



A National Alliance of Life Companies

# NEWSLETTER

NATIONAL ALLIANCE OF LIFE COMPANIES

An Association of Life and Health Insurance Companies

## September 2011

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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: <http://www.nalc.net>

Members' Website: <http://members.nalc.net>

## A Letter from the Executive Director

September 1, 2011

Dear Member:



Hope you are all preparing for a restful Labor Day. We just dropped our oldest child off for his freshman year at Kenyon College in Ohio, and our youngest starts prep school in Virginia tomorrow. The empty nest isn't so bad!

As many of you know, the NAIC meeting in Philadelphia was cancelled last week because of Hurricane Irene. We will cover the items from the Summer Meeting agenda through conference calls and additional items on the agenda for our November meeting in Washington, DC.

This has certainly been the Summer of Angst. Bad economy, bad weather, bad relationships in Washington, bad investment returns ... the list goes on and on. It's difficult to see any external driver pushing our economy along in a different trajectory the next twelve months, and we're close enough to presidential elections that big policy measures are unlikely to pass Congress.

One of our members called the other day and asked a good question: "Who is the big winner with Rick Perry entering the presidential race?" My response was "Barack Obama, Mitt Romney and Rick Perry." Barack Obama needs an opponent that sharply contrasts with him on issues like social security, Medicare, taxes and the safety net. Mitt Romney needs to prove he can beat someone of significance, and sharpen his message to appeal to the Republican base. Rick Perry needs to prove he has appeal beyond the South, and erase any unfavorable comparisons to George W. Bush. The ultimate winner depends on how each responds to these challenges, and who takes maximum advantage of the opportunities that arise.

We look forward to seeing you all on September 21 in Park City. We have a great program planned for you, including a Friday address by NAIC President Susan Voss of Iowa. Additionally, we have a strong group of public policy panelists, including the Lt. Governor of Utah, several state insurance commissioners and the President and Life Insurance Chair of NCOIL. We also have a great discussion of the economic and investment climate planned, along with a number of outstanding presentations on current insurance topics. We believe it's our strongest program in several years.

Please review the attached Legislative and Regulatory Update, and let us know if you have any questions. As always, we stand ready to assist you 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

## 2011 Fall Conference

September 21 - 23, 2011

Hotel Park City

Park City, Utah

<http://hotelparkcity.com/index.html>



Time is running out to make your plans for the NALC 2011 Fall Conference in beautiful Park City, Utah. Our conference registration page is ready for you now at <http://www.nalc.net/conference/registration.htm>. You will find the following on the registration page:

- Online conference and golf outing registration.
- Hotel reservation form.
- Sponsors and remaining sponsorship opportunities.
- Conference schedule.

**Sponsorships Available** -- Call Dawn Bergsma to claim one of more of the few remaining sponsorship opportunities:

- Dinner Co Sponsor                   \$1,000
- Printing Expenses                   \$2,000
- Audio/Visual Expenses           \$2,000

*We look forward to seeing you in Utah.*

## New Associate Member

The NALC welcomes the following new Associate Member:

### ***Centerline Capital Group***

***Rick Warren, Managing Director***

***18101 Van Karman Ave., #1900***

***Irvine, CA 92612***

***Phone: 949-221-6684 – Fax: 949-442-2401***



### ***About Centerline Capital Group***

Centerline Capital Group, a subsidiary of Centerline Holding Company (OTC: CLNH), provides real estate financing and asset management services, focused on affordable and conventional multifamily housing. Centerline offers a range of both debt and equity financing to developers, owners, and investors. An industry leader, Centerline is structured to originate, underwrite, service, manage, refinance or sell through all phases of an asset's life cycle.

A leading sponsor of Low-Income Housing Tax Credit (LIHTC) funds, Centerline has raised more than \$10 billion in equity across 136 funds, and invested in over 1,300 assets spanning 47 states. The firm's multifamily lending platform services more than \$9 billion in loans. Founded in 1972, Centerline is headquartered in New

York City, with 227 employees in ten offices throughout the United States. A strategic partner of Island Capital, Centerline is organized around four business units: Asset Management, Mortgage Banking, Affordable Housing Equity and Affordable Housing Debt.

For more information, visit [www.Centerline.com](http://www.Centerline.com).

## NAIC Focus

### NAIC Summer National Meeting Cancelled

The NAIC cancelled its Summer National Meeting, which was scheduled for August 29-September 1 in Philadelphia. More than 1,500 insurance regulators, industry representatives and interested parties had registered to attend the conference.

The organization will host a number of conference calls to continue work planned for the cancelled meeting. “In the coming days and weeks, we will conduct public conference calls to address our responsibilities in a transparent and timely manner,” said Susan E. Voss, NAIC President and Iowa Insurance Commissioner. “As the regulatory community recovers from the immediate impact of Irene, we can address the long list of agenda items scheduled for Philadelphia.”

Anyone may participate in an open NAIC conference call by following the instructions on the NAIC’s Conference Call & Interim Meetings Calendar at [http://www.naic.org/meetings\\_calendar.htm](http://www.naic.org/meetings_calendar.htm). National Meeting related calls will be clearly identified in the calendar, and added to the Meetings & Events page of the NAIC website at [http://www.naic.org/meetings\\_home.htm](http://www.naic.org/meetings_home.htm). Summaries and minutes of meetings will be available online, following the calls at <http://www.naic.org/meetings1108/summaries.htm>.

### NAIC Committee Advances Annuity Model

A National Association of Insurance Commissioners committee did not act on a proposal that would allow employers to exchange existing corporate-owned life insurance policies into tax-free versions.

The issue originated with a suggestion from NAIC staff that the Life Insurance and Annuities Committee discuss potential action, including amendments to the association’s COLI model law. Companies looking to replace existing COLIs may have trouble meeting insurable interest requirements under current state laws, according to a staff memo. However, representatives from the American Council of Life Insurers, Association for Advanced Life Underwriting and National Association of Insurance and Financial Advisors argued that the changes lack broad-based support and would be ineffective, given Internal Revenue Service rules.

The committee agreed to take the issue under advisement for possible future consideration after no committee member made a motion to act on the proposal, Committee Chairman and North Dakota Insurance Commissioner Adam Hamm said in an email. “At this point in time, based on information currently available and presented to the committee, the committee did not believe the issue warranted its attention,” Hamm said.

COLI changes have been a part of the Obama administration’s budget plans. Life insurers have opposed the proposed changes, which would disallow deductions for the pro-rated interest expense of COLI policies at an estimated savings of \$979 million over 10 years.

In a separate action, the Life Insurance and Annuity Committee advanced an amendment to add standards on annuity illustrations to the NAIC Annuity Disclosure Model Regulation.

## NCOIL Notes

### NCOIL to Sebelius: Let Us Help Fix CLASS

Leaders of a National Conference of Insurance Legislators committee asked Health and Human Services Secretary Kathleen Sebelius to invite them to make changes to a new long-term care program they say is unstable.

As currently configured, the Community Living Assistance Services and Support Act “fails to apply the principles of risk management that are essential to any financially sound insurance program,” state Rep. Barb Byrum of Michigan and state Sen. Jake Corman of Pennsylvania, chairs of the NCOIL Long-Term Care and Health Retirement Issues Committee, wrote in a letter to Sebelius.

Part of the Affordable Care Act, CLASS is slated to become available in late 2012. It would provide an average benefit of no less than \$50 per day for long-term care services, such as at-home care. The nonpartisan Congressional Budget Office estimated the CLASS program will save \$70 billion over a 10-year period, including \$2 billion in savings to Medicaid from those with long-term care needs not having to rely on the program. The CBO also forecast the program costs to increase in subsequent years, as the initial 10-year period includes the five-year startup.

Byrum and Corman said they were encouraged by a recent statement from Sebelius that the program will be demonstrated to be solvent and sustainable before launch.

The program has numerous flaws, including that it lacks a role for agents and brokers, the co-chairs wrote. “The CLASS program risks being under-capitalized on the front end, paying more in benefits than it collects in premiums. This will drive rates up and cause adverse selection, as young and healthy consumers will not participate in the market,” they said.

Premiums have yet to be finalized, but studies from the CBO and the Congressional Research Service have estimated monthly payments of \$240 (for the \$50/day level) and \$123 (for a \$75/day level), respectively. Payments could not be disbursed until a participant has been enrolled in the program for five years.

## News from the States

### Governor Considering California Annuities Reform Legislation

California’s Insurance Commissioner is urging Gov. Jerry Brown to sign two annuities reform bills passed unanimously by the state legislature, one involving the marketing of reverse mortgages to senior citizens.

AB 793, authored by Assembly Banking and Finance Committee Chairman Mike Eng, would ban insurance agents and brokers from participating with, employing, or making referrals to someone involved in selling reverse mortgages with the only purpose of cross-selling unsuitable insurance products such as an annuity.

AB 689, authored by Calif. Assembly Budget Committee Chairman Bob Blumenfield, would require insurers to establish comprehensive standards to ensure suitability of annuities senior citizens would purchase, exchange, or replace.

The legislation is aimed at protecting the elderly from “unscrupulous” insurers and agents who may try to sell them annuities that aren’t appropriate for their financial needs, according to a statement from state Insurance Commissioner Dave Jones.

AB 793 is not tied to the National Association of Insurance Commissioners’ March 2010 Suitability in Annuity Transactions Model Regulations, said Pat McConahay, deputy press secretary for the California insurance department. It offers “further protections against marketing abuses by insurance agents and mortgage brokers” and represents “an overall push for annuity reforms across the country,” she said.

The growth of the reverse mortgage business “has led to aggressive marketing and abuse especially when they are marketed along with insurance products such as annuities,” Jones said in a statement. “A reverse mortgage should be an option of last resort only for seniors with an immediate need for cash and have no other means.”

A reverse mortgage, available to people age 62 and older, provides income that people can tap into for their retirement. A homeowner can borrow money against the value of his or her home. No repayment of the mortgage, principal or interest, is required until the borrower dies or the home is sold.

The NAIC’s annuity model doesn’t specifically reference reverse mortgages, according to the Insured Retirement Institute, a trade group for the annuity industry.

However, the IRI said the NAIC’s definition of suitability information includes “information that is reasonably appropriate to determine the suitability of a recommendation including...financial situation and needs, including the financial resources used for the funding of the annuity...”

While not specific, this can be construed to include reverse mortgages, the IRI said.

In March, Jones announced new regulations intended to halt sales of inappropriate annuities to people aged 65 and older. The regulations require insurers to establish a system to supervise recommendations and set forth procedures for recommendations to seniors that result in sales so that seniors’ financial objectives at the time of the transaction are addressed. The proposed regulations were based on the NAIC suitability model.

Lee Covington, senior vice president and general counsel for the IRI, said his group is pleased that California adopted the NAIC model. “This development is good for both consumers and the industry, as it provides uniform consumer protections across the country, which IRI has strongly supported,” Covington said in an email.

California adopting the NAIC model allows insurers to have one system of supervision rather than a California-specific system, “which will enable companies to save costs and streamline their operations,” he said. Overall, 17 states have adopted the NAIC model and seven states have introduced legislation or regulations also mirroring the model, he said.

Californians spent \$20.7 billion on annuities in 2010, Jones’ office said.

## Industry News

### Whole Life Insurance Sales Overcome 'Stagnant' Universal Life

Total second-quarter 2011 sales of individual life insurance in the United States, measured by new annualized premium, rose just 1% from the same period a year ago as an increase in whole life sales overcame "stagnant" universal life and declining term life sales, says a senior analyst at LIMRA.

Overall, individual life insurance sales slowed from the first quarter but still remained positive, with policy count also up 1% from the second quarter of 2010, said Ashley Durham, senior analyst of product research at LIMRA.

From 2009 to 2010 and 2010 to 2011, annualized life premium have grown for the first six months across most individual products, including universal life, whole life and variable universal life, according to Andrew Edelsberg, vice president at A.M. Best. Term life sales continue to be challenged.

LIMRA's surveys show that people "are struggling in this economy and have other financial priorities like paying down debt, saving for retirement and college education," Durham said, noting these are impacting sales.

The second quarter of 2011 represented the eighth consecutive quarter of growth for new annualized premium for whole life but the sixth straight quarterly decline for new annualized premium for term life, she said.

With regard to term sales, it's likely more of a supply issue than a demand issue. Some of the historically larger players in the term insurance market have been less active, said Thomas Rosendale, assistant vice president of Life/Health at A.M. Best Co. Contributing to this decline is the combination of relatively high costs of reserve funding as well as companies - more specifically, some publicly traded firms - who have recently been focusing on more efficient capital deployment strategies, according to Steve Irwin, a vice president in life/health ratings.

Additionally, although variable universal life sales have recently exhibited more positive trends, they are still well off pre-crisis levels, Rosendale noted.

Sales of whole life, a core product for many mutual life insurers, rose 5% in the second quarter and 10% for the first six months of this year. Whole life by far outpaced all other products in terms of "absolute dollar growth" in the second quarter, LIMRA said.

Mutual companies are maintaining substantial market share within whole life, where strong sales trends are driven by the combination of a continued flight to quality and the risk averse tendencies of consumers in a struggling U.S. economy with low interest rates, according to Edelsberg.

People are likely more comfortable with a product such as whole life "because it's pretty straight-forward," with premium and cash value guarantees, Durham said. It's also likely benefiting because it's the "go to" product of career agents working for mutuals, she said. Meanwhile, mutuals are less affected by the economy, at least compared with their stock counterparts, she noted.

Continuing the downward trend, sales of term life, among the most popular products for the middle-income market, was the only product to see a decline in sales - at 5%, and was down 8% year-to-date. Policy count dropped 8% year-to-date, LIMRA said.

Last year, term life saw the biggest annual sales decline on record. Contributing factors included companies increasing prices and dropping product lines.

“Companies have had to increase the price of premiums to back up the reserves for these policies,” Durham said in June. Companies expect term prices to go down once the principles-based reserving initiative at the National Association of Insurance Commissioners is eventually completed.

Sales of universal life rose just 1% from last year’s second quarter. Part of the slowdown in overall growth reflects a few companies moving away from lifetime death benefit guarantee UL products, due in part to “the meager investment environment” over the past two years and companies reassessing their risks on their product portfolio, Durham said.

The life insurance industry is continuing to battle a low interest rate environment in the United States for some time as the Federal Reserve on Aug. 9 kept the target range for the federal funds rate at record-low levels. Interest rate risk lies on both sides of life insurers’ balance sheets given their high proportion of fixed income investments and substantial exposure to interest-sensitive products such as universal life, said Edelsberg.

## Insurance Jobs Fall as National Employment Rises

The U.S. insurance industry lost 3,600 jobs in July, even as the national economy added 117,000 jobs, according to the latest employment report released by the U.S. Bureau of Labor Statistics. On a year-to-year basis, industry employment, now standing at 2.20 million jobs, is down 1.3% since July 2011.

The government data did show improved numbers for June 2011. A previously reported loss of 4,700 jobs was revised to 4,100 fewer positions.

Overall, total nonfarm employment increased by 117,000 jobs while unemployment dipped a notch to 9.1%. Private sector hiring grew while government employment continued to fall. The number of public sector jobs fell by 37,000, with 23,000 of those jobs due to the temporary partial government shutdown in Minnesota. Hiring in health care continued to increase, while employment in financial activities changed little.

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 June 2011 data, agents and brokers (+1%, to 644,500), reinsurance (+0.7%, to 27,300) and claims adjusting (+0.2%, to 48,600) saw modest job gains. Other sectors saw continued losses: life, down 1.9% to 371,100; health, down 3.3% to 418,700; property/casualty, down 2% to 457,700; title insurance, down 2.2% to 66,400; and third-party administration, down 2.3% to 127,600.

Title insurance employees saw a plunge in weekly wages in a year-to-year comparison: down 15.3% to \$787.25. Reinsurance pay surged in the other direction, rising 12.3% to \$1036.94. All other sectors saw increases, albeit by less than a percentage point in some cases: life, up 3.5% to \$1051.42; health, up 6.6% to \$1042.19; property/casualty, up 5.2% to \$1081.14; agents and brokers, up 0.14% to \$796.72; claims adjusting, up 0.25% to \$926.77; and third-party administration, up 6.5% to \$809.89.

## Calendar of Industry Events

<b>September 21-23, 2011</b> NALC 2011 Fall Conference	Hotel Park City Park City, Utah
<b>November 3-6, 2011</b> NAIC Fall National Meeting	Gaylord National Hotel & Convention Center Washington, DC
<b>November 17-20, 2011</b> NCOIL 2011 Annual Meeting	Eldorado Hotel & Spa Santa Fe, New Mexico
<b>March 3-6, 2012</b> NAIC Spring National Meeting	Hilton New Orleans New Orleans, Louisiana
<b>March 9-11, 2012</b> NCOIL 2012 Spring Meeting	Location TBD
<b>April 18-20, 2012</b> NALC 2012 Spring Conference	LaCosta Resort & Spa Carlsbad, California
<b>July 12-15, 2012</b> NCOIL 2012 Summer Meeting	Location TBD
<b>August 11-14, 2012</b> NAIC Summer National Meeting	Atlanta Marriott Marquis Atlanta, GA
<b>September 19-21, 2012</b> NALC 2012 Fall Conference	Kingsmill Resort Williamsburg, Virginia
<b>November 15-18, 2012</b> NCOIL 2012 Annual Meeting	Grand Hotel Marriott Resort Point Clear, Alabama
<b>November 29-December 2, 2012</b> NAIC Summer National Meeting	Gaylord National Hotel & Convention Center Washington, DC
<b>March 8-10, 2013</b> NCOIL 2013 Spring Meeting	Hyatt Regency on Capitol Hill Washington, D.C.