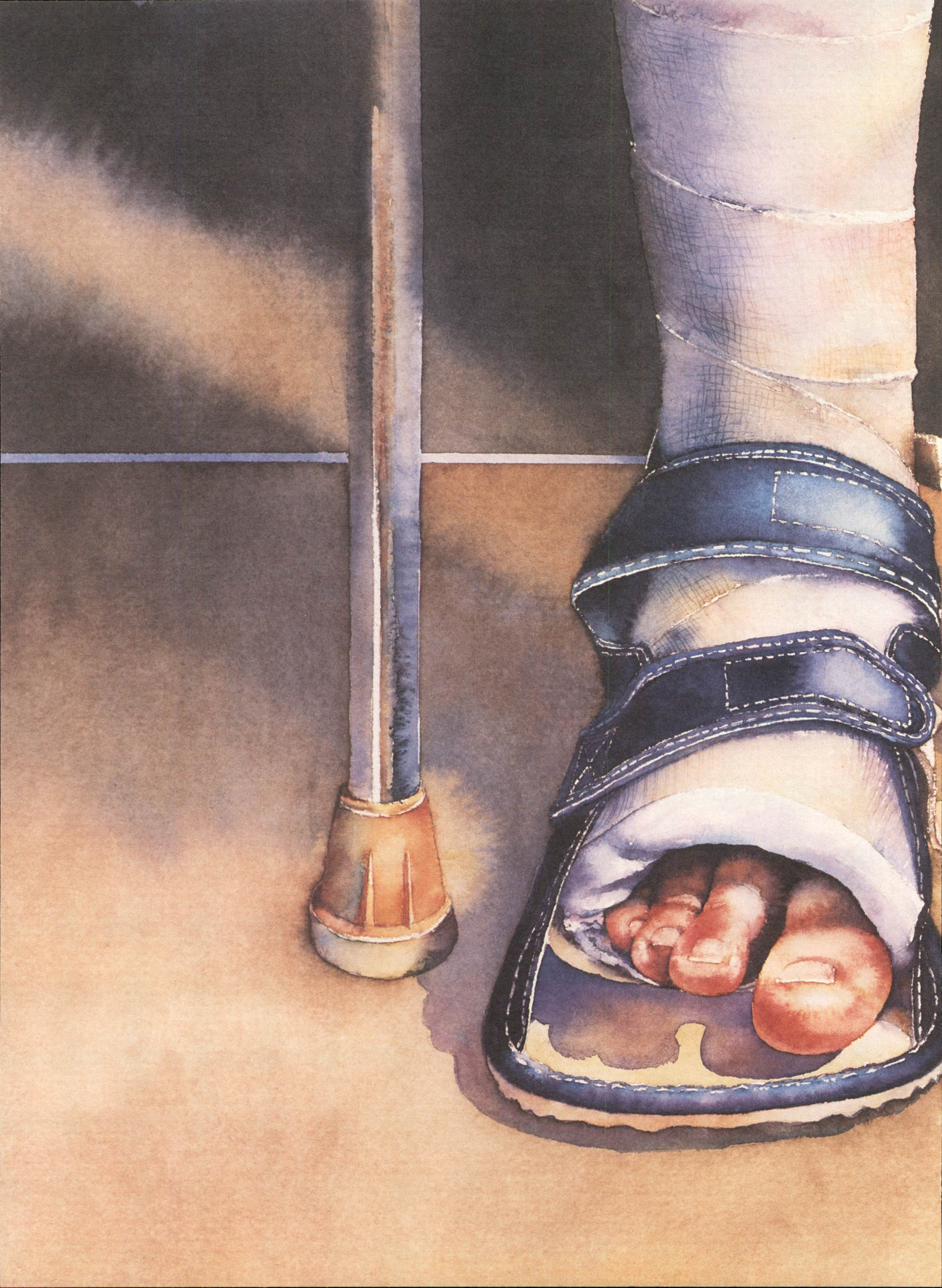
Our mission of "helping people live safer, more secure lives" comes directly from our corporate creed, articulated over half a century ago. It is, in fact, what we are in business to do.

Liberty understands the costs involved — both human and financial — when accident, injury or illness strike. We work to address the roots of the problem, not just the consequences. This may mean changing the workplace so it is safer or changing the insurance systems so they are fairer and more efficient. We aim to be advocates for all who are protected by our coverage, whether individuals and their families or corporations insuring themselves and their employees.

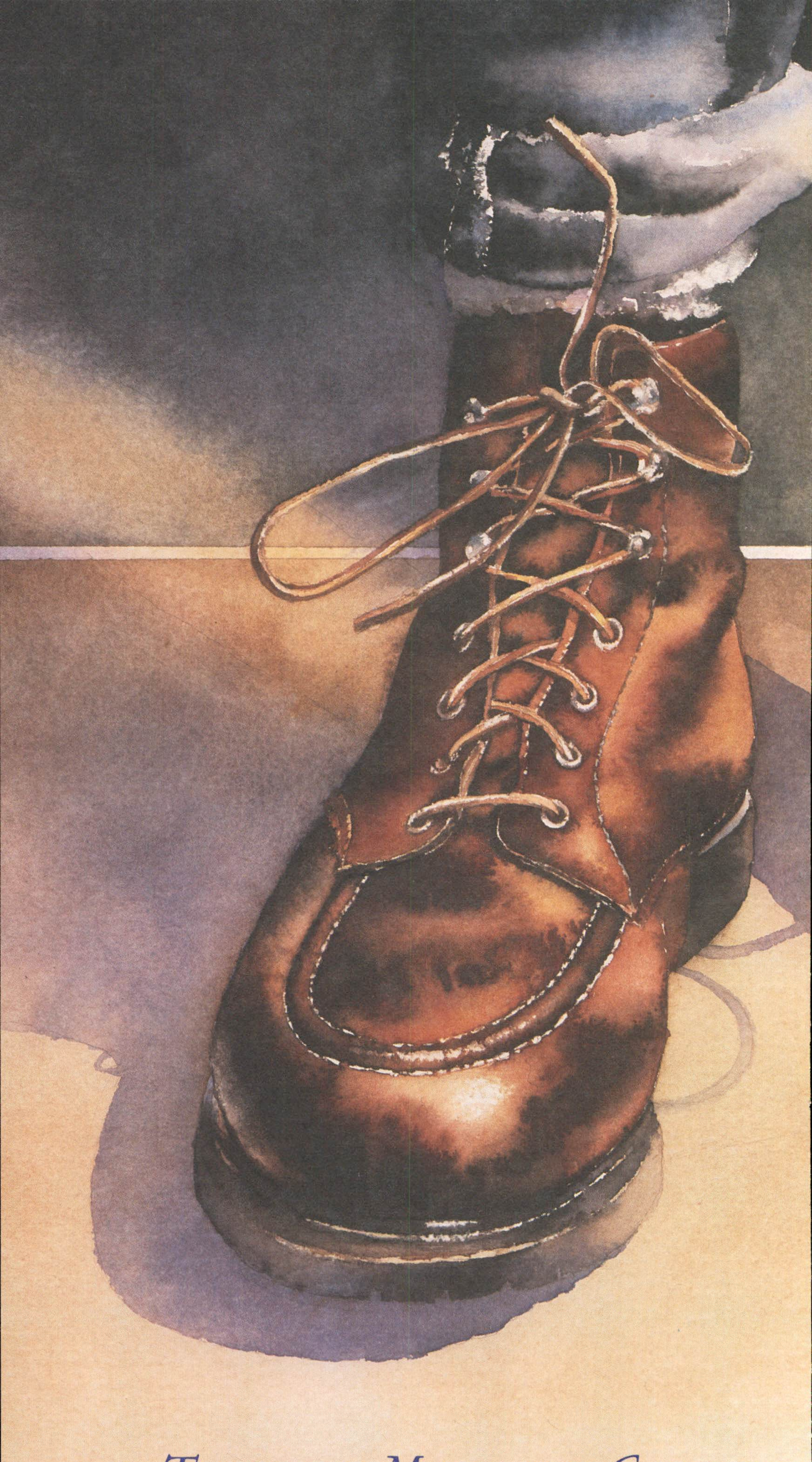
In today's complex insurance climate, this means mounting practical programs in:

- ***safety**: researching the causes of accidents and working to eliminate them.*
- ***affordability**: striving to contain the underlying costs of insurance with programs that improve system efficiency and effectively manage the costs inherent in providing insurance.*
- ***fairness**: working to make insurance systems fairer for everyone — those who suffer accident, injury or illness and those who pay for the insurance which compensates them.*

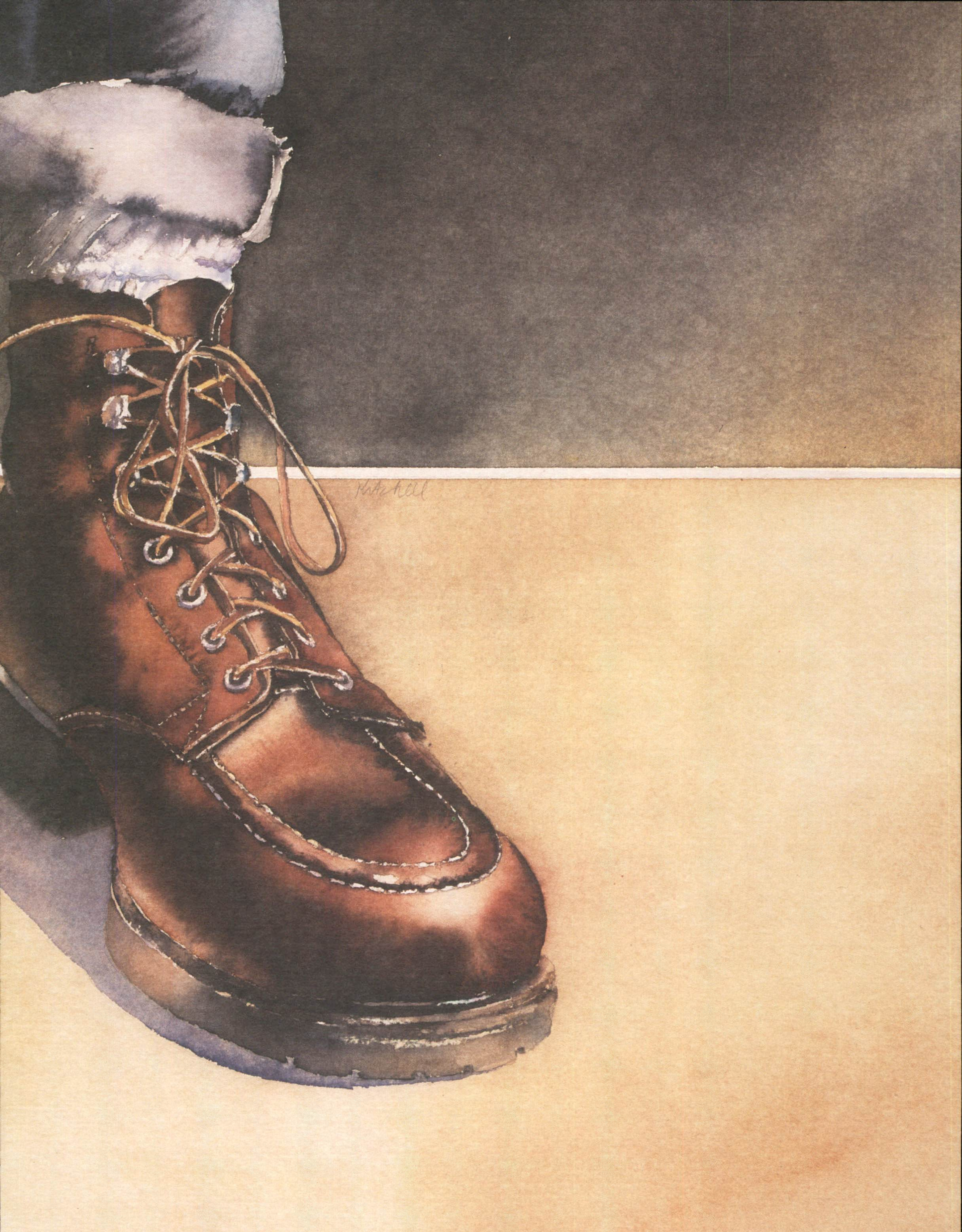
Whether covered by workers compensation, group health, general liability, auto, homeowners or life policies, being our customer's advocate means using our expertise and financial strength to do things for policyholders — and in partnership with them — that they cannot do on their own.




Mitchell



Through Managed Care, we



GET PEOPLE BACK ON THEIR FEET.

What Liberty is Doing to Keep Insurance Affordable

We understand the costs involved when an accident happens.
The human costs and financial costs affect all of us...
employers, employees and families.

"We have always worked directly with our policyholders. Liberty people are personally committed to helping our customers prevent loss, and to helping mitigate the impact of those losses which do occur. We see ourselves as advocates for our customers in this essential job, and in helping keep insurance costs reasonable and insurance systems efficient."

William E. Commack
Executive Vice President-
Business Markets

Dealing Directly with our policyholders gives us a real advantage in getting costs under control, thus keeping our expenses significantly lower than those of our competitors. Equally important, we build close, long-term relationships with policyholders, enabling us to be true partners in risk analysis and cost containment.

Managed Care programs leverage this partnership to help injured workers and sick employees get back on the job. Liberty's Managed Care programs are built on years of workers compensation experience managing both medical costs and disability. Today, we're applying these risk management principles to group health — so our customers get the full benefit of our experience. Through years of leadership in workers compensation we've developed these cornerstones of Managed Care:

- **Pre-Accident Management**: helps avoid accidents or minimize their impact by planning ahead. In decades of loss prevention research, we've learned where and why many workplace accidents and injuries occur — and how to prevent them.

- **Disability Management**: has been Liberty's strong suit for decades. Years ago, we created a national network of consulting physicians, primarily orthopedic surgeons, to monitor complicated cases. Over 150 rehabilitation nurses also work directly with patients who have serious injuries, ensuring appropriate care and as prompt a recovery as possible.

- **Medical Cost Management**: includes the 38 registered nurses who audit the bills in our Medical Coordinator program, along with loss studies, vendor audits and other programs. Last year, our billing review programs alone saved our workers compensation policyholders over $141 million.

- **Rehabilitation programs**: help contain costs by restoring productivity wherever possible. In 1943, we became the first and only insurer with a facility dedicated to the treatment of life-changing work injuries. Today, we're developing new ways to treat major sources of disability — like a protocol for back pain treatment that we're sharing with other medical leaders.

What Liberty Mutual is Doing About Safety on the Job

Loss Prevention Specialists: work together with policyholders to analyze workplaces, discovering and controlling sources of potential loss or injury. Last year, Liberty's 750 safety professionals made over 125,000 visits to customer sites, spending nearly 1 million work-hours addressing improved safety in policyholder workplaces.

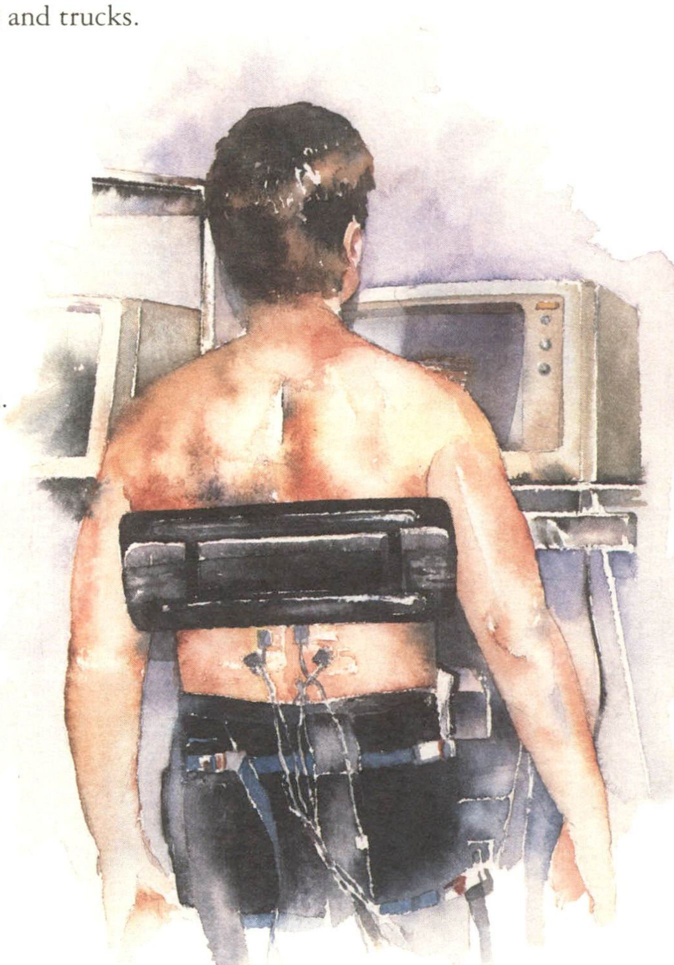
Training Institutes: bring the latest safety research findings to our policyholders, helping them change task design or employee behavior to improve safety. Institute topics currently range from ergonomics to stress management to occupational health. Liberty Mutual also publishes research and many of our specialists teach at major universities to help share what we've discovered.

Improved Highway Safety: addresses the largest source of workers compensation death claims — auto and truck accidents. Liberty's Skid School, developed at the Research Center in 1964, teaches our Decision Driving techniques to help prevent skids. Today's anti-lock brake technology essentially uses the Decision Driving concept of "stabbing the brakes". At our Research Center in the Seventies, we evaluated the safety-effectiveness of anti-lock brakes and became an early proponent of their use in cars and trucks.

What Liberty is Doing to Create Fairer Insurance Systems

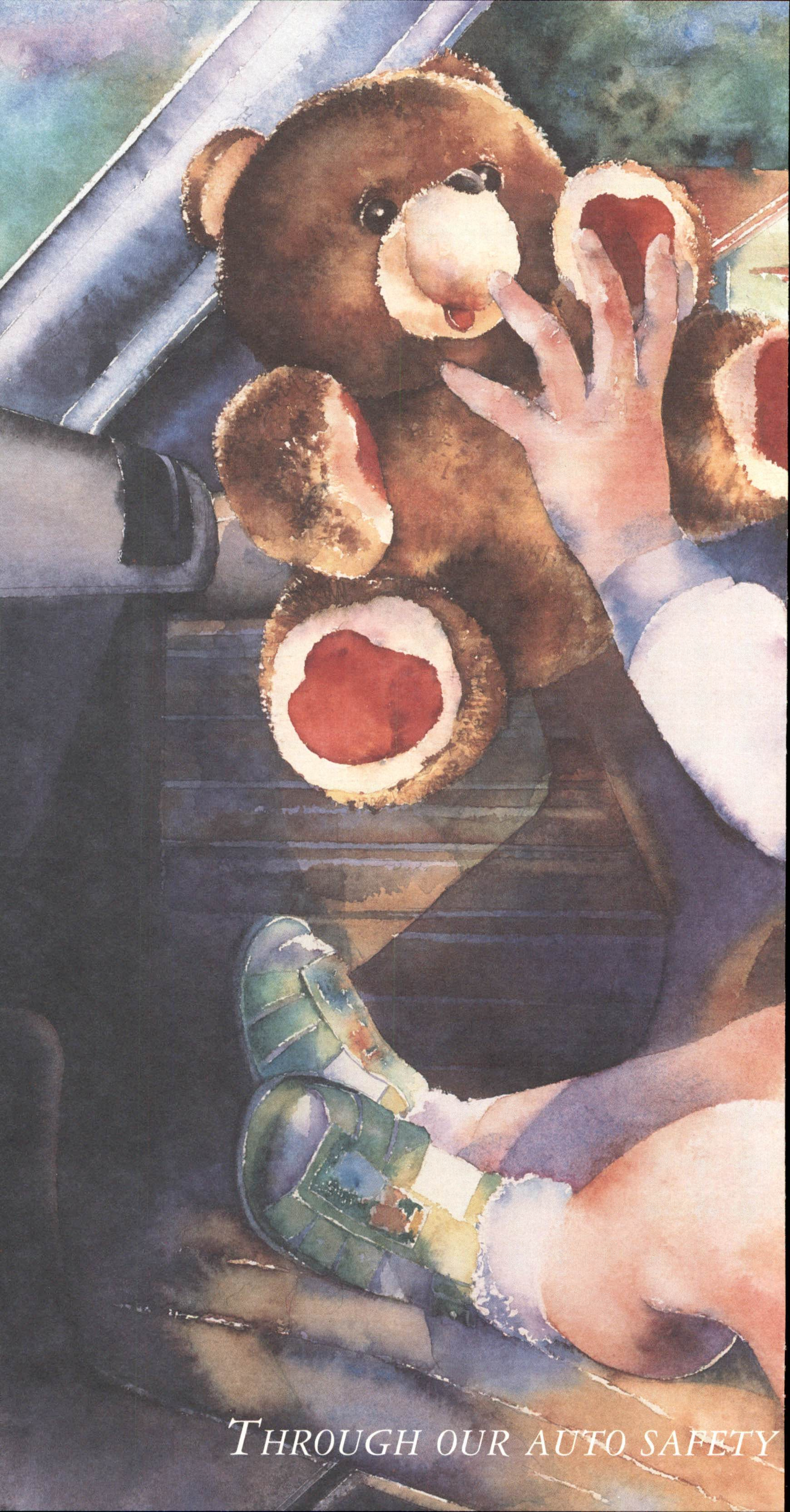
Workers Compensation Reform: we initiated a national effort to bring together the major stakeholders and help restore stability to deteriorating workers compensation systems. Out-of-control medical costs, needless litigation and burdensome administrative procedures continue to threaten the future of workers compensation. As an advocate for a better insurance system, Liberty Mutual is helping build coalitions among business and labor leaders, legislators and regulators to address the problems challenging today's workers compensation systems.

Healthcare Reform concerns businesses of all sizes — because healthcare costs seem to defy any effort to moderate their escalation. Liberty Mutual has articulated a comprehensive plan to tackle healthcare costs — a revenue neutral approach which has been applauded by business leaders and government officials. The key to the effectiveness of Liberty's plan is in linking all players to a common goal: quality care for all at a reasonable cost.



With Boston University, Liberty Mutual helped develop the Back Analysis System, used today to help evaluate the potential for back pain and to help monitor treatment.

construction designed to improve driver and passenger safety.



Through our auto safety


RESEARCH. WE SAVE LIVES.

CONCLUSION

For eight decades, Liberty Mutual has been a pioneer in helping both corporate and individual policyholders to be safer and more secure — at home, at work and on the highway.

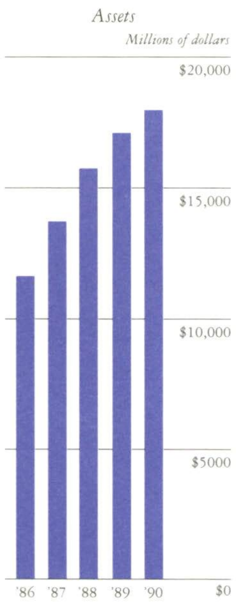
Today, we continue this leadership through ongoing safety research, effective partnerships with our policyholders to reduce cost and loss, and involvement in the political process to bring about fair, efficient insurance reform. These efforts to act on behalf of our policyholders as "the customer's advocate" are matched every day by the service delivered by our 21,000 employees.

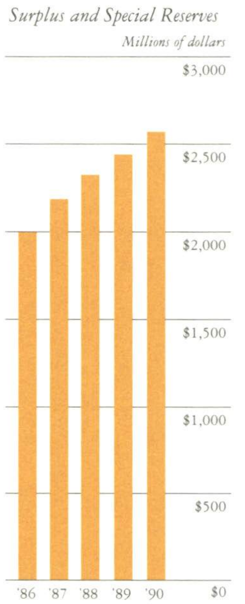
The goal is customer satisfaction. To us at Liberty, customer satisfaction means even more than delivering a good product at a fair price.

It also means effectively influencing the environment in which we operate.... to assure policyholders that, as Liberty Mutual customers, they will be safer and can feel more secure.

Financial Highlights - Liberty Mutual Insurance Companies
(dollars in thousands)

	1990	1989	% Change
Income Statement:			
Net premiums written	$ 6,479,821	$ 6,445,195	0.5%
Net premiums earned	6,516,731	6,680,668	(2.5%)
Income from invested assets, net	1,140,106	1,078,871	5.7%
Loss and loss adjustment expenses	6,314,853	6,584,028	(4.1%)
Dividends declared to policyholders	204,065	183,509	11.2%
Net income	164,448	116,812	40.8%
Balance Sheet:			
Admitted Assets	17,988,750	17,108,156	5.1%
Liabilities	15,418,464	14,666,853	5.1%
Surplus and special reserves	2,570,286	2,441,303	5.3%





The Liberty Mutual Insurance Group operates under clear, proven policies which have been systematically developed to meet several fundamental objectives. We strive to provide a wide range of products to satisfy our customers' total insurance needs as well as their closely related financial service needs. We support these product offerings with high-quality service, combining professionalism, prompt attention and convenience for our policyholders. Also, we work to maintain a reliable pricing structure that is both competitive and affordable.

At Liberty Mutual, we have worked directly and cooperatively with our policyholders since the Company was established in Massachusetts in 1912. Our approach to the business of insurance has enabled us to become one of the largest multi-line writers in the property/casualty field. As policyholders' needs have changed through the years, we have responded by developing new products and services, guided always by the highest standards.

Our subsidiary, Liberty Life Assurance Company of Boston, was founded in 1964 and currently ranks in the top 9% of life insurance companies, with in-force insurance exceeding $10 billion. Today, we offer diversified financial services through Liberty Financial Companies, Inc., which includes our subsidiaries, Stein Roe & Farnham, Inc., Keyport Life Insurance Company and The PAMCO Group, Inc.. Liberty Northwest Insurance Corporation, now a leader in the Oregon business insurance field, was established in 1983 as an independent stock company wholly owned by the parent companies. Started originally with 15 employees, Liberty Mutual today employs 21,000 people in nearly 400 offices throughout the United States and Canada. The Liberty Mutual Insurance Group now includes more than 40 companies.

To Our Policyholders:

Calling ourselves "The Customer's Advocate" is a risky proposition, especially when you're in the insurance business — public perceptions being what they are. However, those of you who know us well, know Liberty Mutual claims that designation with absolutely no hesitation. We firmly believe that in nearly 80 years of service to our policyholders, no one has matched our efforts to support safety, cost containment and fair insurance systems.

There are many initiatives described in the theme section of this annual report that demonstrate your companies' commitment to act as an advocate for our customers. Daily, in working with the many dedicated Liberty Mutual employees, I see our mission of "helping people live safer, more secure lives" invigorated and made real as they work with you, our policyholders.

Furthering Reform on Three Fronts

The full measure of our accountability as our customers' advocate is driven home to me as I look back on our efforts to promote meaningful reform across three political fronts during the year just past. We continue to urgently work for change in the current political environment, circumstances which in the long term are as hostile to your interests as they are to ours.

Nowhere is this reality more apparent than in the politics of workers compensation. It has proven to be an extraordinarily stubborn obstacle to significant underwriting improvement in the Business Markets. The best we can say is that we held our own in the voluntary market. Unfortunately, the involuntary workers compensation market — those risks, unable to obtain coverage in the private market, which we are required to underwrite through a variety of public market mechanisms — turned in a loss ratio of almost 135%. Clearly, the continued growth in the involuntary market and the lack of profitability in workers compensation are of serious concern to your companies. We continued to make refinements in our marketing efforts among the states and continue to pursue an exceptionally vigorous underwriting approach. For these reasons, 1991 should be a little better, but reform and the restoration of the principles upon which workers compensation is founded are what is really needed.

And so, over a year ago, we undertook a broad-based initiative to bring together those with a significant stake in strengthening workers compensation for the future. Business, labor, medical care providers and others were asked to work together in restoring the efficiency and effectiveness of a system once remarkable in its social purpose. Throughout the last year, I am pleased to report, a core group of committed stakeholders met regularly. Candid and fruitful discussion addressed how together we can contain escalating medical costs, eliminate unnecessary litigation and streamline burdensome administrative procedures. At this juncture, the year ahead looks promising for this vital workers compensation initiative, as we strive to duplicate this successful coalition-building strategy at the state level. In no small number of states, the fate of workers compensation hangs in the balance and in those states, there must be genuine action toward meaningful reform.

Another line – personal automobile – demanded its share of attention in the political arena, as it has for some years now. In those states experiencing abnormally high numbers of bodily injury claims, along with consequent large rate increases, we advanced our strong recommendation that sound No-Fault laws be adopted.

We believe the single most effective legislative solution to the high cost of auto insurance is a good No-Fault law. Structured properly, No-Fault immediately removes costs from the system and consumers immediately benefit. We also continue to advocate strong anti-theft legislation along with strong sanctions against insurance fraud.

Your companies were also active in Washington this year on the issue of health care reform. Because the efficiencies of health care delivery and financing systems in this country have a profound effect on people's lives and on our business, we are working to influence the outcome of the debate on this issue.
Our revenue neutral proposal for improving systems of health care delivery attracted solid support, and we look forward to working with political leaders in crafting reform measures that help ensure access to quality health care for all Americans. We see it as part of our role as the customer's advocate to offer solutions which promote fair, cost-efficient health care systems in this country.

Operating Results

The first year of the Nineties saw some measure of improvement in the operating performance of your companies. Operating income for our property/casualty business, on a pretax basis, increased by more than 100%, from $134 million in 1989 to $272 million in 1990.

Personal Market's results fueled this improvement, turning in $123 million in pretax operating income, as compared with $73 million the previous year. Our personal automobile bodily injury loss ratio improved by more than eleven percentage points.

In the Business Markets, pretax operating income increased by $88 million, when compared with 1989 results, and ended the year at $149 million. Critical to this overall result were improvements in our General Liability, Commercial Auto and Multi-Peril lines, which helped offset our poor involuntary market-driven workers compensation experience.

Our life company and financial services subsidiaries each had very good years. Liberty Life Assurance Company of Boston achieved record earnings and made good progress in implementing its Group Insurance initiatives. All of our financial services subsidiaries were consolidated under Liberty Financial Companies in 1990, and again made good progress toward our goal of substantially increasing diversification of our income sources.

As anticipated, our overall turnaround in operating performance was significantly impacted by a substantial federal income tax obligation. The provisions of the Tax Reform Act of 1986 accelerated the full utilization of our net operating loss carryforwards in 1989 resulting in an effective 1990 tax rate of nearly 40%. As a result, our total contribution to surplus for the year was $129 million — small in relationship to the improvement in our pretax operating performance.

Our premium to surplus ratio reflects substantial improvement — dropping from 2.64 to 2.52. Viewed by regulatory authorities as an important standard in evaluating the financial strength of insurers, we have worked hard to improve our premium to surplus ratio, and we consider 2.52 to be an excellent result. It is clearly an important indicator of unquestioned financial strength.

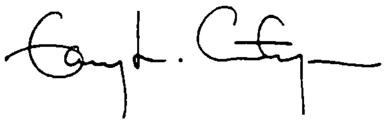
With regard to the future, we are optimistic. Operating from a position of considerable financial strength, we are working to influence the environment around us, so that we may better serve you, our policyholders.

The prompt resolution of the Gulf crisis may spur an economic recovery, easing some of the challenges derived from the current economic environment. However, no matter what the future holds, certain aspects of our experience will likely remain the same. Operating margins will continue to be relatively narrow, because regulatory and competitive pressures are unlikely to abate. Only the very best are going to be successful in this environment, only those who truly are their customers' advocates. For this reason, we have also undertaken an operations improvement program throughout our organization and have initiated a change management process at Liberty Mutual that at its root has a clear customer focus. Building on our heritage, we believe these programs will strengthen our position in the market because they will help us more effectively serve you, our policyholders.

Our employees have always been a great source of pride for me, but this past year reminded me again that our people are truly exceptional in their dedication to this company. Change is always difficult and introspection is sometimes painful, yet, our people have committed themselves to improving our organization at every level. It promises a good future for all of us and I wish to thank the Liberty Mutual employees who have committed themselves to this effort.

We have all been saddened by the recent passing of Melvin Bradshaw, our former Chairman of the Board. For me, it was a great personal loss. He was my mentor and my true friend. For you, our policyholders, he was a man of integrity who successfully led our companies for nearly a decade. We are all going to miss him.

As always, I want to thank our Board of Directors and Advisory Boards for their support throughout the last year. Their strength and guidance are much appreciated.

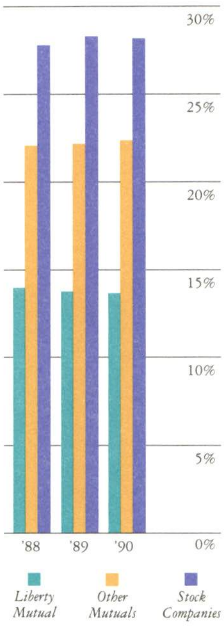


Gary L. Countryman

President and Chief Executive Officer

1990 Operations

Underwriting Expense Control



Underwriting Expense as a percent of Premiums Written. Industry Data obtained from A.M. Best Co. 1990 Industry Data is as of September 1990 adjusted to exclude The Liberty Mutual Insurance Group.

SUMMARY OF OPERATIONS

In 1990, net premiums written by Liberty Mutual remained relatively flat at $6,480 million while loss and loss adjustment expenses incurred declined 4.1% in 1990 to $6,315 million. Underwriting expenses, considerably lower than the industry average, declined slightly in 1990 to $886 million. As a result, Liberty Mutual's net underwriting loss improved 9.2% in 1990 to $888 million compared to our 1989 underwriting loss of $979 million.

The improved underwriting loss in 1990 coupled with a 5.7% increase in net investment income resulted in $272 million of net income before income taxes in 1990, compared with $134 million last year.

The following sections will discuss the 1990 performance of our property/casualty investment portfolio, and results of operations for our Business, Personal, Life and Financial Services Markets.

Invested Assets at December 31, 1990
(dollars in thousands)

U.S. Treasury Securities	$2,593,975	18.3%
U.S. Government Guaranteed: G.N.M.A. Mortgage Backed Securities and Other Govt. Agencies	4,091,766	28.9
State and Municipal Bonds	4,437,568	31.4
Corporate and Other Bonds	1,507,942	10.7
Preferred Stocks	11,099	0.1
Common Stocks	625,809	4.4
Investments in Unconsolidated Subsidiaries	387,377	2.7
Short-term Investments	348,594	2.5
Real Estate	82,704	0.6
Other Investments	60,553	0.4
	$14,147,387	100.0%

Investment Income
(dollars in thousands)

	Interest Dividends & Rents	*% to Earned Premium*	*Realized Capital Gains*	*% to Earned Premium*	*Net Investment Income*	*% to Earned Premium*
1990	$1,096,964	16.84%	$ 43,142	0.66%	$1,140,106	17.50%
1989	1,032,879	15.46	45,992	0.69	1,078,871	16.15
1988	931,078	12.75	34,851	0.48	965,929	13.23
1987	795,478	11.64	117,223	1.72	912,701	13.36
1986	690,352	13.43	306,143	5.95	996,495	19.38

INVESTMENTS

The invested asset portfolios of the Liberty Mutual Insurance Group property and casualty companies now total over $14.1 billion on a statement value basis and in excess of this amount based on market value. During 1990, these assets generated almost $1.1 billion in investment income and an additional $43.1 million of realized capital gains. Combined, this represented 17.5% of earned premium.

We believe it is important to emphasize the high credit quality of our portfolios, especially given the current focus on the asset quality of some insurers. We have only a modest exposure in equities, and almost 50% of our invested assets are either U.S. Treasuries or securities backed by the United States Government. An additional 30% are in higher quality state and local government bonds. Less than 1% of our holdings are secured by companies rated below investment grade by the major rating agencies, and we believe even these are not in serious financial difficulty.

In summary, we believe the high quality and structuring of our invested assets provide a sound foundation for meeting the demands of our insurance businesses and service to our policyholders.

BUSINESS MARKETS: PROPERTY-CASUALTY

Business Markets *(dollars in thousands)*	1990	1989
Net Premium Written	$ 4,704,942	$ 4,724,128
Underwriting Loss (after dividends)	(745,783)	(810,928)
Pretax Operating Income	149,330	61,503
Net Income	74,169	55,399
Net Loss Ratio	86.5%	86.7%
Combined Ratio	115.8%	116.9%

BUSINESS MARKETS RESULTS

Business Markets results for the year showed improvement over 1989 despite continuing problems associated with Workers Compensation. Significant loss ratio reductions in Commercial Automobile, General Liability and Commercial Property helped offset a 3.8 point increase in our Workers Compensation loss ratio. Workers Compensation results continue to be affected by a number of factors, including competitive pressure in the voluntary market and inadequate rate levels in the involuntary market.

As a result of improvement in loss adjustment and general expenses, underwriting losses were reduced by $65 million. This improvement caused our 1990 combined ratio to be lowered by 1.1 points to 115.8. The improved underwriting results, combined with higher investment income, resulted in a 143% increase in pretax operating income to $149 million in 1990. Our net income after-tax grew only 34% to $74 million, however, due to a $69 million increase in federal income taxes. This increase in federal income taxes was partly caused by the provisions of the Tax Reform Act of 1986 which accelerated the full utilization of our net operating loss carryforwards in 1989.

In 1990 Business Markets successfully addressed a variety of different issues. Despite a continuing soft business market, an adverse Workers Compensation market and the impact of the Federal tax changes, we were able to realize improvement in our overall results. We know that our present and future financial success will depend on our ability to manage expenses, follow sound underwriting discipline, and meet our customers' needs.

As part of our ongoing commitment to meet customer needs, the Business Markets undertook an extensive customer satisfaction survey during 1990. The survey offered customers an opportunity to communicate directly with us on the range and quality of Liberty Mutual services. This type of direct feedback allows us to tailor our products and services to better respond to customer needs. We're committed to continuing this level of enhanced customer communication in the coming year.

We recognized the expanding international nature of our policyholders' operations by creating an International Department in the Business Markets. In 1990, a cooperative agreement was signed with a major Switzerland-based insurance company, The Winterthur Insurance Group, enabling Liberty Mutual to provide Global Insurance programs to our multinational policyholders.

We also continued new product development through our subsidiary companies to provide our customers with risk financing alternatives. In 1990 Liberty Mutual became a member of the Stuart Insurance Group, a non-controlled corporation based in Bermuda. This new subsidiary operation offers substantial investment opportunities and other advantages for our policyholders.

Workers Compensation

Workers Compensation premium grew a modest 4% reflecting the continued competitive market in this product line. Our loss ratio rose 3.8 points because of increased costs in residual markets, recessionary influences, and medical cost inflation. We have responded to these factors by tightening underwriting criteria, increasing the use of service-only plans, stressing the practice of Managed Care, and introducing a large deductible plan. We expect these actions to have a positive influence on our 1991 results.

We believe controlling medical and disability costs is essential to the future of the country's workers compensation systems. Managed Care is an effective way to address these spiraling costs. Through utilization review efforts, we saved our policyholders over $140 million in 1990. In addition to our extensive loss prevention, rehabilitation, and medical programs, we enhanced our Managed Care program in 1990 by introducing a national PPO network.

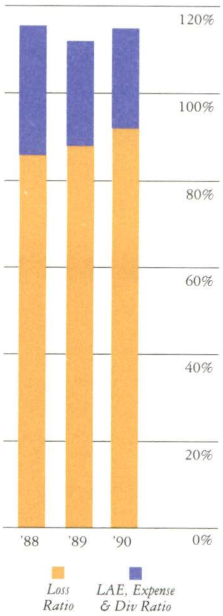
Throughout 1990, the marketplace accelerated its trend toward competitive rating in Workers Compensation, adding several more states to the list. At this point, a total of 15 states have non-administered pricing for Workers Compensation. We believe that this type of system can be successful if administered properly and we support the drafting of model legislation for states considering this alternative in the future.

Interest in self-insurance continued to grow with customers seeking ways to reduce premium costs and avoid residual market charges. For those customers choosing to assume the risk for their Workers Compensation exposures, we offer the Helmsman Service Plan—a comprehensive package of high-quality claims, loss prevention, risk management services, and excess coverage. In states where approved, a number of large customers were offered the Workers Compensation Large Deductible Plan, through which they can retain a portion of the risk while still insuring against large losses.

Loss Prevention Services remained a very important aspect of our efforts to limit the human and financial costs of workplace injury. Our commitment includes not only the individualized loss prevention service offered to policyholders, but also our leadership in health and safety education. In 1990, we held more than 175 customer seminars and training institutes, many open to the public, covering topics such as ergonomics, low back pain, occupational stress, and driver training.

Workers Compensation
Net Premium Written

Workers Compensation
Combined Ratio



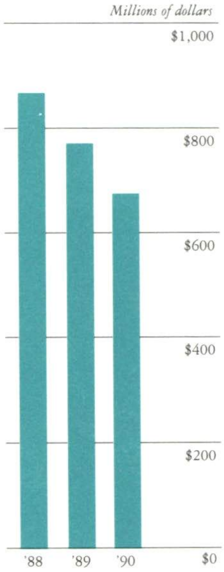
Commercial Auto

Written premium in Commercial Auto was $678 million in 1990, a decrease of approximately $93 million, and the loss ratio was 76.9%, a 10.8 point improvement. This line's improved underwriting results were primarily caused by an ongoing reevaluation of the businesses we write in this segment. Price increases on existing accounts were lower than in prior years. Overall results for this product line, however, were profitable.

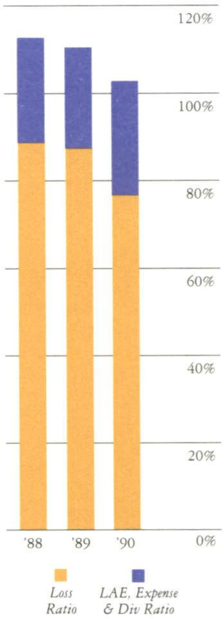
As an allied member of the American Trucking Association, we supported their efforts to implement a uniform Commercial Drivers license program throughout the United States. We also worked with them in campaigning for a ban of radar detectors in commercial vehicles. By working with the trucking industry on such critical initiatives, we can directly address safety problems on the highway.

For our policyholders, we offer loss prevention services like the recently updated Fleet Evaluator Program, which allows policyholders to compare their safety experience in fleet operations against established norms. The computerized Fleet Evaluator Program pinpoints areas needing attention and recommends ways to strengthen existing programs, leading to improved safety experience and lower insurance costs for customers.

Commercial Auto
Net Premium Written



Commercial Auto
Combined Ratio



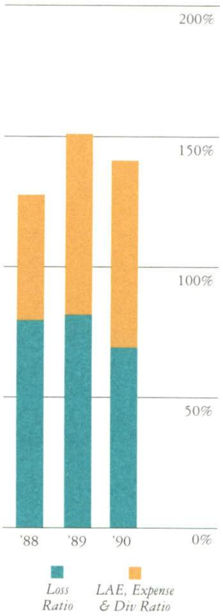
General Liability

Written premium declined $25 million in this line, but the loss ratio improved 12.1 points. Our strict underwriting program contributed both to the premium reduction and loss ratio improvement. We continue to be concerned, however, by the continued escalation in claims and legal costs.

Special Products Litigation teams were introduced last year to help policyholders control the cost of litigation and achieve favorable outcomes in the litigation process. Claims, Legal, and Loss Prevention professionals work closely with policyholders who have unique product liability needs. Through this approach, policyholders can realistically evaluate exposure early in the life of these cases—and dramatically reduce both losses and expense dollars.

General Liability
Net Premium Written

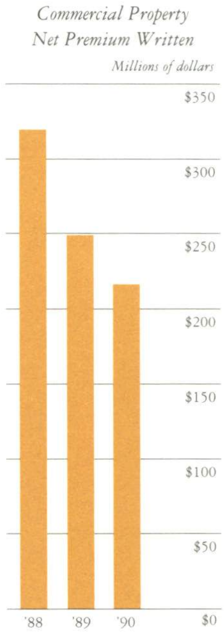
General Liability
Combined Ratio

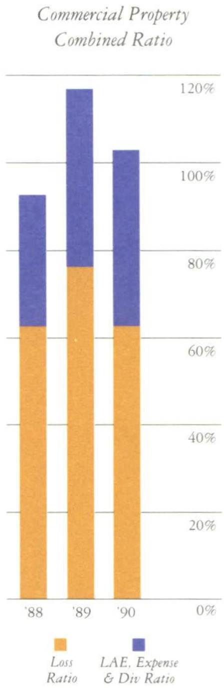


Commercial Property

In the extremely competitive commercial property market, our overall net written premium decreased $33 million. The Commercial Property loss ratio, however, improved 13.6 points. We were most successful in the large property area. This demonstrates our ability to compete with specialty insurers by providing superior loss prevention services, claims handling, and property coverages.

We introduced the Premier Property Policy to enhance our product options. This simplified, flexible contract allows customers to tailor their coverages to their specific needs and business operations. It provides broad coverage with a competitive insurance program.





PERSONAL MARKET: PROPERTY-CASUALTY

Personal Market *(dollars in thousands)*	1990	1989
Net Premium Written	$ 1,774,879	$ 1,721,067
Underwriting Loss (after dividends)	(142,487)	(167,837)
Pretax Operating Income	122,546	72,843
Net Income	90,279	61,413
Net Loss Ratio	78.0%	83.2%
Combined Ratio	107.8%	109.7%

PERSONAL MARKET RESULTS

1990 was a successful year for Liberty Mutual's Personal Market. Net income rose to $90.3 million — a 47% increase over results in 1989. This improvement was mainly achieved through a reduction in losses incurred. Our loss ratio declined by slightly more than five percentage points to 78%. Investment income, including premium finance charges, grew by $24.4 million during the year to $265 million. Income before federal taxes was $122.5 million. This was an increase of $49.7 million over 1989's performance.

The Personal Market renewed its commitment to quality service for its customers in 1990. We initiated an extensive review of claims procedures, selling programs, sales service and computer systems. Many changes have been made, and will continue to be made, to make our operations faster and more efficient. These changes, along with new goals and standards in our day-to-day operations, will ensure that our policyholders receive the level of service they deserve.

PERSONAL AUTO

In 1990 our Private Passenger Automobile premium written increased to $1.5 billion, a 3.5% change from last year. At the same time, our loss ratio decreased from 85.5% to 79.7%. This improvement was due to our selection of quality risks with lower loss ratios, a drop in accidents reported, moderate rate revisions, and assuming a smaller deficit for Massachusetts involuntary business. Over 100,000 new business policies were sold, and our retention rate increased from 90.2% to 91.5%.

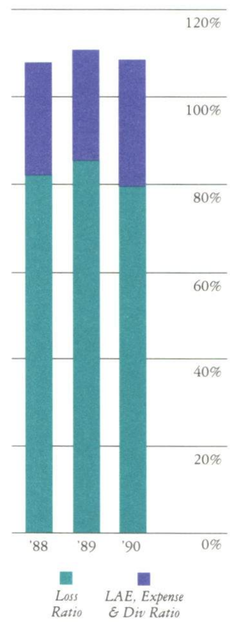
Externally, the Personal Market faced continued consumer unrest and very active state legislatures. Public debate continues over auto insurance affordability, especially regarding the bodily injury coverages. We believe there must be meaningful reform in the tort system before substantial cost reductions can take place. Liberty Mutual favors a verbal No-Fault system. Under this system, insurance companies compensate their own policyholders for medical and wage losses and lawsuits are restricted to those who are seriously injured. Your company will continue to support efforts to pass strong verbal No-Fault laws.

Personal Auto
Net Premium Written

Choice No-Fault insurance was implemented in Pennsylvania effective July 1, 1990. Motorists in that state now have the right to choose the No-Fault system or the more expensive tort system. While Liberty Mutual is encouraged by the change in this state, several negative factors, like mandatory rate reductions for even those who remained in the tort system, preclude the Pennsylvania law from being a model of reform.

A small victory was also won in Arizona this year. The voters there overwhelmingly rejected a rate rollback law similar to the troublesome California Proposition 103. Unfortunately, they rejected No-Fault insurance too. The education of consumers about the benefits of No-Fault insurance will remain a priority at Liberty Mutual. In conjunction with the implementation of choice No-Fault in New Jersey, that state began depopulating its assigned risk pool. We are concerned about the drivers and costs that will be assigned to us there over the next several years. Liberty Mutual has taken legal action against the State Insurance Department and will seek ways to mitigate the losses being forced upon us in New Jersey.

Personal Auto
Combined Ratio



Growth continued in 1990 in the Mass Merchandising program. Employees of over 1,000 companies now have our automobile, homeowners, life, and financial services products available through payroll deduction. This program's automobile book of business represents 5.5% of our total auto book, and 15% of our new business sales.

The small office program that brings Liberty Mutual to suburban neighborhoods across the United States and Canada continued to expand this year. Thirty new offices were opened bringing our small office count to 170. There are now over 350 Liberty Mutual personal sales offices companywide.

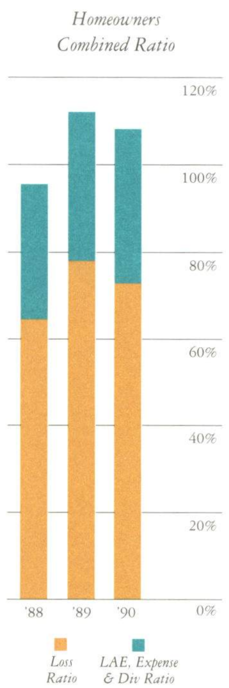
HOMEOWNERS

Total Homeowners net written premium increased 3.8% to $255.5 million in 1990. Most of this growth can be attributed to coverage increases produced by our Inflation Protection Program which averaged 4.0%. Liberty Mutual implemented moderate rate increases in 18 states and rate decreases in 5 others for a total effect of 0.1%. These adjustments allowed us to maintain our competitive position and to retain desirable business as evidenced by our retention rate of 92.5%.

We continue to seek a more profitable book of business through controlled growth and more stringent underwriting standards. Our new business written premium in 1990 increased 2.2% to $28.1 million.

The Homeowners loss ratio decreased to 73.3% from 78.3% in 1989. The 1989 results were particularly affected by $32 million in catastrophe losses or 13 loss ratio points. 1990 was a more favorable year for weather-related losses with catastrophes of $9.3 million contributing only 3.7 loss ratio points.

Although results improved in 1990, the Homeowners line is not performing satisfactorily for Liberty Mutual or the industry. Your company plans to make moderate rate increases in 1991 in order to restore profitability to this product line.



Life Market *(dollars in thousands)*	1990	1989
Assets	$ 1,243,962	$ 1,160,695
Insurance in Force	10,175,481	9,202,121
Premium and Annuity Considerations	266,022	276,916
Pretax Operating Income	13,632	12,393
Net Income	8,748	8,331

Liberty Life's net income for 1990 was $8.7 million, a slight improvement over 1989's net income of $8.3 million. All of our markets contributed to this year's success, but the most significant improvement was in our Group Life and Health market which has shown continued improvement in its operating results over the past two years.

Our capital and surplus is now at $61.5 million, up $13.3 million from last year. Assets increased 7.2% during the year and total $1.2 billion.

Individual Life Products

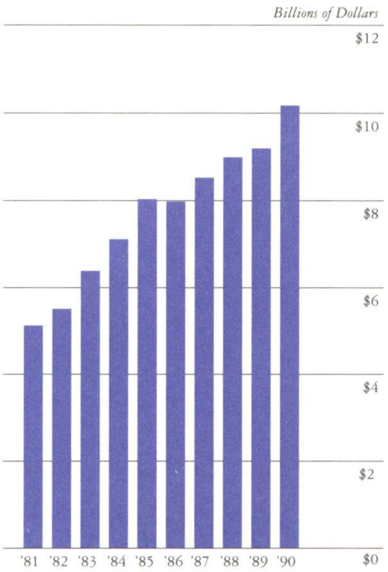
During 1990, Liberty Life Assurance Company of Boston issued 18,659 individual life policies generating $6.4 million in annualized premium. Although new sales and premium were down slightly in comparison with 1989, the quality of the new business in 1990 was evidenced by the lowest lapse rate in the Company's history.

We now insure over 146,000 lives through individual and joint life policies and retirement annuities. Thousands of other lives are covered through family and children riders, joint life riders and additional insured agreements.

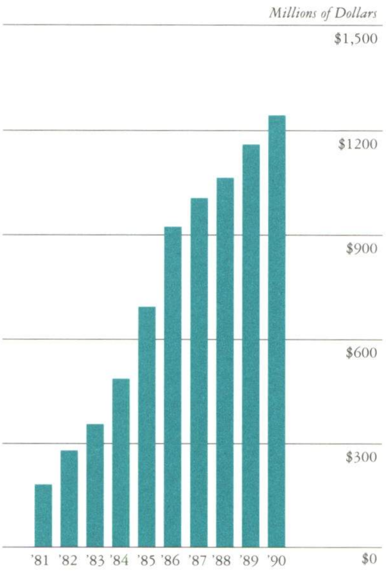
Our goal is to enable our casualty policyholders to more easily purchase life insurance. We are in a strong position to fulfill all their individual life and annuity needs providing them with quality products and services. As part of our commitment to provide quality service, we revised our life insurance application to make it easier to understand and complete. Already, 34 states have approved its use.

We were one of the few companies to introduce a new settlement option for beneficiaries of our policyowners. This option, The Liberty Security Account, allows the beneficiary time to consider the most appropriate way to invest the policy proceeds. While these important decisions are being made, the funds work for the beneficiary in an interest-bearing checking account which can be drawn on as needed. Many of Liberty Life's beneficiaries have taken advantage of this service.

Life Insurance in Force



Assets



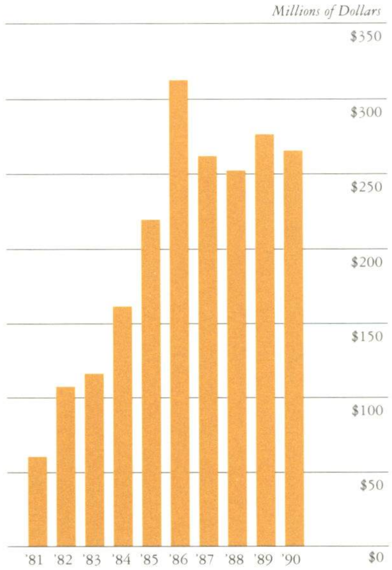
Group Products

Customers in our Group area continue to be challenged by rising health care costs, as this trend hampers their efforts to provide employees with quality health care and services. Our Administered Risk Management (ARM) product is a good example of our commitment to meeting our customers' employee benefit risk management needs.

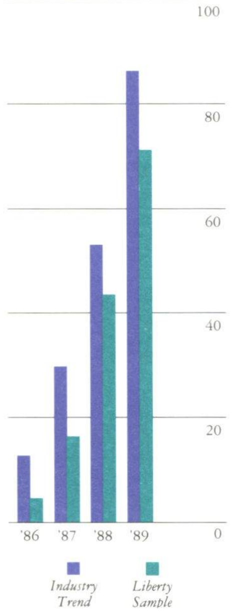
The key to this product's success is our managed care component, the Liberty CARE Continuum, a strategy that emphasizes managing claims before, during and after they occur. The ARM product was developed with a fundamental understanding of the healthcare economy issues and the reality of employee benefit program budgets faced by our customers. We can measure the success of the ARM product by a fourfold increase in new business, as compared with 1989, its first year on the market. Customers find it helps them control costs while maximizing the benefits that both employee and employer receive.

Within the last several years, the Group operation has developed a participative management program that focuses on the needs of the customer as one of its top priorities. Last year, over 50 teams of employees worked on improving procedures and policies which affected workflow in the Group operation. Clearly, one of the resulting benefits is enhanced service for our customers.

Total Premium and Annuity Funds



Liberty's Actual Claims Trend vs. The Industry Average
Cases of Groups with 50-500 Lives



Financial Services Market
(dollars in thousands)

	1990
Assets Under Management	$ 22,800,000
Assets	7,778,058
Revenues	739,465
Income From Operations	59,364
Net Income	14,106

This past year, the financial services companies were organized as Liberty Mutual's fourth Strategic Business Unit (SBU), with all of our operating companies becoming wholly owned subsidiaries of our new flagship holding company, Liberty Financial Companies, Inc. (LFC).

1990 was a year in which we attained our critical operating and financial objectives despite an extremely difficult investment climate. The Middle East conflict; concerns about the length and depth of the recession and its impact on credit quality; the health of the banking industry; uncertainties about the direction of interest rates; and volatile financial markets all undermined investor confidence and created unfavorable conditions in which to grow assets under management or to raise money from investors.

Despite the difficult environment, assets under management increased by 7% to $22.8 billion. New money raised exceeded $2.2 billion, a 22% increase over 1989. Keyport Life (formerly Keystone Provident Life) accounted for nearly 40% of this total, despite a slight decline in net issued premiums. More importantly, the mix of business, both by source and type of business, improved.

Our bank marketing group, one of the premier organizations in the fast growing business of helping banks strengthen their customer relationships by expanding their range of product offerings, also contributed significantly to the increase in money raised.

Finally, our subsidiary, Stein Roe, a Chicago-based investment advisor, continued to attract both institutional and individual business with its high quality service and superior investment performance.

One of the best stories of 1990 for LFC, because it is so central to the achievement of customer satisfaction, has been the superior investment management performance achieved by a broad range of our mutual funds. For example, in our direct-marketed no-load group, the Stein Roe Funds, two funds, the Stein Roe High Yield Municipals and Stein Roe Managed Municipals Funds, were ranked #1 and #2 in their respective categories for the five years ended December 31, 1990. In addition, in June, the Stein Roe Special Fund was profiled in *Money* magazine for its exceptional five- and ten-year performance record.

The sales force that distributed Liberty Advantage Funds finished 1990 in the top quartile of their respective peer groups with the Liberty Advantage U.S. Government Securities Fund being the top performing fund for the six-months ended June 30, 1990. This performance success attracted favorable press coverage in publications such as *Fortune* and *The Wall Street Journal.*

Finally, the Liberty ALL-STAR Equity Fund, our NYSE-listed closed-end stock fund employing a multi-management approach previously available only to large institutional investors, recorded another excellent performance year: the Fund's total return for the year outpaced the widely followed S&P 500 Index by 5.9 percentage points. ALL-STAR has beaten the Lipper Growth & Income Mutual Fund Average for the period since its inception in 1986, and every interim period.

For the year just ended, LFC contributed income from operations in excess of $59 million, a 7.6% increase over 1989. This reflected improved financial performance at all of our major operating companies.

In the year ahead, we will continue to grow the financial performance of our operating business segments, expand the marketing and promotion of our mutual funds, develop new and differentiated investment products and better position our bank distribution business in the marketplace. To make this unit more visible, we are implementing a new corporate identity program directed at our important constituencies: potential and existing customers, distributors, institutional investors, Wall Street and our employees.

Financial Contents

Ten Year Financial Summary *Liberty Mutual Insurance Companies*

(in millions of dollars) (unaudited)	1990	1989	1988	1987
Net Premiums Written	$ 6,480	6,445	6,778	6,385
Net Premiums Earned	$ 6,517	6,681	7,302	6,832
Net Losses and Loss Expenses Incurred	$ 6,315	6,584	6,910	6,455
Net Investment Income	$ 1,140	1,079	966	913
Net Income	$ 164	117	87	203
Loss Ratio	84.3 %	85.8 %	83.1 %	82.7 %
Expense Ratio (excluding dividends)	26.3 %	26.5 %	25.5 %	25.9 %
Combined Ratio (excluding dividends)	110.6 %	112.3 %	108.6 %	108.6 %
Admitted Assets	$17,989	17,108	15,749	13,730
Liabilities	$15,419	14,667	13,425	11,545
Surplus and Special Reserves	$ 2,570	2,441	2,324	2,185

1986	1985	1984	1983	1982	1981
5,474	4,161	3,026	2,828	2,827	2,826
5,142	3,857	2,978	2,820	2,760	2,778
4,872	3,674	2,803	2,534	2,619	2,584
996	721	597	547	519	405
306	101	93	168	30	34
83.5 %	84.5 %	83.8 %	79.4 %	83.1 %	80.9 %
25.8 %	26.4 %	28.8 %	28.4 %	28.8 %	28.6 %
109.3 %	110.9 %	112.6 %	107.8 %	111.9 %	109.5 %
11,643	9,499	8,215	7,765	7,317	6,805
9,646	7,835	6,685	6,312	6,039	5,623
1,997	1,664	1,530	1,453	1,278	1,182

Combined Statutory Balance Sheets *Liberty Mutual Insurance Companies*

As of December 31st (dollars in thousands)	1990	1989
Admitted Assets		
Investments:		
United States Government (and agencies) securities	$ 6,685,741	$ 6,416,952
State, municipal and other bonds	5,945,510	5,440,945
Common and preferred stocks	636,908	608,442
Investments in unconsolidated subsidiaries	387,377	328,012
Short-term investments	348,594	450,387
Real estate	82,704	80,160
Other investments	60,553	50,753
Total investments	14,147,387	13,375,651
Cash and bank deposits	18,126	20,054
Premiums receivable	3,042,652	3,119,422
Interest, dividends and rents accrued	235,753	230,238
Other admitted assets	544,832	362,791
Total admitted assets	$17,988,750	$17,108,156
Liabilities:		
Losses unpaid	11,836,928	11,280,823
Loss adjustment expenses unpaid	1,948,620	1,848,783
Unearned premiums	637,048	658,458
Other expenses accrued and accounts payable	778,503	697,463
Federal income and state premium taxes accrued	139,335	123,787
Dividends declared to policyholders	78,030	57,539
Total liabilities	15,418,464	14,666,853
Surplus and Special Reserves:		
Provision for dividends accrued but not declared	144,240	173,771
Guaranty funds	2,500	2,500
Contributed capital	149,662	149,662
Unassigned surplus	2,273,884	2,115,370
Total surplus and special reserves	2,570,286	2,441,303
Total liabilities and surplus and special reserves	$17,988,750	$17,108,156

See accompanying notes to combined statutory financial statements.

Combined Statutory Statements of Income *Liberty Mutual Insurance Companies*

For the Years ended December 31st (dollars in thousands)	1990	1989
Premiums earned	$ 6,516,731	$ 6,680,668
Losses	5,490,627	5,733,141
Loss adjustment expenses	824,226	850,887
General expenses	567,874	605,206
Taxes, excluding income taxes	318,209	286,690
Total underwriting expenses	7,200,936	7,475,924
Underwriting loss before dividends	(684,205)	(795,256)
Dividends declared to policyholders	204,065	183,509
Underwriting loss	(888,270)	(978,765)
Investment income, net	1,140,106	1,078,871
Other income	20,040	34,240
Income before income taxes	271,876	134,346
Federal and foreign income taxes	107,428	17,534
Net income	$164,448	$116,812

Combined Statutory Statements of Surplus and Special Reserves *Liberty Mutual Insurance Companies*

For the Years ended December 31st (dollars in thousands)	1990	1989
Total surplus and special reserves, beginning of year	$2,441,303	$2,324,021
Add (deduct): Net income	164,448	116,812
Change in unrealized capital gains and losses	6,850	12,900
Other surplus changes, net	(42,315)	(12,430)
Total surplus and special reserves, end of year	$2,570,286	$2,441,303

See accompanying notes to combined statutory financial statements.

Combined Statutory Statements of Cash Flow *Liberty Mutual Insurance Companies*

For the Years ended December 31st (dollars in thousands)	1990	1989
Cash provided:		
From operations:		
Premiums collected, net of reinsurance	$ 6,553,712	$ 6,446,343
Investment income, net	1,082,617	999,404
Other income	4,064	22,069
Cash provided by operations	7,640,393	7,467,816
Loss and loss adjustment expenses	5,794,591	5,321,194
Underwriting expenses	891,937	901,809
Dividends to policyholders	183,574	236,985
Federal income taxes	65,476	4,436
Cash used by operations	6,935,578	6,464,424
Net cash provided from operations	704,815	1,003,392
From investments sold or matured:		
Bonds	1,266,634	688,672
Common and preferred stocks	360,456	198,454
Investments in unconsolidated subsidiaries	18,500	35,833
Other investments	3,419	1,746
Cash provided from investments	1,649,009	924,705
Other, net	78,746	20,590
Total cash provided	2,432,570	1,948,687
Cash applied:		
Cost of investments purchased:		
Bonds	2,021,675	1,922,900
Common and preferred stocks	395,710	257,627
Investments in unconsolidated subsidiaries	99,928	5,468
Other investments	18,978	18,193
Total cash applied	2,536,291	2,204,188
Decrease in cash and short-term investments	(103,721)	(255,501)
Cash and short-term investments, beginning of year	470,441	725,942
Cash and short-term investments, end of year	$ 366,720	$ 470,441

See accompanying notes to combined statutory financial statements.

December 31, 1990 and 1989

(1) Summary of Significant Statutory Accounting Policies

(a) Basis of Presentation

The accompanying combined statutory financial statements of Liberty Mutual Insurance Company (Liberty Mutual) and Liberty Mutual Fire Insurance Company (Liberty Fire) (the "Companies") include, on a consolidated basis, the accounts of Liberty Northwest Insurance Corporation, Liberty Insurance Corporation, The First Liberty Insurance Corporation, and LM Insurance Corporation. Liberty Insurance Corporation is a wholly owned subsidiary of Liberty Mutual Property-Casualty Holding Corporation, which, in turn, is wholly owned by the Companies.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts, which vary in certain respects from generally accepted accounting principles. Principal variations include: (1) certain assets designated as "non-admitted assets" are charged to surplus; (2) premium income is taken into earnings on a pro-rata basis over the periods covered by the policies, whereas related acquisition costs are charged to income when incurred; (3) adjustments reflecting the equity in earnings of unconsolidated subsidiaries are recorded in surplus as net unrealized capital gains or losses; (4) pension expense and related disclosures are in accordance with ERISA requirements; (5) certain statutory reserves are provided; and (6) deferred income tax effects of tax return timing differences are not fully provided. The effects of such variances on the accompanying combined statutory financial statements have not been determined.

(b) Investment Securities

Investment securities are carried in accordance with valuations promulgated by the National Association of Insurance Commissioners. Bonds are carried at cost, adjusted where appropriate for amortization of premium or discount; common and preferred stocks are carried at market value; investments in stocks of unconsolidated subsidiaries are carried on the equity basis; short-term investments are carried at cost; and real estate is carried at depreciated cost. Realized gains and losses on sales of investments are recognized in net income using the specific identification method. Changes in unrealized appreciation or depreciation on stocks and certain bonds are recorded in surplus.

The estimated market value of bonds and short-term investments at December 31, 1990 and 1989 was $13,145,707,000 and $12,447,199,000, respectively.

At December 31, 1990 and 1989, investments carried at $2,114,216,000 and $1,805,398,000, respectively, were on deposit with regulatory authorities as required by law.

(c) Recognition of Premium Revenues

Premiums are recognized as income on a pro-rata basis over the term of the policies. Unearned premiums represent the unexpired portion of premium contracts written. Premium adjustments resulting from premium audits of reporting-type policies and retrospective rating of experience rated policies are estimated and accrued for in computing earned premiums. The related expenses associated with billing and collecting these premium adjustments are estimated and accrued for in computing net income. Estimated premiums due resulting from premium audits are reflected as a reduction to unearned premiums. Estimated premiums due on retrospectively rated policies are included in premiums receivable.

(d) Unpaid Insurance Losses

The Companies provide reserves for unpaid insurance losses based primarily upon: (1) case estimates for losses reported directly by policyholders; (2) estimates for unreported losses based upon past experience; (3) estimates for reinsurance assumed; and (4) deduction of amounts for reinsurance placed with other insurers. These estimates are continually under review and, as changes to the liabilities become necessary, such adjustments are reflected in income currently.

The Companies do not discount any of their unpaid insurance loss and loss adjustment expenses other than tabular discounting on the long-term indemnity portion of workers' compensation claims as permitted by insurance regulations in certain states. The tabular discounting on these workers' compensation claims is based upon Unit Statistical Plan tables approved by the respective states and generally approximates 3.5%. Unpaid losses are net of discounts of $469,469,000 and $374,911,000 at December 31, 1990 and 1989, respectively.

(e) Unpaid Loss Adjustment Expenses

The Companies provide reserves for future expenses to be incurred in settlement of claims provided for in the reserves for unpaid insurance losses.

(f) Reclassifications

Certain reclassifications to the 1989 statutory financial statements have been made to conform to the 1990 presentation.

(2) **Goodwill and Other Intangible Assets**
The excess of purchase cost over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over periods of up to 10 years. Total unamortized goodwill and other intangible assets included as a component of the Companies' investments in unconsolidated subsidiaries was $187,156,000 and $166,113,000 at December 31, 1990 and 1989, respectively. Goodwill amortization charged to surplus as a component of the change in unrealized capital gains and losses was approximately $34,342,000 and $32,675,000 in 1990 and 1989, respectively.

(3) **Contributed Capital**
Contributed capital of $149,662,500 is the result of the issuance of Eurodollar notes in October 1988 by an unconsolidated wholly owned subsidiary of the Companies (see note 6).

(4) **Pension Plan**
The Companies have a noncontributory defined benefit pension plan covering employees who have attained age 21 and have completed one year of service. No pension cost was charged to operations during the years ended December 31, 1990 and 1989 as the plan was subject to the full funding limitations under the Internal Revenue Code.

As of January 1, 1990 and 1989, the actuarial present value of accumulated vested and nonvested benefits, based on a valuation interest rate of 7.5%, approximated $330,530,000 and $301,527,000, respectively, and the net assets, at fair market value, available for plan benefits approximated $612,985,000 and $519,811,000, respectively.

(5) **Federal and Foreign Income Taxes**
Liberty Mutual files a consolidated federal income tax return with its eligible subsidiary companies. Pursuant to an intercompany federal income tax allocation agreement, net operating losses and tax credits generated by subsidiaries and used to reduce the consolidated tax liability are reimbursed only as utilized by the subsidiaries on a separate return basis. Intercompany tax balances are settled annually. Liberty Fire files a separate federal income tax return.

Federal income taxes incurred for financial statement purposes are provided based upon the manner in which income and deductions are reported for tax purposes. Effective tax rates differ from current statutory rates principally due to the effects of tax-exempt interest, dividends received deductions, discounting of reserves for unpaid insurance losses and loss expenses, an unearned premium adjustment, and a change in accounting method for premiums recognized ratably over a six year period for tax purposes. Provision is made, where applicable, for Canadian taxes on Canadian branch operations.

(6) **Guarantees of Subsidiary Borrowings**
Liberty Mutual and Liberty Fire have guaranteed $150,000,000 of 8.5% Eurodollar notes due in 1996 and $150,000,000 of 9.125% Eurodollar notes due in 1993 issued by an unconsolidated wholly owned subsidiary.

In addition, Liberty Mutual has guaranteed other unconsolidated subsidiary and related party unsecured lines of credit and mortgage notes totalling $83,250,000, of which $79,250,000 was outstanding at December 31, 1990.

Independent Auditors' Report *Liberty Mutual Insurance Companies*

The Board of Directors

Liberty Mutual Insurance Company

Liberty Mutual Fire Insurance Company:

We have audited the accompanying combined statutory balance sheets of Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company (Liberty Mutual Insurance Companies) as of December 31, 1990 and 1989, and the related combined statutory statements of income, surplus and special reserves, and cash flow for the years then ended. These combined financial statements are the responsibility of the Companies' management. Our responsibility is to report on these combined financial statements based on our audits.

We conducted our audits of the accompanying combined statutory financial statements in accordance with generally accepted auditing standards; however, as discussed in the following paragraph, we were not engaged to determine or audit the effects of the variances between statutory accounting practices and generally accepted accounting principles. Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion on the accompanying combined statutory financial statements.

The Companies present their financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. When statutory financial statements are presented for purposes other than for filing with a regulatory agency, generally accepted auditing standards require that an auditor's report on them state whether they are presented in conformity with generally accepted accounting principles. The accounting practices used by the Companies vary from generally accepted accounting principles as explained in Note 1, and the Companies have not determined the effects of these variances. Accordingly, we were not engaged to audit, and we did not audit, the effects of these variances. Since the financial statements referred to above do not purport to be a presentation in conformity with generally accepted accounting principles, we are not in a position to express and do not express an opinion on the financial statements referred to above as to fair presentation of financial position, results of operations, or cash flow in conformity with generally accepted accounting principles.

In our opinion, the combined statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus and special reserves of Liberty Mutual Insurance Companies as of December 31, 1990 and 1989, and the results of their operations and their cash flow for the years then ended in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts.

KPMG Peat Marwick

Boston, Massachusetts

February 28,1991

Report of Management: Liberty Mutual Insurance Companies

The accompanying combined statutory financial statements and related information contained in this annual report are the responsibility of management and have been prepared in conformity with accounting practices prescribed or permitted by insurance regulatory authorities. These financial statements include amounts that are based on management's estimates and judgments, particularly our reserves for losses and loss adjustment expenses. We believe that these financial statements present fairly the Companies' financial position and results of operations and that other information contained in the annual report is consistent with the financial statements.

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Our internal audit department also independently reviews and evaluates these controls. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Our independent auditors, KPMG Peat Marwick, have audited the combined statutory financial statements and expressed their opinion on the fairness of these financial statements. Their audit provides an independent, objective review of our financial statements. They review our internal controls and procedures, perform tests of accounting records and conduct other auditing procedures as they consider necessary to comply with generally accepted auditing standards.

The Audit Committee of the Board of Directors, comprised solely of outside directors, oversees management's discharge of its financial reporting responsibilities. The Audit Committee meets periodically with management, our internal auditors and representatives from KPMG Peat Marwick to discuss auditing, financial reporting and internal control matters. Both internal audit and KPMG Peat Marwick have access to the Audit Committee without management's presence.

Gary L. Countryman	Robert H. Gruhl
President and Chief Executive Officer	*Senior Vice President, Chief Financial Officer and Treasurer*

Liberty Mutual Insurance Company

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Waltham, MA

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President
Commonwealth Energy System,
Cambridge, MA

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L.J. Hooker Retail Group,
New York, NY

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Liberty Mutual Fire Insurance Co.,
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Bonray Energy Corporation,
Oklahoma City, OK

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Vice President
Liberty Mutual Fire Insurance Co.,
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Needham,MA

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Newburyport, MA

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Vice President and Comptroller

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Bonray Energy Corporation
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Pittsburgh, PA

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Pittsburgh, PA

South Carolina

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Columbia, SC

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Arkwright Mills,
Spartanburg, SC

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Inman, SC

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Southeastern New England

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Newton Upper Falls, MA

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Westerly, RI

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Southwest (Southern)

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McKinney Drilling Company,
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The Fisk Group,
Houston, TX

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Houston, TX

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Piney Flats, TN

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Nashville, TN

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Virginia

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Winchester, VA

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Altavista, VA

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Virginia Beach, VA

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Charlottesville, VA

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Hoy Construction Inc.,
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Trucking Co., Inc.,
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Richmond, VA

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Chairman of the Board
Rent–A–Car Company, Inc.,
Richmond, VA

Western Massachusetts

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Interstate Electrical
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North Billerica, MA

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Chief Executive Officer
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Milford, MA

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Worcester, MA

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Simsbury, CT

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Fitchburg, MA

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President & Treasurer
H.P. Cummings
Construction Company, Inc.,
Ware, MA

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Chairman, President & CEO
Erving Paper Mills,
Erving, MA

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Jahn Foundry Corporation,
Springfield, MA

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Hollbrook Forge, Inc.,
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Chairman of the Board
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Amherst, MA

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Chief Executive Officer
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Ludlow, MA

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Milwaukee, WI

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Interstate Drop Forge Company,
Milwaukee, WI

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Executive Committee
Marshall Erdman
and Associates, Inc.,
Madison, WI

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Chairman
Dumore Corporation,
Racine, WI

WILLIAM R. SAUEY
Chairman of the Board
Nordic Group of Companies, Ltd.,
Baraboo, WI

JACK F. SCHWERMAN
Chairman of the Board and
Chief Executive Officer
Schwerman Trucking Company,
Milwaukee, WI

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Stroh Die Casting Co., Inc.,
Milwaukee, WI

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Manufacturing Company,
Milwaukee, WI

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Crescent Woolen Mills Company,
Two Rivers, WI

Canadian

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Black Photo Corporation,
Aurora, ONT.

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Chairman
Robin Hood Multifoods Inc.,
Willowdale, ONT.

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Past President
University of Toronto,
Toronto, ONT.

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Dyment Limited,
Toronto, ONT.

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Scarborough, ONT.

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Canadian Imperial
Bank of Commerce,
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of Edmonton Ltd.,
Edmonton, ALB.

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President
Lovell Drugs Limited,
Oshawa, ONT.

GORDON C. MILLS
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Procor Limited,
Oakville, ONT.

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Chairman and
Chief Executive Officer
PMT Industries Limited,
Rexdale, ONT.

Dealing Direct from over 300 Branch Offices

New England Division
Headquarters:
Weston, MA
Auburn, MA
Avon, CT
Bangor, ME
Brattleboro, VT
Bristol, RI
Brookfield, CT
Centerville, MA
Chelmsford, MA
Clinton, CT
Concord, NH
Dover, NH
Enfield, CT
Exeter, NH
Fitchburg, MA
Glastonbury, CT
Hingham, MA
Kennebunk, ME
Kingston, MA
Lewiston, ME
Lexington, MA
Littleton, MA
Londonderry, NH
Longmeadow, MA
Manchester, NH
Middlebury, CT
Middletown, CT
Narragansett, RI
Nashua, NH
Natick, MA
New Bedford, MA
North Andover, MA
North Easton, MA
Norwich, CT
Peabody, MA
Pittsfield, MA
Portland, ME
Portsmouth, NH
Portsmouth City, NH
Providence, RI
Salem, NH
Smithfield, RI
South Burlington, VT
Southington, CT
Stamford, CT
Stoughton, MA
Trumbull, CT
Vernon, CT
Wakefield, MA
Wallingford, CT
West Haven, CT
West Lebanon, NH
West Warwick, RI
Westborough, MA
Westwood, MA
Wilton, CT
Worcester, MA

New York Division
Headquarters:
New York, NY
Brooklyn, NY
Farmingdale, NY
Hicksville, NY
Lake Success, NY
Lynbrook, NY
Madison Ave, NY
Manhattan, NY
Melville, NY
Merrick, NY
Middle Island, NY
Miller Place, NY
Mitchel Field, NY
Mount Kisco, NY
New City, NY
Northport, NY
Oakdale, NY
Orangeburg, NY
Patchogue, NY
Rockefeller Plaza
Contracting Risks
Scarsdale, NY
Sea Cliff, NY
Smithtown, NY
Thornwood, NY
Wantagh, NY
West Babylon, NY
Woodbury, NY
Yorktown Heights, NY

Middle Atlantic Division
Headquarters:
Berwyn, PA
Abingdon, MD
Allentown, PA
Bala-Cynwyd, PA
Baltimore, MD
Blue Bell, PA
Collegeville, PA
Doylestown, PA
Ellicott City, MD
Exton, PA
Fairfax, VA
Franklin Lakes, NJ
Frederick, MD
Herndon, VA
Hershey, PA
Hunt Valley, MD
Lancaster, PA
Lansdale, PA
Laurel, MD
Marlton, NJ
Mechanicsburg, PA
Medford, NJ
Newark, DE
Newtown, PA
Olney, MD
Paoli, PA
Parsippany, NJ
Philadelphia, PA
Plainsboro, NJ
Red Bank, NJ
Rockville, MD
Roseland, NJ
Saddle Brook, NJ
Saverna Park, MD
Sinking Spring, PA
Somerset, NJ
Springfield, PA
Warren, NJ
Wilkes Barre, PA
Williamsport, PA
Wilmington, DE
Woodbridge, VA
York, PA

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Cary, NC
Casselberry, FL
Charlotte, NC
Chattanooga, TN
Chesapeake, VA
Cleveland, TN
Columbia, SC
Columbus, GA
Fort Lauderdale, FL
Fort Meyers, FL
Gainesville, GA
Greensboro, NC
Harrison, TN
Hato Rey, Puerto Rico
Hendersonville, TN
High Point, NC
Hixson, TN
Hoover, AL
Jackson, MS
Jacksonville, FL
Knoxville, TN
Lakeland, FL
Lake Worth, FL
Largo, FL
Lawrenceville, GA
Lexington, KY
Louisville, KY
Lynchburg, VA
Mandarin, FL
Marietta, GA
Matthews, NC
Mechanicsville, VA
Memphis, TN
Miami, FL
Midlothian, VA
Montgomery, AL
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Norcross, GA
Norfolk, VA
North Raleigh, NC
Orange Park, FL
Orlando, FL
Palm Harbor, FL
Peachtree City, GA
Peachtree Corners, GA
Port Richey, FL
Prospect, KY
Raleigh, NC
Richmond, VA
Roanoke, VA
Roswell, GA
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Smyrna, TN
Spartanburg, SC
Tampa, FL
Winston-Salem, NC
Woodstock, GA

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Headquarters:
Pittsburgh, PA
Akron, OH
Albany, NY
Allison Park, PA
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Binghamton, NY
Broadview Heights, OH
Buffalo, NY
Camillus, NY
Canton, OH
Castle Shannon, PA
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Cicero, NY
Cincinnati, OH
Cleveland, OH
Columbus, OH
East Amherst, NY
East Greenbush, NY
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Fishkill, NY
Florence, KY
Fort Thomas, KY
Greece, NY
Hamburg, NY
Jamestown, NY
Lakewood, OH
Manlius, NY
Mars, PA
Mentor, OH
New Castle, PA

New Hartford, NY
Niagara Falls, NY
Pickerington, OH
Pittsburgh, PA
Plum Boro, PA
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Poughkeepsie, NY
Robinson Township, PA
Rochester, NY
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Stow, OH
Syracuse, NY
Toledo, OH
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Westchester, OH
Westerville, OH
White Oak, OH

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Aurora, IL
Bloomingdale, IL
Blue Springs, MO
Bridgeton, MO
Buffalo Grove, IL
Burnsville, MN
Chicago, IL
Crystal Lake, IL
Davenport, IA
Des Moines, IA
Duluth, MN
Dyer, IN
Eagan, MN
Eden Prairie, MN
Ellisville, MO
Evansville, IN
Flint, MI
Fort Wayne, IN
Geneva, IL
Green Bay, WI
Greenwood, IN
Holland, MI
Indianapolis, IN
Itasca, IL
Kalamazoo, MI
Kansas City, MO
Kentwood, MI
Lincoln, NE
Lisle, IL
Maple Grove, MN
Maquon, WI
Milwaukee, WI
Minneapolis, MN
Mishawaka, IN
Novi, MI
O'Fallon, MO
Oakville, MO
Omaha, NE
Orland Park, IL
Overland Park, KS
Peoria, IL
Pewaukee, WI
Rockford, IL
Rockford, MI
Saint Ann, MO
Saint Louis, MO
Saint Paul, MN
Springfield, IL
Springfield, MO
Taylorville, IL
Troy, MI
West Des Moines, IA

Southwest Division
Headquarters: Irving, TX
Albuquerque, NM
Arvada, CO
Austin, TX
Baton Rouge, LA
Benbrook, TX
Boulder, CO
Carrollton, TX
Colorado Springs, CO
Corsicana, TX
Covington, LA
Edmond, OK
El Paso, TX
Englewood, CO
Fort Worth, TX
Garden Ridge, TX
Garland, TX
Houston, TX
Hurst, TX
Irving, TX
Katy, TX
Kingwood, TX
Little Rock, AR
Littleton, CO
Metairie, LA
Midland, TX
Oak Hill, TX
Oklahoma City, OK
Plano, TX
Round Rock, TX
San Antonio, TX
Shreveport, LA
Slidell, LA
Spring, TX
Stafford, TX
The Woodlands, TX
Tulsa, OK
Tyler, TX
Wichita, KS

Pacific Division
Headquarters: Pleasanton, CA
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Arcadia, CA
Beaverton, OR
Bothell, WA
Bountiful, UT
Clackamas, OR
El Cajon, CA
Escondido, CA
Eugene, OR
Federal Way, WA
Fresno, CA
Gresham, OR
Honolulu, HI
Issaquah, WA
Las Vegas, NV
Long Beach, CA
Medford, OR
Los Angeles, CA
Mesa, AZ
Mission Viejo, CA
Moreno Valley, CA
Newhall, CA
Novato, CA
Phoenix, AZ
Pleasanton II, CA
Reno, NV
Riverside, CA
Roseville, CA
Sacramento, CA
Salt Lake City, UT
San Bruno, CA
San Clemente, CA
San Diego, CA
San Francisco, CA
San Jose, CA
San Ramon, CA
Sandy, UT
Santa Ana, CA
Santa Barbara, CA
Scottsdale, AZ
Tigard, OR
Tucson, AZ
Upland, CA
Vancouver, WA
Walnut Creek, CA
Westlake Village, CA

Canadian Division
Head Office: Don Mills, ONT
Bowmanville, ONT
Brampton, ONT
Brantford, ONT
Brossard, QUE
Burlington, ONT
(Hamilton Area)
Calgary, ALB
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Edmonton, ALB
Guelph, ONT
Kirkland, QUE
Laval, QUE
Markham, ONT
Mississauga, ONT
Montreal, QUE
Newmarket, ONT
Oakville, ONT
Peterborough, ONT
Repentigny, QUE
Richmond Hill, ONT
Saint Catharines, ONT
Saint Jerome, QUE
Scarborough, ONT
Whitby, ONT

Liberty Northwest Insurance Corporation
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Baker City, OR
Bellevue, WA
Bend, OR
Boise, ID
Missoula, MT
Roseburg, OR
Salem, OR

Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Liberty Life Assurance Company of Boston
Home Office: Boston

Annual Meetings

Liberty Mutual Insurance Company holds its annual meeting on the third Wednesday of April at 10 o'clock in the morning. Liberty Mutual Fire Insurance Company holds its annual meeting on the third Wednesday of April at 11 o'clock in the morning. Each meeting is held at the Home Office in Boston.

The policyholders of each company are members of the company issuing the policy and are entitled to vote either in person or by proxy at any meeting of that company. You may obtain a proxy form by writing to the Secretary of the company at 175 Berkeley Street, Boston, MA 02117.

Design: Foster Design Group, Inc., Boston
Illustration: Joyce Kitchell

LIBERTY MUTUAL

Liberty Mutual Insurance Group
175 Berkeley Street, Boston, MA 02117
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