



A National Alliance of Life Companies

# NEWSLETTER

NATIONAL ALLIANCE OF LIFE COMPANIES *An Association of Life and Health Insurance Companies*

February 28, 2010

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The news in this publication, including links to background and supplemental information, is also available on the NALC members' website at <http://members.nalc.net>.

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## A Letter from the Executive Director

February 28, 2010



Dear Member:

We are looking forward to seeing you at Kiawah Island for our Spring Meeting starting Wednesday, April 14, 2010. We are excited about the group of speakers we have lined up, and believe this will be a memorable meeting. On top of that, Charleston is not a bad place to visit!

This is an interesting political climate in which to work. The combination of upcoming elections, the weak economy, voter anger, and the complexity of issues makes policymakers hesitant to act. Nothing better demonstrates these facts than the White House Summit on Health Care last week. Six hours of discussion yielded little common ground during the Summit. It proves a point I frequently make- moving major legislation in an environment where each side thinks it has a chance to take political advantage is next to impossible.

Whether it's health care reform or financial regulatory reform, it's unlikely anything significant or groundbreaking is going to pass. It's just too difficult in this environment, particularly for moderates in both parties who are worried about survival. If you have followed the financial regulatory reform discussion, for example, you probably noticed the turf battles among various federal agencies...and the suspicions of heightened powers at the Fed in Congress. This makes an item like enhanced federal powers over insurance very difficult to pass, and strengthens our hand in the fight, but it makes a handful of needed reforms difficult to move.

I attended the National Governor's meeting last week, and heard an interesting presentation on the economy. It showed that two states with heavy manufacturing bases were already in a modest growth mode, but that the other forty eight states were either in recession or beginning recovery. It demonstrated the fragile nature of our economic recovery. The biggest benefit from the stimulus will probably hit during this spring's construction period. This should help a bit, but the issue is whether private sector growth will begin to pick up the slack. If it doesn't, the policy options are pretty limited to stimulate further growth.

Look forward to seeing you all in Charleston. As noted above, Cam Waite has put together a great program. We will have a great deal to talk about at our meeting.

Best regards,

A handwritten signature in cursive script that reads "Jim Hodges".

Jim Hodges  
Executive Director

# NALC Highlights

*Register Now!*

## 2010 Spring Conference

April 14 – April 16, 2010  
Kiawah Island Golf Resort  
Kiawah Island, South Carolina



- The NALC will hold its 2010 Spring Conference April 14 – April 16, 2010, at the Kiawah Island Golf Resort, Kiawah Island, South Carolina.
- Online conference registration, hotel reservation information, golf registration, and sponsorship information is available on the [NALC website](#). You have the option of registering online, or completing the forms on your computer.
- **Please Note: Registration fees are subject to a \$50.00 late fee if not received by March 26, 2010. Registration fees are non-refundable after April 2, 2010.**
- **Hotel Reservations:** A hotel reservation form is available on the [NALC website](#). Make your reservations by phone, fax, e-mail or USPS mail. **The NALC room block expires on March 14, 2010**. Reservations received after this date will only be filled on a space-and-rate available basis.
- **Conference Sponsorship:** There are many sponsorship opportunities available. The list of sponsorships is also available on the [NALC website](#).

*Watch your e-mail for Conference updates and reminders!*

## NALC Members Website

Have you checked on the NALC website lately? Not only is there information about the organization its members and conferences, there is a private site reserved for members only. If you are planning to attend the Spring Conference, complete information is available, along with an online registration function which takes only minutes to complete.

The private site contains a wealth of information for NALC members, including the online, interactive versions of the *NALC Newsletter* and the *Legislative and Regulatory Report* – complete with links to all source and background materials as well. All sources cited in the publications are available instantly online. In addition to the publications, NALC members have ready access to other valuable resources on the Member Services Website at <http://members.nalc.net>. There is a state government resource, complete with insurance department and legislative information. A similar resource is available for federal issues.

All you need is your user name and password. If you do not know this information, please send an e-mail to [nalc@comcast.net](mailto:nalc@comcast.net). You will receive your user name and password by return e-mail. If you have any questions or problems with the NALC website, send an e-mail to [support@nalc.net](mailto:support@nalc.net).

So check it out. You might find it to be a valuable resource.

## NAIC Focus

### Spring National Meeting

The NAIC will hold Spring National Meeting March 26 - 29, 2010, at the Hyatt Regency & Colorado Convention Center, Denver, Colorado. Registration, attendee information and the agenda will be available soon on the [NAIC website](#).

### Register Now for 11th Annual E-Reg Conference

Registration is now open for the NAIC and National Insurance Producer Registry (NIPR) 11th Annual E-Reg Conference. This year's conference will be held May 3 - 5, 2010, at the Hyatt Regency Crown Center in Kansas City, Mo. Online registration is now available at <http://ereg.naic.org>.

E-Reg provides the insurance regulatory and industry communities the opportunity to explore the latest technology trends and initiatives affecting insurance regulation today. Attendees may choose from five conference exchanges: company licensing; market regulation; producer licensing; rate and form filing; and TechEx (regulators only).

The conference will kick off with a keynote panel addressing the latest insurance regulatory topics, including producer licensing, market regulation and speed-to-market initiatives. Attendees also will receive up-to-date information on key NAIC membership initiatives and the latest technology solutions. Panel discussions and hands-on training opportunities will address nearly every aspect of insurance regulation, from state producer and company licensing to market analysis and rate and form filing.

The Hyatt Regency Crown Center is located adjacent to the NAIC Central Office in Kansas City, Mo. The area includes many attractions, such as the Liberty Memorial, Union Station, downtown, the Power and Light District, Country Club Plaza, and nearby theaters and dining.

Register for E-Reg on or before April 6, 2010, to get a special discounted rate. For more information, including a full agenda for each conference exchange, visit <http://ereg.naic.org>.

### NAIC to Address Concerns on Stranger Originated/Owned Annuities

#### *Hearing to Focus on Concerns and Consumer Protections*

The NAIC has announced plans to hold a public hearing on the emergence of Stranger Originated/Owned Annuities. The hearing will focus on the suspect practice of targeting seniors and terminally ill patients by inducing them to purchase an annuity largely for the benefit of investors or intermediaries.

“State regulators need to closely examine the conditions of this evolving marketplace,” said Thomas R. Sullivan, Chair of the NAIC Life Insurance and Annuities Committee and Connecticut Insurance Commissioner. “We are determined to address how individuals are being affected by these new transactions and whether new or modified current laws or regulations are necessary to protect consumers. We have an intense curiosity for which we intend to examine the existence and extent of these practices.”

The hearing will include industry representatives, state regulators and consumers. The date and location of the hearing will be announced as soon as details are confirmed.

## NAIC Releases Select Market Share Data

### *Life/Fraternal, Property/Casualty Reports Now Posted Online*

The NAIC has released two sets of data that help provide an indicator of the degree of market concentration in lines of business and identify leading insurance writers. The 2009 market share data for life/fraternal and for property/casualty insurers include countrywide direct written premium for the top 25 groups and companies as reported on the State Page of the annual statement for insurers that report to the NAIC.

The property/casualty report contains cumulative market share data for the following lines of business: personal auto, commercial auto, workers' compensation, medical professional liability, homeowners and other liability (excluding auto liability) insurance.

The life/fraternal market share report contains cumulative market share data for the following lines of business: life; annuity considerations; and aggregate total of life insurance, annuity considerations, deposit-type contract funds, other considerations and accident/health insurance.

Both of these reports will be refreshed daily through March 12 and then each Monday through the end of March. These abbreviated reports are available for viewing at no charge on the NAIC Web site:

- [Life/Fraternal](#)
- [Property/Casualty](#)

For more in-depth market share information, please refer to the complete 2009 Market Share Reports for Property/Casualty and the 2009 Market Share Reports for Life/Fraternal, which will be made available in summer 2010. The top 125 groups and companies countrywide are shown in each line of business and the top 10 groups and companies are shown by state.

Beginning for the first time in 2010, the 2009 Market Share Report for Property/Casualty will also be divided into sections and available electronically for those who wish to purchase the report by lines of business. The line of business sections will consist of: 1) Private Passenger Auto; 2) Commercial Auto; 3) Workers' Compensation; 4) Property Lines; 5) Commercial Lines; and 6) Miscellaneous Lines. Any of these publications can be purchased online via the [NAIC Store](#).

## NCOIL Notes

### 2010 Summer Meeting

Plan now to attend the NCOIL 2010 Summer Meeting, July 8 through 11, 2010. The meeting will take place at the Boston Park Plaza Hotel & Towers, Boston, Massachusetts. For more information or to register, go to <http://www.ncoil.org/schedule/boston10.html>.

### Point-Counterpoint: FTC Insurance Authority, Help or Hinder?

Healthcare reform legislation passing the U.S. House in November included language to give the Federal Trade Commission (FTC) certain authorities over the business of insurance. Despite slowdown on the healthcare debate, Members are expected to introduce the FTC language in a separate bill. The writers below answered the following question: How would giving the FTC authority to study the business of insurance impact state oversight?

## *FTC Oversight: An Unwise Move toward Dual Insurance Regulation*

*By Julie Gackebach*

The national health care debate has reopened the dispute over the authority of the Federal Trade Commission (“FTC”) to investigate the insurance industry. The House-passed Affordable Health Care for America Act (H.R. 3692) includes provisions granting the FTC unfettered authority to conduct studies and prepare reports on insurance. In addition, the FTC would be empowered to share information with law enforcement agencies.

The provisions would overturn a 30-year congressionally imposed prohibition on the FTC from studying or issuing reports on any part of the insurance industry unless specifically requested by the relevant congressional committees. The legislation would not limit the FTC’s authority to the “business of insurance,” but would give the federal agency the discretion to examine virtually any aspect of insurance, including state legislative and regulatory conduct. Although included in health reform legislation, the expanded authority would extend to all lines of insurance.

The legislation represents a first dramatic step toward dual regulation of insurance. Over-laying state-based supervisory authority with a new, unrestrained federal investigatory authority is a recipe for regulatory confusion. The activities of the insurance industry at large and individual market participants are expansively, and effectively, regulated at the state level. Adding the FTC to the insurance regulatory mix would undermine state authority.

The proposal is billed by supporters as a simple report and information gathering regime; however, the expanded authority would effectively transform the FTC into a quasi-regulatory and enforcement agency. Congress correctly limited the authority of the FTC in the 1980s and there is no evidence to support a change in position.

The expansion of FTC authority is unwarranted, unwise and unnecessary. Congress should not abdicate its oversight responsibility and must not overrule state legislative and regulatory authority in favor of unelected federal bureaucrats.

*Ms. Gackebach is founder of Confrere Strategies in Washington, DC, writing on behalf of the National Association of Mutual Insurance Companies (NAMIC).*

## *A Set of Independent Eyes Can Only Help Consumers and Regulators*

*By Birny Birnbaum*

Under the McCarran Ferguson Act of 1945, states are given sole authority to regulate insurance, and insurers are granted an exemption from the federal antitrust laws prohibiting anticompetitive practices, such as colluding to set rates. The Federal Trade Commission (FTC)—an agency dedicated to identifying and stopping anti-competitive market practices—is forbidden from prosecuting violations related to the business of insurance. However, until 1981—shortly after the FTC issued a report critical of whole life insurance products—the FTC could investigate and study insurance-industry problems and make policy and enforcement recommendations to states.

FTC studies of insurance markets would address two critical problems with state insurance regulation. The first is the poor track record and limited technical skills of regulators on competition issues. Despite efforts to develop a market analysis capability, insurance regulators do little sophisticated data collection and analysis and major market problems are more often identified by non-regulators, including journalists and state attorneys general. In some key areas—monitoring competition or examining unfair discrimination—state regulators have done little or nothing.

The second problem is the political pressure on state regulators from the insurance industry with the states. In many states, insurers are some of the largest employers and seek protection from market investigations and enforcement actions. In other states, regulators cannot be relied upon for independence, as demonstrated recently when regulators codified the massive capital relief granted by just a few states in order to maintain some measure of level competition.

State insurance regulators have defended state regulation over proposals for federal regulation by stating that state diversity is a strength—that there are 51 sets of eyes examining insurers' financial condition. Another set of independent eyes, particularly with expertise in competition and unfair trade practices, would help consumers and regulators. With FTC authority limited, there can be no credible argument about duplicative regulation because the FTC would not be regulating insurance.

*Mr. Birnbaum is Executive Director of the Center for Economic Justice, based in Texas, and former Chief Economist at the Texas Department of Insurance.*

## News from the States

### AMA Honors Kansas Regulator with Top Government Service Award

#### ***Kansas Insurance Commissioner Sandy Praeger Honored by American Medical Association***

Kansas Insurance Commissioner and past NAIC President Sandy Praeger was honored March 3 with the American Medical Association's (AMA) top government service award for an elected statewide official. She was presented with the Dr. Nathan Davis Award for Outstanding Government Service by chief medical editor for NBC News, Nancy Snyderman, M.D., at an awards dinner in Washington, D.C. as part of the AMA's National Advocacy Conference.



*Therese M. Vaughan, NAIC CEO, Dr. Nancy Snyderman, Sandy Praeger and Dr. Mark Praeger*

“Insurance consumers in Kansas and all across America are fortunate to have Sandy Praeger looking out for their interests,” said Jane L. Cline, NAIC President and West Virginia Insurance Commissioner. “While all 56 members of our Association are devoted to serving the public interest, few mirror Sandy’s zeal and leadership.”

“Sandy’s passion for championing parity in the health care system distinguishes her impressive career,” said Roger Sevigny, NAIC Most Immediate Past President and New Hampshire Insurance Commissioner. “She has worked diligently to ensure consumers have access to affordable and quality care.”

Nominated by Sevigny, Praeger chairs the NAIC’s Health Insurance and Managed Care Committee and was recognized for her ongoing efforts in the health care arena, including advocating for consumers, serving as a health expert to the national media and testifying before Congress on behalf of the NAIC. She is one of nine honorees chosen this year to receive the award.

This is the second time Praeger has been awarded the honor; she was first honored as a Kansas state senator in 1999. The award, named for the founding father of the AMA, recognizes elected and career officials in federal, state or municipal service whose outstanding contributions have promoted the art and science of medicine and the betterment of public health.

## California Announces 6% Cut in Fees for Agents, Brokers and Adjusters

California Insurance Commissioner Steve Poizner has cut fees for agents, brokers and adjusters by 6%, reductions made possible by what he said are new operating efficiencies. The cuts will apply to hundreds of fees charged by the Department of Insurance and will take effect July 1. Poizner has cut various fees for more than 300,000 agents, brokers and adjusters four times since taking office in January 2007. As an example of the fee reductions, the cost of license renewals will have dropped from \$144 in 2007 to \$128 in July.

Poizner also announced the department's largest revenue stream, the fees and license account, has gone from a projected \$17 million deficit to a projected 2010-2011 budget year surplus of \$3.6 million. That includes the impact of reduced fees, which are estimated to be \$3.4 million lower. Poizner said new efficiencies have allowed a 15% cut in the department's operating budget and a cumulative total of \$22 million in fee cuts.

In announcing a 10% cut in the department's operating budget in 2009, Poizner cited the elimination of some overhead expenses and already vacant positions. Savings stemmed from an 18-month strategic review of department priorities.

Elected in 2006, Poizner is a candidate for the 2010 Republican nomination for governor.

## Iowa Governor Delays 18% Premium Increase for Wellmark Blues

Iowa's governor has directed the state's insurance commissioner to delay an 18% premium rate increase approved for Wellmark Blue Cross Blue Shield pending an independent review to determine if the premium hike is justified. The planned rate hike would impact about 80,000 members in the health insurer's individual health plans.

In a letter to Insurance Commissioner Susan Voss, Gov. Chet Culver directed her office to hold off on the premium increase for Wellmark until a third-party, independent actuary can review the file and determine whether the division's processes to award Wellmark the premium rate increase is justified, according to Culver's office.

He requested Voss hire a third-party certified actuary, without any financial relationship to Wellmark, to conduct a secondary review of Wellmark's recently approved request for the premium rate increase. The commissioner is to stay the hike until the third-party review is completed and published so the public also can review it.

Tom Alger, a spokesman for the Iowa Insurance Division, said the division is "happy to be participating in this secondary review, and we think it will help people understand the rating process and how all of this is determined by cost factors."

The rate increase was to take effect on April 1 but Wellmark agreed to delay it until May 1, pending the review. In a statement, Wellmark said it will cooperate with the insurance commissioner. Rob Schweers, a spokesman for Wellmark Blue Cross Blue Shield, the largest health insurer in Iowa by membership, said the cost of care that the company is providing to its members "is rising faster than our premiums have increased so that creates a deficit."

Wellmark, a mutual insurer, has about 1.8 million members statewide. The rate increase would affect members enrolled in several of its individual, under 65, health plans. Wellmark has had operating losses since 2007, Schweers said. It lost \$38.9 million in the Iowa individual market in 2009 and earnings from premium for this

market segment last year represented a negative 11.5 cents on every premium dollar collected, he said. For every premium dollar, 94.5 cents was paid to reimburse health care services for its members, Schweers said.

The company was able to accommodate some of the losses by drawing down reserves to mitigate the effects of rate increases, Schweers said. Wellmark has gotten to the point where it needs to make sure that the premium it's asking for is adequate to cover what it projects will be the cost of the health care services that it pays for in 2010, he said.

State lawmakers have criticized the salaries of some Wellmark executives and the health insurer's new \$250 million headquarters under construction in downtown Des Moines. The new building to consolidate its operations is not contributing to the rate increase, Schweers said. There's "an overall lack of understanding" of how insurance works, he said.

The governor wants an independent, qualified third-party actuary to conduct a secondary review whenever any health insurer doing business in Iowa submits a premium increase request to the state insurance division.

## **New Mexico Insurance Superintendent: 'Cleared' and Back on the Job**

New Mexico has reinstated Insurance Superintendent Morris Chavez, who had been suspended with pay during an investigation of an "administrative matter." Chavez returned to work March 8 after a nearly six-week absence. The New Mexico Public Regulation Commission, which oversees the Insurance Division, placed Chavez on indefinite leave Jan. 28.

"I'm fully cleared and I'm happy to be back at work," Chavez said. The superintendent declined to elaborate on the circumstances surrounding his hiatus. PRC spokesman Gerald Garner Jr. confirmed Chavez's status but declined to comment on the circumstances. Chief Deputy Superintendent Tom Rushton served as acting superintendent in Chavez's absence.

Chavez has led the Insurance Division since October 2006. He formerly served as the state representative for the New Mexico State Gaming Control Board. An attorney, Chavez has worked as a licensed agent in New Mexico and as an underwriter and operations manager for a surety company in Santa Fe, N.M. He is a 1995 graduate of the University of San Diego with a B.A. in political science and a 1998 graduate of the University of New Mexico School of Law.

Chavez's predecessor, Eric Serna, resigned as commissioner in May 2006 as part of an agreement with the PRC. Serna had been placed on administrative leave at the recommendation of then-state Attorney General Patricia Madrid after a review by her office revealed similarities between overpayments by Serna's department to a local bank and adverse audit findings of the agency by the state Legislative Finance Office.

In January, the 10th Circuit Court of Appeals upheld the conviction of former Deputy Superintendent Joe Ruiz on multiple corruption charges. In 2008, Ruiz was sentenced to four years in prison and ordered to pay \$105,000 in restitution and fees for his role in a scheme to reduce regulatory fines against insurers in exchange for payments to charities linked to Ruiz and Serna.

# Industry News

## Redesigning Retirement

*Variable annuity writers are moving in new directions with their lifetime income products.*

Variable annuity writers have been working diligently since the onset of the financial crisis in 2008 to fix problems with products designed to provide guaranteed lifetime withdrawal benefits. First, they altered new contracts to lessen their liabilities. And now, some major writers are coming out with entirely new product designs.

Last fall, Hartford Life introduced a VA with two accounts on a single tax-deferred platform: an accumulation account with no underlying income guarantee and a personal protection account that guarantees future income. In January, Axa Equitable came out with a dual-account design that a company spokesman said would protect investors against “previously unimagined market risks.”

The new VA designs are the most significant changes in the annuity industry and are good examples of the industry’s current innovations, said Joseph Montminy, assistant vice president at marketing and research firm Limra. “We’ve seen most of the de-risking that’s going to happen,” he said. “Now we’re starting to see new product development.”

Annuity product changes have been driven by the volatility in the financial markets and the need for insurers to manage the guarantees they offer, Montminy said. The market crash in 2008 and early 2009 resulted in a reduction of capital as insurers had to increase reserves for the guarantees provided by the GLB riders. Hedging programs also became more expensive, he said, due to volatility and low interest rates.

The new dual-account design is likely to cause advisers and clients to think more about how to use variable annuities for retirement planning. “This is not a product that you sell and then put into a drawer,” said James Shepherdson, president of retirement savings at Axa Equitable. “This is a long-term retirement solution platform that you need to be thoughtful about.”

### **Dual-Account Impacts**

One significant item is that the policyholder and adviser will have to decide when to move assets from the unprotected accumulation account into the protected account. In the Axa Equitable product, assets moved into the protected account cannot be moved back; the Hartford product allows this only on a limited basis. But assets moved to the protected account buy the policyholder a defined amount of future income. John Diehl, senior vice president at The Hartford’s investments and retirement division, said the process may be more appealing to investors than having to decide whether to annuitize a large lump sum.

“There is a degree of discretion on the part of the client,” he said. “That’s why we’d like to see an active dollar-cost-averaging kind of mindset, to systematically take money out of their investment account over time and to slowly build their personal pension account. That would be similar to the way an employer might have funded a defined benefit plan over time.”

The new design also may encourage investors and advisers to start thinking about retirement planning much earlier. As Diehl said, policyholders might quickly weigh the advantages of having money on both sides. In particular, younger clients might start with just a small percentage in the income account, but then shift more as they near retirement. Or, after enjoying strong returns in the accumulation accounts, such as investors experienced in 2009, a policyholder might decide to protect some of the gains by moving them.

Investors in traditional VAs always have had the ability to transfer money from equity funds to safer bond funds or money market accounts, but Diehl pointed out that these are subject to market risk and that many lost value in 2008. In contrast, the personal pension account buys future income based on the policyholder's age-at-issue and the age at which the policyholder chooses to start collecting income. In the meantime, the account has a personal pension benefit balance that is payable to heirs should the policyholder die before beginning to collect benefits. Diehl said. Once they start, income payments reduce the benefit balance.

Diehl said the new product's brand name is The Hartford's Personal Retirement Manager. Its legal name is the Hartford Leaders Five Variable Annuity. The overall cost in the product's "B-share" form is 2% to 2.5% of assets, and cost percentages decrease the longer a policyholder owns the contract.

For example, a distribution fee of 0.75% is charged against premium to cover the commission that an adviser received upon sale of the contract. But that fee expires after eight years, Diehl said. The mortality and administrative fee is 0.5%. The investment component offers more than 50 domestic and foreign equity and fixed-income options with charges on invested assets ranging from 0.3% to 1.35%.

### **Growth Guarantee**

Axa Equitable's product, Retirement Cornerstone, offers more than 90 investment portfolio choices in its accumulation account. The downside-protection account is more complicated than Hartford's. It retains a benefit base like the one pioneered by Equitable Life in 1996 to calculate annuitized income. More recently, Axa Equitable used a benefit base to calculate lifetime withdrawal benefits, but stopped offering those withdrawal benefits in new products in 2008. This new product restores lifetime withdrawal benefits.

The benefit base in Retirement Cornerstone's protected account is guaranteed to grow, or "roll up," at an annually declared rate of one point above the average for 10-year Treasury bonds. The initial rate is currently at 5% and can adjust to a maximum of 8% but never go lower than 4%.

Once payments start, Shepherdson said, the income is generated as a guaranteed withdrawal that can be annuitized at age 95. The company said that by tying the rate to 10-year Treasuries, it allows the income benefit to rise in a rising interest-rate scenario, a feature that "sets Retirement Cornerstone apart from the competition."

However, money that the policyholder moves to the downside-protection account is actually invested in asset-allocation portfolios made up of stock and bond index funds, so the potential to grow is greater than in a fixed account. There are four portfolios, ranging from 60% stocks down to 20% stocks, and there are no limitations on which portfolio a policyholder can use.

Both Diehl and Shepherdson said the new products provide more flexibility than VAs with a lifetime withdrawal benefit. Originally, the VAs guaranteeing withdrawals for life allowed policyholders to invest in any subaccounts and still have the guaranteed step-ups and future withdrawals, noted Diehl.

"But as the products matured and the risks became more evident to insurers, the companies imposed asset-allocation restrictions," he said. "In some cases, companies established the right to reallocate investments. Companies also reserved the right to increase step-up fees."

Also, the products' flexibility was limited by the fact that the withdrawal guarantees could be diminished, perhaps significantly, when policyholders took a large lump sum or annual withdrawals in excess of the guaranteed percentage, he said.

According to Montminy, several insurers have simplified their VAs. He said the trend is for VA writers to package features and guarantees, offer more focused investment options, make products easier to understand, to lower costs and use more asset allocation or index funds.

Another newly developed feature links VA product/rider components to changes in various market indices, as Axa Equitable did with the 10-year U.S. Treasury bond rate.

Another example is SunAmerica's new lifetime-withdrawal benefits, in which fees are tied to the movement of the Chicago Board Options Exchange Volatility Index as a way to manage fees in this changing economic environment, he said.

*By Ron Panko, senior associate editor, Best's Review: [Ronald.Panko@ambest.com](mailto:Ronald.Panko@ambest.com)*

## The Mute Minority

Some underwriters and medical directors stick to EKGs and treadmill tests despite the emergence of a superior blood test. Heart disease is a leading cause of death. The efforts to identify insurance seekers at high risk of premature cardiac-related demise claim the lion's share of precious dollars allocated to medical-risk selection.

Now life underwriting is blessed with a new marker for cardiac impairments. It is totally unlike, and vastly superior to any test we have ever had to address this vital aspect of risk assessment. The test is for the protein NT-proBNP. The protein is released solely by the heart muscle, and in excessive amounts in the presence of cardiac malfunction, the menacing consequence of heart damage.

Despite its rare merits and common-sense appeal as a driver of heart-disease underwriting, there are those who argue for continuing to use electrocardiographs and treadmill stress tests instead. Is it because these alternatives are less costly than NT-proBNP? No. A resting EKG costs, on average, three times as much and a treadmill is 40-fold more expensive.

Is it because EKGs and treadmills are more conveniently obtained? No. They are labor-intensively undertaken to the considerable inconvenience of the proposed insured. NT-proBNP, on the other hand, is precisely quantified in the blood specimen already needed for the screening blood profile.

Is it because these relics are more easily analyzed at the home office? No. EKGs and treadmills are largely subjective. All too often what one interpreter considers insignificant is much ballyhooed by another reader as a grievous harbinger of foreshortened survival. NT-proBNP is wholly objective. Either it is abnormal (significantly elevated) or it isn't.

Is it because EKGs and treadmills get us in fewer firefights with physicians who care for our applicants? No, only with those not yet as well-acquainted with NT-proBNP as they should be. Besides, any underwriter can write an eloquently airtight defense for an insurability decision based on NT-proBNP.

There is burgeoning literature on this new marker. It is being hailed by expert cardiologists as a formidable "red flag" for everything from coronary disease and heart valve damage to the odds of surviving non-cardiac surgery or developing insidious heart malfunctions decades after cancer therapy.

What question should we be asking? If clinical medicine walked away from routine screening with treadmills 25 years ago, why are we still imposing this antiquated practice on financial services customers? Is it because some underwriters and medical directors fight back tears at the very thought of sacrificing the intellectual gratification of divining "deep meaning" from squiggles on strips of specially treated paper?

Treadmill tests and resting EKGs cannot stand toe-to-toe with NT-proBNP on any reasoned basis. Therefore, those who rail against its deployment must have hidden agendas--agendas at odds with making overdue progress in 21st-century life underwriting.

This underwriter has challenged any and all who cleave to the ways of the past to a debate at an appropriate public forum. Their silence is understandably deafening. When CEOs, producers and customers shake their heads--then, their fists--at the arcane conditions we impose, this suddenly mute minority should be compelled to justify their intransigence in the face of progress.

*(By Hank George, the principal in his own consulting and training firm, Hank George Inc., and author of the book, Underwriting: What Every Producer Must Know. He may be reached at [HankGeorge@aol.com](mailto:HankGeorge@aol.com).)*

## Lessons Learned Will Lead to Bright Future

*For the insurance industry, regaining a pre-eminent role in financial services may require a look back.*

If the second decade of the 21st century is anything like the first one, we are in for a wild ride. We did witness it, but it is still hard to believe the turmoil that engulfed the insurance industry during the past few years. Even in their wildest nightmares, most people could not have been prescient enough to have predicted that the great iconic institutions of the insurance industry could have been pushed to the very brink of collapse.

In fact, if it was not for emergency government intervention and the dilution of some regulatory requirements, many of the industry's most recognizable companies likely would have failed--taking with them the hard-earned, solid reputation of the industry.

Hindsight allows us to recognize that the igniter of the industry's problems was an irrational effort to keep pace with the destructive shenanigans of the banks and investment companies. An industry that made its mark by understanding and managing risk, allowed itself to be influenced by those who ignored the reality of risk.

But there is a bright side. The salvation for the insurance industry is not in doing what others do, but in doing what it does best. Failure to learn from mistakes perpetuates mistakes, but if the attitude is right, it is possible to learn more from mistakes than success.

The success or demise of the insurance industry will depend on its ability to learn from mistakes. What the insurance industry needs to do is make changes that will take it back to the future in a way that re-establishes its sound financial principles and regains its credibility with the consumer. The insurance industry grew strong, profitable and successful by effectively managing the risks of others, not assuming them. The good news is that if the insurance industry can once again assume the role of managing, rather than taking risks, it can regain its pre-eminent role in financial services.

This is not pie-in-the-sky theory. What is the single most-recognized long-term financial need of the consumer today? We know that longer life spans in the 21st century will reshape the way the financial services industry meets the needs of consumers for a secure and livable retirement.

The sector of the financial services industry that most effectively meets this need will achieve remarkable levels of success. No sector of the financial services industry is better positioned to meet and benefit from this need than the insurance industry. If the leaders of the insurance industry can learn from and be stimulated, rather than paralyzed, by the mistakes of the past decade, they will be able to unlock the creativity of the industry.

These leaders can respond with innovative solutions that are based on the sound principles of long-term risk management; not on the wild promises and the irrational “guarantees” of the past decade. Those who wait too long to go back to the future or fail to learn from the mistakes of the past will have no future.

(By Robert W. MacDonald, a principal of CTW Consulting in Minneapolis. He can be reached at [bobmac@bobmacbusiness.com](mailto:bobmac@bobmacbusiness.com).)

## Calendar of Industry Events

<b>March 26 - 29, 2010</b> NAIC Spring National Meeting	Hyatt Regency & Colorado Convention Center Denver, Colorado
<b>April 14 – April 17, 2010</b> NALC 2010 Spring Conference	Kiawah Island Golf & Resort Kiawah Island, South Carolina
<b>May 3 - 5, 2010</b> NAIC E-Regulation Conference	Kansas City Hyatt Regency Crown Center Kansas City, Missouri
<b>July 8 - 11, 2010</b> NCOIL Summer Meeting	Boston Park Plaza Hotel & Towers Boston, Massachusetts
<b>August 14 – 17, 2010</b> NAIC Summer National Meeting	Sheraton Seattle & Washington State Convention & Trade Center Seattle, Washington
<b>September 22 – 25, 2010</b> NALC 2010 Fall Conference	Stoweflake Resort Stowe, Vermont
<b>October 18 - 21, 2010</b> NAIC Fall National Meeting	Gaylord Palms Hotel Orlando, Florida
<b>November 18 - 21, 2010</b> NCOIL 2010 Annual Meeting	Hilton Austin Austin, Texas
<b>March 4 - 6, 2011</b> NCOIL Spring Meeting	Hyatt Regency on Capitol Hill Washington, DC
<b>March 26 - 29, 2011</b> NAIC Spring National Meeting	Hilton Austin & Austin Convention Center Austin, Texas
<b>April 27 - 30, 2011</b> NALC 2011 Spring Conference	Longboat Key Club & Resort Longboat Key, Florida
<b>July 14 - 17, 2011</b> NCOIL Summer Meeting	Marriott Newport Newport, Rhode Island
<b>August 30 - Sept. 2, 2011</b> NAIC Summer National Meeting	Marriott Philadelphia Downtown Philadelphia, PA
<b>November 3 - 6, 2011</b> NAIC Fall National Meeting	Gaylord National Hotel & Convention Center Washington, DC
<b>November 17 - 20, 2011</b> NCOIL 2011 Annual Meeting	Eldorado Hotel & Spa Santa Fe, New Mexico