CIPR Symposium:

Boom or Bust?
A Look into Retirement Issues Facing Baby Boomers

June 15–16, 2015
Kansas City, Missouri
# Program Booklet Contents

Welcome Letter ...................................................................................................... 4  
Agenda.................................................................................................................... 5  
Biographies ............................................................................................................. 8  
Regulator Professional Designation Program Learning Objectives ...................... 23  
Continuing Education Credit Information ........................................................... 24  
Meet the CIPR Team ............................................................................................. 25  
CIPR Support Services ........................................................................................... 27  
Managing Longevity Risk....................................................................................... 29  
A Closer Look at Contingent Deferred Annuity Issues ........................................... 35  
Insurance Consumers with Dementia: Regulatory Implications ............................ 40  
Participant List ...................................................................................................... 43  
Map & Restaurants ............................................................................................... 45
Welcome to the NAIC Center for Insurance Policy and Research (CIPR) 4th annual Symposium. The mission for the CIPR is to serve federal and state lawmakers, federal and state regulatory agencies, international regulatory agencies, and insurance consumers, by enhancing intergovernmental cooperation and awareness, improving consumer protection and promoting legitimate marketplace competition. To help achieve this mission, the CIPR hosts four annual events that bring together a number of dynamic and informative speakers and panelists. This events offer a forum for opinion and discussion on major insurance regulatory issues.

This symposium will cover a variety of financial and insurance related topics related to aging adults; including the impact of an aging population on social security and potential social security reforms; the challenges of living with and caring for someone with chronic illness; potential new approaches to long-term care support and services; how demographic, political, medical, and technological changes have shaped, and will continue to shape, the Medicare and Medicaid programs; and retirement planning with financial and insurance products and strategies for augmenting social security income.

While you are here, I encourage you to take some time to explore the Kansas City Country Club Plaza and the greater Kansas City area. I hope you enjoy the symposium and your stay!

Sincerely,
Eric Nordman
Director of CIPR and Regulatory Services
CIPR Symposium: Boom or Bust? A Look into Retirement Issues Facing Baby Boomers

June 15-16, 2015
Marriott Country Club Plaza, Grand Ballroom—2nd Floor
Kansas City, Mo

Agenda: Day 1

12:00 Registration Check-in

1:00 Welcome Address
Commissioner Scott Kipper (NV)
Introduction: Goals and Overview

1:15 Session 1: Embracing the Aging Population Trend
1:15 Demographic Change and its Impact on Social Security—Jennifer Ortman and Christopher Dick, US Census Bureau
Topics Covered: Changing Demographic of the Retired Population, Impact of an Aging Population on Social Security

Topics Covered: Social Security Reform

2:15 Living with Chronic Illness—Bob Rosenblatt, Editor at HelpwithAging.com

2:45 Break (Refreshments Served)

3:00 Session 2: Panel Discussion: Long-Term Care Support and Services into Future
Moderator: Bob Rosenblatt, HelpwithAging.com
Panelists: Warren Jones, MAAA, FSA, FCA, Academy State Health Committee, Lee Goldberg, National Academy of Social Insurance (NASI), Beth Ludden, Genworth Financial

Topics Covered: New Approaches, New Alliances

4:30 Adjourn
Day 2

8:00 Breakfast

9:00 Session 3: Panel Discussion on Changes in the Healthcare Market Place

  Moderator: Commissioner Kipper
  Panelists:
  Lee Goldberg, National Academy of Social Insurance (NASI)
  Joel Slackman, Blue Cross Blue Shield Association
  Joe Altman, FSA, United Healthcare
  Imad Ahmed, Optum Health
  Topics Covered: healthcare price drivers, access, continuity of care, controlling costs through preventative care, telehealth, and community based services. Delivery of care changes and the policy options to address them (light state regulation with private insurance, Medicare providing useful models)

10:30 Break (Refreshments Served)

10:45 Session 4: Medicare and Medicaid, 50 Years of Change (Interview)

  Introduction: Pamela Larson, National Academy of Social Insurance (NASI)
  Interviewer: Lee Goldberg, National Academy of Social Insurance (NASI)
  Interviewee: Bob Rosenblatt, Editor at HelpwithAging.com
  Topics Covered: How demographic, political, medical, technology, and social changes have changed and will continue to change these programs.

11:30 Lunch

12:30 Session 5: The Impact of Longevity on Retirement Needs

  Changes in Retirement: Expected and Unexpected—Anna Rappaport, F.S.A, M.A.A.A (Anna Rappaport Consulting)
Day 2 (Cont’d)

1:15  Session 6: Retirement Income Options

      Topics Covered: Understanding How Health Status May Impact Longevity, Medical Expenses, and Income Needs

2:00  Insurance Products and Emerging Issues—Mark Shemtob, MAAA, ASA, EA, MSPA, American Academy of Actuaries

2:45  Break (Refreshments Served)

3:00  Session 7: Social Security and Retirement Planning
      Introduction: Pamela Larson, National Academy of Social Insurance (NASI)
      Maximizing Social Security, William J. Arnone, National Academy of Social Insurance (NASI)

3:45  Closing Remarks and Adjournment
Host:

Scott J. Kipper—Commissioner, Department of Business & Industry, Division of Insurance

Scott J. Kipper was reappointed Nevada Commissioner of Insurance Oct. 24, 2011, by Business and Industry Director Terry Johnson.

Kipper previously served as Nevada’s Insurance Commissioner from December 2008 to June 2010. After leaving Nevada in 2010, he served as the deputy commissioner in charge of the Office of Health Insurance for the Louisiana Department of Insurance and as CEO of the State of Louisiana Office of Group Benefits. Before that, he served as the Oregon Insurance Administrator from December 2007 to 2008. As the deputy commissioner in charge of the Office of Health Insurance for the Louisiana Department of Insurance for more than two years, he led the development and implementation of emergency rules following hurricanes Katrina and Rita. Kipper worked as the senior regional director for the Health Insurance Association of America and America’s Health Insurance Plans from January 2001 through August 2005, where he directed legislative and regulatory efforts in a number of states, including Oregon, California, Texas and Colorado. He also spent two years on the staff of the NAIC in Washington, DC, as a health analyst, working on senior health insurance issues.

Kipper began his regulatory career at the Wyoming Department of Insurance, serving nearly five years as a life and health insurance standards consultant, including form filing review, consumer liaison and legislative duties. He started his insurance career as an independent life and health agent in Laramie, WY, in 1985.

He graduated from the University of Wyoming with a bachelor’s degree in business administration.
Imad Ahmed—Vice President, Optum Consumer Solutions Group, Clinical Interventions—Telemedicine Services

Mr. Ahmed leads a product development team which delivers telehealth solutions to market. His team has an end-to-end remote care management platform which utilizes consumer electronics, wireless health devices, and the Optum Telehealth Cloud to enable population health to over 20,000 consumers. Under his leadership, Optum has been able to deploy regional telehealth systems through NowClinic to help promote continuity of care within provider practices as well as enable consumers to get healthy, stay healthy and live with an illness. These solutions also strive to improve the consumer’s overall experience by connecting through multiple channels, such as online, mobile, tablets and social media. He is a UHG Innovation Leader.

Since joining UnitedHealth Group in 2001, Mr. Ahmed has served in leadership roles spanning numerous parts of the company, within UnitedHealthcare, OptumInsight and OptumHealth. His focus throughout has been on improving health care quality, usability and access and ensuring regulatory compliance. Prior to his work at UnitedHealth Group, Imad represented ERISA self-funded health plans, stop-loss carriers and disability carriers in complex litigation.

Imad holds a bachelor’s degree in political science and Asian studies from St. Olaf College, a master’s degree in public administration from Hamline University and a J.D. from William Mitchell College of Law.
Joe Altman, FSA—Chief Actuary, UnitedHealthcare Retiree Solutions

Joe Altman is the chief actuary for UnitedHealthcare Retiree Solutions, a UnitedHealth Group Business focused on the retiree medical needs of employer groups. His responsibilities include product and solution development, with a focus on leading the strategic direction of UnitedHealth Group’s retiree products to meet the complex and diverse needs of private, public sector and labor organizations’ retirees in the post-health care reform marketplace. In his role, he works closely with many of UnitedHealth Group’s largest customers and prospects and their benefits consultants.

Before joining UnitedHealth Group in 2005, Mr. Altman was the senior actuary for health benefits at Towers Perrin. Overall, he has more than twenty-five years of employee benefits experience focused on retiree health care issues and strategies. Recognized as a subject matter expert on retiree health care, he has presented at many conferences and on CNBC regarding a variety of retiree health care issues and has worked with key leaders at CMS on a number of issues including the implementation of the MMA regulations. Mr. Altman has also worked with many employers and consultants on the redesign of large complex retiree medical programs, improving both program efficiency and the retiree experience, while reducing overall cash and FASB/GASB accounting costs.

Mr. Altman has a bachelor’s degree in economics from Brandeis University and is a fellow of the Society of Actuaries.
William J. Arnone—Independent Consultant and Chair of the Board of Directors, National Academy of Social Insurance

William Arnone is an independent consultant specializing in retirement income policy and older voter political strategy. He serves as the Chair of the Board of Directors of the National Academy of Social Insurance (www.nasi.org).

As a Partner with Ernst & Young LLP for 15 years up to 2009, he was responsible for the strategic positioning, design, management, marketing, and thought leadership of retirement and financial education and counseling in employer-sponsored programs. He has over 25 years of experience in retirement income policy/planning and financial literacy/capability, including assisting large organizations in the realignment of their defined benefit, defined contribution and hybrid plans with their business imperatives and human resources objectives.

Prior to joining Ernst & Young as a Partner, Mr. Arnone was Principal, Benefit Consultant, and National Director of Financial & Retirement Planning Services for Buck Consultants, Inc. (now part of Xerox).

He joined Buck in 1981 after serving as Director, Senior Security Services, for the New York City Department for the Aging. He also served as Consultant on Employment of Older Workers for the Florence V. Burden Foundation in New York. He previously was Executive Director of Helping Aged Needing Direction in the Bronx. He also served as a staff associate with the New York City Board of Correction.

Mr. Arnone has published numerous articles on retirement, particularly focusing on Social Security and Medicare. He is co-author of *Ernst & Young’s Retirement Planning Guide* (John Wiley & Sons, Inc., 2001). He is an Associate Editor of *The Columbia Retirement Handbook* (Columbia University Press, 1994). He has extensive experience in organizational work with the aging, including the New York State Delegations to the 1981 and 1995 White House Conferences on Aging. He was also appointed as a delegate to the 2002 National Summit on Retirement Savings.

He has served on the Board of Trustees of the Employee Benefit Research Institute and as Chair of EBRI’s Research Committee. He is also a Founding Board Member of the National Academy of Social Insurance. He co-chaired the Academy’s 2010 conference, “Beyond the Bad Economy,” which attracted several hundred public policy specialists and thought leaders from government, academia, business, labor, media, and not-for-profit organizations. He has also served on the Academy’s Strategic Planning Committee and chaired its advisory committee for Ford Foundation organizational awards to enable the voices of vulnerable segments of the U.S. population to participate effectively in the debate on the future of Social Security.
Christopher Dick—Chief of Population Projections Branch, U.S. Census Bureau

Chris Dick is the chief of the U.S. Census Bureau's Population Projections Branch where he leads the team of demographers who develop the official projections for the United States. Before becoming the chief of the Population Projections Branch, Mr. Dick was a demographer in the U.S. Census Bureau's Net International Migration Branch from 2010 to 2014 and a statistician in the U.S. Citizenship and Immigration's Office of Performance and Quality from 2014 to 2015. Mr. Dick has been involved in research projects focused on several aspects of aspects of foreign-born migration, birth and death patterns, the migration of U.S. Citizens born overseas, and forecasting short term patterns in immigration to the United States.
Lee Goldberg—Vice President for Health Policy, National Academy of Social Insurance

Lee Goldberg is Vice President for Health Policy at the National Academy of Social Insurance (NASI). Mr. Goldberg has over two decades of experience working with individuals and groups concerned with improving health and long-term care. His first project with NASI was the timely production of a legislative toolkit and six subsequent issue briefs on the Affordable Care Act’s health insurance exchanges.

Prior to joining NASI in September 2010, Mr. Goldberg managed long-term care and health policy initiatives for the Service Employees International Union (SEIU). Previously, he served as a Senior Legislative Representative and Communications Representative for the National Committee to Preserve Social Security and Medicare and as Assistant Director for Health Policy for United Jewish Communities. In addition to his advocacy work, he has experience working on the Capitol Hill for Sen. Don Riegle and Rep. Fortney H. (Pete) Stark and as a journalist working for Inside Washington Publications. Goldberg received an M.A. in international economics and international relations from the Johns Hopkins School of Advanced International Studies and a law degree from the George Washington University.
Warren Jones—Actuarial Director, PwC

Mr. Jones is a Director at PwC in the US Actuarial and Insurance Management Solutions (AIMS) Practice and has more than 36 years of experience as an actuary. He joined PwC’s Long Term Care practice in January 2015 and provides actuarial consulting services and assistance regarding audits of insurance company clients.

Before joining PwC, he was the Vice President of LTC Valuation at Genworth Financial. While at Genworth Financial, he worked on numerous valuation projects and analyses of LTC financial results. He consulted to the actuarial and government relations staff on rate increase filings. He also testified at an administrative rate hearing, and supported litigation regarding LTC policies.

Prior to joining Genworth Financial, Mr. Jones was Chief Actuary at the Transamerica LTC Division of Aegon. He also was the LTC Valuation Actuary for Conseco. Previously, he has served as Chief Actuary at two companies involving major medical, Medicare supplement, cancer, disability income and LTC products.

Mr. Jones is an active volunteer with the American Academy of Actuaries. He currently serves on the Health Practice Council, and is the Chair of the State LTC Task Force. He recently chaired the State Health Committee, and has chaired various LTC work groups for the American Academy of Actuaries. He regularly presents work of the American Academy of Actuaries to the NAIC.

He has a B.B.A. from the University of Texas, is a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, and is a Member of the American Academy of Actuaries.
Pamela J. Larson—Executive Vice President, National Academy of Social Insurance

Pamela J. Larson has directed the National Academy of Social Insurance since 1987. First as Executive Director, then as Executive Vice President, she continues to work closely with the Academy's Members, Board, and staff to implement its programs on leadership development, public understanding, and policy education as well as develop its services to social insurance professionals and its fund-raising initiatives. Before coming to the Academy, she was Director of Membership Services for the National Association of Area Agencies on Aging. Prior to that, she served as Director of Long-Term Care Services, Southwestern Pennsylvania Area Agency on Aging, and as a Health Services Specialist for the United Mine Workers of America Health and Retirement Funds.

Ms. Larson spent a Fall 2011 sabbatical visiting Cuba and traveling and speaking on “The Future of Social Security and Medicare” at local chapters of the League of Women Voters around Texas. On mini-sabbaticals in 1998 and 1999, Ms. Larson taught Medicare policy at Florida State University and wrote articles on work and retirement research for the features newspaper, Aging Today. She has published articles on long-term care and co-edited two of the Academy’s conference volumes: National Health Reform: What Should the State Role Be?, and The Future of Social Insurance: Incremental Action of Fundamental Reform?. A member of the National Academy of Social Insurance since 1993, Ms. Larson received her masters of regional planning from Cornell University.
Beth Ludden—Vice President, Inforce LTC Product, Genworth Financial

Beth Ludden is Vice President of Inforce LTC Product for Genworth Financial’s long-term care (LTC) business based in Richmond, Virginia. She was hired in late 2005 from New York Life Insurance Company where she led a LTC sales team. Prior to New York Life, Beth was with CNA Insurance for 12 years in a variety of roles around LTCi including claims, underwriting, marketing and new business processing. Ms. Ludden has 20 years of LTC industry experience.

Throughout her career, Ms. Ludden has maintained active involvement in a number of organizations with a focus on LTC issues. She participates in committee meetings with America’s Health Insurance Plans (AHIP) and American Council of Life Insurers (ACLI), the key trade organizations for long-term care insurance (LTCi.)

Since joining Genworth, she has been involved with a Virginia state task force on aging issues and has been on the leadership committee of the Greater Richmond Age wave plan development. Currently she is on the United Way Health Action committee and is leading the Age Wave—Age Friendly Business work group.

Ms. Ludden graduated from the University of Central Florida. She has been an invited speaker at national and regional professional conferences concerning the issues of long term care. She currently resides with her husband in Richmond, VA.
Frank O’Connor—Vice President, Research and Outreach, Insured Retirement Institute (IRI)

Frank O’Connor is Vice President, Research and Outreach at IRI. Frank was most recently Product Manager, Asset Manager Annuity Solutions at Morningstar, Inc. Frank held various positions at Morningstar since joining the firm with Morningstar’s 2005 acquisition of VARDS, including Product Management of the Variable Annuity Database and the Morningstar Annuity Research Center/Annuity Analyzer tool suite, as well as generalist product management roles in Morningstar’s Licensed Data and Data Redistributor business lines. Frank was the Product Development Manager for VARDS prior to its acquisition by Morningstar in January 2005. Prior to joining VARDS, Frank worked in insurance based executive benefits consulting from 1997 to 2001. Frank holds an MBA with Finance Concentration from The John H. Sykes College of Business at the University of Tampa and a BA in International Relations from the University of South Florida.
Jennifer Ortman—Assistant Chief for Social Characteristics, Population Projections Branch, U.S. Census Bureau Social, Economic and Housing Statistics Division

Jennifer Ortman joined the U.S. Census Bureau as a demographer in the Population Division’s Population Projections Branch in 2009 and became Chief of the Population Projections Branch in 2013. During this time, she led the team to completion of four new series of national projections, released in 2009, 2012, 2013, and 2014. Dr. Ortman has also co-authored reports on the older population, baby boom cohort, and projections of the composition of the U.S. population. As part of the release of these projects, Dr. Ortman has appeared twice on C-SPAN’s “America by the Numbers,” to discuss the results from the Census Bureau’s national projections.

In January 2015, Dr. Ortman became the Assistant Division Chief for Social Characteristics in the Census Bureau's Social, Economic, and Housing Statistics Division. She now coordinates the technical planning and developmental work pertaining to the collection, compilation, and analysis of statistics relating to migration, commuting patterns, family composition, marital status, fertility, educational attainment, voting, computer and internet use, and language.
Anna Rappaport, F.S.A., M.A.A.A.—President, Anna Rappaport Consulting

Anna Rappaport is an actuary, consultant, author, and speaker, and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She is passionate about several important issues and is focused on making a difference. Some of her major concerns in the last few years include: women’s retirement security with a particular concern about older women who are alone; the impact of disability on retirement security where defined contribution plans are primary; phased retirement, the need for later retirement ages and for better work options for older workers (Ms. Rappaport is personally a phased retiree at this time) and the need to adapt to a more heavily defined contribution world with better retirement planning and more personal knowledge.

Ms. Rappaport is both an actuary and a painter. Examples of her paintings and her writings can be found on her website, www.annarappaport.com. She applies her creativity in her painting and her actuarial work.

Ms. Rappaport has won several prizes and awards. Most recently in the fall of 2014, her paper linking together long term care and retirement issues was selected by the Society of Actuaries as an award winning paper. Among her writings is a regular column titled “Perspectives from Anna” published in the Society of Actuaries Pension Section News. She is also a contributor to The Conference Board’s Human Resources Exchange and a frequent author for Benefits Quarterly and Benefits Magazine.

Ms. Rappaport is a phased retiree. She retired from Mercer after 28 years with the firm at the end of 2004. She formed Anna Rappaport Consulting at that time. She is a past–President of the Society of Actuaries and chairs its Committee on Post-Retirement Needs and Risks and she serves on the Board of the Women’s Institute for a Secure Retirement (WISER), and the Advisory Board of the Pension Research Council. She is a member of the GAO’s Retirement Security Advisory Panel.

Ms. Rappaport served on the ERISA Advisory Council from 2010 to 2012. She is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. She has an MBA from the University of Chicago—Booth School of Business. She completed 50 years as a Fellow of the Society of Actuaries in 2013.
Bob Rosenblatt—Editor, HelpwithAging.com

Bob Rosenblatt is the editor of HelpwithAging.com, a website providing help with the complex questions of aging. The website addresses questions such as, when to take Social Security, how to find a good nursing home, and how to help the grandkids pay for college. Mr. Rosenblatt also serves as the Senior Fellow at the National Academy of Social Insurance (NASI), where he writes a blog for NASI called "Covered." This blog provides a weekly look at the creation of Medicare, using the persona of a reporter in 1965, who is able to use modern social media. From 1975-2002, he served as the Washington correspondent for the Los Angeles Times, during which time he created the paper’s first beat on aging. He also wrote a column as “Benefits Bob” for the LA Times health section from 1997-2002. Mr. Rosenblatt can be contacted at: Bobrosenblatt7@gmail.com.
Mark Shemtob ASA, MAAA, ASPA, EA, Owner, Abar Retirement Plan Services LLC.

Mark Shemtob is the owner of Abar Retirement Plan Services LLC, a NJ actuarial and consulting firm specializing in the design and administration of retirement programs for small employers. He is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries (Academy), and an Enrolled Actuary under ERISA.

In addition Mr. Shemtob is a Certified Financial Planner providing hourly based retirement consulting services to individuals. He is an active member of the Academy serving on the Social Security Committee as well as the Lifetime Income Task Force. He has taught as an adjunct professor at Rutgers University in the finance department on financial retirement issues in America. He has authored many commentaries on retirement issues and spoken on topics covering retirement security in America. Mr. Shemtob has prepared several consumer oriented publications for the Actuarial Foundation on a variety of retirement related concerns.
Joel Slackman—Executive Director, Legislative and Regulatory Policy, Blue Cross and Blue Shield Association Office of Policy and Representation

Joel Slackman is Executive Director, Legislative and Regulatory Policy, for the Blue Cross Blue Shield Association’s (BCBSA) Office of Policy and Representation. He oversees the analysis and formulation of policy on health care payment and delivery system reform (e.g., Accountable Care Organizations, Patient-Centered Medical Homes), quality and performance measurement (e.g., Medicare value-based purchasing, consumer transparency), health plan benefits and medical management (e.g., preventive care, mental health parity), health information technology (e.g., HIPAA, interoperability) — and all these issues as they relate to implementation of the Affordable Care Act.

Joel was previously the Executive Director for Private Health Care Policy for America’s Health Insurance Plans (AHIP), where he represented a wide variety of health insurance companies and health plans on issues ranging from medical malpractice reform, health care costs and access, to improving health care quality. Before AHIP, Joel spent six years as Director of Managed Care for BCBSA, where he was responsible for helping formulate and advocate legislative positions on commercial managed care and Medicare business.

Prior to BCBSA, Joel was consultant to the Administrator’s Special Analysis Staff at the Health Care Financing Administration (now the Centers for Medicare & Medicaid Services). Earlier, he served for several years as the Executive Director, Program Evaluation, Office of the Assistant Secretary of Defense for Health Affairs, where he led the team that analyzed managed care and health care delivery issues in the military health care system. During the 1993 Presidential Task Force on Health Care Reform, Joel served as the Secretary of Defense’s personal representative. He has also served for more than ten years as Principal Analyst at the Congressional Budget Office, and on the professional staff of the House Armed Services Committee.

Joel has a Master of Science in Public Policy Analysis, with a concentration in health care studies, from the University of Rochester.
Insurance Regulator Professional Designation Program Learning Objectives

At the completion of this program, attendees will be able to:

- Explain the changing demographic of the retirement population
- Explain the impact of an aging population on social security
- Identify potential reforms aimed at strengthening social security.
- Identify disease incident trends, the leading causes of morbidity and chronic illness, and the impact chronic diseases have on families.
- Explain how long-term care expenses are typically covered.
- Explain how demographic changes are impacting the need for long-term care and the difficulties in finding assisted and home care services.
- Identify the challenges in the long-term care insurance market and what long-term care products are available in the market.
- Identify what long-term services are typically covered by public programs.
- Explain political policy initiatives impacting the long-term care market.
- Explain changes in the healthcare marketplace, including price drivers, access, continuity of care, telehealth, community-based services, and delivery of care changes.
- Identify how Medicare and Medicaid have shaped or been shaped by demographic, political, medical, and technological, and social changes.
- Identify how longevity and health status impacts retirement planning and insurance product solutions.
- Explain how to maximize Social Security benefits.

This is an NAIC Insurance Regulator Professional Designated program eligible for twelve hours of continuing professional development credit. To receive credit, you will need to write down the codes provided periodically throughout the program and provide them in a survey that will be sent to the email you provided during registration.
NAIC Insurance Regulator Professional Designation Program
- comprehensive, customizable, content-rich curriculum... directly from the NAIC

Over 800 enrollments and growing... our designations have been designed to assure that regulators have a basic understanding of market, solvency, and rates and forms regulation at the APIR level, specialized training in regulatory concepts at the PIR level, leadership training at the SPIR level and a focused understanding of investments at the IPIR level. We continue to add new course opportunities at the PIR level and the new IPIR courses are rolling out at a rapid pace!

What Regulators Have to Say:

"The APIR program was a well-rounded program that gave me a clear picture of how I fit into the overall regulatory setting. The background obtained through these classes has improved my ability and confidence to perform as a regulator immensely, and I believe there is something here for everyone."...David

"The APIR has provided me with a wonderful opportunity to learn from and interact with regulators across the country (and our U.S. territories). I think the NAIC will be of growing importance to all of us in the future and we should not miss the opportunity to learn from the wealth of knowledge and experience it offers to us."...Richie

"I have really enjoyed the PIR program. It has enhanced my skills as a regulator by increasing my knowledge of both the industry and the regulatory tools that I have at my disposal. One of my favorite things about the program is the opportunity to attend instructor-led NAIC courses and associate with other regulators. There is no substitute for learning from other regulators personal experiences...Dan

"Through the NAIC Designation Program I have been able to work, learn, accomplish and excel in insurance regulatory areas outside of my duties. The program gave me the opportunity to broaden my knowledge beyond the basic insurance scope and think outside the box.”...Vanessa

If you are a state insurance department employee, we invite you to sign up and learn how this program can help you achieve your personal goals.

Visit us at http://www.naic.org/education_designation.htm
MEET THE CIPR TEAM

Eric Nordman, CPCU, CIE, is the director of the NAIC Regulatory Services Division and the CIPR. He directs the Regulatory Services Division staff in a wide range of insurance research, financial and market regulatory activities, supporting NAIC committees, task forces and working groups. He has been with the NAIC for 24 years. Prior to his appointment as director of the Regulatory Services Division, Nordman was director of the Research Division and, before that, the NAIC’s senior regulatory specialist. Before joining the NAIC, he was with the Michigan Insurance Bureau for 13 years. Nordman earned a bachelor’s degree in mathematics from Michigan State University. He is a member of the CPCU Society and the Insurance Regulatory Examiners Society.

Kris DeFrain is the NAIC Director of the Research and Actuarial Department. She is currently charged as primary NAIC staff for the Principle-Based Reserving and the Casualty Actuarial and Statistical Task Forces. She manages a staff of actuaries, statistical analysts, insurance contract experts, economists, and research analysts working on regulatory solvency- and market-related issues, providing regulatory services, and conducting research for the Center for Insurance Policy and Research. She received her bachelor’s degree in finance/actuarial science from the University of Nebraska in 1989. Ms. DeFrain received her FCAS designation from the Casualty Actuarial Society (CAS), where she previously served as Vice President—International. She is a member of the American Academy of Actuaries and a Chartered Property & Casualty Underwriter.

Shanique (Nikki) Hall is the manager of the NAIC Center for Insurance Policy and Research (CIPR). She joined the NAIC in 2000 and currently oversees the research, production and editorial aspects of the CIPR Newsletter and website, among other responsibilities. Ms. Hall has more than 20 years of capital markets and insurance expertise and has authored numerous articles on key and emerging insurance regulatory issues. She began her career at J.P. Morgan Securities in the Global Economic Research Division where she worked closely with the chief economist to publish research on the principal forces shaping the economy and financial markets. Ms. Hall has a bachelor’s degree in economics and an MBA in finance. She also studied abroad at the London School of Economics.

Anne Obersteadt is a researcher with the NAIC Center for Insurance Policy and Research (CIPR). She has 15 years of experience with the NAIC performing financial, statistical and research analysis on all insurance sectors. In her current role, she has authored several articles for the CIPR Newsletter, a CIPR Study on the State of the Life Insurance Industry, organized forums on insurance related issues, and provided support for NAIC working groups. Before joining CIPR, she worked in other NAIC Departments where she published statistical reports, provided insurance guidance and statistical data for external parties, analyzed insurer financial filings for solvency issues, and authored commentaries on the financial performance of the life and property/casualty insurance sectors. Prior to the NAIC, she worked as a commercial loan officer at U.S. Bank. Ms. Obersteadt has a bachelor’s degree in business administration and an MBA in finance.

Dimitris Karapiperis joined the NAIC in 2001 and he is a researcher with the NAIC Center for Insurance Policy and Research. He has worked for more than 15 years as an economist and analyst in the financial services industry, focusing on economic, financial market and insurance industry trends and developments. Karapiperis studied economics and finance at Rutgers University and the New School for Social Research, and he developed an extensive research background while working in the public and private sector.
CIPR EVENTS

The CIPR holds four events each year—three events during each of the NAIC National Meetings and one off-site event. For more information on our past events, including presentations and audio, please visit our website at: www.naic.org/cipr_events.htm.

2015 Events

• Risk of Pandemics to the Insurance Industry (Mar. 27)

2014 Events

• Navigating Interest Rate Risk in the Life Insurance Industry (Nov. 19)
• Implications for Increasing Catastrophe Volatility on Insurers and Consumers Symposium (Oct. 7-8)
• Commercial Ride-Sharing and Car-Sharing Issues (Aug. 16)
• Insuring Cyber Liability Risk (Mar. 28)

2013 Events

• The Future of Automobile Insurance: Telematics in the U.S. (Dec. 16)
• Exploring Insurers’ Liabilities Summit (Aug. 27)
• Health Care Reform - Tools for Oversight and Assistance in the Marketplace Symposium (Apr. 30-May 1)
• Insurance for Acts of Terrorism (Apr. 9)

2012 Events

• Financing Home Ownership Luncheon (Nov. 30)
• State of the Life Insurance Industry: Implications of Industry Trends Symposium (Oct. 25-26)
• Flood Insurance Summit (Aug. 14)

2011 Events

• Conference on Transatlantic Insurance Group Supervision (Sep. 7-8)
CIPR WEBSITE EXPANDS REGULATORY SUPPORT SERVICES

By Shanique (Nikki) Hall, CIPR Manager

In a concerted effort to become the go-to site for regulatory and public policy information, the NAIC’s Center for Insurance Policy and Research (CIPR) is diligently working to improve its public offerings. The CIPR was established in 2009 to leverage the resources of several NAIC departments in order to support the collection and dissemination of information and analysis for use by state and federal officials, agencies, policymakers and insurance consumers. The formation of the CIPR expands regulatory support services by distributing the research and analysis that takes place within NAIC.

To achieve this mission, the CIPR publishes a quarterly CIPR Newsletter, as well as special reports and studies to provide the public with information on developing trends in the insurance industry and to enhance the awareness and understanding of key insurance issues. In addition, the CIPR hosts four annual events that offer a forum for opinion and discussion on major insurance regulatory issues. This article will discuss some of the recent improvements made that we hope will help meet that goal.

♦ CIPR WEBSITE

Central to the communication of NAIC research and public policy activities is the CIPR website, which is a recent enhancement to the NAIC home page. Within the CIPR site is a host of information on current insurance regulatory developments, ongoing CIPR projects and coverage of a wide range of insurance topics and issues. Moreover, content from the Government Relations division of the NAIC—such as issue briefs and Congressional testimony—has been added to the CIPR site to serve as a central point of information-gathering.

The CIPR site is divided into four principle areas: (1) Home; (2) Key Issues; (3) Special Reports and Studies; and (4) Statistics. The CIPR home page is where you can find what’s new on the site, including the most recent CIPR Newsletter. Also available on the home page is information on upcoming and past CIPR events; including, presentations, audio and handout material from the events. Our goal is to make it easy for the user to locate topical information on insurance and insurance regulatory topics.

♦ KEY ISSUES

A recent enhancement to the CIPR site is its A–Z Topic listing of key insurance issues. The A–Z Topic listing contains a wealth of information on a wide range of regulatory and insurance industry-specific topics. It is a great research tool for regulators, consumers, industry and academia. Each topic page includes a detailed summary of the topic and issues, and is supported by reference documents, including links to presentations, speeches, NAIC news releases and actions, articles and special reports. References to the current NAIC committee task force or working group active on the topic is also included, as well as an NAIC contact for any questions.

Currently, there are more than 80 topics included in the A–Z Topic listing, such as: accreditation, flood insurance, the EU-U.S. Dialogue Project, insurance-linked securities, natural catastrophes and workers’ compensation. The A–Z Topic listing is steadily growing; more than 40 topics were added in 2012 and another 40 (or more) are expected to be added to the listing this year.

♦ SPECIAL REPORTS AND STUDIES

The CIPR site also provides access to special reports and studies on major regulatory and public policy issues in insurance. Here you will find studies written by CIPR distinguished scholars and researchers; former NAIC CEO Therese M. Vaughan, Ph.D.; insurance industry experts; academics; and other NAIC staff. Selected articles from the Journal of Insurance are also available.

Moreover, NAIC Industry Snapshots and Analysis Reports were recently made available on the CIPR site. Produced by the Financial Regulatory Services Department, these reports provide an overview of insurer statutory filings and assist consumers in better understanding developing trends in the insurance industry. They cover the property/casualty, title, life, fraternal and health insurance industries.

♦ STATISTICS

The NAIC Statistics page is another pivotal element of the CIPR site. This page provides a collection of key facts and market trends for a particular state, such as: the number of insurance companies in each state; the number of captive insurance companies in the states; total direct premium; select insurance department data for the states; cost of regulation in the states; insurance industry employment in each state; and gross domestic product for the states. For comparison, national key facts and trends are also available. In addition, premium volumes for the 50 largest markets worldwide, as well as sample reports from the NAIC Research and Actuarial Department, are also provided.

♦ SUMMARY

We hope you will make use of these tools. The CIPR is always open to suggestions. If you have an issue you believe we should cover, please let us know. Send your suggestions, compliments (we like those) and criticisms to shall@naic.org.
The CIPR serves: federal and state lawmakers; federal and state regulatory agencies; international regulatory agencies; and insurance consumers. It enhances intergovernmental cooperation and awareness, improving consumer protection while promoting legitimate marketplace competition. The site provides information on current insurance regulatory developments, ongoing CIPR projects, and coverage of a wide-range of insurance industry topics.

The CIPR’s organization and navigation shares many of the same elements the NAIC home page as described on Page 1.

Here are the highlights unique to CIPR pages:

1. The NAIC’s Central Office/CIPR staff can provide a great deal of information to regulators and lawmakers. Contact information providing direct access to them is vital to the CIPR site’s function.

2. Click to see the most current as well as archived issues of the CIPR Newsletter.

3. The A-Z Index of Insurance topics and issues. Click to see detailed analysis and documentation on a wide range of insurance topics and issues.

4. The Key Issues section includes a topical listing of key insurance regulatory issues.

5. The Special Reports/White Papers section provides access to NAIC special reports, white papers and articles on a wide range of insurance regulatory topics and concerns.

6. Statistics Map: this page provides access to state score cards which detail statistics about each jurisdiction’s insurance market along with that of the entire US. In addition, links to samples of NAIC research reports and data are provided.
MANAGING LONGEVITY RISK

By Anne Obersteadt, CIPR Senior Researcher*

♦ INTRODUCTION
While the need to manage investment risk has long been a focal point, there is now growing awareness of the need to manage longevity risk. This growing awareness is predicated on employers’ and individuals’ increasing exposure to longevity risk and their need to mitigate it. The increase in exposure is rooted in changing demographics, a shift in who bears the responsibility of sufficient retirement income, uncertainty of government benefits and economic volatility. Insurers’ experience with underwriting products exposed to longevity risk makes them a natural fit to fill the growing demand for longevity protection. However, this new growth opportunity also exposes them to additional risks and challenges that will need to be appropriately controlled. This article explores emerging solutions for longevity risk protection, including the driving factors behind and the regulatory concerns about these solutions.

♦ WHAT IS LONGEVITY RISK?
Longevity risk refers to the risk that actual survival rates and life expectancy will exceed expectations or pricing assumptions, resulting in greater-than-anticipated retirement cash flow needs. For individuals, longevity risk is the risk of outliving one’s assets, resulting in a lower standard of living, or a return to employment. For those institutions that provide covered individuals with guaranteed retirement income, longevity risk is the risk of underestimating survival rates, resulting in increased liabilities to sufficiently cover promised payments. Institutions that face longevity risk include defined benefit pension plan providers, (re)insurance companies, the federal government and certain financial institutions.

♦ DRIVERS OF LONGEVITY RISK PROTECTION DEMAND

Aging Population
A key driver in the growing need to address longevity risk is the increasing percentage of people that are approaching or entering retirement. Here in the U.S., the aging of our population is largely attributed to baby boomers (i.e., those born between 1946 and 1964). According to the U.S. Census Bureau, the oldest baby boomers began reaching retirement age in 2011. Moreover, those reaching retirement age are expected to grow considerably through 2050. The 65-and-older population is projected to make up one-fifth of the population by 2030 and will more than double from 2010 to 2050—jumping from an estimated 40.2 million to 88 million people. Figure 1 illustrates the growth of the elderly population from 1910–2050.1

The older the U.S. population, the more resources that are needed to sustain retirement, health and other living needs. Presently, this need is magnified by the current economic volatility, low interest-rate environment and increasing longevity. From 2010 to 2030, the old-age dependency ratio is projected to rise from 22% to 35%.2 These statistics indicate that, for every senior, there are currently about five working-age citizens to support government system services, such as Social Security, Medicare and Medicaid, which will drop to roughly three working-age citizens in 2030. The result will place significant strain on the financing of these services.

Increasing Life Expectancy
At the same time a growing proportion of the population is reaching retirement age, it is also living longer. In 1902, persons 65 years of age were expected to live an additional 11.9 years.3 By 2008, their life expectancy had grown to 18.7 years past the age of 65. The U.S. average life expectancy at birth increased 62% from 47.3 years in 1902 to 76.8 in 2000, with expectations that it will reach 79.5 in 2020.4

(Continued on page 15)

* Special thanks to Rob Esson and Larry Bruning for providing background information and edits to this article.


2 Ibid.


MANAGING LONGEVITY RISK (CONTINUED)

Mortality trends are an important factor in life expectancy. That is, as death rates decrease over time, life expectancy is improved. Mortality rates declined greatly in the first half of the 20th century as advances in public health saw the control of illness from microbes. In the latter half of the century, advances in the treatment of internal causes, such as biological degenerative and genic diseases, greatly increased life expectancies.

Shift in Who Bears Responsibility of Sufficient Retirement Income
The number of employees covered by defined benefit pension plans has been shrinking steadily in recent years. Three decades ago, most employees depended on annuity payments from their employer-provided defined benefit program and Social Security. Since that time, employers have made a gradual shift from defined benefit to defined contribution plans. From 1980 to 2008, private pension plan participants fell from 38% to 20% and private defined contribution plan participants increased from 8% to 31%. Additionally, many employers are freezing pensions as an initial step in phasing out defined-benefit pensions and replacing them with defined contribution plans.

The move away from defined benefit plans in favor of defined contribution plans has shifted the responsibility of ensuring a sufficient retirement income stream from employers to individuals (and, ultimately, as provider of last resort, governments). Additionally, individuals face uncertainty in the benefits that they can plan to receive in retirement from Social Security. As a result, individuals’ exposure to investment and longevity risks has increased at a time when market volatility has stressed retirement assets.

Defined Benefit Plan Underfunding and Rising Obligations
Facing increasing pension fund liabilities and funding deficits, many pension plans are increasingly looking toward risk-transfer mechanisms to reduce their pension obligations. Pension shortfalls during 2012 of $418 billion and $4.6 trillion have been estimated for the top 1,000 U.S. corporations and U.S. public pension plans, respectively. Future funding needs appear to be on an upward trajectory, as low interest rates may force large private pension plans to ease funding deficits with an additional $400 billion from 2011 to 2015.

Additionally, stricter disclosure and funding rules from the federal Pension Protection Act of 2006 are expected to increase liability recognition and funding needs. Furthermore, new mortality improvement projection scales and base rate mortality tables are expected by 2015. The recognition of longevity risk, and any resulting increase in pension liabilities, as companies incorporate these new scales and tables, could put greater strain on liability funding needs. It could also expose companies to potential negative valuation assessments, thus increasing their desire to reduce exposure to longevity risk and seek mitigating solutions.

LONGEVITY RISK SOLUTIONS

Longevity Risk Transfer Mechanisms for Institutions
The need for relief from liabilities exposed to longevity risk has created an emerging market with innovative market-based risk transfer solutions. There are three broad longevity risk transfer mechanisms: a buy-out, a buy-in, and a longevity swap. Additionally, securities (such as longevity bonds) and indexes may emerge to facilitate longevity risk hedging. A more complete description of these risk transfer mechanisms is included in the shaded box on page 16.

In general, pension plans de-risk their portfolios by transferring longevity risk through a buy-out, buy-in, or longevity insurance transaction with a counterparty. In this case, the pension plan would be a buyer of longevity risk protection and the counterparty (insurer or bank) would be a seller of longevity risk protection. Insurers also enter into agreements with reinsurers to assume part of their longevity risk. In this case, the insurer would be the buyer and the reinsurer would be the seller. Longevity swap participants usually include (re)insurers and banks as either buyers or sellers.

Sellers of longevity risk protection can limit the amount of longevity risk they assume from buyers of longevity risk protection by offloading it after purchase to the capital markets, to (re)insurers, or to both. This was done in 2011, when Rolls Royce transferred $3 billion in pension liabilities to Deutsche Bank who, in turn, transferred portions of it to a group of re (insurers). Additionally, sellers of longevity risk can hedge their longevity risk directly through capital market transactions. Hedging provides an effective way to reduce volatility within portfolio outcomes. Given the growing need for institutions to protect against longevity, the use of capital market solutions (such as forward contracts, longevity hedging, swaps and securitizations) are expected to increase.

(Continued on page 16)

A buy-out involves the sale and transfer of all of a pension plan’s assets and liabilities in return for a single premium payment. Insurers usually issue a group annuity contract as part of a buy-out. This transaction provides the insurer with complete ability to control and manage the underlying assets. However, it also leaves the insurer exposed to all asset related risks, such as investment, credit, and inflation risk, as well as longevity risk.

A buy-in transaction allows for more flexibility in that the underlying assets remain with the pension plan manager, who pays a single premium in exchange for periodic payments that match those of its pension obligations. The insurance company issues an annuity that is kept on the pension plan’s financial books and provides the retirement income benefit. A buy-in provides for partial risk transfer, with the buyer retaining liability for ultimate payment to annuitants.

Longevity transfer mechanisms have, to date, mostly been in the United Kingdom due to that jurisdiction’s specific longevity risk capital charge. However, some transactions are beginning to surface in the U.S. and elsewhere. In 2012, U.S. automaker General Motors entered into a pension buy-out transaction with Prudential Financial. The deal transferred $26 billion of future pension obligations for GM salaried employees who retired before Dec. 1, 2011. 10 U.S. communications company Verizon also entered into a pension buy-out transaction with Prudential Financial in 2012. As part of the deal, the company’s pension plan transferred $7.5 billion of its future pension obligations and purchased a single premium group annuity contract.11

In the same year, Dutch insurer Aegon sought to hedge its annuities by transferring €12 billion in longevity risk to Deutsche Bank through a longevity swap. The company cited the size of the transaction in its decision to use the capital markets instead of reinsurance, implicating insufficient insurance capacity for the size of its transaction. The transaction was unique not only in its size, but also in that it used an index-based modeling approach that proved to be appealing to capital market participants looking to diversify their sovereign or corporate credit risk holdings.12

Longevity Risk Solutions for Individuals

Insurers provide the majority of products designed to help individuals manage the risk they will outlive their assets. Individuals without defined benefit plans can ensure lifetime income by purchasing annuities within their defined contribution plans and personal retirement accounts. They can also purchase a single premium immediate annuity by taking a full or partial distribution from their defined contribution plan upon retirement or through other lump sum savings.

However, it should be noted that until 2012, when the U.S. federal government issued new regulations, plan participants had to choose between annuitizing their full distribution or not annuitizing at all. The new rules also relax minimum distribution age requirements to encourage retirement plans to offer longevity annuities (deferred annuities) among their investment plan choices. Additionally, employees will now be able to purchase annuities sold in their employer’s pension fund with funds from their defined contribution plan. The flexibility and ease of access afforded under the new federal regulations are expected to increase annuity demand and supply.

Insurers have introduced many new product designs to accommodate the growing demand for lifetime income. Over the past decade, most of this innovation came from adding variable annuity living benefit riders, such as guaranteed minimum income benefits (GMIBs) and guaranteed lifetime withdrawal benefits (GMWBs). These products have the advantage of providing income protection and investment flexibility. In 2008, contingent deferred annuities (CDAs) were introduced to the market as a way to isolate the longevity risk protection. Their benefits are similar to variable annuities with guaranteed lifetime withdrawal benefits.

MANAGING LONGEVITY RISK (CONTINUED)

(GLWBs) in that they provide protection against outliving ones assets. CDAs allow investment managers to protect their investments against longevity risk without actually purchasing a variable annuity. Unlike variable annuities, the underlying investment funds (or covered assets) linked to CDAs are not held in an insurance company’s separate accounts. Therefore, individuals retain ownership and greater control over their invested assets.

Insurers market CDAs to advisors of mutual funds, separate managed accounts and brokers of fee-based products. Given the large volume of funds coming through these accounts, the CDA market has the potential to significantly boost insurers’ sales volumes. However, advisor interest in CDAs has been weak, due in part to the uncertainties that come with an emerging product. Insurance companies and regulators are still working toward creating a regulatory and operating framework that establishes clear guidelines for supervisory authority, applicable regulations and information transparency.

− REGULATORY IMPLICATIONS OF THE RISKS INHERENT IN LONGEVITY PRODUCTS AND TRANSFER MECHANISMS

Regulatory Activities
As the longevity risk market continues to innovate and develop new products, insurance regulators are evaluating the adequacy of the current regulatory framework in place to govern these products. Specifically, regulators are working toward answering questions surrounding the supervisory authority, sufficiency of current laws and regulations, suitability, consumer protection, solvency, transparency, and potential contagion risk of emerging products. To address these concerns, many domestic and international work streams have been established to study the related issues and their implications on and across the various financial sectors.

In 2012, the Joint Forum established a work stream to examine the potential for contagion issues in the longevity risk market. The Joint Forum’s Risk Assessment and Capital Working Group is expected to finalize a report on the cross-sectorial aspects of the longevity risk transfer market during 2013. State insurance regulators, working through the NAIC, assist the Joint Forum in this work by participating in discussions and commenting on papers related to this work. The Joint Forum recognizes that the potential size of the longevity risk transfer market is such that, if improperly controlled and monitored, excessive build-up of risk could occur in one or more sectors, with the potential for harm to the financial system.

State insurance regulators, through the NAIC, are currently studying issues surrounding CDAs in an effort to recommend a regulatory structure. As stated earlier, CDAs are new products designed to provide longevity protection. However, their regulation has varied by state, with some of the states not allowing them at all. Questions surrounding product classification and applicability of existing regulations on reserving, solvency, regulatory authority and consumer protections are being considered by the NAIC. The NAIC’s Life Risk Based Capital (E) Working Group will consider whether there should be an explicit and separate factor for longevity risk in 2013.

The U.S. Securities and Exchange Commissioner (SEC) is currently accepting CDA filings, as securities and insurers are already filing CDAs with the SEC. State insurance regulators are working with the SEC and the Financial Industry Regulatory Authority (FINRA) to get a better understanding of their review process and how they view their respective regulatory roles. They are also working in tandem with the SEC and FINRA to evaluate the adequacy of current disclosure rules, especially given the significant impact that policyholder behavior has on CDA benefits and costs. Similar concerns exist for variable annuities with living benefit guarantees.

Other federal regulatory activities include developing strategies to increase the use of annuities in defined contribution plans. The new federal guidelines make it easier for individuals to purchase annuities. However, retirement plan sponsors are reluctant to offer annuity products due to concern over their fiduciary responsibilities for selecting an annuity provider under the federal Employee Retirement Income Security Act (ERISA). To calm apprehensions, the White House Council of Economic Advisors (CEA) and the U.S. Department of Labor (DOL) have asked state insurance regulators for assistance in providing employers with the information necessary to substantiate the soundness of annuity providers under the DOL safe harbor rule. State insurance regulators will be working through the NAIC Retirement Income (A) Working Group to see what the states might be able to provide that would help employers meet their fiduciary obligations.

As new products designed to provide protection against longevity roll out, regulators will need to gain a deep level of understanding of the inherent risks. Concerns on the

(Continued on page 18)

For more on the Joint Forum see: www.naic.org/cipr_topics/topic_joint_forum.htm
Managing Longevity Risk (continued)

ability of participants to adequately control their exposure to a risk that is difficult to quantify and mitigate will need to be addressed. Below is a list of some of the issues and risks inherent in the longevity risk market and their implications on the regulatory structure of the insurance industry.

Difficulty Quantifying Longevity
How to accurately predict mortality rates has been a widely debated and contentious subject. Many experts predict the rate of mortality improvements to moderate in the future. They point out that survival rates for the younger populations may have reached their upper boundaries, although all such prior predictions have been wrong. Nonetheless, given this and the significant advances in limiting mortality from extrinsic activities, many experts argue that continued mortality reductions would need to stem mostly from mitigating intrinsic causes of the biological process of aging.

Although advances in such activities as stem cell research and cloning biological parts hold promises to do just that, they are in their infancy and are not expected to impact longevity in the near future. Other experts predict a sharp increase in life expectancies, with a predicted life expectancy at birth of 100 in the year 2060.14 Still others argue that there are limits to a human’s life span and question whether these limits have been met.

Capacity and Capital Adequacy
The longevity risk market is currently in its infancy. However, given the level of current pension obligations, it has the potential to reach enormous proportions. Global longevity exposure from pension funds (90%) and insurance contracts (10%) has been estimated at $21 trillion of asset protection.16 Regulators are concerned that the potential enormity of longevity exposure could be beyond the capacity of the insurance industry.

There are also concerns that longevity risk products, if improperly sold and priced, could exhaust the capacity of state guaranty funds or not qualify for protection under certain state laws. To this effect, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) has been examining if contingent deferred annuities would be eligible for coverage under the NAIC Life and Health Insurance Guaranty Association Model Act (#520).

Protecting policyholders and helping ensure the financial stability of the insurance industry requires that life insurers appropriately account for longevity risk within their capital models. However, current factor-based capital models fail to effectively consider longevity trends and standard stochastic mortality models fail to incorporate portfolio-specific characteristics. Moreover, prospective life tables projecting longevity have not been updated frequently enough and often underestimate improving mortality rates. This underestimation of life expectancies can lead to substantial underfunding of liabilities. One study has suggested that outdated mortality tables have resulted in a 12% understatement of pension liabilities for a typical male participant.16 The issue, in part, is due to the difficulty in quantifying the uncertainties inherent in such a long-tailed risk and the impact of future interest rates. Additionally, national tables in many jurisdictions tend to be based on aggregated population data that lack pertinent demographic and socioeconomic data.

U.S. statutory risk-based capital (RBC) models also fail to adequately account for longevity risk, as they lack a charge specific to this risk. As such, state insurance regulators are now looking into adding such a charge to the NAIC RBC calculation. A longevity risk charge would help ensure that insurers keep sufficient capital to account for the longevity risk embedded in their contracts. It also forces insurers to assess their capacity limits for taking on additional longevity risk.

The incorporation of dynamic assumptions and variables under principal-based stochastic models is expected to provide better capital estimates, but, in the specific instance, would need to incorporate explicit longevity assumptions. Insurance contracts issued in and beyond 2015 will likely be subject to principle-based reserving (PBR). PBR reflects a paradigm shift from a strictly formulaic method to a more dynamic method that will require companies to use experience studies in their reserving analysis. It will also mandate that insurers share their experience data with statistical agents who compile the data for use by the Society of Actuaries in their published experience tables.

Counterparty and Concentration Risk
As the recent financial crisis demonstrated, counterparty risk can present significant dangers. Longevity risk-transfer mechanisms allow pension plans, re(insurers) and investment banks to “de-risk” their portfolios, but add counterparty default risk. The ability to ensure the strength of

(Continued on page 19)

counterparties (potentially over extended periods), the sufficiency of collateral posted for security and the transparency of secondary trading transactions is of key concern to state insurance regulators. Reliance on third-party investment management, particularly in partial risk transfers, also presents concerns about market risk and the ability of the counterparty to accurately reserve for future obligations. Requirements that assets be kept as a segregated fund or that an agreed-upon investment strategy be followed can help to mitigate these risks.

Additional state insurance regulatory concerns include insurers’ ability to project appropriate withdrawal rates to protect against policyholders withdrawing too much money. This is of particular concern with buy-in transactions, as they involve a full transfer. Regulators also have concerns that insurers’ fees from buy-in transactions (such as CDAs) are sufficient to support their guarantees. Careful review of policies by regulators when they are filed, together with the appropriate capital charges, will help to secure appropriate pricing and product design.

Investment banks participating in the longevity risk market typically offload their assumed risks through securitizations sold to (re)insurers and investors looking to diversify their portfolios. Although it is not completely clear yet exactly who these investors will be, it is likely to include large fund managers and brokers. There is potential for these large players to unknowingly create interconnected counterparty risk or concentration risk by redistributing the very same risk to those that sought to divest from it, thereby creating a spiral effect. Counterparty exposure to tail risk from sudden increases in mortality rates, as would occur in a longevity swap, could also pose an unforeseen risk.

**Basis Risk**

The ability to quantify and manage residual basis risk that results from actual portfolio mortality trends is also of concern to state insurance regulators. Basis risk is the residual risk from two offsetting risks that are not perfectly matched. Life (re)insurers can hedge large books of mortality-based business with longevity risk, as unanticipated increases in death claims would be expected to be offset by a lack of claims from unanticipated increases in longevity. The hedge is imperfect, however, as populations are not homogeneous between books of business, leaving the insurer exposed to basis risk.17

The insurance industry also faces basis risk in the difference between the mortality trends of national and industry indices and the actual mortality and longevity experienced in their book of business. This discrepancy arrives from the use of selection criteria insurers use to accept policyholders. Likewise, the variance between actual mortality trends and those of aggregated indexes would expose investors to basis risk and create opaqueness in the assumptions insurers use for hedging strategies. Additionally, the likelihood that those pension plans seeking longevity relief would be experiencing longer mortality rate trends than their counterparties exposes (re)insurers and investment banks to adverse selection when entering risk-transfer agreements.

**Conclusion**

Life insurers’ experience with managing life contingent products and their natural hedge against longevity risk make them an obvious player in the search for longevity solutions. However, the potential enormity of this exposure could have significant consequences for the industry if not controlled. Risk sharing with reinsurers and capital market participants may be inevitable. This brings additional concerns that the continual transfer of longevity risk between capital market participants from a wide array of institutions and sectors could create significant regulatory challenges in the insurance sector and, in the worst cases, the wider financial system. These challenges can be mitigated through regulations already in place that restrict hedging and other investment activities, as well as through transparency and future limits on distribution. Capacity and capital adequacy concerns will need to be managed by state insurance regulators by ensuring appropriate longevity risk charges and modeling assumptions. Furthermore, third-party risks can be managed by mandating transparent liability data and investment strategies. Finally, insurers use appropriate risk control mechanisms and suitable product design.

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17 Ibid.
The need for retirement income solutions has come to the forefront as our aging population moves into retirement, people live longer, and pensions disappear. Contingent deferred annuities (CDAs) emerged in 2008 as a way to solve the growing need for access to lifetime income, without the purchase of a traditional annuity. CDAs are a type of product designed to protect against this longevity risk. They are often marketed to advisors of mutual funds, separately managed accounts and fee-based brokerage products. However, sales of the product remain limited, due in part to regulatory uncertainties inherent with an emerging product. This article explores how CDAs work and provides background regarding the concerns raised as insurance regulators evaluate the adequacy of the current regulatory framework to govern CDAs.

What is a CDA?
This product allows the policyholder to retain ownership of their retirement assets—typically mutual funds or managed accounts. This is an important feature, as loss of control of retirement assets is one of the often-cited reasons investors do not purchase annuities. Instead, CDAs seek to provide a stand-alone benefit similar to those of a guaranteed lifetime withdrawal benefit (GLWB). As long as investors, as CDA policyholders, meet guidelines for permitted asset classes and investment types established by the insurer, a predetermined income stream is guaranteed if covered assets are exhausted during the life of the contract holder through allowable withdrawals and/or poor investment performance.

A CDA has three distinct phases: the accumulation phase, the withdrawal phase and the settlement phase. During the accumulation phase, the CDA annual guaranteed lifetime income payment is determined based on a percentage of the total assets in the separately managed account. The benefit amount can increase or decrease with the value of the assets until it is set, and then it can never be reduced due to poor market performance. The CDA moves to the withdrawal phase when the policyholder begins to draw funds from the covered assets. Benefit amounts are reduced if the policyholder exceeds withdrawal limits set in the contract. The final phase, the settlement phase, begins when the account is exhausted and the policyholder begins receiving lifetime periodic benefit payments.

Creating a Regulatory Framework
Insurance regulators are reviewing the adequacy of the current regulatory framework to ensure clear guidelines exist for the application of CDAs. Specifically, regulators are working toward identifying and addressing concerns surrounding supervisory authority, solvency, consumer protection, preserving and capital requirements. Through the NAIC’s various committees and working groups, insurance regulators are discussing the need for potential modifications to models related to annuity disclosure, suitability, producer licensing, and advertising.

The applicability of the following items is also being assessed: Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43); the Standard Nonforfeiture Law for Individual Deferred Annuities (#805) and the Synthetic Guaranteed Investment Contracts Model Regulation (#695). Additionally, National Organization of Life and Health Guaranty Associations (NOLGA) has determined CDA policyholders would be covered under the model guaranty fund law, should the insurer become insolvent. However, the particulars of guaranty fund coverage have not been determined. Ultimately, the application of the state guaranty funds is governed by each state’s law.

Product Classification
Initially, there existed much confusion on how to classify a CDA. Regulators reported receiving product filings for CDAs as variable annuities, fixed annuities, equity indexed annuities and financial guaranty insurance. This variance in filings type reflects, in part, the unique and complex nature of CDAs. Some states and insurers view CDAs as financial guaranty insurance providing asset preservation, because a CDA essentially “wraps around” an external investment account. Others believe CDAs to be various types of annuities, given their exposure to longevity and market risk. For example, in the accumulation and withdrawal phases, CDAs face market risk much the way variable annuities do. In the settlement phase, payments under CDAs share the same characteristics as fixed annuities.

As a first step, the NAIC established a definition of and a product classification for CDAs. In March 2012, the Life Insurance and Annuities (A) Committee resolved CDAs are annuities and should be sold by life insurers. Furthermore, the Committee found these products were subject to state-based insurance regulation. Acknowledging the shared characteristics, in February 2013, the Committee established

(Continued on page 7)

2 NAIC Life Insurance and Annuities (A) Committee. 2013. Memorandum to the NAIC Life Insurance and Annuities (A) Committee regarding Contingent Deferred Annuity (A) Working Group Findings [Committee Document].
CDAs should be filed as distinct CDA products, and not under other annuity classifications.

**Regulatory Authority**

As stated previously, the NAIC established in 2012 that CDAs are subject to regulatory oversight by state insurance regulators. Additionally, because a CDA derives its value from an underlying registered security, they are registered with the U.S. Securities and Exchange Commission (SEC), with the exception of Employee Retirement Income Security Act (ERISA) covered plans. This means CDAs are subject to SEC disclosure requirements. Additionally, insurance producers, brokers, and investment advisors selling CDAs need to be licensed by the Financial Industry Regulatory Authority (FINRA) and comply with its suitability and fiduciary requirements. Given these determinations, the NAIC is now looking into amending its Producer Licensing Model Act (#218) to clarify producers selling CDAs registered with the SEC must be dually licensed.3

**Consumer Protections**

Suitability and Disclosure Standards

CDAs may not be suitable for all consumers and consumer advocates have expressed concern they are a poor value to consumers, who may pay annuity fees over an extended period of years and never receive a benefit. Because CDAs pay out only when the investment account is exhausted, the likelihood of a CDA reaching the payout phase is correlated to the aggressiveness of a policyholder’s investment strategy. Consumer advocates stress conservatively invested consumers may not be suitable for CDAs, as the probability of receiving a benefit is low. The converse would also be true. Similarly, investment fund restrictions within CDA contracts could minimize consumer benefits to an unfavorable level.

For this reason, consumer advocates stress the need for suitability requirements to address CDA pricing transparency, benefit expectations and the prohibition of producer compensation favoring the sale of suboptimal CDAs. Specifically, producers should provide information, such as the expected benefit ratio of CDAs and appropriate marketing demographics, to potential policyholders to reduce the possibility of being steered into suboptimal investments.4

Proponents of CDAs point out the product design allows investors to maintain ownership of their assets and secure guaranteed income protection. Additionally, because CDAs isolate coverage to guaranteed income protection, and do not provide a death benefit, they can be priced competitively against variable annuities with GLWB riders, which offer both. They contend limiting product design would raise product costs, thereby limiting sales. Furthermore, they maintain existing laws and regulations under the SEC, FINRA and state insurance departments provide sufficient suitability protections and disclosure requirements. This includes disclosure requirements, such as providing a prospectus, and complying with FINRA advertising and marketing rules.

Additional concerns were raised in a 2012 U.S. General Accounting Office (GAO) report, which found CDAs are complex products requiring policyholders to navigate many suitability and withdrawal considerations best done in conjunction with a professional advisor. The GAO indicated producers need to be adequately trained to provide appropriate advice when selling these complex products.5 Insurance regulators and consumer advocates acknowledged the need to ensure producers receive sufficient training to appropriately advise policyholders on the risks and advantages of CDAs. While CDAs share many of the same risks and characteristics as variable annuities with living benefit riders, they also have unique features requiring product specific training.

In 2013, the Life Insurance and Annuities (A) Committee charged the Contingent Deferred Annuity (A) Working Group with reviewing, among other things, the applicability of CDAs to the NAIC models related to suitability, disclosure and advertising. In April 2013, the Working Group released draft revisions to the suitability, disclosure and advertising models and asked for comment by the end of April. Included were draft revisions to the Suitability in Annuity Transactions Model Regulation (#275) to specifically reference the product and to make clear producer training requirements include CDAs. Also included were draft revisions to the Annuity Disclosure Model Regulation (#245), specifically exempting CDAs, as the SEC prospectus preempts all other state disclosures. Similarly, draft revisions to the Advertisements of Life Insurance and Annuities Model Regulation (#570) specifically referenced CDAs in the model to avoid conflict with FINRA advertising and marketing rules.6

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3 NAIC Life Insurance and Annuities (A) Committee. 2013. Memorandum to the NAIC Life Insurance and Annuities (A) Committee regarding Contingent Deferred Annuity (A) Working Group Findings [Committee Document].
Coverage Under Guaranty Fund Associations
Should a CDA insurer fail, there is uncertainty about the existence and scope of guaranty fund coverage of CDAs. It is unclear whether there would be coverage of a CDA still in the accumulation stage, for example. Furthermore, assets kept on insurers books for CDAs are limited to mainly mortality reserves and fees, because the invested assets are separately managed. For this reason, consumer advocates urge the impact of a failed CDA insurer on guaranty assessments and taxes be better understood.\(^7\)

NOLHGA has indicated coverage would be determined on a state-by-state basis, but it appears the product is covered under the Life and Health Insurance Guaranty Association Model Act (#520). NOLGA also stated coverage would be subject to certain limitations and exclusions, such as payment being limited to the settlement phase, but a final determination is dependent on the outcome of their multi-year review process. Separately, the Receivership and Insolvency (E) Task Force is reviewing if definitional changes to Model #521 are needed to cover CDA products.\(^8\)

♦ Financial Solvency
Managing Risks
Product design, hedging effectiveness and pricing are key components in mitigating the risks insurers issuing CDAs face. At its core, CDAs are designed to protect against longevity risk. Longevity risk is the risk policyholders will live longer than expected and thus outlive their assets. Insurers reduce their exposure to longevity risk by controlling the benefit levels, as well as the issuance and commencement ages defined within the product contract. Additionally, insurers offset their longevity risk by diversifying their product mix.

Insurers also rely heavily on hedging programs to offset longevity risk. Both CDAs and variable annuity riders are funded through fee income. However, with CDAs, insurers do not have the added advantage of relying on secondary support from revenue collected in conjunction with the underlying annuity. As a result, insurers that issue CDAs have a heightened need to ensure hedge effectiveness.

Insurers are also exposed to market risk stemming from the link between CDA benefits and the value of the covered assets. That is, benefits fluctuate with the fund performance of the separately managed accounts. Managing market risk through investment and allocation restrictions is particularly important, given covered assets are held in accounts external to the insurers. The potential for third-party advisors to deviate from investment guidelines presents operational risk to the insurer. For this reason, insurers must continually track investment activities related to the CDA.\(^9\) Insurers also make sure CDA policyholders are notified when their investments have deviated such that the CDA is at risk. The CDA policyholder is also made aware of other Investment options to which they can switch to preserve the CDA.

The fee structure on CDAs has also been identified as a potential for solvency risk exposure. Because coverage under CDAs is limited to stand-alone income guarantees and the products have no surrender value, insurers charge much lower fees on CDAs than variable annuities with GLWBs. Although the comparatively low fee structure of CDAs serves as an incentive for potential policyholders, they add little to an insurer’s capital.

CDA fees predominately cover hedging and administrative expenses, with only a small amount contributing to capital. Consumer advocates have raised a concern hedging alone may not be sufficient to protect against a down market and the asset-based fee income will not provide enough of a buffer to ensure capital adequacy during times of extreme market volatility. This solvency risk would be particularly pertinent if a market event triggered numerous CDAs in the same timeframe—a risk which could be either exacerbated or mitigated by the weighting of CDAs within an insurer’s book of business. What’s more, given the long-tailed nature of this product, there is the fear any deficiency in pricing, reserving and capital would not become evident until the payout phase.

CDAs are also exposed to policyholder behavior risk. CDA benefits begin only once the investment account has been depleted. Thus, policyholders have an incentive to maximize their benefits with aggressive investments. (However, it should also be acknowledged aggressive investment strategies could also produce more investment income, thus potentially decreasing the likelihood of depletion.) Insurers can

(Continued on page 9)


\(^8\) NAIC Life Insurance and Annuities (A) Committee. 2013. Contingent Deferred Annuity (A) Working Group Recommendations [Committee Document].

protect against this moral risk by limiting aggressive fund choices within the contract. However, consumer advocates warn adding investment restrictions well into the policy term unfairly decreases the value of the CDA.10

Fund balances can also be depleted faster if policyholders are allowed to withdraw excessive amounts, resulting in a sooner than anticipated payout period. Therefore, regulators are concerned insurers issuing CDAs set effective withdrawal rates within their policy designs. Additionally, regulators are concerned with insurers’ abilities to effectively manage lapse rates.11 For all of these reasons, the American Academy of Actuaries has stressed CDAs require comprehensive risk management practices by insurers, and careful oversight of these practices by regulators.12

Capital and Reserves
Most industry representatives and the American Academy of Actuaries believe the appropriate methodology for reserving requirements and risk-based capital (RBC) for CDAs is within AG 43 and RBC C-3 Phase II (C3P2).13 Both AG 43 and C3P2 apply to variable annuities with GLWBs, of which GLWBs are substantially similar to CDAs. Most pertinent to CDAs is the principle-based stochastic component within AG 43, which specifically addresses market risks, such as interest rates and equity movements, inherent with CDAs. AG 43 also includes a standard scenario, which establishes a floor incorporating prescribed assumptions on mortality, policyholder behavior and investment returns.14 Insurers would also model CDA-covered assets similarly to variable annuities with separate accounts. Under both AG 43 and C3P2, credits are given for a “clearly defined hedging strategy.”

The Life Actuarial (A) Task Force has a charge to evaluate AG 43 to determine whether the reserve guideline, as it applies for variable annuity guarantees, would be deficient when applied to CDAs. The Task Force will recommend changes, as appropriate, to address any deficiencies and determine whether clarifying guidance would be useful due to different nomenclature than variable annuities with guarantees.

The Life Risk Based Capital (E) Working Group has a charge to develop guidance, for inclusion in the proposed NAIC CDA guidelines, for states as to how current regulations governing RBC requirements, including C3P2, should be applied to CDAs. The Working Group will recommend a process for reviewing capital adequacy for insurers issuing CDAs and prepare clarifying guidance, if necessary, due to different nomenclature then used with regard to CDAs. The development of this guidance does not preclude the Working Group from reviewing CDAs as part of any ongoing or future charges, where applicable, and is made with the understanding this guidance could change as a result of such a review.

The Life Actuarial (A) Task Force is also charged with considering revisions to Model #805 to exclude CDAs from the scope of the model. The model already exempts guarantees related to payouts of underlying investments in variable annuities. Since these guarantees are substantially similar to those of CDAs, excluding CDAs from this law also seems appropriate. The decision to exclude CDAs from the model also reflects that CDA fees represent risk charges for longevity contingency risk and do not include amounts to fund an accumulation of benefits for payout. However, not everyone agrees. Some consumer advocates believe CDAs should have a surrender value, as a life contingency calculation is included in their reserves. At the very least, these consumer advocates believe CDAs should not be excluded from the model until an alternative method for determining a nonforfeiture benefit for CDAs has been developed.

The Future
State insurance regulators are working to establish a regulatory framework which provides clear guidelines for supervisory authority and the application of regulations to ensure insurer solvency and consumer protection. Insurance regulators, working through the NAIC, achieved great progress in 2013 by establishing CDAs as an annuity product best sold by life insurance companies. In 2014, insurance regulators will continue working through the various pertinent NAIC groups to evaluate and enhance, where appropriate, the adequacy of existing laws and regulations applicable to CDAs.

(Continued on page 10)

Specifically, insurance regulators will be examining model regulations related to annuity disclosure, suitability, advertisements, replacements and non-forfeiture benefits for possible modification. Additionally, actuarial guidelines and RBC standards will be clarified to allow for clearer interpretation by insurers. Furthermore, additions to the NAIC Life Financial Reporting Blank and the development of tools to assist the states in the review of CDA product filings will be considered.

It remains to be seen if CDAs will become prevalent products within the retirement income marketplace. Product distribution has been slow, with only five insurers reporting an account value of $46.6 million for covered contracts at financial year-end 2013.15 Once the regulatory framework is established, insurers will need to illustrate the product’s value to advisors and their clients. Pairing a CDA with a non-qualified account does not offer the same tax-deferred status afforded to variable annuities. For this reason, insurers issuing CDAs may find qualified employer-sponsored plans, which offer preferential tax treatment, a stronger distribution channel.

Additionally, insurers will need to balance keeping fees, which drag down investment returns, at attractive levels, while also collecting enough to provide attractive benefits. Similarly, insurers must manage third-party risks while also allowing advisors to accomplish desired investment strategies. Finally, regulators must ensure insurers issuing CDAs can honor their long-term obligations by monitoring their use of appropriate risk control mechanisms, suitable product design, appropriate actuarial assumptions, and hedge effectiveness.

**ABOUT THE AUTHOR**

Anne Obersteadt is a researcher with the NAIC’s Center for Insurance Policy and Research (CIPR). She has more than 13 years of experience with the NAIC performing financial, statistical and research analysis on all insurance sectors. In her current role, she has authored several articles for the CIPR Newsletter, a CIPR Study on the State of the Life Insurance Industry, organized forums on insurance related issues, and provided support for NAIC working groups. Before joining CIPR, she worked in other NAIC Departments where she published statistical reports, provided insurance guidance and statistical data for external parties, analyzed insurer financial filings for solvency issues, and authored commentaries on the financial performance of the life and property/casualty insurance sectors. Prior to the NAIC, she worked as a commercial loan officer at U.S. Bank. Ms. Obersteadt has a bachelor’s degree in business administration and an MBA in finance.

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15 Aggregate amount reported in Exhibit 5 of the 2013 NAIC Life Annual Financial Statement.
INSURANCE CONSUMERS WITH DEMENTIA: REGULATORY IMPLICATIONS

By Lois Alexander, NAIC Market Regulation Manager and Tim Mullen, NAIC Market Regulation Director

◆ INTRODUCTION
Dementia is something we hear a lot about in the news and continues to be a growing issue in many realms, including the insurance industry. While Alzheimer’s disease and other types of dementia are issues many of us may face in the future, the intent of this article is to bring attention to the issues surrounding the sale of insurance and/or annuity products to seniors with dementia.

◆ WHAT IS DEMENTIA?
According to the National Institute on Aging, dementia is not a specific disease; rather, it is a term that is generally used to refer to a set of symptoms caused by a gradual death of brain cells associated with cognitive and intellectual deterioration that is severe enough to reduce a person’s ability to perform normal activities of daily living, lasting more than six months. It is usually slow in progression and can affect intellectual functions, such as memory, while seeming to not affect other brain functions, such as those controlling movement and the senses. Dementia often affects senior citizens. However, this debilitating disease can also affect younger adults, representing 4% of the 5 million people diagnosed with it.

◆ RAISING AWARENESS
There are many regulatory and legal issues that can arise when interacting with consumers who have dementia. One does not have to look any further than the Glenn Neasham case, which generated a tremendous amount of concern for insurance producers. In this particular case, Neasham was criminally charged for selling an indexed annuity to an 83-year-old woman who allegedly had signs of dementia.

Insurance professionals are not experts in recognizing dementia and should not be held to this standard. At the same time, the Glenn Neasham case illustrates why those in the insurance industry should have a basic understanding of dementia and be able to identify the warning signs of dementia. Insurance companies and producers who are able to observe and understand the extent to which the person with whom they are speaking might have dementia are in a better position to service their needs and be protected from future allegations of fraud and/or inappropriate sales practices.

A reasonable first step would be for insurance companies and producers to consider implementing training to raise awareness of the warning signs of dementia. For example, some of the warning signs of dementia every insurance producer should know include challenges in planning or solving problems, confusion with time or place, difficulty with words in speaking or writing, decreased or poor judgment, or changes in mood or personality. To complement company training on how to identify the warning signs of dementia, insurance companies may also want to consider implementing a central point of contact at the company through which the company can track and resolve these types of issues.

◆ IDENTIFYING POSSIBLE DEMENTIA
Clearly, insurance companies and producers want the sales they make to be appropriate and to meet their clients’ needs. Once there is a basic understanding of dementia, producers will be more inclined to observe the basic indicators of potential dementia in their senior clients, such as noting if their client is having difficulty putting his/her thoughts into words, or is forgetful of basic information, such as the current date, day of the week or time of day. Because seniors may be able to mask the early stages of dementia for brief periods of time, a producer who suspects possible dementia might want to schedule a follow-up visit with the client. This is important because insurance companies and producers need to be sure consumers are able to provide adequate consent to purchase the product at the time of sale.

◆ PRIVACY ISSUES
Privacy becomes another critical aspect for companies and producers to consider. While a simple solution of dealing with a consumer with dementia may appear to be inviting another family member to any meeting a producer has with a consumer, the sharing of confidential information may not be appropriate. Moreover, someone with dementia may not be able to properly consent to having another family member present.

Because of this, a sound business practice insurance companies and producers might want to consider is inquiring whether there are any durable powers of attorney in place, which family members have been granted a durable power of attorney and what circumstances precipitated the execution of the durable power of attorney. Through these steps, an insurance producer can properly identify the appropriate trusted party and raise the issue of additional family participation in a context that may be more appropriate for the consumer to accept.

(Continued on page 17)
The NAIC’s focus on the issue of insurance or annuity sales to seniors, a recognized vulnerable consumer group because of the potential for diminished capacity, stretches over several years during which model laws, regulations and bulletins have been adopted and updated. The NAIC issued a model regulation in 2008 cautioning insurers and producers alike against the improper use of professional designations when communicating with seniors during marketing and sales activities, indicating producers who misrepresent their level of expertise in such marketing and sales activities would be subject to penalties under state law and insurers allowing their producers to use such misleading designations would also be subject to penalty under state law. The NAIC has also published a variety of Consumer Alerts designed to educate seniors and their families about insurance and annuity sales practices and to help protect seniors from fraudulent activities.

Steps for Consumers
In the NAIC’s 2012 Annual Report, preparation and protection were identified as key themes of consumer-outreach efforts. The realization of these themes culminated in the NAIC engaging the help of Amy Grant to help educate and heighten public awareness with regard to Alzheimer’s disease and other types of dementia. The Grammy award-winning singer/songwriter joined the NAIC’s campaign to specifically engage the “sandwich generation”—baby boomers with kids at home who are also caring for aging parents and planning their own retirement. Grant was chosen because of a personal story that involved insurance: she helped nurse her mother through dementia at the end of her mother’s life and became aware of the benefits of a good aging plan that includes insurance.

When both of Grant’s parents were diagnosed with dementia, the family struggled to find guidance or a road map for the journey ahead. Now, Grant shares what she’s learned about educating yourself and planning ahead for life’s unexpected turns:

- **Create a plan:** Instead of living in fear, frustration and regret, face the situation proactively. Establish a plan that gives your loved one the care he or she needs, and allows you to actually enjoy the time you have together.
- **Solicit support:** Seek to distribute responsibilities between the broadest community of individuals around your loved one. Caring for a parent while working a full-time job and raising kids is draining, emotionally and physically. Surround yourself with people who care and be willing to ask for help.
- **Talk about finances:** Long before you think you need to, review your parents’ insurance information to ensure that you understand their wishes and to make changes together. If your parent is considering purchasing an annuity, additional life insurance or long-term care insurance, be sure to do the research. The NAIC’s Insure U website is a good place to start.

Additional Information (Resources)
More information about dementia as it relates to seniors can be found at the Alzheimer’s Association or the National Institute on Aging.

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2. www.InsureUonline.org.
The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S. For more information, visit www.naic.org.

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<td>Warren</td>
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B
Bo Ling's Chinese Restaurant ........................................... 816.753.1718
Brio Tuscan Grille .......................................................... 816.561.5888
Buca di Beppo ............................................................... 816.931.6548

C
The Capital Grille ............................................................ 816.531.8345
Chaz on the Plaza ............................................................ 816.802.2152
The Cheesecake Factory .................................................... 816.960.1919
Chuy's Mexican Food ........................................................ 816.931.2783
Classic Cup Café .............................................................. 816.753.1840
Coal Vines ................................................................. 816.912.2690
Cold Stone Creamery ........................................................ 816.753.7664
Cooper's Hawk Winery & Restaurant ..................................... 816.531.1500

F
Fiorella's Jack Stack Barbecue ............................................. 816.531.7427
Fogo de Chão ................................................................. 816.931.7700
Fred P. Ott's ................................................................. 816.753.2878

G
The Gallery at Sheraton Suites ............................................. 816.931.4400
Gram & Dun ................................................................. 816.389.2900
The Granfalloon Restaurant & Bar .........................................

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<td>L'Ecole Culinaire</td>
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<td>McCormick &amp; Schmick's Seafood</td>
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<td>The Melting Pot</td>
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<td>Morton's Grille</td>
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<td>Natasha's Mulberry &amp; Mott</td>
<td>816.960.7096.</td>
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<td>Noodles &amp; Company</td>
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<td>The Oak Room at The Intercontinental</td>
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<td>Panera Bread Bakery Café</td>
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<td>Plaza III The Steakhouse and The Club At Plaza III</td>
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<td>Potbelly Sandwich Shop</td>
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<td>Starbucks</td>
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Tomfooleries......................................................... 816.753.0555.
Topsy’s Popcorn Shoppe.............................................. 816.753.7373

Z

Zoës Kitchen............................................................ 816.531.2044
The NAIC Center for Insurance Policy and Research (CIPR) Summer Event, *All Things Earthquake*, will be held during the NAIC Summer National Meeting in Chicago, IL. The event is tentatively scheduled for the afternoon of August 14, 2015. The event will cover the following topics:

- Earthquake Exposures and Challenges
- Scientific support for and against the proposition that fracking causes earthquakes
- Ground water contamination issues related to fracking
- Opposing views on fracking and loss mitigation for earthquake exposure
- Regulatory experiences and concerns with earthquakes
- The role of mitigation in addressing earthquake exposure

CIPR is still in the planning stage, but more details will be coming soon!