



NAIFA-ARIZONA
Quarterly Board Meeting October 28, 2005
GOVERNMENT RELATIONS REPORT

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This report provides a summary of key legislative and related issues of interest to NAIFA members.

- **Bills Introduced to Regulate Travel as a Factor for Life Insurance**

Rep. Debbie Wasserman Schultz (D-FL) introduced the **Life Insurance Fairness for Travelers Act of 2005**, H.R. 3639, on July 29. Wasserman Schultz explained that she introduced the bill because she was denied life insurance coverage earlier this year when she told the insurer that she might travel to Israel in the future. The response from the company that denied the coverage indicated that the reinsurers for the company imposed the restriction for certain countries of concern, including Vietnam, Iraq and several African nations.

The Life Insurance Fairness for Travelers Act, which has 31 cosponsors, **would prohibit companies from discriminating "based upon the intent of [a] person to engage in lawful foreign travel."** It would also prevent an insurer from charging excessive rates for life insurance in relation to the actuarial risk associated with future lawful foreign travel.

Status: Both bills have been referred to the House Financial Services Committee, where they may be considered as amendments to the Terrorism Risk Insurance Act (H.R. 1153).

- **Annuity Payments (H.R. 819, S. 381; H.R. 2951; S.1359)**

NAIFA strongly supports the enactment of proposals to address the lack of guaranteed income for retirees. NAIFA is part of a large coalition formed to push the **Retirement Security for Life Act** and has expressed support for the more comprehensive approach found in the **Lifetime Pension Annuity for You Act**.

The Retirement Security for Life Act would grant a federal tax exclusion of half the payout from a non-qualified annuity or similar life insurance proceeds up to \$20,000 per year.

Other bills (H.R. 2951 and S. 1359) would grant tax incentives for both qualified and non-qualified annuities.

Status: H.R. 819 and S. 381 were introduced February 17, 2005. H.R. 2951 was unveiled June 17, 2005. No action in either house has occurred to date, but debate is expected to pick up when Congress considers Social Security reform issue

- **Bush Administration Savings Plans – LSA, RSA and ERSA (H.R. 1161, 1162, 1163; S. 545, 546, 547)**

President Bush has proposed the creation of Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs), and Employer Retirement Savings Accounts (ERSAs). NAIFA is particularly concerned about the LSA.

LSA is an individual saving account granted "inside build-up" treatment. An individual could contribute (for him/herself or on behalf of another family member) \$5,000 a year into LSA accounts without regard to income and make penalty free withdrawals at any time, at any age, and for any purpose. By making individual savings vehicles so appealing as compared to permanent life insurance and annuities, **the plans would, in effect, be a disincentive to long-term savings through annuities, permanent life insurance and pensions.** This will likely tilt the playing field away from long-term security and retirement savings vehicles of the type sold by NAIFA members.

NAIFA also has concerns as to how LSAs and RSAs used in tandem would affect the willingness of small business owners to offer pension plans to their employees. A 2004 study by the Congressional Research Service predicts that the overall U.S. savings rate would drop if the proposals were adopted as presented. ERSAs would consolidate 403(b) and 457 pension plans into 401(k) - style plans. 403(b)s and 457 plans are very popular among their targeted audience and agents serving these markets.



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Status: The LSA/RSA proposal was first unveiled by President Bush in 2003. 2005 brought a slightly scaled back version of the LSA/RSA proposal. This year, *President Bush has again made LSAs, RSAs and ERSAs a priority* in the context of comprehensive tax reform.

- **Corporate Owned Life Insurance (COLI);**

Newspaper articles criticizing business use of life insurance continue to spread misunderstanding with the general public and on Capitol Hill about the important benefits of COLI. These reports have sensationalized practices which were outlawed starting in 1986. Nonetheless, AALU and NAIFA actively support legislation that addresses perceived abuses.

Losing the ability to use life insurance in business continuation planning would be devastating to businesses all across America and the agents serving the business market.

NAIFA and AALU support business use of life insurance, including COLI plans that are consistent with applicable state laws governing insurable interests. In addition, it has long been NAIFA's position that employees covered by COLI plans must be informed that a policy may be placed on his/her life and employee consent must be given.

Status: After a major battle in 2003 and 2004, an AALU/NAIFA backed COLI provision was adopted by the Senate Finance Committee in February 2004. The AALU/NAIFA backed amendment was sponsored by Senator Kent Conrad (D-ND) and is now included in the NESTEG bill (S. 219). On May 11, 2005, Rep. Tom Reynolds (R-NY) introduced the House counterpart to the provisions in S. 219 called the COLI Best Practices Act, H.R. 2251. The bill has 42 cosponsors, including most Ways and Means Committee members. Additionally, Rep. Gene Green (D-TX) introduced the Life Insurance Employee Notification Act (H.R. 107) which would require disclosure of employer-owned life insurance coverage of an employee.

- **Federal Estate and Gift Tax Death Tax Repeal Permanency Act**

NAIFA joins AALU in supporting immediate, fiscally sound, sustainable estate tax reform that removes the estate tax burden for 99.6 percent of Americans. This sweeping change, which is not dependent on an uncertain multi-year phase-in, can be accomplished with immediate results by increasing exemptions, reducing rates, and adjusting for inflation.

Status: Evidencing very high Congressional interest, several bills were introduced on the first day of the 109th Congress to make the estate tax repeal enacted in 2001 permanent. "Reform" bills have also been introduced.

- **Insurance Regulatory Reform**

Agents and insurance companies cite a litany of problems in the state-based system of insurance regulation –inefficient licensing systems for both agents and companies, needlessly expensive and duplicative financial and marketing requirements and audits, lack of respect internationally, and lack of a presidential cabinet level presence in Washington to articulate the interests and needs of the industry. Studies indicate the problems are getting worse. The insurance industry is facing increased competition from other sectors, inefficient regulatory expenses and higher levels of volatility. Without a competitive market, agents are limited in their ability to give consumers adequate and affordable insurance options.

The need for regulatory reform has moved *NAIFA to strengthen its policy by reaffirming its century-long support of state regulation of insurance* while seeking regulatory improvement at both the state and federal levels. *NAIFA is open to considering proposals that would create a federal insurance regulatory presence* (including an optional federal charter for insurance companies and agencies), *a national producer's license* and other federal efforts to improve the insurance regulatory system.

Status:

Chairman of the House Financial Services Committee, Rep. Mike Oxley (R-OH), and Rep. Richard Baker (R-LA), have drafted a plan for insurance regulatory reform called the "**State Modernization and Regulatory Transparency (SMART) Act**". It would set goals, build on current NAIC programs and ideas, and nationalize certain consensus models and standards. It would also *establish a federal insurance presence in the form of an advisory council* comprised of federal and state representatives. *NAIFA has expressed support for the effort*, although a bill has not been introduced. Background Material:



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- **Investor Owned Life Insurance (IOLI)** – referred to as charitable owned life insurance (CHOLI) in Congress.

NAIFA and AALU are alarmed that certain large investing organizations are attempting to change state insurable interest laws in order to permit IOLI cases to be written. Part of the alarm is the fear that Congress may perceive IOLI transactions as outside the public interest and repeal some (or all) of the tax benefits currently granted life insurance and annuities. The “life insurance coalition” consisting of NAIFA (and its state associations), AALU and ACLI has lobbied the states, the NAIC and NCOIL in an effort to keep strong insurable interest laws.

Status: Any negative change in congressional perception that life insurance serves a good public interest purpose threatens life insurance tax benefits. On February 7, 2005, President Bush proposed *applying a 25% excise tax on the death benefits of life insurance used in these complicated life insurance and annuity transactions* involving charitable and education institutions. This tax on death benefits in very limited circumstances is seen as a “shot across the bow” from Congress. In May 2005 the Chair and ranking member of the Senate Finance Committee announced *they would introduce legislation that would impose a 100% excise tax on the premiums and other sums invested in IOLI arrangements.* The legislation has not been formally introduced.