



A National Alliance of Life Companies

NEWSLETTER

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

March 31, 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>.

National Alliance of Life Companies
PO Box 50053
Sarasota, Florida 34232
Phone: 941-379-6100
Fax: 941-379-6112
Website: www.nalc.net
Members' Website: members.nalc.net

A Letter from the Executive Director

March 31, 2010



Dear Member:

We look forward to seeing all of you in Charleston, South Carolina, at the Kiawah Resort on April 14, 2010. I am happy to have you back in my home state. The April weather should be terrific for our events. We have over 75 attendees registered to date, and fully expect a record crowd for the Spring Conference.

We have all been following the health care debate closely in Washington. The political dynamics are certainly interesting. My guess is the nation will remain split on the benefits of the health care bill through the elections. The polling you see reflects the mixed nature of the health care bill. People like many individual provisions of the bill, but have concerns about its costs and the potential for changes in existing health care programs. The margins in the Congress should tighten up significantly during this election cycle, but the real issue driving the elections will be the economy—not health care.

I just returned from the NAIC in Denver. There were two major topics of conversation. First, the Commissioners talked about the implications of the health care bill on the states. Many of the responsibilities for implementing the high risk insurance plans and insurance connectors for private insurance coverage fall on the state insurance departments. Unfortunately, the departments have little time to get the programs up and running. Former Missouri Insurance Commissioner Jay Arnoff has been appointed by the U.S. Department of Health and Human Services as a liaison with the commissioners to move along implementation.

The second big topic was the unveiling of Senator Dodd's financial regulation bill. As you may have read, the bill passed the Banking Committee along party lines. Interestingly, the NAIC is concerned with language in the bill that reduces its role in insurance oversight. We have concerns about a variety of issues associated with the Office of National Insurance language in the bill, as well as some tax issues that could impact our larger company members. Even Senator Dodd admits the bill is a work in progress, so I expect many changes along the way. We will continue to protect your interests in the process.

Again, we look forward to seeing you all in Charleston in April. If you should have any questions in the interim, let us know.

Best regards,

A handwritten signature in cursive script that reads "Jim Hodges". The signature is written in dark ink and is positioned above the printed name.

Jim Hodges
Executive Director

NALC Highlights

NALC Annual Meeting Notice

The Annual Meeting of the members of the National Alliance of Life Companies shall be held Thursday, April 15, 2010 at 11:30 a.m. at the Kiawah Island Golf & Resort, Kiawah Island, South Carolina. The business of the Alliance shall include the election of members to fill vacancies on the Board of Directors.



Jim Hodges
NALC Executive Director

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 now subject to a \$50.00 late fee. 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 expired 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!

New NALC Member

National Association of Professional Agents

Lou Marinaccio, President
9024 Town Center Pkwy.
Lakewood Ranch, FL 34202
Phone: (941) 907-3828 Fax: (800) 411-4771
<http://www.napa-benefits.org/>



The National Association of Professional Agents (NAPA) was formed 1989 in Chicago, Illinois by Lou Marinaccio, who remains as President of its holding company, MGA Financial Services, Inc. NAPA's original business model still holds true today: An association formed to bring voluntary products and business services to the independent insurance agent. An independent agent himself, Lou saw the need to provide tailored products to meet the unique benefit requirements of the independent insurance agent. Moreover, he identified

the opportunity to market these products through a sponsoring insurance company which distributes their products through an independent agent distribution network.

NAPA's structure allows for a partnership to exist between a company that utilizes independent agents to distribute their products, and NAPA who customizes benefits and services to these agents which aid in the retaining and motivating of this distribution system. In essence, NAPA acts as the HR department for these agents in solving issues like explaining COBRA and HIPAA mandates so the newly recruited agent can easily transition to this new sales process.

NAPA's structure creates a partnership between a sponsoring company and the experienced benefit counselors at NAPA. This partnership provides the sponsoring company with a direct advantage over competition in recruiting and retaining quality agents, and thus increasing sales and persistency.

NAPA's unique bundle of benefits and services include such services as: a WebCE, qualifying P&C and L&H agents in all 50 states, ExamFX which offers testing services for new agents, specific discount programs to enhance an independent contractor, as well as insurance products to include a guarantee issue life insurance plan, group E&O coverage, health insurance programs, and a full range of other needed insurance products and programs.

NAPA services sponsors in all 50 states and US Territories from its two office locations, one located in El Dorado Hills, California, and the corporate office in Sarasota, Florida.

NAIC Focus

Register Now for 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).

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 Annuities Hearing

Regulators to Gather Guidance and Hear from Consumers and Interested Parties in May Hearing

On Thursday, May 20, 2010, the NAIC will hold a public hearing on the emergence of Stranger Originated/Owned Annuities in Washington, D.C. Hosted by the NAIC Life Insurance and Annuities Committee, 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.

The hearing will examine the broad principles:

- Are these transactions lawful?
- How do they affect insurable interest?

- Is there enough consumer protection in current model laws and regulations?
- If there is not, how should the models and regulations be developed or tightened?

The hearing will include testimony from consumers, state regulators and industry representatives.

WHAT: NAIC Life Insurance and Annuities Committee public hearing on Stranger Originated/Owned Annuities
WHEN: Thur., May 20, 2010
11:00 a.m. – 5:00 p.m. ET
WHERE: Washington Court Hotel
525 New Jersey Avenue, NW
Washington, D.C.

Regulators Tighten Annuity Marketing Protections

At its Spring National Meeting, the NAIC adopted revisions to the Suitability in Annuity Transactions Model Regulation to strengthen the existing model's provisions to better protect consumers from inappropriate and abusive marketing practices.

"After working with consumers, regulators and industry representatives, we have developed stronger standards to better protect American consumers," said Thomas R. Sullivan, Connecticut Insurance Commissioner and Chair of the NAIC Life Insurance and Annuities Committee. "We look forward to working with our legislative colleagues to implement these protections."

Annuities are increasingly looked to as an important tool for retirement planning, but regulators must be vigilant to ensure that the products being offered are appropriate for consumers – particularly for seniors – and that producers selling annuities are appropriately trained to deal with the unique needs of each consumer.

Changes adopted to the Model Regulation:

- Clarify that the insurer is responsible for compliance with the model's requirements, even if the insurer contracts with a third party;
- Require the review of all annuity transactions; and
- Establish both general and product-specific training requirements for producers.

NAIC Studies Readability Standards

Clarifying and Simplifying Language in Insurance Policies Focus of Hearing

At its Spring National Meeting, the NAIC held a public hearing to explore the issue of readability standards and the use of plain language in insurance policies. Three panels consisting of insurance regulators, NAIC consumer representatives and insurance industry representatives provided testimony and presentations at the hearing. The NAIC's Consumer Connections Working Group began exploring the issue of readability at the 2009 Winter National Meeting in San Francisco.

"The hearing provides an important starting point for discussion on the issue of insurance contract readability standards," said Wayne Goodwin, North Carolina Insurance Commissioner. "The current economic downturn makes it increasingly important that consumers are able to understand their insurance policies so they are not at a financial disadvantage and can make well-informed decisions about their insurance needs."

The readability hearing focused on the following issues:

- To which lines of insurance should readability standards apply?
- Should an entire insurance policy be required to be scored?
- Should defined terms in a policy be included in the scoring process?
- Should the readability standard score continue to be the current Flesch Reading Ease Score (a number from 0 to 100) or should it be changed to another measure (such as the Flesch-Kincaid Grade Level)?
- What other logistical questions are states likely to encounter if they move forward to revise their standards?

NAIC Reverses Course on Climate Survey, Makes Results Voluntary, Confidential

The NAIC has reversed much of its controversial climate risk disclosure process — turning a mandatory and public survey of insurance companies into one that is voluntary and confidential — after approving an implementation document not made public until after the vote.

The full membership approved the new document as the last official act of the NAIC's spring national meeting. The vote was 27-22, with seven commissioners either not present or not voting. The vote kept the eight climate risk disclosure survey questions intact, but the document referred to as "version three" explicitly leaves the choice of implementation up to the states, grants states the option of whether to make responses mandatory and ends a plan to make individual insurer responses public. According to the document, "Survey responses are confidential. The participating states shall coordinate with the NAIC to develop a public report giving information in the aggregate regarding insurer responses."

Andrew Logan, director of insurance for Ceres, a network of investors focusing on environmental responsibility, said the NAIC undermined its own credibility. "This calls into question the NAIC's commitment to a public and open process, and leaves the organization with a real black eye," he said. "Why would an interested party choose to engage with the NAIC when years of work can literally be killed behind closed doors?"

South Carolina Insurance Director Scott Richardson, who initiated the vote, said the mandatory and public survey plan approved by the NAIC executive committee and plenary in March 2009 had "very little support for the process." At least a handful of states — including South Carolina — were "thumbing their nose" by refusing to make it mandatory for insurance companies or groups under their jurisdiction, he said.

The survey plan, as designed by the Climate Change and Global Warming Task Force, was designed to have about 300 insurance companies or groups with annual premium of \$500 million or more file a completed questionnaire with their respective state regulators by May 1, 2010. The survey seeks to gauge the level of steps taken by companies to identify, manage and mitigate potential risks arising from climate change-related issues in areas including internal operations, investment strategy and risk management. The reporting level remains as a "suggested guideline" in the new document.

The new survey plan had not been made public before the vote and had not been voted on by the task force. "I think it's not a good public process, adapting something nobody's put in writing," Task Force Chairman and Pennsylvania Insurance Commissioner Joel Ario said. "There are going to be real serious problems."

Ario defended the original plan, saying, "I believe we set an important bar for accountability and public transparency." One goal of the original survey was to foster stronger awareness of individual company efforts to

account for climate change. Ario noted that 18 of the largest insurer groups are already disclosing similar information through voluntary participation with the nonprofit Carbon Disclosure Project.

Ario said he never expected every state to go along with the survey, but that he will go ahead and make it mandatory in Pennsylvania. California, Wisconsin and Washington are also among the states that have begun to implement the survey.

"The net effect of today's vote is zero," said Illinois Insurance Director Michael McRaith, who will also continue to make the survey mandatory. He criticized what he called the "hamster wheel" of the NAIC approving one path of action, then reversing course.

Richardson said the new plan will still provide results that are "suitably significant." Ohio Insurance Director Mary Jo Hudson, who also objected to the original plan, called the changes a clarification.

The new document contains a "qualifications" section both stating the gathered information cannot be used in reviewing rates and weighing in on the debate about climate change itself. It reads, in part, "This survey, and the questions contained herein, do not endorse, reject or otherwise express an opinion on the existence or absence of climate change. Further, this survey, and the questions contained herein, do not express an opinion regarding scientific confirmation or refutation of the existence or absence of climate change."

Insurance Commissioners, Legislators Plan for Regulatory Modernization in 2010

State insurance commissioners recommitted to an agenda of modernizing and reforming the insurance regulatory system and received promises of collaboration from their legislative counterparts. A new Regulatory Modernization Task Force met for the first time at the NAIC's spring meeting. Chaired by Oklahoma Insurance Commissioner Kim Holland, it is tasked with developing a plan for building member consensus and necessary constituency support for national uniformity in areas that will enhance the existing strengths of state insurance regulation.

The task force will work with regulators, legislators, consumer representatives and federal officials to improve the state-based regulatory system, said Holland, the NAIC secretary-treasurer.

Rhode Island Rep. Brian Kennedy said commissioners and legislators can work together in the near term on issues where there is a high degree of consensus, such as a uniform policy on surplus lines and eliminating duplicative exams. From the beginning, there should be inclusive regulator/legislator collaboration, said Kennedy, chairman of the Communications, Financial Services and Interstate Commerce Committee of the National Conference of State Legislatures.

With federal health care reform now law, the Obama administration and Congress may turn their attentions to "an all-out assault" on the state-based regulatory system, said Alabama Rep. Greg Wren. He urged preparation for a "massive federal bureaucracy" that could bring "not the nose, but the camel's humps, under everybody's tents."

Regulatory modernization will give legislators and regulators arguments against a greater federal role, Wren said. "It's time for a spirited and engaged offense."

Even states that share model laws often have too many variations in their processes and filings, said Dennis Johnson, president and chief executive officer of United Heritage, an insurance holding company. SueAnn

Schultz, senior vice president and general counsel of IMA Financial Group, said solid moves to increase uniform standards, definitions and enforcement would be welcome. Schultz, who represented the Independent Insurance Agents & Brokers of America, said "very limited federal assistance" would be a good thing, such as on producer licensing.

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>.

NCOIL Provides Guidance on Financial Reform Bill

NCOIL President Robert Damron has sent a letter to Sen. Christopher Dodd providing input and guidance as the Senate Committee on Banking, Housing & Urban Affairs considers a draft bill entitled Restoring American Financial Stability Act of 2010. See the related story below entitled *Insurance Associations Express Concerns about Financial Reform Bill*. The draft bill under consideration comprises over 1,300 pages, and is available at http://banking.senate.gov/public/files/ChairmansMark31510AYO10306_xmlFinancialReformLegislationBill.pdf.

As National Conference of Insurance Legislators (NCOIL) president, I write to reinforce positions taken by state legislators from across the country regarding the treatment of insurance companies and oversight in the Restoring American Financial Stability Act of 2010. As you know from previous communications, NCOIL cannot support any legislation that would preempt or otherwise supersede successful state-based insurance regulation.

As the Committee advances the bill, NCOIL believes that:

- Title I should clarify that insurance companies should not be considered "nonbank financial companies" for the purposes of enhanced regulation by the Federal Reserve. An additional layer of regulation could interfere with state solvency oversight and subject insurers to unnecessary costs that would likely be passed on to consumers. Title I should add state officials to the proposed Financial Stability Oversight Council (FSOC). This would enhance coordination between state and federal regulators on financial issues important to our economy.
- Title II would be best served by exempting insurers from assessments for any federal liquidation fund. The bill seems to appropriately direct failing insurers to state guaranty fund mechanisms, but also may require companies to fund the federal system. Insurers should not have to pay for both regimes—particularly because companies will be resolved through existing state structures.
- Subtitle A of Title V related to a proposed Office of National Insurance (ONI) should be stricken from the bill. NCOIL feels that the proposed ONI would create an unnecessary federal insurance bureaucracy that would duplicate many functions already performed by state regulators. The open-ended powers of the ONI to "perform such other related duties and authorities," as well as its directive to study the scope of future federal insurance authority, ensure that the Office will be anything but limited. Instead, NCOIL fears that it would lead to optional federal chartering and insurance company avoidance of important state consumer protections.

We appreciate the opportunity to comment on the March 15 bill draft to ensure that state-based insurance oversight is not inadvertently unraveled during the course of Senate consideration.

News from the States

Ga. Supreme Court Overturns Medical Liability Tort Reforms

The Georgia Supreme Court struck down a cap on medical professional liability insurance awards, applying it retroactively and overturning a centerpiece of 2005 tort reform legislation. The determination of total damages, including noneconomic damages, is a jury decision, Chief Justice Carol Hunstein wrote in her decision joined by or concurred with by the court's six other justices. The presence of caps unconstitutionally forces a court to reduce noneconomic damages if the jury finds them in excess of the upper limit, according to the decision. "The very existence of the caps, in any amount, is violative of the right to trial by jury," Hunstein wrote.

Adopted in 2005 amid a rate crisis, the reforms capped noneconomic damages in medical cases at \$350,000. The legislation set the aggregate limit for cases involving multiple medical providers and facilities at \$1.05 million and changed the standard for claims involving emergency care providers from "willful or wanton misconduct" to "gross negligence".

The decision will have an immediate impact on medical professional liability insurance rates, said Dr. Richard Anderson, chairman and chief executive officer of the Doctors Company, the state's second-largest such insurer by market share. "It's a setback for the doctors and patients of Georgia. It's going to pile an additional layer of costs on an already overburdened health care system," he said.

According to the court, in January 2006, Dr. Harvey P. Cole of Atlanta Oculoplastic Surgery (also known as Oculus) performed laser resurfacing and a full face-lift on Betty Nestlehutt. The patient developed complications in the following weeks that resulted in permanent disfigurement. Nestlehutt and her husband sued for medical malpractice and a jury returned a verdict of \$1.3 million, including \$900,000 in noneconomic damages for pain and suffering. Instead of reducing the verdict to the \$350,000 cap, the trial court found the law unconstitutional and entered judgment for the full amount. Oculus asked for a new trial, which was denied, and then appealed the verdict.

The court found that unlike punitive damages, noneconomic damages are a finding of fact and therefore a limit on what the jury can order is not constitutional. If the law were to stand, "there is no discernible reason why it could not cap the recovery at some other figure, perhaps \$50,000, or \$1,000, or even \$1," Hunstein wrote.

By definition, "there is no factual basis for noneconomic damages," Anderson said. "When you give juries unlimited discretion, you get awards from zero to virtually infinity for the same injuries," he said.

Georgia Insurance Commissioner John Oxendine called the decision a defeat for medical providers, small business owners and consumers.

"The tort reform legislation passed by the 2005 Georgia General Assembly brought much needed certainty and stability to our medical malpractice insurance marketplace," Oxendine, a candidate for governor, said in a statement. "The court's decision is harmful to the progress we have seen in that marketplace."

Maine Insurance Superintendent Reappointed

Maine Insurance Superintendent Mila Kofman has been reappointed by the state Senate. Kofman has served as superintendent since 2008, and was nominated for reappointment by Gov. John E. Baldacci earlier this month.

This week's events leading up to Kofman's reappointment began on March 22 with a hearing before the Joint Standing Committee on Insurance and Financial Services at the state legislature, said Insurance Bureau spokeswoman Katie Dunton. On March 24, the state Senate voted, and both the committee and Senate votes were unanimous in support of the superintendent's reappointment. Dunton said groups that spoke in favor of her reappointment included consumer advocacy groups, physicians groups, industry support and a representative from the small business sector, along with the state attorney general.

Kofman's five-year term will expire in 2014, Dunton said. Prior to her appointment as superintendent, Kofman was an associate research professor and project director at the Georgetown University Health Policy Institute. She studied state private health insurance market reforms, regulation, products and financing strategies. According to the Insurance Bureau's Web site, Kofman was the first in the United States to document the most recent cycle of health insurance scams — research that informed a U.S. Government Accountability Office study and a subsequent congressional hearing.

Kofman holds a J.D. from Georgetown University and received her Bachelor of Arts degree in government and politics from the University of Maryland.

Gooch Named Acting Utah Insurance Commissioner

Neal T. Gooch has been named acting insurance commissioner of Utah. Gooch has been a deputy insurance commissioner since 1997. In January, Utah Gov. Gary Herbert appointed Gooch to serve as acting insurance commissioner, succeeding D. Kent Michie, according to Gooch's biography on the state's Web site. Attempts to reach the state and Gooch for additional comment were not immediately successful.

Gooch was appointed as an assistant attorney general in Utah in 1982 and worked for the attorney general until August 1997. While serving in the attorney general's office, Gooch was general counsel to the Utah insurance commissioner from 1986 to August 1997, according to his biography.

On the National Front

Insurance Associations Express Concerns about Financial Reform Bill

Sen. Christopher Dodd's reform bill proposes only modest changes to the existing insurance regulatory regime, but industry associations are pushing back against resolution funding requirements and potentially duplicative regulation.

Debate continues over the final form of Sen. Christopher Dodd's financial reform bill, but the larger picture of what it means for insurance companies is at least roughly defined. Fears — or hopes — that the financial crisis could mean radical reform of the state-based regulation of insurance have not been realized, but concerns remain about the so-called resolution mechanism to liquidate failed financial institutions, and about the powers of a proposed Office of National Insurance (ONI).

The mere delay of Congress in producing a legislative proposal for financial reform has been good for the insurance industry, suggests Jimi Grande, senior vice president, federal and political affairs, National

Association of Mutual Insurance Companies (NAMIC). "The fact that the process got slowed down is good for the country, and certainly good for insurance companies and consumers," he comments. "It took time to understand and define systemic risk, it took time to understand that AIG was not an insurance company but rather a giant holding company."

More protracted analysis made clear that the P&C industry weathered the financial crisis well, relative to banks, especially as more banks failed during the time that Congress researched and deliberated over legislative proposals, Grande asserts. As a result, he adds, "the main components [of the Dodd bill] don't affect most of our industry, whether in terms of resolution, consumer protection or ONI."

NAMIC's remaining concerns about the Dodd bill reflect the P&C industry's viewpoint, and the insurance industry's position more generally, that legislators' should take an "if it aint broke, don't fix it" approach to the insurance industry.

The American Council of Life Insurers (ACLI) expressed approval of the Dodd bill's provision for ONI, a well as a proposed SEC study on the effectiveness of legal and regulatory requirements governing the standard of care application to brokers, dealers and investment advisors. However, an ACLI statement expressed reservations:

"We remain concerned with a provision of the bill that relates to the creation of a pre-funded systemic risk resolution plan. Life insurers already are subject to a state-based, post-event assessment and represent a poor fit for a new resolution fund. In addition, a recent report by Promontory Financial that was commissioned by ACLI noted that a pre-funded resolution plan would drain tens of billions of dollars out of the financial system as our nation is still experiencing a liquidity crunch. Among other things, it also could create incentives for lenders to extend credit to financially shaky enterprises under the belief that if an enterprise fails, the authority would bail it out."

The Property Casualty Insurers Association of America (PCI) expressed appreciation for Sen. Dodd's efforts, in a statement by the Association's president and CEO David A. Sampson. However, Sampson expressed concerns about what he called a duplicative federal resolution and assessment authority, as well as potentially duplicative authority within the ONI.

"Property casualty insurance is not systemically risky, and has been strong and stable throughout the financial crisis," Sampson said. "The proposed duplicative regulation for the property casualty industry would only add red tape, kill more jobs and hurt our customers."

NAMIC has expressed concerns about what it characterizes as the broad subpoena authority granted to the ONI.

"Although the legislation states specifically that the ONI would not serve in any regulatory or supervisory capacity with regards to the industry, it would still grant it the subpoena authority to compel companies to produce data," NAMIC's Grande says. "Insurance is the most regulated industry in the country, and there is no shortage of data that would be available to the ONI either publicly or through the National Association of Insurance Commissioners [NAIC]. The use of subpoena authority in this context could have unintended negative consequences by creating a duplicate and excessive process that would ultimately harm the consumer it seeks to protect."

Congress Makes Final Changes to Health Care; Insurers Exploring Ramifications

Congress is finished with health care reform. With approvals of the final modification bills, the lawmakers have now ended their work, leaving it to U.S. health providers and insurers to adapt to the new system — a series of changes set for dates that stretch through the next eight years.

In this largest reform of health care since the establishment of Medicare, insurers won't have long to adjust to some initial changes. Though some of the most significant market modifications don't start until 2014, major changes will begin throughout this summer. Within three months, the uninsured with pre-existing conditions will be able to get into a government-organized high-risk pool. Within six months, plans would have to largely end the use of lifetime caps, restrict annual coverage limits, stop health-related rescissions, offer preventive care with no co-payments in new plans and cease rejections of children based on pre-existing conditions. By the start of 2011, 80% of premiums must be spent on medical care in individual and small-group plans and 85% in large group plans.

It took less than a week of voting to get all the components of the final health reforms through both houses of Congress. The final portion was the reconciliation bill that made some changes to the reform package already signed into law by President Barack Obama. Republicans succeeded in delaying it a bit in the Senate and forced some changes that required it to get a last approval in the House, but it all went off without a hitch for congressional Democrats.

In the House, the several votes were typically a handful more than the 216 that Democrats needed for passage. And in the Senate, 56 Democrats favored the reconciliation bill. While that wouldn't normally be enough to escape a filibuster, the special parliamentary rules for budget reconciliations exempt such a bill from that increasingly common blocking tactic.

The last piece of legislation, which had cleared the Senate and House on March 25, now moves to the White House for Obama's signature, which he has already placed on the bulk of the reforms that passed several days earlier. But even with the reforms now finalized on paper, insurance companies and analysts are still trying to work out what the changes will bring.

Janet Trautwein, chief executive officer of the National Association of Health Underwriters, said the reforms are "such a penalty-heavy package" — especially for employers, who will be called on to insure employees at specific levels or face fines. "The combination of things in there could jeopardize the ability of employers to do what they are doing today," Trautwein said.

For Doug Badger, a former senior adviser in the Bush administration who now represents health care companies as a partner at Nickles Group, the new system is going to bring up a major moral hazard for Americans. "People who are relatively healthy will be forced to pay premiums that are far in excess of the risk they present." By 2014, people will begin to decide whether to obtain insurance or take what may be a more cost-effective penalty. "How the people react to that, that's the first question." His contention is that, for now, nobody can be sure what will happen. "All of that suggests that these changes might not work out as well as everybody hopes they will."

Badger expects the new laws will drive premiums higher, which he thinks will cause Democrats to point fingers again at health insurers. "I think you're going to see a very strong push to say, 'See! we told you you couldn't trust these people.'" The result, Badger believes, will be a renewed push for a public option to be added into the new system.

Industry News

A.M. Best Presents Free Webcast

"Building the Information-Based Insurance Marketing Engine"

Tuesday, April 6
2 p.m. to 3 p.m. ET.

Registration is free online at <http://www.ambest.com/marketingengine10>

Many talk about the merits of analytics-based marketing but very few are doing it well. When used properly, marketing analytics help insurers better understand target markets and devise effective marketing strategies. Analytics can also identify customers who are at risk of moving to competition, emerging cross-selling opportunities, and strategy that works best for a customer segment. Experienced information and marketing professionals will discuss what it takes to capture and use the data, keep it secure, and extract consumer insights from it.

The Webcast panelists include:

- Amy Zinsser, Head of Markets and Customer Insights, Aetna
- Yogendra Goyal, Vice President and Head of Insurance Business Development, EXL
- Arnab Dey, Principal and Market Leader, Insurance, Transformation Services, EXL

Attendees can submit questions or comments for discussion to news@ambest.com. Questions and comments will be discussed before and during the live event. For more information about the Webcast, please call (908) 439-2200, ext. 5561, or e-mail lee.mcdonald@ambest.com.

Tax on Annuity Investment Income Likely to be Used to Pay for U.S. Health Reform

A tax on investment income people receive from individual annuities is likely to be used to help pay for U.S. health care reform — an idea a coalition of life insurance, annuity and agent groups oppose. The health reform reconciliation bill proposes a 3.8% tax on income people receive from individual annuities to pay for the federal government's Medicare program. The tax would apply to individuals making \$200,000 a year or families making \$250,000, he said. It applies to investment income because the government considers annuities investment income, Burke said.

The U.S. Senate passed the reconciliation bill March 25 by a 56-43 vote. The House of Representatives passed the bill later the same day by a 220-207 vote. Once law, this tax will go into effect in 2013, Burke said.

On March 24, a letter was faxed to 100 senators by several insurance industry groups, expressing their opposition on the tax. The 3.8% tax on income received from individual annuities "would serve as a disincentive to save in a product that uniquely allows an individual to accumulate retirement savings and to guarantee that savings can never be outlived," they wrote.

"We particularly question the inclusion of annuity income in the reconciliation bill since the administration's Middle Class Task Force clearly recognizes the value of guaranteed lifetime income," they wrote.

Life Industry Hopes Government-Run Long-Term-Care Program Puts Spotlight on LTC Need

U.S. health reform legislation signed into law by President Barack Obama includes a provision that creates a government-run long-term care program — something the life industry hopes will point up the importance of the coverage.

Michael Gallo, senior vice president of New York Life, in charge of long-term care insurance, said that "given the very modest benefits provided and the long waiting period before they are paid, we believe the need for private insurance will grow. We are optimistic that the awareness of the need for LTC coverage will increase due to the publicity surrounding the government program."

Whit Cornman, a spokesman for the American Council of Life Insurers, said his group hopes the law "serves to accent the importance of long-term care coverage." It is two years away from implementation and the program won't pay benefits for five years after that, he said. The ACLI urged Congress to exclude the Community Living Assistance Services and Supports Act (CLASS) from any final health reform bill. The law creates a government-run long-term care insurance program that provides an average benefit of no less than \$50 a day for long-term care services, such as at-home care.

Government programs like Medicaid and Medicare pay for the majority of people's long-term care services, said Jesse Slome, executive director of the American Association for Long Term Care Insurance.

Some are frustrated that only 8 million Americans have bought long-term care insurance, he said. CLASS "will finally help people understand that there is a modest government program for those who are uninsurable or who only can or choose to afford a policy offering limited benefits," Slome said. For those who don't want a government program or can and choose to afford private insurance, "long-term care insurance will continue to be a viable option," he said.

The program, according to the American Association of Homes and Services for the Aging, will help families and the government save money on long-term care. The group, in a statement, said it's "far less expensive to care for someone in his home than it is to care for him in a nursing home."

The benefits can be used to pay for a home care aide who helps a beneficiary dress or bathe, said the group, which says it was key to ensuring the program was included in health reform.

Mike Smith, president of The Brokerage Inc., has said the government plan would "kill the long-term care insurance industry in a New York minute." Under CLASS, participants would pay a monthly premium to be determined annually by the Secretary of Health and Human Services. The premium is a deduction from take-home pay that would continue, unless an employee opts out.

It's a voluntary federal insurance program in a system intended to be actuarially sound. The key problem, critics have said: While it will take in tens of billions during its initial years — because of its five-year vesting requirement — once it starts paying benefits, the program may eventually pay more than it receives in premiums.

But the AAHSA said the Congressional Budget Office projected the program would lower the federal deficit by \$72 billion over its first 10 years. If a participant becomes disabled, he's eligible for cash benefits of between \$50 and \$100 a day to help pay for care, as long as he's paid premiums for five years, the AAHSA said. he U.S.

Centers for Medicare & Medicaid Services, a division of HHS, estimates the average monthly premium for the program, as passed by the Senate, would be \$240.

Calendar of Industry Events

April 6, 2010 A.M. Best Free Webcast 2 p.m. to 3 p.m. ET.	Building the Information-Based Insurance Marketing Engine Registration is free online at http://www.ambest.com/marketingengine10
April 14 – April 17, 2010 NALC 2010 Spring Conference	Kiawah Island Golf & Resort Kiawah Island, South Carolina
May 3 - 5, 2010 NAIC E-Regulation Conference	Kansas City Hyatt Regency Crown Center Kansas City, Missouri
May 20, 2010 11:00 a.m. – 5:00 p.m. ET NAIC Public Hearing	Stranger Originated/Owned Annuities Washington Court Hotel Washington, D.C.
July 8 - 11, 2010 NCOIL Summer Meeting	Boston Park Plaza Hotel & Towers Boston, Massachusetts
August 14 – 17, 2010 NAIC Summer National Meeting	Sheraton Seattle & Washington State Convention & Trade Center Seattle, Washington
September 22 – 25, 2010 NALC 2010 Fall Conference	Stoweflake Resort Stowe, Vermont
October 18 - 21, 2010 NAIC Fall National Meeting	Gaylord Palms Hotel Orlando, Florida
November 18 - 21, 2010 NCOIL 2010 Annual Meeting	Hilton Austin Austin, Texas
March 4 - 6, 2011 NCOIL Spring Meeting	Hyatt Regency on Capitol Hill Washington, DC
March 26 - 29, 2011 NAIC Spring National Meeting	Hilton Austin & Austin Convention Center Austin, Texas
April 27 - 30, 2011 NALC 2011 Spring Conference	Longboat Key Club & Resort Longboat Key, Florida
July 14 - 17, 2011 NCOIL Summer Meeting	Marriott Newport Newport, Rhode Island
August 30 - Sept. 2, 2011 NAIC Summer National Meeting	Marriott Philadelphia Downtown Philadelphia, PA
November 3 - 6, 2011 NAIC Fall National Meeting	Gaylord National Hotel & Convention Center Washington, DC
November 17 - 20, 2011 NCOIL 2011 Annual Meeting	Eldorado Hotel & Spa Santa Fe, New Mexico