



A National Alliance of Life Companies

# NEWSLETTER

NATIONAL ALLIANCE OF LIFE COMPANIES

An Association of Life and Health Insurance Companies

## February 2012

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

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## A Letter from the Executive Director

February, 2012

Dear Member:



Hope your new year is off to a great start. We are quite busy at the NALC, and expect 2012 to be an action-packed year.

Let me start with some important business. We continue to have our monthly phone calls for companies in the preneed business. These calls are very informative, and provide a great overview of legislative and regulatory action in the states. For those of you in the preneed business, I would urge you to participate in these calls.

Under the leadership of President Lynn Lowe, Dawn and I are busy putting final touches on our Spring Meeting in Carlsbad, California, at the LaCosta Resort. The meeting will be held April 18-20, 2012. We have a great group of commissioners already committed to attend, and expect several more to confirm in the coming weeks. Additionally, we have an outstanding group of panelists on topics ranging from investment strategies to legal issues. I will also provide an elections overview for the 2012 elections, and tell a few stories about the recent South Carolina Republican Primary for President. We are excited to be back in the San Diego area, and believe you will all have fun and learn a great deal at our meeting.

We continue to battle preneed issues on a few fronts. First of all, a big thanks to Rob Hardy for his leadership in providing an exemption for preneed companies in the pending Kentucky legislation requiring use of the Social Security Death Master file. We understand that Representative Damron has agreed to propose a similar amendment to the NCOIL Model Act, which should be of great benefit. While we still have concerns with the legislation, it's a big improvement from the original model- and it would not have happened without Rob Hardy.

We also have a few issues of concern in Virginia, where we are working with a coalition of preneed companies to create a more level playing field for preneed insurance carriers. Additionally, NCOIL has added preneed and final expense insurance to the "charge list" of the Life Insurance Committee. This simply means that the committee is charged with looking at issues surrounding preneed during 2012. We will continue to monitor any action at NCOIL, and work with the leadership to respond to any questions they may have.

As always, thank you for your support. Let us know if we can help in any way or answer any questions you may have.

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

*Register Now!*

## 2012 Spring Conference

2012 Spring Conference

April 18 - 20, 2012

[La Costa Resort & Spa](#)

[Carlsbad, California](#)



Now is the time to make your plans to attend the NALC 2012 Spring Conference at the La Costa Resort and Spa. Please visit the registration page at <http://www.nalc.net/conference/registration.htm>. There you will find the following:

- Online conference and golf outing registration.
- Online or hard-copy hotel reservation form.
- Sponsors and remaining sponsorship opportunities.
- Conference schedule [coming soon].

We will send out conference updates regularly telling you of additions to the conference schedule, sponsorship opportunities, area information, and other useful items. Please register before the price increase and the room block expiration!



## NAIC Focus

### NAIC Releases Draft Framework on AG 38

The NAIC has released a Draft Framework that outlines an approach for evaluating the reserves for a category of life insurance products. The Joint Working Group of the NAIC's Life Insurance and Annuities Committee and the Financial Condition Committee was created to address the issues surrounding Actuarial Guideline XXXVIII (AG 38) and statutory reserve requirements for insurers offering universal life with secondary guarantee (ULSG) and term universal life (UL) products.

The Joint Working Group released the Draft Framework for a public comment period ending at the close of business on Monday, January 30, 2012. In addition, the Joint Working Group has identified Issues to be Addressed and The Sequence of Key Decisions, which are attached to the Draft Framework as appendices.

“This framework, in addition to the process in general, reflects the states’ commitment to develop a uniform interpretation regarding existing reserving requirements for ULSG and term UL products, while also considering how reserves for these products should be set in the future,” said Eleanor Kitzman, Texas Insurance Commissioner and Chair of the Joint Working Group.

Any comments regarding the Draft Framework or questions to be addressed to the Joint Working Group should be submitted to NAIC staff, Dan Schelp at [dschelp@naic.org](mailto:dschelp@naic.org), (816) 783-8027; or Ryan Couch at [rcouch@naic.org](mailto:rcouch@naic.org), (816) 783-8421.

The Joint Working Group of the NAIC's Life Insurance and Annuities Committee and the Financial Condition Committee is available at [http://www.naic.org/committees\\_jt\\_a\\_e\\_wg.htm](http://www.naic.org/committees_jt_a_e_wg.htm). The Draft Framework is available at [http://www.naic.org/documents/committees\\_jt\\_a\\_e\\_wg\\_exposures\\_ag38\\_draft\\_framework.pdf](http://www.naic.org/documents/committees_jt_a_e_wg_exposures_ag38_draft_framework.pdf).

## NAIC CEO Named New Chair of International Joint Forum

The Joint Forum's parent organizations, the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS), have announced the appointment of Dr. Therese M Vaughan as Chair of the Joint Forum. This two-year appointment is effective 1 January 2012.

Therese Vaughan, who succeeds Tony D'Aloisio of the Australian Securities and Investments Commission (ASIC) in this role, is the CEO of the National Association of Insurance Commissioners (NAIC) in the United States. The Joint Forum's parent organizations expressed their gratitude to Mr D'Aloisio for his important leadership and contributions during his time as Chair.

Therese Vaughan noted the importance of the Joint Forum's international focus on cross-sector supervisory issues: "I look forward to working with Joint Forum members and the Joint Forum's parent organizations to advance the international regulatory agenda with a focus on cross-sector issues."

The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision, IOSCO, and the IAIS to deal with issues common to the banking, securities and insurance sectors, including the supervision of financial conglomerates.

## Life Insurance May Be Untapped Resource in Tough Economic Times

*New survey finds more than half of Americans don't think of life insurance as an emergency financial asset*  
In tough economic times, people look everywhere - an IRA or 401(k), credit cards, even under their mattress - for emergency cash. But according to a recent survey by the National Association of Insurance Commissioners (NAIC), many consumers overlook life insurance as a potential source of immediate funds. And, few are aware of the investment features some policies offer.

"When thinking about everyday finances, life insurance is not top of mind for most Americans," says NAIC Vice President and North Dakota Insurance Commissioner Adam Hamm, who chairs the NAIC Life Insurance and Annuities Committee. "According to our survey, more than two-thirds of consumers don't know some types of life insurance include a cash value, and nearly half don't think of life insurance as an investment option."

The NAIC survey found that 63 percent of consumers have life insurance. There are two main types of life insurance: term and permanent. A term life insurance policy pays if the insured dies during the "term" of the policy. Permanent life insurance, the type of policy that offers investment features, combines the death benefit coverage of a term policy with the investment component that can build cash value over time. Some permanent policies also include provisions for policyholders to access money immediately for any reason.

### Life Insurance as a Source of Emergency Cash

With permanent life insurance policies, a portion of the money you pay into your premium goes into a cash value that grows over time, and if managed correctly, may include tax benefits.

“If you own permanent life insurance, you may be able to take out a loan against the value of the policy, provided you have been paying premiums for a pre-determined length of time,” says Hamm. “There are no requirements for using these funds and the interest rate on this loan may be cheaper than borrowing against a 401(k) or maxing out a credit card. There also may be tax benefits, since the cash from this type of loan typically is not considered income by the IRS.”

Another option for quick funds may be to cash in a permanent life policy, which allows you to immediately retrieve up to the entire accumulated value. But doing so should only follow careful consideration because life insurance premiums increase with age. This option is most viable for individuals who already have sufficient term life insurance or who no longer have financial dependents.

### **Life Insurance as a Financial Tool**

For Americans worried about the recent stock market volatility, permanent life insurance may present a lower-stress way to put aside money for the future. The dollars that go into the investment channels of these policies (beyond the costs of the insurance) accumulate interest each year. And insurers typically guarantee a minimum return of at least three to four percent a year.

Almost half of respondents to the NAIC survey said low risk and tax-advantaged growth were priorities when investing in today’s volatile market and both are features of some permanent life insurance policies. Additionally, 65 percent of survey respondents did not know some types of life insurance include a dollar amount that is guaranteed to increase in value and may provide tax benefits.

With the value of retirement accounts down, permanent life insurance policies that build cash value may be a way to add stability to a financial portfolio and accumulate funds over the long-term. These policies also can offer tax advantages to small business owners or individuals who have maxed out their qualified retirement plan contributions.

### **Permanent Life Insurance Options**

There are four types of permanent life insurance - whole, universal, variable and variable universal. Unlike term insurance, all permanent policies remain in place as long as the premium is paid. They also all have a cash value component that increases over time, and allows the owner to borrow against that cash value. Below are the main differences between these permanent policies:

- **Whole life insurance policies** offer a fixed premium for the duration of the policy, guaranteed annual cash value growth, and a guaranteed death benefit. They do not provide investment flexibility and it is not possible to change the policy coverage once established.
- **Universal life insurance** is more flexible than whole life insurance, letting the policy holder determine the amount and timing of premium payments (within certain limits) and adjust coverage levels as needs change. Like whole life insurance, there is a guaranteed annual cash value growth and no investment flexibility.
- **Variable life insurance** allows the policy holder to allocate funds across stocks, bonds or money market accounts with different levels of risk and growth potential. A minimum cash value is not guaranteed because of market fluctuation and coverage amounts cannot be changed. Variable life insurance exposes the policyholder to greater market risk, but has the potential for greater long term returns compared to whole or universal life insurance policies.
- **Variable universal life insurance** is a combination of variable and universal life insurance and is the most flexible form of permanent life insurance with the ability to vary premium payments, investments and coverage amounts. It allows investment in a variety of market products chosen by the policyholder

and may allow policyholders to make tax-free transfers among investments. Variable universal life also exposes the policy holder to greater market risk than whole or universal life policies.

Purchasers should consult a licensed investment or tax advisor for guidance on which permanent life policy best fits their risk tolerance and investment objectives. For more tips and resources about life insurance, visit Life.InsureUOnline at [http://www.insureuonline.org/life\\_page.htm](http://www.insureuonline.org/life_page.htm), or find your state insurance commissioner at [http://www.naic.org/state\\_web\\_map.htm](http://www.naic.org/state_web_map.htm).

## NCOIL Notes

### 2012 Spring Meeting

Beau Rivage Hotel  
Biloxi, Mississippi  
February 24 - 26, 2012

The NCOIL will hold its 2012 Spring meeting February 24-26. Attendees may register online at [www.ncoil.org](http://www.ncoil.org). The room block is full at this time, though additional rooms may become available after February 6. If you wish to be on a waiting list for the Beau Rivage Hotel & Casino, please ask in the comments area of the registration form.

Overflow options within one block of the host hotel:

- Hard Rock Cafe & Hotel:  
228-374-7625 - [www.hardrockbiloxi.com](http://www.hardrockbiloxi.com)
- Four Points by Sheraton:  
228-546-3100 - [www.fourpoints.com/Biloxi](http://www.fourpoints.com/Biloxi)

## NCOIL Special Forum to Focus On FIO Report

NCOIL leaders convening in Mississippi next month will host an interactive dialogue to discuss and respond to a forthcoming Federal Insurance Office (FIO) report on how to modernize U.S. insurance oversight. The Spring Meeting State Leaders' Roundtable on FIO will take place only weeks after FIO is expected to issue its report and recommendations.

NCOIL President Sen. Carroll Leavell, NM, said, "We expect to have a lively conversation in Biloxi. We've invited FIO Director Michael McRaith, as well as several leaders of national organizations comprising state officials to join us so that we can have a frank and constructive dialogue about the FIO report and what it means for the future of insurance oversight."

The NCOIL President continued:

We at NCOIL have been very clear. Lawmakers believe that the states have performed admirably at fostering competitive insurance markets with robust consumer protections. We are convinced that insurance regulation must remain under the purview of the states. That said, NCOIL sees the need to reform certain key areas of insurance oversight and looks forward to airing the FIO recommendations. We recognize that we do not have a monopoly on good ideas and we welcome thoughts on how to modernize regulation.

The February 24 roundtable, planned for 10:45 a.m. to 12:15 p.m., follows a December 8 NCOIL consultation with Director McRaith during which NCOIL Immediate Past President Rep. George Keiser, ND, overviewed

the organization's thoughts on insurance reform. The roundtable also comes on the heels of a December 9 FIO stakeholders conference on regulatory modernization held at the Treasury Department.

The Dodd-Frank Act requires FIO to submit its report—which is required to include any appropriate legislative, administrative, or regulatory recommendations—to Congress later this month. The report may tackle, among other things, costs/benefits of potential federal regulation, and the feasibility of federally regulating certain insurance lines. The report criteria's federal focus has ruffled the feathers of many observers, including legislators, who have expressed concern that it may foreshadow a greater federal role in the regulation of insurance.

The roundtable will take place in conjunction with the February 24 through 26 NCOIL Spring Meeting at the Beau Rivage Hotel.

## News from the States

### Andrew Boron Named Permanent Illinois Insurance Director

Illinois Gov. Pat Quinn has tapped Andrew Boron to serve as a permanent successor to former Illinois Insurance Director Michael McRaith, after months of temporary replacements filling in after McRaith stepped down last year.

Boron's appointment marks a return to state government after working as vice president and counsel at the Ace Group. In that role at Ace, Boron was the primary liaison to the insurance regulators in nine states, including Illinois. He also served as deputy chief of staff at the Illinois Toll Highway Authority between 2009 and 2010. Boron began his career at CNA Financial, serving as counsel and then director of state government relations. Boron holds a bachelors degree from the University of Wisconsin and a J.D. from the Chicago-Kent College of Law.

"Andrew Boron brings a wide range of experience to the Department of Insurance, and I am confident his strong leadership will enhance the essential regulatory and consumer protections DOI provides," Quinn said in a statement.

Boron will take over the Insurance Department from Robert Wagner, the former general counsel for the state's Department of Insurance who was appointed acting director of insurance earlier this month. Prior to Wagner's appointment, Andrew Stolfi was appointed to that position in October after McRaith stepped down to become director of the Federal Insurance Office. The FIO is expected to soon release a comprehensive report on the state of the U.S. insurance industry. McRaith has said publicly the report would be released in January.

### NJ Commissioner Considine to Step Down

Gov. Chris Christie said state Department of Banking and Insurance Commissioner Thomas Considine would be stepping down to take a job as chief operating officer of MagnaCare. Christie has appointed Considine's chief of staff Kenneth E. Kobylovski to succeed him.

Christie said in a Jan. 30 press conference that part of Considine's decision was based upon the "challenges" that come with public service. "It is a challenge for them and their families to make sacrifices for their service and the expenses that go on with that service," Christie said. MagnaCare is a health plan focused on self-insured health plans in New York and New Jersey.

Christie said Considine had been an "extraordinary" member of his administration and Considine had told him early in his term as insurance commissioner that it was for a "limited time." Christie said, "We always knew that there would be a time when he would tap me on the shoulder and say that he would have to go out and make more money. I appreciate his willingness to make that sacrifice."

Christie highlighted the department's work on the state's personal injury protection system. Last week, the department outlined changes to the proposed outline for a new PIP system in the state after fielding some 18,000 comments. The updated system was first unveiled by the department in August.

The changes include the creation of a new hospital outpatient surgical facility fee schedule separate from the ambulatory surgical center facility fee; amendments of the ASC facility fee to eliminate an over-reimbursement for implantable devices; deletion of 117 fees from the physician's fee schedule for spinal and neurosurgical procedures because of their infrequency and availability of coverage; deletion of references to workers' compensation managed care organizations from the PIP protocols rule and removal of post-employment restriction on dispute relation professionals.

Considine also supported the state's push to become a captive insurance domicile. The state has approved three captives to incorporate in the state after enacting captive legislation last year.

## On the National Front

### FIO Won't Duplicate State Regulation, Paperwork

The new Federal Insurance Office is not trying to duplicate state regulation or increase the paperwork burden on insurance companies, Michael T. McRaith, the first director of the FIO, said during the Property/Casualty Insurance Joint Industry Forum. McRaith offered his comments after several panelists raised concerns earlier about the specter of increased federal regulation.

For instance, David H. Long, president and chief executive officer of Liberty Mutual Group, had expressed concern federal regulators would set capital requirements, but state regulators would control rates, leaving insurance companies stuck awkwardly in the middle.

"To be clear, FIO is not a regulator. That remains the province of the states," said McRaith, who spent six years as the director of the Illinois Department of Insurance. McRaith said a key responsibility of the FIO will be to monitor all aspects of the insurance industry. "Different people have offered different views about what monitoring the industry will look like," he said.

"Much of our effort will involve data analysis. I understand some in the industry question the need for the FIO's authority to ask for and receive information ... something of a cottage industry has developed around concerns that the FIO will duplicate the document requests that insurers receive from the states. These concerns are not well founded," McRaith said. He said if the FIO needs information, it will seek it from a public source or a regulator, including the state insurance commissioners.

While the FIO has subpoena power, McRaith said it would only use that power if the information it seeks is not available from a public source or not available from a regulator. The FIO expects to release its first major report, on how to improve and modernize U.S. insurance regulation, later this month, he said. "We could write until the Chicago Cubs win the World Series and still not address" every issue that warrants modernization, McRaith said.

However, the report will address one of FIO's key responsibilities: how it intends to monitor access to affordable insurance for underserved consumers, he said. The comprehensive report on the insurance industry was required under the Dodd-Frank Act.

McRaith touted the FIO as being the first single point of contact for international insurance issues, and said the FIO has joined the International Association of Insurance Supervisors. "Of great interest to many here today is the [European Union's] Solvency II initiative," McRaith said. Solvency II "has some excellent components," he said, "as does the U.S. system." He said there's uncertainty about the potential impact of Solvency II and whether it would result in any changes to U.S. regulation. "We need clarity," McRaith said. The FIO will be a "national leader in the discussion on equivalency in the near term," McRaith said.

Systemic risk is also an issue that regulators and insurers are concerned with, he said, noting the Financial Stability Oversight Council was created to identify and respond to threats of financial system stability, including identifying systemically important financial institutions. He did not give an opinion as to whether insurers should be considered systemically important financial institutions -- and as such, potentially face additional regulations -- but said he was looking forward to working with the council. The FIO is an advisory member of the council, he said.

The FIO has been fielding comments on what its role should be, including a call late last year from the Risk Management Society to play a larger federal role in insurance regulation. RIMS commented that the existing state-led regulatory structure has inherent flaws, and said enacting an optional federal charter could help to address some of those issues.

## GAO: Feds Overpaid Medicare Advantage Carriers Up to \$3.1 Billion

The federal government overpaid insurance companies offering Medicare Advantage plans by up to \$3.1 billion in 2010 because of miscalculated diagnostic data, according to a recent report by the U.S. Government Accountability Office.

Diagnostic coding differences between Medicare Advantage plans and Medicare fee-for-service plans had "a substantial effect" on how Medicare Advantage plans were paid, the GAO report said. Before Centers for Medicare & Medicaid Services reduced 2010 Medicare Advantage beneficiary risk scores, the GAO said it found those scores were at least 4.8%, and as much as 7.1%, higher than the risk scores would have been as a result of diagnostic coding differences. Even after the CMS adjusted Medicare Advantage scores, they were still too high by between 1.4% and 3.7%.

That difference amounts to between \$1.2 billion and \$3.1 billion in over payments, the report said. The report does not list the companies who were overpaid. The report also does not say that insurance companies offering Medicare Advantage plans did anything incorrect in receiving the allegedly excessive payments.

The GAO report said part of the problem was the data CMS used for its estimates didn't include such variables as 2008 data, the increasing impact of coding differences over time and additional beneficiary characteristics that explained more variation in disease score growth.

"To help ensure appropriate payments to MA plans, the administrator of CMS should take steps to improve the accuracy of the adjustment made for differences in diagnostic coding practices between MA and Medicare FFS," the report said. Those steps could include accounting for additional beneficiary characteristics, including the most current data available, identifying and accounting for all years of coding differences that could affect

the payment year for which an adjustment is made and incorporating the trend of the impact of coding differences on risk scores, the report said.

The report was requested by a group of House Democrats led by Rep. Henry Waxman, D-Calif., who serves as the ranking member of the House Energy and Commerce Committee.

The report supports the America Health Insurance Plans' position that the health care system needs to "move beyond the outdated fee-for-service system to one that rewards quality, value, and better health outcomes," Robert Zirkelbach, an AHIP spokesman, said in a statement. "Unlike the FFS part of Medicare, Medicare Advantage plans work to identify and address beneficiaries' specific health care needs through integrated care coordination, disease management, and quality improvement initiatives."

The GAO finding that Medicare Advantage carriers were overpaid could come into play later this year if Congress once again takes up the issue of how to reduce the federal budget deficit. Medicare Advantage and Medicaid were among the programs that the Joint Select Committee on Deficit Reduction, better known as the "supercommittee," considered cutting in 2011.

When the supercommittee failed to reach an agreement on how to reduce the deficit, some industry observers said having no deal was better than having a deal that cut billions from Medicare and Medicaid.

Part of the reason is that under a deal reached by Congress that created the supercommittee, if a deal couldn't be reached, automatic cuts would go into effect that include a 2% across-the-board cut to Medicare and Medicaid.

Jean LeMasurier, senior vice president for public policy at Gorman Health Group, said at the time that Medicare Advantage carriers as well as Medicare Part D writers immediately began factoring the 2% automatic cuts into their bids.

## Industry News

### Fed's Move to Keep Short-Term Interest Rates Low through 2014 Pressures US Life Industry

The Federal Reserve's Jan. 25 announcement it plans to keep short-term interest rates near zero at least through late 2014 continues the financial and profit pressures plaguing the U.S. life insurance industry.

The Fed announced that economic conditions are "likely to warrant exceptionally low levels for the federal funds rate at least through late 2014," changing its previous statement in August that the federal funds rate would remain low "at least through mid-2013," said James Gillard, senior managing economist at A.M. Best Co.

The central bank is also now releasing participants' projections of the appropriate timing for raising the federal funds rate, Gillard said. "We expect the Federal Reserve to follow through on its intention to keep interest rates near zero until at least late 2014." Finally, the Fed announced its continuing "Operation Twist," which is serving to bring down long-term interest rates, Gillard said, referring to the central bank's "Maturity Extension Program and Reinvestment Policy," instituted last September.

These actions are creating "an unprecedented period of low interest rates," Gillard said, noting short-term rates will have been near zero for six years if rates remain at these levels through late 2014, which will continue to put pressure on investment income and reinvestment return.

The Federal Reserve's announcement means reduced reinvestment rates, less competitive spread-based products and compressed interest rate margins for life insurers, wrote Jay Gelb, an equity analyst with Barclays Capital, in a research note. However, Gillard said insurers "should have a better ability to plan and make appropriate adjustments given the Federal Reserve's new transparency in its expected time horizons for interest rate movements."

Information received since the Federal Open Market Committee met in December suggests the economy has been expanding moderately, notwithstanding some slowing in global growth, according to a statement from the Federal Reserve's board of governors. While indicators point to some further improvement in overall labor market conditions, the unemployment rate remains high.

The Fed has the dual mandate of controlling inflation while maximizing employment but "these can conflict," said Steven Schwartz, an equity analyst with Raymond James, in an email.

The Fed is focused on fixing the housing market with Operation Twist, according to Quincy Krosby, chief market strategist for Prudential Annuities. The question is whether the central bank does another round of quantitative easing, which she dubbed as another way of saying "the printing of money."

"Quantitative easing" is a monetary policy used by central banks to stimulate the national economy when conventional monetary policy has become ineffective. A central bank buys financial assets to inject a predetermined quantity of money into the economy.

If the Fed does a quantitative easing later this year, "they'll likely be buying mortgage assets in an attempt to bring down mortgage rates even further," Schwartz said.

According to the American Council of Life insurers, life insurers held \$5.3 trillion in assets in 2010. At year-end 2010, 52% of their assets were held in bonds. Long-term U.S. Treasury securities in their general accounts totaled \$120 billion, and the largest portion of long-term bonds were in both U.S. and foreign investments, totaling \$1.6 trillion, or nearly two-thirds of all long-term general account bonds, according to the ACLI.

In this environment, the life industry is mostly buying investment-grade corporate bonds with high credit quality that provide good spreads, and isn't making big buys into Treasuries, according to Mike Lillard, managing director and chief investment officer for fixed-income management at Prudential Financial.

Stock life insurers tend to focus more on "spread-based" products, taking on more investment risk than underwriting risk, Schwartz said. Spread-based products, such as fixed and indexed annuities, and universal life, are those in which most of the earnings are due to the difference between the income from investments and crediting rates to policyholders, Schwartz said. Mutual life insurers tend to hold more Treasury and agency debt.

Speaking during an A.M. Best Co. webinar last year, Ken Frino, group vice president of A.M. Best's life/health rating division, said variable annuities with guarantees and traditional fixed annuities are the annuities that could be most impacted by low interest rates. Other products that could be impacted most are universal life insurance with secondary guarantees; long-term care and long-term disability, Frino said

## Only 39% of U.S. Families Exposed to Life Insurance Opportunities

Despite a broad array of ways to buy life insurance - in person, by phone, by mail, through seminars, at the workplace and online - LIMRA's 2011 Life Insurance Buyer/Non-buyer study found that only 39 percent of U.S. households recall having an opportunity to buy life insurance in the past two years.

"This phenomenon is especially true for single people -- a growing segment of the population because of a decline in marriages and an increase in divorce during the past few decades," noted Cheryl Retzliff, senior research director, LIMRA Markets research. "Only 26 percent of single people recall having an opportunity to buy life insurance (compared to 74 percent of married people). We also found that those singles who did recall having an opportunity to buy life insurance are almost as likely to buy life insurance as married households (51 percent versus 58 percent). Companies could grow their life business by more aggressively pursuing this untapped market."

Earlier this year, LIMRA uncovered another growing market -- single mothers. Having children is a key reason people start shopping for life insurance and a recent LIMRA study found single mothers have unmet life insurance needs. One third of single mothers who are the primary wage earners in their families had no life insurance coverage at all. And even single mothers with life insurance coverage are underinsured: Two thirds felt that their families could not cover everyday living expenses for much more than a few months should they die.

### *Online Shopping Less Effective*

The study found that twice as many households shopped for life insurance in 2011 as in 2003 (22 percent versus 11 percent). But fewer households that shopped bought in 2011 than bought in 2003 (54 percent versus 70 percent). The eight years between the two studies have seen tremendous growth in opportunities to buy online and probably in consumer awareness about the ability to buy life insurance online. These online opportunities may be the main reason more households report shopping for life insurance in 2011. Online opportunities may also be why fewer households bought after shopping. Shoppers who shopped only online were considerably less likely to buy (36 percent bought) than were shoppers meeting face to face with sales reps (74 percent), or even those dealing directly with insurance companies or sales reps without meeting face to face (67 percent). Who is more likely to buy?

There were only slight differences separating buyers and nonbuyers in regard to age, household income, and marital status. As noted, the key differentiator between those who buy life insurance and those who don't is whether they have children under age 18 in the household. Almost half of buyers have children in the household, compared with 38 percent of nonbuyers. Not only does having or adopting a child trigger households to shop for life insurance, it motivates them to buy: Seventy-three percent of households that shopped for life insurance because of births or adoptions actually bought policies.

Nonbuyers comprise two segments -- the 70 percent who are still deciding whether they will purchase and the 30 percent who have already decided not to buy. Only 14 percent of nonbuyers actually decided they did not need life insurance and would definitely not buy.

LIMRA's research indicates that following up with prospects who had investigated or inquired about life insurance is extremely important, whether that inquiry was face to face, on the telephone, through the mail, or online. About one fourth of each generational group and middle- and high-income households' most important reason for not buying was because they were still shopping.

"There are clearly opportunities for insurers to reach out to underserved segments of the population, like single people, who are in need of life insurance," Retzloff said. "In addition, insurers and producers need to be cognizant that some life insurance shoppers -- especially those under age 46 who have dependent children in the household -- may be slow to make a decision and may need someone to help them make the final decision to move forward and buy."

## Calendar of Industry Events

<b>February 24 - 26, 2012</b> NCOIL 2012 Spring Meeting	Beau Rivage Hotel Biloxi, Mississippi
<b>March 3-6, 2012</b> NAIC Spring National Meeting	Hilton New Orleans New Orleans, Louisiana
<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.