



A National Alliance of Life Companies

NEWSLETTER

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

January 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>.

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A Letter from the Executive Director

January 31, 2010

Dear Member:



Hope you are having a good start to the year. Our President, Lynn Lowe, is putting together an outstanding meeting for our Spring Conference in Long Boat Key, Florida. The conference runs from April 27 to April 29, 2011. You will not want to miss it.

Because of my earlier life in state government, I have had occasion to speak to newly elected (or re-elected) governors from around the country in the past month. With few exceptions, they note that the upcoming state budget year will be the toughest in memory. This is due to a combination of higher social service costs associated with the recession, the end of federal government stimulus payments, and a flat revenue picture for state governments. Governors can nip and tuck and find savings, but most of that has already been done. To address shortfalls, the two largest expenditure categories, medicaid and education, will have to face the budget ax. There simply is no other way to balance state budgets.

I bring this up for several reasons: 1. it impacts us all as citizens and business leaders; 2. budget crises create opportunities to look at less expensive, and perhaps more effective, ways of addressing state priorities; and 3. business leaders must watch for back door tax increases through various new fees designed to raise revenues. It's important for all of us to weigh in on the solutions presented by elected leaders, as they will have a big impact on the short long term futures of our states.

We have a flurry of insurance activity between now and our Spring Conference. First, NCOIL and NAIC will hold their first meetings of the year. I have talked with several insurance commissioners, and they are still immersed in meeting federal timetables for implementation of the new Health Care Reform Law. Many questions still need to be resolved-like the form of the insurance exchanges in our individual states. Congress may make some modest changes in the Health Care Reform Law, but no one believes it will be repealed or replaced. With so many new commissioners, this next round of NAIC meetings should be especially challenging and interesting.

Take a look at our legislative and regulatory summary. If you have any questions or comments, please let me know. We want to make sure your interests are adequately represented.

We look forward to seeing you soon in Long Boat Key.

Sincerely,

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

Jim Hodges
Executive Director

NALC Highlights

Register Today!

2011 Spring Conference

April 27-April 29, 2011
Longboat Key Club & Resort
Longboat Key, Florida

<http://www.nalc.net/conference/registration.htm>



LONGBOAT KEY CLUB
& RESORT

Complete conference information is available on the NALC website. You can register online through the safe and secure online registration process or fill out the forms and send them in with your payment. You will find all of the following on the conference page:



- Online Registration -- <http://www.nalc.net/ereg01.htm>
- Hotel Reservation Form -- <http://www.nalc.net/conference/s11hotel.pdf>
- Sponsorship Opportunities -- <http://www.nalc.net/conference/s11sponsors.pdf>
- Longboat Key Club & Resort -- <http://www.longboatkeyclub.com>
- Longboat Brochure -- <http://www.nalc.net/conference/e-Brochure.pdf>
- Golf Registration: The golf outing is scheduled for Thursday, April 28, 2011, at 1:00 p.m. at the on-site Islandside Course. The green fee, including cart, is \$85.00 per person. All monies will be paid on an individual basis, on site.
<http://www.longboatkeyclub.com/GolfTennis/Golf/Islandside>

NAIC Focus

Spring National Meeting



The NAIC will hold its 2011 Spring National Meeting in Austin, Texas. The headquarters hotel for the meeting is the Austin Hilton, located at 500 E 4th Street, Austin, Texas, 78701. Complete conference information is available at http://www.naic.org/meetings_home.htm.

NAIC Names 2011 Committee Leadership

The NAIC has named its 2011 committee chairs and vice chairs. NAIC leadership met early in January to make assignments based on each member's preferences, as well as requirements established by the NAIC's Bylaws. Committee assignments are for one year. The 2011 NAIC committee leadership assignments are as follows:

Life Insurance and Annuities (A) Committee

Chair: Adam Hamm, Commissioner, North Dakota Insurance Department

Vice Chair: Thomas B. Considine, Commissioner, New Jersey Department of Banking and Insurance

Health Insurance and Managed Care (B) Committee

Chair: Sandy Praeger, Commissioner, Kansas Insurance Department

Vice Chair: Monica J. Lindeen, Commissioner, Montana Office of the Commissioner of Securities and Insurance

Property and Casualty Insurance (C) Committee

Chair: Mike Chaney, Commissioner, Mississippi Insurance Department

Vice Chair: Merle D. Scheiber, Director, South Dakota Division of Insurance

Market Regulation and Consumer Affairs (D) Committee

Chair: Jane L. Cline, Commissioner, West Virginia Offices of the Insurance Commissioner

Vice Chair: Sharon P. Clark, Commissioner, Kentucky Department of Insurance

Financial Condition (E) Committee

Chair: Joseph Torti, III, Superintendent, Rhode Island Division of Insurance

Vice Chair: Mike Geeslin, Commissioner, Texas Department of Insurance

Financial Regulation Standards and Accreditation (F) Committee

Chair: Linda S. Hall, Director, Alaska Division of Insurance

Vice Chair: Julie Mix McPeak, Commissioner, Tennessee Department of Commerce and Insurance

International Insurance Relations (G) Committee

Chair: Kevin M. McCarty, Commissioner, Florida Office of Insurance Regulation

Vice Chair: James J. Wrynn, Superintendent, New York State Insurance Department

NAIC Releases Profitability Report

Contains Key Ratios on Profitability Results for P&C Industry

The National Association of Insurance Commissioners has released the Report on Profitability by Line by State in 2009. The report estimates and allocates profitability in property/casualty insurance by state and by line of insurance. Combined with other information, regulators and industry officials can utilize this data for further analysis of competition and market performance.

The 2009 report expands the lines of business to make product liability, mortgage guaranty, financial guaranty, accident and health, and warranty their own lines. The expansion helps bring transparency to the financial impact the economic climate has had on each of these lines.

The Report on Profitability By Line By State in 2009 combines by line and by state calendar year data from certain exhibits of the annual statement to develop estimates of profits on earned premium and the return on net worth by line and by state. The report also shows the various components of estimated profits including: premiums earned; losses incurred; loss adjustment expense; general expenses; selling expenses; state taxes, licenses and fees; dividends to policyholders; changes in premium deficiency reserves; underwriting profits; investment income and federal income taxes. As fluctuations in calendar year financial results occur, long-term historical averages are also provided.

- View a sample of the report at http://www.naic.org/documents/research_stats_profit_sample.pdf.
- Purchase the complete report at http://www.naic.org/store_publications.htm.

NCOIL Notes

2011 Spring Meeting

NCOIL will hold its 2011 Spring Meeting March 4-6, 2011, at the Hyatt Regency on Capitol Hill, Washington, DC. Go to <http://www.ncoil.org/schedule/dc11.html> for complete conference information, including online registration, conference brochure and the tentative agenda. The following topics are included in the agenda:

Symposium: 2010 Health Act: What's good? What's bad? What meaning for states?

- How will the new Congress approach the 2010 healthcare overhaul?
- Is tort reform in the queue?
- Are association health plans (AHP) an alternative to out-of-exchange coverage?
- What will new loss ratios mean? "Unreasonable" rate increases? State exchange proposals?

State Leaders Summit on Federalism *(See following item)*

Join leaders of key legislative and other policymaking groups at a State Summit on Federalism to gain consensus on post Dodd-Frank initiatives and take stands on an optional federal charter (OFC), Federal Insurance Office (FIO), and Consumer Financial Protection Bureau (CFPB).

Dodd-Frank Act: What Impact on the States?

- What insurance provisions might extend beyond a Federal Insurance Office (FIO)?
- How could a new Office of Financial Research (OFR) impact state authority? The NAIC?
- How would a Consumer Financial Protection Bureau (CFPB) affect credit scoring, privacy laws?

Life Insurance & Financial Planning

- Discussion of NAIC Annuity Suitability Standards/State Enforcement
- Discussion of Pre-Need Funeral Insurance Fraud/Insolvencies
- Report on Federal SEC/GAO Life Settlement Studies
- Discussion of Life Insurance Guaranty Fund Levels

NCOIL to Reconvene State Leaders for Summit on Federalism

In its latest effort to preserve and enhance state regulation, NCOIL is calling leaders of key state groups to a consensus-building State Leaders Summit on Federalism in a post-Dodd-Frank Act world. The March event—which will take place just blocks from the Capitol—will offer a forum for state officials to form a unified front on federal concerns, including an optional federal charter (OFC), Federal Insurance Office (FIO), and the state-federal dynamic under a Consumer Financial Protection Bureau (CFPB). The session will follow a successful inaugural summit in November on financial modernization and also will examine state surplus lines reform.

The summit will take place on Friday, March 4, from 1:00 to 2:30 p.m., in conjunction with the March 4 through 6 NCOIL Spring Meeting in Washington, DC. Invited guests will include presidents, chairs, and/or leadership of organizations comprising legislative colleagues as well as state regulators, governors, and attorneys general.

Faced with OFC supporter Tim Johnson's (D-SD) appointment as Senate Banking Committee chair and supporter Ed Royce's (R-CA) membership in the new House majority party, state leaders in March will coordinate their positions on optional or mandatory federal charters and other preemptive federal measures.

They also will mull over the jurisdictional bounds of the budding FIO, which NCOIL and others warn could be the “camel’s nose under the tent”.

State policy leaders will explore pros and cons of the emerging CFPB, including its impact on state regulatory responsibilities. With the controversial Bureau still in development, the Summit will focus on expanded state powers to enforce federal law and means to coordinate effective communication between state/federal governments.

News from the States

Regulator Updates

Ohio: New Ohio Lieutenant Governor Mary Taylor added to her titles by taking office as the state's insurance director and leader of an effort to reform the state's regulatory policies. Gov. John Kasich, a Republican, made the appointments as two of his first official actions after taking office Jan. 10. Taylor previously served as state auditor and in the state House of Representatives. As insurance director, she replaces Mary Jo Hudson, an appointee of former Gov. Ted Strickland, who Kasich defeated in November.

Tennessee: In Tennessee, former top Kentucky insurance regulator Julie McPeak will lead the Tennessee Department of Commerce and Insurance under Governor Bill Haslam. McPeak served as general counsel and then executive director in Kentucky under former Governor Ernie Fletcher. Since May 2008, McPeak has been an attorney in the Nashville office of Burr & Forman LLP, focusing on insurance law. She will replace Leslie Newman as commissioner.

Minnesota: New Minnesota Governor Mark Dayton named Michael Rothman as commissioner of the Department of Commerce, which includes insurance regulation. Rothman was most recently an attorney with the firm Winthrop & Weinstine in Minneapolis, where he co-chaired the Insurance & Financial Services practice group.

Georgia: Newly elected Georgia Insurance Commissioner Ralph Hudgens took office with a pledge to boost the department's anti-fraud efforts. A former state lawmaker, Hudgens defeated Mary Squires in the November election.

Oklahoma: John Doak was inaugurated as Oklahoma's insurance commissioner by supporting his state's own lawsuit against the federal Affordable Care Act. Doak defeated former Insurance Commissioner Kim Holland in November.

On the National Front

Democrats Back Bill Repealing 1099 Provision of Affordable Care Act

Agents and brokers are hoping Congress is ready to take action to eliminate a tax-reporting requirement used to offset some future costs of health care reform.

Three Senate Democrats pledged their support for a repeal of Section 9006 of the Patient Protection and Affordable Care Act in a letter to Speaker of the House John Boehner. Should the House of Representatives pass HR 144, the Small Business Paperwork Mandate Elimination Act, "we are confident that the Senate can quickly act," Sens. Maria Cantwell, D-Wash.; Amy Klobuchar, D-Minn.; and Ben Nelson, D-Neb. wrote.

"As President Obama has recently noted, our economy will recover more quickly and create more jobs if we can reduce regulations on business. Repealing this provision would be a great first step as we work together to grow the economy," they said.

Beginning in 2012, all businesses, nonprofit entities and governments will have to file a 1099 form with the Internal Revenue Service reporting any purchases of goods or services of \$600 or more in a tax year. Under current law, the 1099 requirement only applies to services when the vendor is an unincorporated person or business. Agents, brokers and other small businesspeople have called for repeal, calling it an unwarranted burden on small businesses.

"This expanded 1099 provision will impose a substantial burden on small businesses, which are the economic engines that power our economy," National Association of Professional Insurance Agents National President Fred Thomas said in a statement.

The Republican-led House voted to repeal the entire PPACA, but the Democratic-majority Senate has no plans to have that bill stand for a vote. Previous attempts to repeal the 1099 provision failed toward the end of the previous Congress, but approval of a stand-alone bill now appears likely, even if the timing is uncertain, said Charles Symington, senior vice president of government affairs for the Independent Insurance Agents & Brokers of America.

The bill is before the House Ways and Means Committee. It offers no offset for the approximately \$219 million the 1099 provision is expected to raise over a 10-year period.

OFC Proponent to Lead Senate Banking Committee

U.S. Senate Democrats confirmed federal insurance charter advocate Tim Johnson, D-S.D., as the new chairman of the Banking, Housing and Urban Affairs Committee. Johnson co-sponsored the National Insurance Act, which would create an optional federal charter system for insurers and producers in both the life and property/casualty sectors, in each of the past two congressional sessions. Now in his third term in the Senate, Johnson replaces Chris Dodd, D-Conn., who retired at the end of the 111th Congress.

The new chairman did not directly address insurance issues in a statement acknowledging his tenure will focus on implementing the Dodd-Frank financial reform act. "I am committed to working with my colleagues on both sides of the aisle, the White House, regulators, consumer groups, industry and international regulators on oversight of reform. I will work to ensure our regulators have the right tools; that consumers have access, information, choice and protection; and that industry participants have certainty and rules that allow them to compete both at home and abroad," he said.

The OFC issue will face new challenges in the current Congress. In the House, the prime Democratic sponsor, Rep. Melissa Bean of Illinois, lost her re-election campaign. Her GOP co-sponsor, Rep. Ed Royce of California lost a challenge for leadership of the full Financial Services Committee. Royce has said he will reintroduce an OFC bill.

The insurance industry has been the leading industry contributing to Johnson's campaigns in the past five years, according to the nonpartisan Center for Responsive Politics.

The Johnson appointment was expected, as he was next in seniority on the committee. Democrats retained control of the Senate, albeit with a smaller minority, in the November elections. The party kept in place chairs of two other committees of significance to the insurance industry: Max Baucus, D-Mont., at Finance and Tom

Harkin, D-Iowa, at Health, Education, Labor and Pensions. Harkin stepped into that role after the death of Sen. Edward Kennedy, D-Mass.

Sen. Richard Shelby, R-Ala., will continue to be the ranking Republican on the Banking Committee. Sen. Charles Grassley, R-Iowa, will continue that position on the Finance Committee and Sen. Mike Enzi will do likewise on the HELP Committee.

Industry News

US Jobs Report: Insurers Lose Jobs as National Job Market Grows

While the national job market added 103,000 jobs in December, the U.S. insurance industry lost 3,700 jobs last month, extending a long-term decline. On a year-to-year basis, industry employment, now standing at 2.17 million jobs, is down 2.43% since December 2009.

The latest employment report released by the U.S. Bureau of Labor Statistics showed a gain of 103,000 nonfarm jobs nationwide. The unemployment rate dropped to 9.4% from 9.8% in November. Within professional and business services, employment of temporary help continued to rise, growing by 16,000 jobs in December.

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 November 2010 data, reinsurance was the only sector of the industry to gain jobs on a year-to-year basis. Reinsurers saw a 1.6% gain, to 26,200 jobs. Life insurance carriers had 344,000 jobs, down 1.2%; the health sector had 424,300 jobs, down 3.5%; property/casualty jobs were at 461,300, down 2.1%; title insurers held 65,400 jobs, down 5.2%; agents and brokers, with the largest share of insurance industry jobs, were at 633,600, down 1.6%; claims adjusters had 43,700 jobs, a drop of 9.0%; and third-party administration of claims dropped 3.4% to 123,600 jobs.

Three sectors saw declines in weekly wages of less than 1%: life insurance employees, who averaged \$1,024.85 per week; agents and brokers, with \$781.54 per week; and third-party administrators of claims, \$777.11 per week.

Other areas continued to see increases in year-over-year comparisons, with some month-to-month volatility. Health insurer employees' weekly pay rose 5.6%, to \$1,006.14; property/casualty employees, up 1.6%, to \$1038.11; title insurers, up 3.6%, to \$940.75; reinsurers, up 8.5%, to \$960.70; and claims adjusters, up 2.9%, to \$906.78.

FASB, IASB Mull Final Proposals

By Robert Stein, vice chairman of global financial services for Ernst & Young and editor of the company's "Cross Currents" magazine. He may be reached at robert.stein@ey.com.

As you read this, the International Accounting Standards Board and the Financial Accounting Standards Board comment periods are over, and the boards have moved on in their deliberations over the particulars of the final rules for accounting for insurance contracts. While U.S. companies are mostly concerned about the FASB proposal, it is based on the IASB framework, so understanding the IASB's views remains a priority for U.S. companies.

The proposals are complex and vary from each other in a number of meaningful ways. But their fundamentals are the same: Insurance liabilities will be valued using unbiased estimates of future cash flows. It is in the application of this common concept that differences occur. I believe that the IASB proposal, modified as suggested below, can be used to achieve the long-desired single global standard, and I urge FASB to adopt it.

Discounting is clearly the biggest issue. The current proposal offers many choices. The general rule to use the risk free rate seems carried over from when the valuation objective was fair value. This starting point is then modified by an ill-conceived illiquidity concept. Par business can use a portfolio rate. Other products, where the cash flows are in part a function of the assets, should consider the portfolio when determining the discount rate.

Multiple rates do not suggest the presence of a single, unifying theory to setting the discount rate. Importantly, the discount rate needs to be based on the fulfillment valuation objective, not the abandoned goal of measuring fair value. Adoption of the fulfillment objective was more important than a relabeling— it was a substantive change in the definition of how the valuation of the insurance cash flows should be completed—and this has not been recognized in the proposals.

A common understanding of the fulfillment valuation objective is the level of funding needed to meet all future obligations arising from the insurer's management of those liabilities over their natural and complete lifetime. A discount rate supportive of that goal is the portfolio rate properly provisioned for credit risks. A portfolio rate has the advantages of being consistent with the valuation objective, supportive of the insurance business model and the best means of developing asset and liability values that move reasonably consistently in the face of volatile financial markets. And in the face of new proposals to move back toward amortized cost, a properly provisioned portfolio rate is likely to be the best option among the many suggestions the IASB will be receiving to resolve this issue.

Other issues include recalibration of the residual or composite margin, unbundling and the form of the income statement. While all need to be resolved, reaching a conclusion on the discount rate is required for a workable outcome. In face of many conflicting suggestions, adoption of a properly provisioned portfolio rate is likely to receive the blessing of most companies. The sooner this is accomplished, the sooner the industry can move on to consider the many implementation issues that come with the change to insurance accounting.

Calendar of Industry Events

March 4-6, 2011 NCOIL 2011 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 27-29, 2011 NALC 2011 Spring Conference	Longboat Key Club & Resort Longboat Key, Florida
July 14-17, 2011 NCOIL 2011 Summer Meeting	Marriott Newport Newport, Rhode Island
August 29-Sept. 1, 2011 NAIC Summer National Meeting	Marriott Philadelphia Downtown Philadelphia, PA
September 21-23, 2011 NALC 2011 Fall Conference	Hotel Park City Park City, Utah
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
March 3-6, 2012 NAIC Spring National Meeting	Hilton New Orleans New Orleans, Louisiana
March 9-11, 2012 NCOIL 2012 Spring Meeting	Location TBD
April 18-20, 2012 NALC 2012 Spring Conference	LaCosta Resort & Spa Carlsbad, California
July 12-15, 2012 NCOIL 2012 Summer Meeting	Location TBD
August 11-14, 2012 NAIC Summer National Meeting	Atlanta Marriott Marquis Atlanta, GA
September 19-21, 2012 NALC 2012 Fall Conference	Kingsmill Resort Williamsburg, Virginia
November 15-18, 2012 NCOIL 2012 Annual Meeting	Grand Hotel Marriott Resort Point Clear, Alabama
November 29-December 2, 2012 NAIC Summer National Meeting	Gaylord National Hotel & Convention Center Washington, DC
March 8-10, 2013 NCOIL 2013 Spring Meeting	Hyatt Regency on Capitol Hill Washington, D.C.