



Armed for Battle



Lawmakers are considering various initiatives that are a threat to your business and are creating what can truly be called “The Perfect Storm.” Here are some of the initiatives NAIFA is pursuing to prevent this storm from wreaking havoc to your business.



NAIFA IS FIGHTING HARD TO MAKE SURE THAT THE ISSUES THAT ARE IMPORTANT TO YOU AND YOUR CLIENTS ARE HEARD BY LAWMAKERS AND THAT YOUR INTERESTS ARE PROTECTED AND ADVANCED.

Protecting tax benefits

NAIFA is using its resources to guard the unique tax benefits of life insurance, annuities, disability income insurance, long-term-care insurance and retirement plans.

As in previous economic downturns, consumers today seek safety in the products you use in constructing firm financial foundations. A key strength of the life insurance industry's products derives from the favorable tax benefits and incentives Congress grants the users of those products.

But hard times mean budget woes for Congress and state governments. Budget challenges and the push to expand health-insurance coverage this year present fundamental threats to the tax treatment of life insurance.

Examples of challenges that have arisen so far this year are:

Health-care coverage expansion: The Obama administration and many members of Congress see universal health insurance within reach this year. Paying for it is always the difficult part. In May, the Obama administration proposed four life-insurance-related tax law changes that raise \$12.5 billion over 10 years earmarked to help pay for health-insurance coverage.

General budget reduction: With huge federal budget deficits looming, one way to raise new revenue is to scale back or eliminate current tax benefits. Life insurance and

annuity cash values will produce \$150 billion in tax benefits for families over the next five years.

Other life insurance products receive similar treatment and make tempting targets from which to generate new tax revenue.

General tax reform: A panel appointed by President Obama will report its recommendations on Dec. 4, 2009, for overhauling the federal tax system. Every tax benefit afforded life insurance products will be up for review.

State governments: Most state budgets are just as challenged for revenue as their federal counterpart. In March and April of this year, the Oregon legislature considered a direct tax on life insurance inside build-up, and California has considered taxing death benefits paid to businesses that place life insurance on key employees.

Health-care reform

NAIFA is also working hard to ensure that choice, quality, competition and professional service are included in comprehensive health-care reform legislation.

One of the more controversial issues is the inclusion of a public-plan option. NAIFA opposes including a public



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(new government) plan as an “option” because it believes that the private health-insurance system is best equipped to provide options for families and businesses. The association is especially concerned with the public plan as a major step toward a single-payer, government-run, health-care system.

A public plan that eliminates the role of the agent has been falsely defined as one that would lower administrative costs. But administrative costs are not reduced simply by switching administrators; a government plan will not be less expensive unless services are reduced.

Moreover, the hands-on experience of agents indicates that most consumers benefit from access to professional assistance. Licensed, fairly compensated insurance agents offer them a cost-effective means of getting assistance when selecting insurance coverage.

While opposing a new public-plan option, NAIFA supports the goal of universal access to health care for all Americans and is committed to making health-care coverage more affordable. NAIFA’s proposals are outlined in the *Rx For Health Care—The Advisors’ Perspective*, which is at http://ahia.net/advocacy/documents/2009_RX_For_Health-care_Booklet.pdf.

The most controversial issue is funding. Of greatest concern to NAIFA is whether the tax advantages of employer-provided health insurance will be limited in order to fund reform. NAIFA will remain at the forefront of this initiative,

protecting both health-insurance advisors and the clients they serve.

Stranger-originated life insurance

NAIFA is once again aggressively pursuing legislation in the states to stop the proliferation of stranger-originated life insurance. Last year, our efforts to stop STOLI were very successful. Despite the large amount of human and financial resources devoted by STOLI proponents to stopping anti-STOLI bills, legislation was enacted in 13 states that will help restrict and end STOLI.

This year has proven to be even more active. Over 20 states are considering anti-STOLI bills, and as of this writing, Arkansas, Washington, Minnesota and North Dakota have enacted anti-STOLI laws.

Given the strength of the opposition, our strategy continues to be to pursue legislation only in those states with the elements for a successful legislative effort on STOLI: An insurance commissioner with a strong interest in the issue; key legislators who will support the bill; and a strong commitment by the state producer and company community.

While our goal is to have anti-STOLI laws enacted in all 50 states, we are choosing our opportunities carefully because we believe it would harm our position to pursue legislation that is ultimately defeated.

Taxation of life insurance in states

Efforts to tax life insurance benefits are no longer a “what-if” scenario. Eight

NAIFA-Oregon members testified before the Oregon House Revenue Committee against HB 2854, a bill to tax the inside build-up and death benefits of life insurance.

These members delivered such a powerful message about the harmful effects of the bill that afterwards committee members and the bill’s own sponsor said they would oppose the bill if it reached the floor. The bill appears to be dead, but the message is clear—as states look for revenue to reduce growing deficits, the threat to our products is real and cannot be ignored.

Regulatory reform

NAIFA supports a dual-track approach to insurance regulatory reform. The first track is to continue our efforts to streamline state regulation. NAIFA has a long history with NAIC and NCOIL of developing and implementing model regulations and legislation. The second track is to pursue federal initiatives to achieve regulatory reform.

Last fall, NAIFA’s National Coun-



cil voted to support the creation of an optional federal charter provided it meets certain key conditions: true agent choice, enhanced consumer protections, the preservation of state regulation for those agents and companies for whom state regulation makes the best sense, and the creation of a federal entity with expertise in insurance.

NAIFA also supports NARAB II, which would streamline the non-resident agent-licensing process. NARAB II passed the U.S. House of Representatives before the 110th Congress adjourned in 2008 and is expected to be reconsidered in this Congress. In addition, NAIFA supports legislation to create a federal Office of Insurance Information to advise lawmakers on proposed policy that affects insurance.

The impact of the current market crisis is that Congress is considering how to restructure all financial-services regulation. While there is little consensus on a comprehensive plan, there is general agreement in Washington that a new systemic risk regulator should be created to identify and address any significant threats to the economy, including the activities of insurers. NAIFA is working with Congress to ensure that any efforts to create a systemic risk regulator should not result in a new federal layer of regulation on top of current state regulations.

Compensation disclosure

This year, both the New York and Maryland Insurance Departments have been considering requiring producers to disclose compensation during the sales process. Earlier in the year, the New York department released a draft of its proposal that requires producers to provide purchasers with a description of the nature and amount of compensation and a notice, which would state that the producer “may have financial incentives to recommend certain contracts.” NAIFA and NAIFA-New York State objected to this initial approach strongly.

NAIFA and NAIFA-New York State have discussed the proposal with the department. As a result, the department has moved away from its initial draft

requirements and has indicated that a revised proposal will only require an initial disclosure describing the “role of the producer” in the sales process.

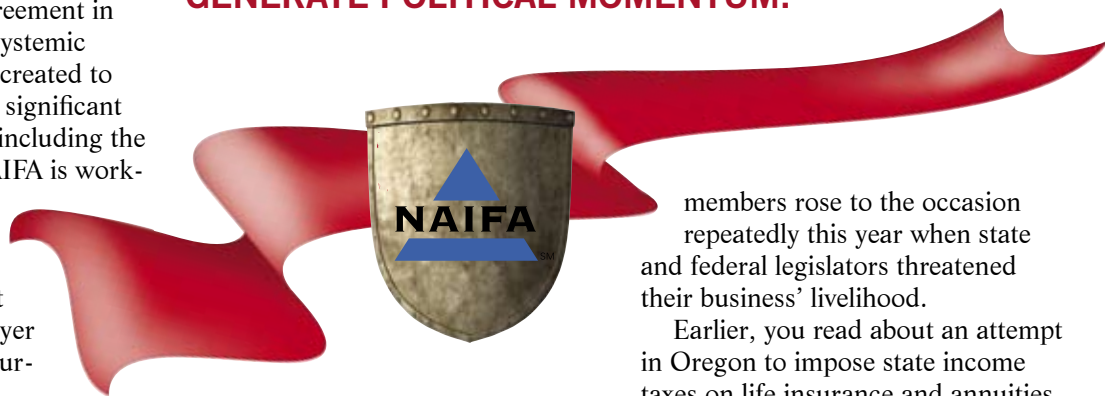
The customer would be informed that the insurer offers the products while the producer markets the products and receives compensation from the insurer when a sale has been consummated. If, after this initial disclosure, the customer wants to know more about the compensation, the customer’s question would then need to be answered clearly by the producer. The department has also indicated that it does not intend to proscribe the manner of this latter disclosure and that it intends to finalize its regulation later this year.

act, they *will* generate political momentum. The segment of the American population that elected President Obama continues to be very active, is helping to move along the health-care reform debate and *will* influence the shape of the legislation.

As a NAIFA member, you have always been in the “people power” business. Now is the time to inform your representatives of your concerns and hopes for health-care reform (and tax reform and insurance regulatory reform, for that matter).

By maintaining a very large political action committee and communicating with their elected representatives on legislative issues, NAIFA

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In early May, NAIFA learned that the Maryland Insurance Department also plans to consider whether to mandate the disclosure of an agent’s commission during the sales process. The department has indicated that it has received no complaints from consumers on this issue but stated that one reason for this could be that commission disclosure is not now required.

NAIFA and NAIFA-Maryland will be working together to communicate to the department the significant reasons for our opposition to this issue and the “possibility” that no complaints could also mean no problems.

Grassroots and political involvement

If we learned anything on Nov. 4, 2008, it was that if enough people

members rose to the occasion repeatedly this year when state and federal legislators threatened their business’ livelihood.

Earlier, you read about an attempt in Oregon to impose state income taxes on life insurance and annuities and to tax citizens on life insurance and annuity savings. The NAIFA members who beat back that proposal were engaged in classic grassroots activism.

And in May, NAIFA-Wisconsin members battled a bill that would require commission disclosure on the sale of annuity products in order to qualify for grant funds. If you haven’t contributed to IFAPAC, responded to a *GovAlert* or developed a relationship with your congresspersons or senators, it’s never too late to join your colleagues in fighting for your right to stay in business. □

Contact members of NAIFA’s Government Relations Team at governmenrelations@naifa.org.