



A National Alliance of Life Companies

NEWSLETTER

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

May 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

May 25, 2010



Dear Member:

Attached you will find the NALC newsletter for the months of April and May, 2010, including a summary of our April 14-16, 2010, Spring Meeting in Kiawah Island, South Carolina.

In today's *Wall Street Journal*, there is an interesting piece by columnist Gerald Seib about the loss of confidence in institutions-whether government, business or Wall Street. This is manifested in the lack of support for the stimulus bill, health care reform, and financial services reform as effective solutions to major problems, but it's also manifested in the lack of confidence that businesses and "the system" can fix these problems without some intervention. The net result is that it's a bad climate for the establishment - political, business or otherwise.

I think Seib has a good point. The last few years have presented substantial disruptions in the job market, government and business. The social compact with employers has been frayed, and the effectiveness of government in preventing and solving major problems is questioned. From an election standpoint, it will be a really bad year for moderates in both parties-those that reach across party lines to solve problems. After the November elections, we will see a tighter contest between the Democrats and Republicans in the Congress, but a greater ideological divide between those that serve. I would expect the next two years to produce little legislatively.

We had a great conference at Kiawah Island. I am biased, but I think it is hard to top Charleston in April. Needless to say, everyone had a good time and the programs were outstanding. We had great discussions about the changing landscape in health care, and were fortunate to have an all star roster of presentations on both days.

Lots of interesting challenges in implementing the health care reform provisions for state regulators. I attended the NAIC commissioners' fly in in Washington, DC last week. The Commissioners are struggling with resolving thorny issues like the definition of medical loss ratios under the aggressive time line established by the Department of Health and Human Services. It will be harder to reach consensus than was originally imagined.

Hope you are all doing well. The economy seems to be getting better, but we will all need to watch the European crisis carefully. As always, let us know if we can help in any way.

Sincerely,

A handwritten signature in black ink that reads "Jim Hodges". The signature is written in a cursive, flowing style.

Jim Hodges
Executive Director

NALC Highlights

Spring Conference Report

April 14 -16, 2010

Kiawah Island Golf Resort

Kiawah Island, South Carolina



The NALC held its 2010 Spring Conference April 14-16 at the Kiawah Island Golf Resort, Kiawah Island, South Carolina. Following are summaries of presentations by participating speakers.

Scott Richardson

South Carolina Insurance Commissioner Scott Richardson covered a wide range of issues. He described successful efforts to bring automobile carriers back into the property and casualty residual market in South Carolina. As a result of market based reforms, South Carolina has over 150 insurance companies that are now competing in the market. The Commissioner also talked about a successful initiative to allow securitization of redundant reserves.

The Commissioner expressed concern over several federal initiatives. First, he opposes additional federal regulation of insurance. He believes federal regulation would be bad for consumers and business. The Commissioner also cited the implementation of high risk pools in the new Health Care Bill as an area of concern. He does not believe states can act within the limited time frame provided for in the law, which will result in the federal plan being the default choice. In his judgment, this will concentrate more decision making in the hands of the federal government.



Commissioners Scott Richardson & Jane Cline



Suzanne Loomis & Commissioner Tom Considine

Tom Considine

Commissioner Tom Considine of New Jersey spoke to the NALC. Mr. Considine was appointed Commissioner of Insurance and Banking by Governor Chris Christie. In the State of New Jersey, they have a \$13 Billion budget deficit on a \$29 Billion budget. This is creating serious governance challenges, including ways to cut the cost of government. The Commissioner mentioned entitlement reform (retirement health care costs) for teachers as one area of focus. Governor Christie is focused on making government in New Jersey leaner and more efficient.

The Commissioner mentioned several business related initiatives, including an effort to reduce the premium tax. Additionally, his goal is to protect consumers from the excesses of government. In that light, he is moving forward on plans to create a market which is fair and flexible, and one which offers an array of choices to consumers at a competitive price.

With respect to the health care debate, the Commissioner feels the big issue that has not been addressed is the underlying cost of health care. Health insurance costs are impacted by the rising cost of health care, and the cost curve must be bent.

Jane Cline

Commissioner Jane Cline of West Virginia is also the President of the NAIC. Commissioner Cline focused on the role of state insurance departments in health care reform. One issue of concern is the adequacy of rates for the high risk pools. If the pools are to work effectively, the rates paid through premiums and/or subsidies must be realistic. She cited the West Virginia plan as an example, which allows for rates that are above market for high risk consumers in order to attract insurers. Without subsidy or adequate premiums, there would be no market. The federal government must recognize the need to address this problem.



Golfing at Sweetgrass

The Commissioner also mentioned the need to bend the cost curve on health care. In West Virginia, one health care system dominates the state, which makes it difficult for insurers to negotiate reasonable reimbursement rates for HMOs. She believes more needs to be done to drive health care costs down for reform to have an impact.

Charles Symington

Charles Symington, the federal legislative director for the Big I, spoke to the NALC. Mr. Symington has been involved in major issues impacting the insurance industry before Congress. He is also a member of the Board of Directors of COFIR.



Clarence Daugette, Rod Ross & Cam Waite

Mr. Symington mentioned that polls consistently show health care reform is unpopular with the public. Congress was able to defer some of the pain by delaying the impact of provisions like the tax on “Cadillac Plans.” The Big I was a big supporter of state based insurance exchanges, and was pleased that the final bill included such provisions. Mr. Symington did note that the exchanges will offer nonprofits an opportunity to offer policies for sale across state lines. Like other speakers, he expressed concern regarding the failure of the Health Care Bill to address major cost factors-like rising pharmaceutical and medical costs. The Big I is focused on efforts to keep the Financial Reform Bill from creating an expansive new Office of National Insurance.

What to Do in the Current Investment Environment

Andy Pace, Managing Director, Conning & Company

The last three years has been a rather extraordinary period of time in the markets. The end of a decades-long debt cycle and massive deleveraging event that began in 2007, had nearly catastrophic effects on the global financial system and economies. Efforts by government policy makers to stabilize the financial system, to arrest the deleveraging driven death spiral of declining asset values and diminished capital bases, and to offset sharp declines in private sector demand have driven massive increases in government debt levels. In addition,

increased regulation and oversight, particularly for the Banking and Financial Services industries is underway and appears to be long lasting.



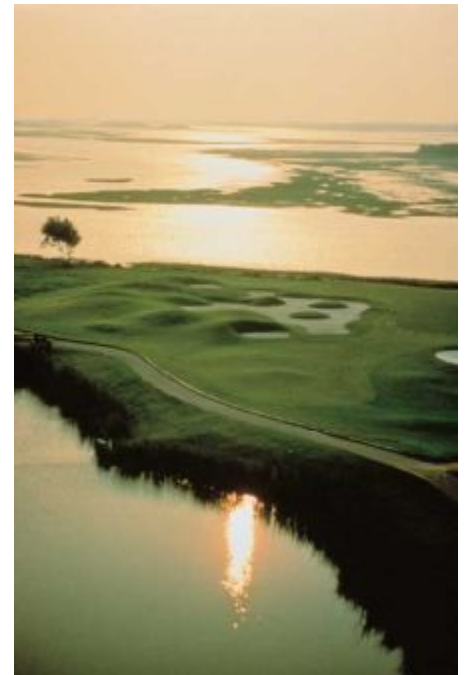
Paul Basile & Harry Bassett

Numerous policy responses were initiated in response to the crisis and looking back over the last year or so, efforts to stabilize and re-liquify markets were quite successful. Credit spreads on various US taxable fixed income sub sectors, as measured by the Barclays' bond indices, have moved back to pre-Lehman collapse levels and asset values have rebounded. For example the Barclay's' Aggregate Index has returned 7.7% in the last 12 months, while riskier assets such as commercial MBS and junk rated corporate bonds have returned 43% and 56% respectively over this same time frame. While this has been great for historical total returns, compelling opportunities in today's bond market are much

less abundant than they were back in the Spring of 2009.

Our 12 themes for the next 12 months, at this time, are as follows:

- 1) The current expansion hinges on business, not consumer spending.
- 2) This is a sustainable recovery (i.e. no double dip in our opinion),
- 3) The current monetary policy is dangerously accommodative.
- 4) The current fiscal policy is highly unstable and disruptive to investment.
- 5) Downside risks in this cycle will switch to inflation concerns by 2011, as a moderate but positive growth path for GDP takes hold.
- 6) Bond yields will continue to climb in late 2010 and 2011 with massive new supply, a diminished flight-to-quality premium, a falling dollar and an expanding global economy that should keep a bid on commodity prices.
- 7) The yield on the 10-year T-Note should remain range-bound (3.5 to 4.0%) through the end of 2010... 4.25 - 4.75% thereafter.
- 8) Next year begins a major flattening to the Treasury yield curve.



Beach Birds

- 9) We still favor spread product over Treasuries, even though the rally in asset prices has moved ahead of the fundamentals - many sectors are just at fair value. We specifically like investment grade corporates, select BB-rated corporates, and A-rated and higher taxable munis (BABs) at this time.
- 10) Diversification and issue selection are much more important than a year ago.

- 11) The seeds of secular change in policy makers' views on accepting higher inflation are taking hold perhaps. We believe the markets are not priced for this!
- 12) The markets likely to become less tolerant of delays in addressing cyclical and/or structural deficits by politicians.

The Benefits of Allocating to Private Fixed Income
Rick Long, VP/SR. Portfolio Manager, Aviva Investors
North America, Inc.

Privately placed fixed income securities, or “private placements”, are issued in the form of bonds and are exempt from registration with the Securities Exchange Commission (SEC). These transactions are generally investment grade quality and can be issued as traditional private placements or 144A securities. Private placements typically contain financial covenants and are more likely to be secured (20% to 25%) compared with public bonds (10%).



Ron Shortenhaus & Rick Long

Private placements may be issued by both publicly traded and privately held companies domiciled in the U.S. or other countries. These companies issue debt in the private placement market for many reasons. Privately held issuers may not want to register their bonds with the SEC in an effort to keep their financial statements private.

Other issuers prefer the private debt market because of the stability of the investor base or because the market is flexible regarding structures and maturities. Foreign companies issue in the private market because it is easy to access and allows them to diversify their investor base.



Fred Meese, Ed Stephenson & Harry Lee
Waterfield

Insurance companies, the traditional investors in the private fixed income asset class, may invest 15% to 20% of general account in the asset class. The private fixed income market is a good compliment to a public bond portfolio for several reasons. First, private placements have consistently yielded 15 to 35 basis points more than similarly rated public bonds with the same maturity. The primary reason for the yield advantage is the premium paid for illiquidity, although there

is an active secondary market for private placements. Second, private placements generally have a full set of restrictive covenants to which the borrower must adhere. Covenants provide an early warning system that allows the investor to know if a company is performing as expected. Third, the private fixed income market offers portfolio diversification both on an industry and on a geographic basis.

The traditional private placement market averages \$25 million to \$50 million in annual new issuance. In 2009, total issuance was \$26 billion. In 2003 to 2008, the median issue size was approximately \$200 million and the average number of investors per deal was ten. U.S. companies comprise 50% to 60% of issuers with the remainder coming from the U.K., Australia / New Zealand, Canada, and other



Marilyn Hill, Lisbon Hardy & Lisa Quist

European countries. The largest sectors in the private placements market are traditionally the utility, consumer non-cyclical and capital goods sectors. Issuance from the financial sector is substantially lower than in the public bond market. Private fixed income, in general, offers increased diversification opportunities by gaining access to issuers and structures not available in the public bond market.

Private fixed income is a longstanding asset class which should be revisited by long-term investors. Investing in private fixed income is a back-to-basics strategy that can increase both current investment income and total return while substantially augmenting downside risk protection and portfolio diversification. We believe private fixed income is an important enhancement to long-term fixed income portfolios.

Restructuring Mechanisms, Solvent Schemes & NAIC White Paper. What This All Means for NALC Members

James Veach, Partner, Mound, Cotton, Wollan & Greengrass

Mr. Veach took the conference attendees on a tour of the world of insurance (reinsurance) run-off using a recently approved White Paper from the National Association of Insurance Company (NAIC) as the guide. As he pointed out in his remarks, the world of insurance run-off is big: in 2008 at least 130 active U.S. insurers were in run-off with over \$36 billion in claims that must - eventually - be paid.

The NAIC White Paper - *Alternative Mechanisms for Troubled Companies* - began as an NAIC study of alternatives to traditional, state-court-supervised receiverships of which there are hundreds underway in all fifty states today. Concerned with the expense and delay associated with many of these receiverships, the NAIC commissioned a study of U.S. and U.K. alternatives.



The Renfrows & Causeys

Mr. Veach walked through U.S. alternatives to receivership, including:

- The regulator-supervised run-off of troubled entities that trip over a mandatory control level event as defined under risk based capital requirements, e.g., specific Illinois regulatory triggers;
 - New York State's Regulation 141 that allows for a Superintendent-approved mass commutation plans that require the approval of the New York Superintendent of Insurance, plans that Mr. Veach has helped design and oversee for three troubled reinsurers; and
 - Rhode Island's attempt to bring onshore the U.K.'s solvent schemes of arrangement through Rhode Island legislation that permits the voluntary restructuring of certain solvent insurers.



Terri Kraus & Lee Waterfield

Your speaker then compared these U.S. mechanisms with the U.K.'s solvent scheme procedures under the U.K. Companies Act and Part VII transfers of reinsurance assets and liabilities

to another reinsurer. Part VII transfers move reinsurance assets and liabilities (usually within the same insurance group) without policyholder approval/novation.

To enliven the discussion, Mr. Veach reviewed the political ramifications and repercussions that accompanied (and shaped) the White Paper, specifically its elaborate lists of advantages/disadvantages for each of these alternative devices.

Summary of Solvency Modernization Initiative

Jim Binder, Vice President Corporate Strategy, Jackson National Life Insurance Company

1. Articulation of the U.S. solvency framework and principles.
2. Study of other sectors' and other countries' solvency and accounting initiatives and the tools that are used and proposed.
 - Internal Models for setting capital.
 - Enterprise Risk Management as part of governance.
3. Creation of a new reinsurance regulatory framework.
4. Movement to principle-based reserving for life insurance products.
5. Enhancement of group supervision.
6. Ultimately, implementation of new ideas to incorporate into the U.S. solvency system.



Jim Binder & Brian Casey

Save the Date!

2010 Fall Conference

September 22 – 24, 2010
Stowflake Resort
Stowe, Vermont

- The NALC will hold its 2010 Fall Conference September 22 – 24, at the Stowflake Resort, Stowe, Vermont.
- Online conference registration, hotel reservation information, golf registration, and sponsorship information will be available soon on the [NALC website](#). You will have the option of registering online, or completing the forms on your computer.



Watch your e-mail for Conference updates and reminders!

New NALC Members

Enstar (US) Inc.

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Enstar (US) Inc. specializes in the operation and management of insurance and reinsurance companies in run-off. With offices in New York, Rhode Island, and Florida, we provide our domestic insurer and reinsurer clients with a wide range of run-off and management solutions, as well as dedicated claims and related technical services. We provide finality solutions that enable our clients to identify, quantify, and rapidly release capital.

Ward Group

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Empowering Companies Through Knowledge®

Founded in 1991, Ward Group is the recognized leader for insurance company benchmarking and best practices, a major sponsor of primary operational research studies and provider of the Ward's 50 Top Performer analysis.

Operational Benchmarking

In today's fiercely competitive insurance market, opportunities to offset expenses through growth are limited, and companies are looking for ways to improve expense efficiency and profitability. Executives are often challenged to know where to focus efforts to bring about optimum performance and financial return. Benchmarking is a proven tool used by organizations to help define a practicable strategy for evaluating and improving performance. The [Ward benchmarking](#) process compares your internal operations to the operations of other similar companies. It gives you a clear picture of how you perform relative to industry peers, highlights your improvement opportunities and serves as the starting point for developing a strategy for change.

Ward's 50

Annually, Ward Group analyzes the financial performance of over 800 life-health companies and over 3,000 property-casualty companies domiciled in the United States and identifies the top performers. Each of the top fifty companies is awarded the Ward's 50® Seal and their names are listed as the [Ward's 50® Top Performers](#) for the year. Each Ward's 50® company has passed all safety and consistency screens and achieved superior performance over the five years analyzed. An important objective of the Ward's 50® is to compare their performance as a group with the rest of the insurance industry. Comparisons based on benchmarks set by Ward's 50® companies are available in *Ward's Results®*, an insurance industry financial reference series. This is the 20th year Ward Group has conducted the Ward's 50 analysis. The 2010 Ward's 50 list of companies will be announced in a [webinar event](#) on July 13th, 2010. Register for the webinar at www.wardinc.com.

Ward Group has performed nearly 2,000 benchmarking exercises for more than 350 insurance companies. The firm analyzes staff levels and expenses for all areas of insurance company operations. Their in-depth, apples-to-apples benchmarking and accumulated data serve as the life blood of every project they undertake. Ward Group's professional staff is uniquely qualified to help companies measure results, optimize performance and be more profitable.

For more information about Ward Group, visit www.wardinc.com.

Business Environment Survey for Insurance Carriers

Ward Group is conducting a brief survey for insurance carriers to better understand how companies are adapting to current economic conditions in terms of expense controls and spending limits.

- **What are the challenges and concerns senior management expects their companies will face in the future?**
- **Where are companies focusing their resources?**

Gain valuable information for just a few minutes of your time. Participants receive the results at no cost. [Click here to take the brief survey](#) or visit www.wardinc.com.

The Business Environment Survey will be conducted through June 24th and results will be distributed to participants by July 9, 2010. Contact Vince Albers at valbers@wardinc.com with questions about the survey.

NAIC Focus

NAIC Partnership Provides Uniform Reporting of Suspected Fraud

A new reporting tool is making it possible for insurers to file uniform fraud reports for nearly every jurisdiction in the United States for the first time. Online now, the system is a partnership between the National Association of Insurance Commissioners, Insurance Services Office and the National Insurance Crime Bureau. Insurance companies reporting possible fraud in a filed claim can submit a single report directly to NICB, ISO, and the NAIC Online Fraud Reporting System, according to a joint statement. Forty-five states, plus the District of Columbia and Puerto Rico, are participating and others are expected to join soon, said Alan Haskins, director of government affairs for NICB.

Currently, 42 states require insurance companies to directly report suspected fraudulent activities in a filed insurance claim. ISO ClaimSearch provides the reporting system used by NICB and its member companies. The NICB and ISO expect to provide the NAIC OFRS with approximately 80,000 reports of suspected fraud per year. There is no cost to the state insurance departments when suspected fraud is reported through the NAIC OFRS system.

"States get what they want. Law enforcement gets what they want. Industry gets one point of reporting," said Haskins, who previously served as the NAIC's anti-fraud coordinator.

"This agreement has been a high priority for the NAIC Antifraud Task Force over the last year," Kansas Insurance Commissioner Sandy Praeger, chairwoman of the NAIC Antifraud Task Force, said in a statement. "This agreement saves insurance companies and fraud investigators time and improves investigative resources

for state fraud bureaus. We are already receiving twice as many fraud referrals from property and casualty insurers now that NICB/ISO members are providing reports to the NAIC OFRS system."

Putting the system in place took three years, with most of the hurdles being technical, Haskins said. "You can see what needs to be done ... but getting it done is another thing," he said.

According to a Coalition Against Insurance Fraud survey, 23% of state fraud bureaus have eliminated positions within the past year and 35% have left positions unfilled. The Insurance Information Institute estimates 10% of the property/casualty insurance industry's incurred losses and loss adjustment expenses are due to fraud — about \$30 billion a year.

State Regulators Scrutinize Annuity Scams

Stranger Originated/Owned Annuities Subject of Public Hearing

The NAIC held a public hearing on May 20 on the emergence of Stranger Originated/Owned Annuities. The hearing, hosted by the NAIC Life Insurance and Annuities Committee, focused 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.

Robert Mizzoni, an 83-year old man from Cranston, Rhode Island, told regulators how he and his wife were victims of an annuity scam. Federal prosecutors are currently investigating a Rhode Island attorney who placed ads in church newspapers offering immediate cash to individuals with terminal illnesses. The attorney's goal was to take advantage of the death benefit built into many variable annuities.

Other consumers, state regulators and industry representatives provided testimony during the hearing, which focused on the following issues: 1) whether these transactions are lawful; 2) how these transactions affect insurable interest; 3) whether current laws and regulations provide adequate consumer protections with regard to these transactions; and 4) if not, whether current laws and regulations need to be revised or new laws and regulations developed.

"This public hearing was an important opportunity to closely examine the conditions of these practices," said Adam Hamm, Vice Chair of the Committee and North Dakota Insurance Commissioner. "It is apparent further safeguards are needed to protect consumers from unscrupulous practices."

Regulators and Reform: NAIC Shares Recommendations with Congress

Health, Financial Reform Dominate Washington Forum Agenda

Members of the NAIC are in the nation's capital this week to confer with members of Congress about ongoing financial and health reform efforts.

More than 35 state insurance regulators are gathered for the NAIC Washington Forum where they received a Congressional update from Rep. Earl Pomeroy (D-ND), who offered his perspective as a former NAIC President and North Dakota Insurance Commissioner. Regulators also heard from Michael S. Barr, Assistant Secretary for Financial Institutions at the U.S. Department of Treasury, Meg Lundsager, U.S. Executive Director of the International Monetary Fund, and senior officials from the Department of Health and Human Services (HHS).

NAIC members are also meeting with their respective senators to discuss S. 3217, the Restoring American Financial Stability Act. They will urge the lawmakers to not undermine the strong state insurance regulatory

system and emphasize how state regulators helped protect policyholders from the worst of the financial turmoil last year.

Regulators are specifically urging senators to support a bipartisan amendment sponsored by Sen. Jeff Merkley (D-OR) that would make the proposed Office of National Insurance (ONI) more consistent with narrow language in the reform package passed by the U.S. House of Representatives. The amendment ensures that the ONI would have limited preemptive power and would be required to consult with state regulators and Congress before negotiating international agreements. Additionally, commissioners are advocating for the inclusion of an amendment to add state financial regulators to the Financial Stability Oversight Council (FSOC) and voicing support for the legislation's general approach of leaving insurance regulatory authority with the states.

"As experts in matters of financial stability and systemic risk, state regulators have a wide breadth of experience and insight to offer," said Jane L. Cline, NAIC President and West Virginia Insurance Commissioner. "Our support of these amendments reflects our commitment to protecting consumers by strengthening proven principles to improve the financial services regulatory structure."

Health care reform is also a critical topic of discussion at the forum. The NAIC submitted responses last week to HHS, which provide answers to questions published in the *Federal Register* on April 14, 2010 about medical loss ratios and rate review. The NAIC is currently working on recommendations to HHS for the definitions and calculations that make up the final medical loss ratio formula when that provision takes effect in 2011.

"Successful implementation of the new health care law will require continued collaboration between state and federal regulators," said Cline. "We will continue to work closely with Congress during this process and offer our perspectives to ensure an effective execution of this comprehensive reform."

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 Defends McCarran-Ferguson

In a letter to Senate Majority Leader Harry Reid, and Senators Christopher Dodd and Richard Shelby, co-sponsors of S. 3217, Kentucky Rep. Robert Damron, NCOIL President, defended the retention of the McCarran-Ferguson antitrust. The NCOIL has been a staunch supporter of continued state regulation of insurance and is opposed to a Federal insurance commissioner. The following is the body of the letter, which is available at www.ncoil.org.

Dear Majority Leader Reid and Senators Dodd and Shelby:

On behalf of the National Conference of Insurance Legislators (NCOIL), I write to oppose efforts to repeal the federal antitrust exemption for health insurers as an amendment to S. 3217, the Restoring American Financial Stability Act of 2010. NCOIL legislators again reaffirm our unwavering support for McCarran-Ferguson's 1945 limited antitrust exemption, which in large part has contributed to the growth and health of our still-thriving insurance marketplace. We strongly caution against repeal.

As we stated in our January 14, 2010, letter to you and House Speaker Pelosi, rolling back antitrust exemptions for health insurers would ignore already-existing state antitrust protections and reduce competition while increasing costs.

NCOIL would like to correct a growing misinterpretation of the McCarran-Ferguson exemption. It is not a loophole through which insurers can avoid prosecution for violations such as boycotts, intimidation, or coercion. It does not limit the abilities of state attorneys general to prosecute crimes under existing state antitrust laws. States historically have enforced their antitrust statutes to combat broker bidrigging and other crimes, and their efforts have been well-recognized.

Equally if not more important, repealing the limited antitrust exemption would ultimately drive smaller insurers—who depend upon sharing of loss history and other information—from the market. This would discourage competition, as the exemption ensures that smaller and more regional insurers can compete with large insurers that are less dependent on industry-wide data.

Repealing the exemption would raise insurance costs, rather than lower them. If smaller insurers are driven from the market—particularly in communities with already limited availability of coverage—and competition is stifled, insurance costs for consumers would undoubtedly rise.

NCOIL advises—as you amend your financial reform measure—that you not get side-tracked by a proposal that would cause more harm than good. We urge you to recognize the critical need for McCarran-Ferguson—a need that is acknowledged by NCOIL, as well as our state partners at the National Association of Insurance Commissioners and the National Conference of State Legislatures.

News from the States

New Mexico Appoints Interim Insurance Superintendent

The New Mexico Public Regulation Commission appointed Craig Dunbar, a state official and title insurance veteran, as interim superintendent of insurance. Dunbar, 59, is the state's third top insurance regulator in as many weeks. Superintendent Morris Chavez resigned as leader of the PRC's Insurance Division May 4. Deputy Superintendent Thomas Rushton became interim boss, but later announced his resignation.

Prior to his appointment, Dunbar served as executive assistant to PRC Chairman David W. King, according to a commission statement. He has 35 years of title industry experience, including tenure in management. Dunbar will not be a candidate for a permanent replacement, PRC spokesman Gerald Garner said.

A search committee composed of seven representatives from insurance and related industries, two appointees from each of the five elected commissioners and co-chairmen Fabian Chavez, a former state superintendent of insurance, and Loretta Armenta, president of Qwest Communications in New Mexico. The search committee is scheduled to submit the names of five finalists to the PRC no later than June 24.

The commission is scheduled to formally direct the Insurance Division to set aside an order that allowed Blue Cross and Blue Shield of New Mexico to raise premiums an average of 21% on policyholders in some of its individual health plans. Chavez resigned one week after approving the deal.

The New Mexico Blues reached the settlement with Chavez just before a scheduled public hearing on its rate request. Under the agreement, the company raised rates an average of 21% on 12 individual plans with about 40,000 policyholders. Blue Cross, a subsidiary of the Chicago-based Health Care Service Corp., said it's aware

of the PRC's actions "and will wait to hear from the Insurance Division. We stand by the need to adjust our premiums as a result of rising medical costs," the company said in a statement.

Missouri Residents to Vote on Health Mandate in August Ballot

Missouri legislators have voted to let state residents decide on the issue of a mandate to buy health insurance, a major piece of the recent U.S. health care reform law. The "Health Care Freedom Act" passed the Missouri House of Representatives and is headed to the Secretary of State to be placed on the ballot on Aug. 3, making the Show Me State the first to put up such a referendum to voters.

The legislation states that no federal law could force a person or employer to participate in any government or privately run health care system designed by the state or federal government, according to a statement from Sen. Jane Cunningham, R-Chesterfield, a sponsor of the measure.

"After five months of debate across more than 35 states, the results are quite varied," said Richard Cauchi, program director with the National Conference of State Legislatures.

Under the federal health reform law signed by President Barack Obama, starting in 2014, nearly all individuals will be required to buy health insurance or pay a tax penalty. It also penalizes employers with more than 50 employees that don't offer coverage to their employees.

Cunningham dubbed the federal law an "intrusive, costly mandate" from Washington, D.C. "This unprecedented order from the government placed upon individuals and businesses to buy certain products and services must be stopped," Cunningham said in a statement.

Missouri's legislation is similar to those in 42 other states, according to Cunningham's office. Three states - Virginia, Utah and Idaho - have signed state laws that challenge some features of the new federal law, including mandates that require purchase of insurance, Cauchi said. Two states - Arizona and Florida - already have legislative-approved measures that put a constitutional amendment on their November ballot, leaving it to voters to decide, Cauchi said. Georgia and Oklahoma also passed measures and are each awaiting their governor's final decisions, he said.

Proposals have failed to pass in 16 states, he said.

18 States Decline to Run High-Risk Insurance Pools

Eighteen states have so far declined to run their own high-risk insurance pools for residents with pre-existing health conditions and have chosen to have the federal government run them instead, as part of the U.S. health care reform law. States that elected to have the U.S. Department of Health and Human Services run the pools are Alabama, Delaware, Florida, Georgia, Hawaii, Idaho, Indiana, Louisiana, Minnesota, Mississippi, Nebraska, Nevada, North Dakota, South Carolina, Tennessee, Texas, Virginia and Wyoming, the federal agency said.

There are 30 states, including the District of Columbia, that intend to operate their own high-risk pool programs. The high-risk pool program is to be established with \$5 billion allocated to states by July 1 in the same formula used for the state Children's Health Insurance Program. It's scheduled to shut down in 2014, when health insurers are banned from denying coverage to people with pre-existing conditions.

Recently, Florida, which started a lawsuit to block the reform law, said it wouldn't use federal funding to form its own pool. Gov. Charlie Crist told HHS his state "is not in a position to authorize new financial obligations". Most of the states opting out have Republican governors; the only states with Democrat governors are

Tennessee and Wyoming, said J.P. Wieske, executive director of the Council for Affordable Health Insurance. This complicates matters and reflects concerns over federal funding, he said.

In Tennessee, Wieske said, Gov. Phil Bredesen inherited the TennCare program and ultimately made big changes to that system, which combined a high-risk pool and health insurance programs for the poor, he said.

The program, "a single point of entry for everybody," couldn't handle the requirements of the differing needs of both the poor and the sick, and failed, Wieske said. The state "could not keep up with eligibility, verifying continuing eligibility and making sure that people who were in the program were appropriately qualified."

Bredesen started over and passed a new program that included a high-risk pool and new programs for the poor, he said.

States that requested an application are Rhode Island and Utah, and will make a decision after that, according to HHS. Arizona has not indicated its intentions, the agency said.

HHS Acting Secretary for Public Affairs Jenny Backus said the federal pool program is state-friendly and provides states with resources and flexibility. "Whether states create these pools or the federal government creates them for states, the pools will be paid for by 100% federal dollars and most importantly — uninsured people around the country will soon have access to another affordable coverage option," she said in a statement.

While participation in the pools is voluntary, HHS can provide coverage in states that decline to be involved through contracts with private, nonprofit entities.

On the National Front

Financial Reform Debate Produces Amendment Protecting Insurers from Fees

An amendment in the Senate's financial reform debate is just what insurers were asking for — an exemption from having to help pay for the future collapse of major financial institutions.

The amendment, backed by a group of four senators from both parties, said the fees for settling the resolution of a failed company "shall not apply to any nonbank financial company that is subject to liquidation or rehabilitation under state law." Basically, if the company's potential failure is already covered by the states, it's clear of the federal systemic risk responsibilities. The exceptions are if the company has benefited financially from a failing company's liquidation or it's been specially selected among the companies supervised by the Board of Governors of the Federal Reserve.

"We don't want to pay twice," said Ben McKay, senior vice president of federal government relations at the Property Casualty Insurers Association of America, arguing against the existing proposal that would put big insurers in both the federal and state resolution systems. "The amendment makes sure that insurance companies don't pay two assessments."

The three lawmaker names on the amendment, No. 3838, are Sen. Scott Brown, R-Mass., Sen. Jeanne Shaheen, D-N.H., and Sen. Judd Gregg, R-N.H., though Sen. John Kerry, D-Mass. is also a supporter, according to PCI. "You really have quite a good nucleus of senators already on the amendment," McKay said. "Certainly in Brown you have somebody who is one of those swing members."

The amendment presents an outcome that insurers have been pushing since the systemic risk regulator was first proposed and their largest firms were listed as those possibly on the hook for the financial sector's resolution plan.

"The Dodd-Shelby amendment adopted earlier in the week insulated insurers' exposure to assessments but did not eliminate it," said Blain Rethmeier, spokesman for the American Insurance Association. "The Shaheen-Brown amendment has our support because it takes that additional step and allows insurers to continue to pay into state-based guarantee system and not get hit with assessments for the failures of other firms."

The earlier Dodd-Shelby amendment had been the long-awaited compromise between the primary author of the financial reform bill, Sen. Chris Dodd, D-Conn., and the ranking Republican on Dodd's Banking, Housing and Urban Affairs Committee, Sen. Richard Shelby, R-Ala. It eliminated the idea of a \$50 billion fund that would be built by charging fees to large financial institutions, and it further secured the idea that the federal government will not swoop in to bail out failing companies.

Jobs Report: Insurance Field Continues Slide; Other Sectors Bounce

For a second consecutive month, the U.S. Bureau of Labor Statistics' jobs report shows insurance industry employment sliding while the overall national numbers continue their rebound. Insurance businesses cut their work force by 5,900 in April. But in a brighter note, the significant drop of 9,200 jobs in March has now been revised down to 7,900.

The jobs report, released May 7, had been counted on by financial analysts to present some good news, and it didn't disappoint with its 290,000 job growth across all sectors. However, the unemployment rate has not drawn back — in fact, it rose from its steady 9.7% level it had held for three months to 9.9%. Almost half of the 6.7 million unemployed people have been out of work more than 27 weeks.

The seasonally adjusted insurance employment total was at 2.189 million in April, continuing its steady decline in employment throughout the recession. In the most recent 12 months, the industry experienced a 3.2% drop in jobs, which outpaces the 1% decline seen in that same period in nonfarm jobs nationwide.

Total insurance industry payrolls are reported each month on a seasonably adjusted basis, along with the current month's nonfarm payrolls. Separately, data by industry segment — broken out by various insurance carrier and noncarrier categories — are available only on an unadjusted basis for the prior month.

Based on just-released March 2010 data, health insurers again proved to be the only insurance sector that's seen year-to-year growth in employment. Jobs in that sector rose by 5,100 — or 1.2% — since March 2009 to 440,400, though the category had seen a small slip in month-to-month numbers, declining 100 jobs between February and March. In this report, only one insurance employment category showed a month-to-month gain: property/casualty insurers, who gained about 200 jobs to 465,500, though the category had declined 3.9% over 12 months.

Life insurers were down 4.2% between 2009 and 2010 to 343,000; title insurers declined 3% to 66,900; reinsurers dropped 9.4% to 25,200; agents and brokers, the largest category, slipped 3.4% to 632,000; claims adjusters fell 16% to 43,700; and third-party administrators declined 3.5% to 126,100.

As has been the case in past months, average weekly earnings for nonsupervisory positions in the industry were mostly up between March 2009 and March 2010, though agents and brokers, claims adjusters and third-party

administrators saw year-over-year declines. Month-to-month numbers were mixed, with six of eight insurance employment categories seeing improvement since February.

Industry News

Executives: Economic Insecurity Provides Opportunity for Life Insurers

A public mood of concern for economic security should be a time of opportunity for life insurers, industry leaders agreed during a panel discussion at the 2010 Life Insurance Conference. "This has been a knee-knocking time for all of us," said moderator Frank Keating, president and chief executive officer of the American Council of Life Insurers. ACLI, along with LIMRA, LOMA, and the Society of Actuaries, hosted the conference.

With so many Americans having lost significant amounts of their portfolios in recent years, there is demand for products that emphasize stability and cash streams over market-topping rates, said John Walters, president and chief operating officer of Hartford Life Inc. He said that is behind Hartford's recently announced shift in focus to annuities other than equity-indexed products.

According to a recent A.M. Best Statistical Study, total net premiums for the top 25 U.S. life/health writers declined 26% in 2009 from the prior year to \$276 billion. Net premiums written for the total U.S. life/health industry stood at \$464.6 billion, a 17.9% decline from 2008, the study showed.

New York Life Insurance Co. Chairman, President and Chief Executive Officer Ted Mathas said the industry needs to better work with financial advisers to encourage the inclusion of annuities, whole life policies and other products in retirement and wealth management. It's about risk management, not just growth, he said.

Keating noted just 20% of Americans now have defined-benefit pension plans. "Everybody ought to have an annuity," he said.

Beyond good economic planning, there is the peace-of-mind factor, Mathas said. After all, he said, people are "emotional creatures" and markets are not entirely rational either. "If you love somebody, there's a need for life insurance," Mathas said.

Total sales of equity-indexed annuities in the United States fell to \$7 billion in the fourth quarter of 2009, a decline of 2.7% from the same period in 2008, according to AnnuitySpecs.com, a firm that tracks the data. The drop represented the first year-over-year quarterly decline in sales of these retirement-savings and income products since the third quarter of 2007, when sales fell 2%. When compared with the third quarter of 2009, sales were down 6.7%.

The U.S. Securities and Exchange Commission told a federal appeals court in December it would delay the effective date of its proposed rule that would reclassify indexed annuities as securities.

Financial Advisers Think Annuities Too Complex, Want Help from Companies

Most financial advisers think annuities are too complicated and want support from companies to help them explain these retirement savings and income products to their clients, according a study by industry research organization LIMRA. Advisers who participated in focus groups didn't mention specific annuities but the consensus was many were too complicated, said Matthew Drinkwater, LIMRA's associate managing director of

retirement research. Advisers "are more interested in simplified, straight-forward products that their clients can readily understand," he said.

The study is based on responses from focus groups in Boston and New York. The groups consisted of registered representatives of broker/dealers, representatives in banks and registered investment advisers.

"Financial advisers wanted help learning about these complicated products — not through marketing materials but through training and other educational opportunities — in order to help their clients understand them," Drinkwater said. "In fact, advisers welcomed additional training to learn more about holistic retirement planning.

LIMRA examined advisers' perceptions of products overall, financial planning tools and the challenges advisers face following the recession, Drinkwater said. Triggered by the economic downturn, more advisers' clients, who are nearing or entering retirement, fear they won't have enough money to last throughout their lifetime, the study showed.

Most clients are seeking stability but generally don't request guarantees, the study found. The word "guarantee" stirs up skepticism and questions from some clients who don't believe companies can realistically promise them, the advisers reported. One registered representative who was surveyed said: "They mentioned guarantees in 2008, now they want safety because they know nothing is guaranteed anymore."

LIMRA said more than 80% of consumers consider having a lifetime income stream as very important, but only 20% planned to use annuities as a source of retirement income, Drinkwater said. Only 30% of plan sponsors offer lifetime income education to help consumers understand their choices, Drinkwater said.

Although a growing area, guaranteed income products are used only by a minority of advisers' retiree and pre-retiree clients, LIMRA's study found. Registered investment advisers said they have few clients using them in their portfolios. However, independent financial advisers and bank representatives are using annuities with their clients more and more.

Calendar of Industry Events

July 8 - 11, 2010	Boston Park Plaza Hotel & Towers
NCOIL Summer Meeting	Boston, Massachusetts
August 14 - 17, 2010	Sheraton Seattle & Washington State Convention & Trade Center
NAIC Summer National Meeting	Seattle, Washington
September 22 - 25, 2010	Stoweflake Resort
NALC 2010 Fall Conference	Stowe, Vermont
October 18 - 21, 2010	Gaylord Palms Hotel
NAIC Fall National Meeting	Orlando, Florida
November 18 - 21, 2010	Hilton Austin
NCOIL 2010 Annual Meeting	Austin, Texas
March 4 - 6, 2011	Hyatt Regency on Capitol Hill
NCOIL Spring Meeting	Washington, DC
March 26 - 29, 2011	Hilton Austin & Austin Convention Center
NAIC Spring National Meeting	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