



2010 Fall Conference Report

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

NALC Highlights Fall Conference Report

September 22 - 24, 2010
Stoweflake Resort
Stowe, Vermont

The NALC held its 2010 Fall Conference September 22-24, 2010, at the Stoweflake Resort in Stowe, Vermont. Following are summaries of presentations by participating speakers.



David Provost

Mr. Provost manages the Captive Insurance program for the State of Vermont. Vermont is the gold standard for captive initiatives, leading the nation in the number of captives. Over 900 captive insurance companies are licensed and domiciled in Vermont. These companies account for over \$134 billion in total assets and \$76 billion in surplus. The industry has created more than 400 direct and 1000 ancillary jobs in Vermont, along with \$25 million in tax revenues. The key for Vermont's success has been continued support for the captive insurance initiative from administration to administration, and a good national reputation for understanding captive insurance programs.

Michael Bertrand

Michael Bertrand has been with the Vermont Department of Insurance since 2007, and has served as Commissioner since early 2010. Mr. Bertrand noted that the federal government is playing a larger role in both regulation and insurance through both Dodd-Frank and the Health Reform Bill. He described both bills as promises made in Washington but kept by the states, since the states have the enforcement and implementation tools. He discussed the challenges in implementing health care reform, and noted that the lack of a conference committee on the Health Reform Bill robbed the Congress of a valuable tool to resolve problems with the initiative. We are beginning to see some of those problems now in the roll out of the first provisions.



Commissioner Bertrand

Ethan Sonnenschein

Ethan Sonnenschein manages congressional relations for the NAIC through its DC office. Mr. Sonnenschein updated the NALC on legislative changes in Washington, as well as the implementation challenges for the Health Reform Bill. He described the Dodd-Frank and Health Reform bills as the largest consolidation of authority in Washington in years. The NAIC has established a working group to focus on health reform implementation, and they have had numerous meetings and conference calls. HHS has established an aggressive

timetable for implementation. While the federal government fell short of rate regulation, it did give itself authority for rate review of health insurance rates. He said that if there is one silver lining in the large regulatory cloud, it is that many insurance companies that once supported federal regulation are beginning to rethink their position.

John Oxendine

Commissioner Oxendine has served as Commissioner of Georgia for 16 years. He offered a strong defense of state regulation and echoed the other speakers' comments on the importance of preserving state based authority. He noted the financial soundness of state regulated insurance companies during the recent crisis. The Commissioner also discussed the issue of retained asset accounts, a topic he has been active in at the NAIC and within the state of Georgia.



Commissioner John Oxendine

Marty Schwartzman

Chief Deputy Superintendent Marty Schwartzman of New York talked to the NALC. He spoke about efforts to make state regulation in New York more balanced and rational. He wants New York to be known as competitive and innovative, rather than bureaucratic and slow. The Chief Deputy noted that too often the Department viewed regulation as simply saying no to industry requests. His feeling is the agency needs to speed up the review process and become more open to product innovation and new ideas.

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Governor Hodges and Marty Schwartzman

Health Care Reform – What Does It Mean - To Employers; To Insurers?

Leon Langlitz -- Vice President, Lewis & Ellis

The Patient Protection and Affordable Care Act, passed by Congress and signed by President Obama in March 2010, contains many new requirements for both employers and insurers. This summary will cover some of the key reforms made to coverages, benefits and insurance in general. There are also a number of significant market changes contemplated by the Act which will also be discussed. Finally a summary of the key taxes and fees used to pay for this will be provided.

Coverage and Benefit Reforms

For plan years beginning on or after October 1, 2010 health insurance plans must:

- Provide coverage for a dependent child to age 26
- No have any lifetime limits on essential benefits
- Have annual limits approved by HHS for year 2011 – 2013, no limits in 2014
- Have no pre-existing exclusions for children under 19
- Not rescind coverage (except in case of fraud)
- Not have any cost sharing for preventive services (as defined by US Preventive Services Task Force)
- Additional limits will become effective on January 1, 2014



A Future NALC Member?

Insurance Reforms

Insurance companies will need to ensure the plans they offer after January 1, 2014 comply with the following requirements:



Mrs. Matheny & The Girls!

- Only allowed variables for rating insurance policies:
 - ✓ Single versus family
 - ✓ Area
 - ✓ Age (cannot vary by more than 3 to 1)
 - ✓ Tobacco use (cannot vary by more than 1.5 to 1)
- Cannot use gender as a rating variable
- Discrimination based on health status is prohibited
- Each insurer must accept every employer or individual who applies (Can have open enrollment restrictions)
- Each insurer required to renew coverage as long as in market

Market Changes

Each state by January 1, 2014 will have established an electronic benefit exchange which will facilitate the purchase of qualified health plans. The exchanges will be administered by a governmental agency or non-profit organization. Individual and small employers (up to 100 employees) can purchase coverage through the exchange. Individual employees can choose coverage through the exchange versus the plan offered by the Company. There can be more than one exchange in a state but it must be for specified different geographic area. A state licensed insurer that markets medical products must participate in the exchange.

Taxes and Fees

There are a number of new taxes, fees, limitations, and reporting requirements that will be used to finance the legislation.



Rick Lassow and Susan Powell

- FSA accounts – over-the-counter drugs not prescribed are excluded (applies to HSA as well)
- FSA accounts – effective January 1, 2013, medical expense limited to \$2,500



Rob Hardy & Gerry Kraus

- Medicare Part A tax rate increased from 1.45% to 2.35% on wages > \$200,000 (single) effective 1-1-2013
- Investment income
- Cadillac tax effective 1-1-2018. Tax is 40% of value (still to be defined) greater than
 - ✓ Annual single cost of \$10,200
 - ✓ Annual family cost of \$27,500
- Annual fee for Drug Manufacturers effective January 1, 2012 beginning at \$2.8 billion and increasing each year thereafter.
- Annual fee for health insurers beginning January 1, 2014 beginning at \$8.0 billion and increasing from there.

- Beginning on January 1, 2013 Medical Device Manufacturer will have an excise tax of 2.9% of any taxable medical device.
- Excise tax of 10% on Tanning Salons beginning July 1, 2010.
- There will be a comparative effectiveness research fee of \$1 per participant first year and \$2 per participant thereafter paid by the employer. Begins with policy year ending after September 30, 2012 through 2019.
- Beginning in 2012 all employers will need to provide 1099 forms to all vendors that provide \$600 or more of services or products in a year.
- Beginning in 2013 individual/families with income over \$200,000/\$250,000 will be subject to a 3.8% tax on net investment income. This includes capital gains, dividends, royalties, annuities and



Rick Dugger & Leon Langlitz



Afternoon at Leisure

There are many more healthcare financing and practice changes contemplated by the new law and the subsequent regulations that will be written to implement the law than discussed above. Keep informed as the one constant will be change.

Agent Fraud

Rick Dugger -- President, Vector One

The fact of debit balance fraud is beyond dispute...it is a plague in the industry. The primary reason, in my opinion, that many companies continue to lose money year-in-and-year-out to debit balance fraud, is a lack of commitment to solving the problem, by changing their procedures and doing something pro-active about the fraud. Two-thirds of the companies in attendance here today are Vector One clients; those companies have

gotten out in front of this fraudulent activity by producers, and are doing something about these losses. These companies are committed.

Vector One clients have recovered tens of millions of dollars in debit balances paid by producers so the producer will be removed from Vector One. Vector One is beginning its 3rd decade of providing Insurance Companies the ability to screen prospective agents for commission-related debit balances. Vector One not only saves its subscribers money, but also provides them with a significant due-diligence, market conduct tool not available to the insurance industry anywhere else. Vector One's database of agents with commission-related debit balances is not publicly accessible; it can only be accessed by Vector One subscribers and is the only industry specific, debit balance management tool available to control debit balance losses. Vector One also provides, through its new product, Vector One Plus...24/7 monitoring of any changes in the debit status of client companies field forces.



Lynn Lowe & Ray Renfrow

Is your company doing absolutely everything it can to protect its policyholders from agents that commit commission-related fraud? Is your company doing absolutely everything it can do to protect its bottom-line from debit balance fraud? Is your company doing all the due-diligence and market-conduct it can do regarding producers? Is your company committed to doing something about this type of fraud? If it is using Vector One and Vector One Plus, the answer is yes. If your company is not using Vector One and Vector One Plus, the answerer is no.

The State of the US Commercial Real Estate Market - Implications for the Insurance Industry's CMBS and Direct Loan Portfolios

Sean O'Connell, CFA, Vice President, Portfolio Manager - Real Estate & Structured Finance

The commercial real estate market is distressed, reflecting the downturn in the economy and stress created by the real estate bubble - i.e., cheap debt, aggressive underwriting, and increased leverage. National vacancies are at 1991 levels and valuations are back to 2002 levels. CMBS delinquencies are up across all property sectors. Although the commercial real estate market is anticipated to work through its problems, this will take some time due to large number of loans that will need to be refinanced in the coming years.



Jeff Rieder, Rick Lassow, Sean O'Connell

for the past 10 years. Insurance lenders are profiting from their more conservative lending practices, which include longer term horizon, fixed rate/amortizing loans with 60-70% loan to value, no land & condo loans, residential development or pro forma lending, and investing in simpler structures rather than leveraged exotic types such as CDOs.

Benchmarking for Performance Improvement

Jeff Rieder, President of Ward Group

Benchmarking is a common practice and sensible exercise to establish baselines, define best practices, create a competitive work environment and identify improvement opportunities. 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.

Jeff Rieder, President of Ward Group, discussed how benchmarking gives you a clear picture of your company performance relative to the industry, highlights improvement opportunities and serves as the starting point for developing a strategy for change. Jeff presented perspective on current issues including major hurdles for 2010, staffing trends and expectations, and a review of spending levels by function.



The Hardys

Save the Date

2011 Spring Conference

April 27-April 30, 2011
Longboat Key Club & Resort
Longboat Key, Florida

Online conference registration, hotel reservation, golf registration, and sponsorship information will be available soon at <http://www.nalc.net/conference/registration.htm>. There you will find the options of registering online, or completing the forms on your computer.



Future NALC Meetings

Mark your calendars for these upcoming NALC conference dates.

Fall 2011: September 21-23, 2011; Hotel Park City, Park City, Utah

<http://www.hotelparkcity.com>

Spring 2012: April 18-20, 2012; LaCosta Resort & Spa, Carlsbad, California

<http://www.lacosta.com>

Fall 2012: September 19-21, 2012; Kingsmill Resort, Williamsburg, Virginia

<http://www.kingsmill.com/>