CEJ Perspectives on
NAIC Role in Promoting Retirement Security

NAIC Consumer Liaison Committee

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Birny Birnbaum
Center for Economic Justice
www.cej-online.org

Why CEJ Works on Insurance Issues

Insurance Products Are Financial Security Tools Essential for Individual and Community Economic Development:

CEJ works to ensure ***fair access*** and ***fair treatment*** for insurance consumers, particularly for low- and moderate-income consumers.

Insurance is the Primary Institution to Promote Loss Prevention and Mitigation, Resiliency and Sustainability:

CEJ works to ensure insurance institutions maximize their role in efforts to reduce loss of life and property from catastrophic events and to ***promote resiliency and sustainability*** of individuals, businesses and communities.

NAIC's Retirement Security Initiative[1]

"Retirement security encompasses a broad spectrum of financial tools, including many insurance-related products and services such as life insurance, annuities, and long-term care insurance. The marketing and sales of these products are also areas which fall under the retirement security umbrella. State insurance departments and the NAIC can play an important role in helping American consumers prepare for financial security as insurance is a key part of a comprehensive retirement plan.

"The NAIC focuses on three major areas of Retirement Security: Education, Consumer Protection and Innovation."

[1] https://content.naic.org/cipr_topics/topic_retirement_security.htm

CEJ Recommendations for NAIC / State Regulator Role to Promote Retirement Security

1. Identify and Remove Retirement **Insecurity** Caused by Insurance
   a. Rate and Price Increases for Long-Term Products
   b. Misleading Sales Materials and Illustrations
   c. Hollowed-Out Property and Health Insurance Policies Resulting from Major Exclusions and Massive Deductibles

2. Support Strengthening of Public Social Programs That Deliver Benefits More Efficiently and Effectively Than Private Sector Actors

3. Ensure Insurance Products Deliver Good Value to Consumers and Don't Strip Consumers of Crucial Retirement Assets

4. Develop Insurance Consumer Information, Education and Disclosures That Identify the Value and Cost of the Insurance Proposition. Focus on Value-Added from Insurance Regulators.

Identify and Remove Retirement Insecurity Caused by Insurance *Rate and Price Increases for Long-Term Products*

Massive Rate Increases for Long-Term Care Insurance Rates and Cost of Insurance in Universal Life

There's no way to sugar-coat it. State insurance regulators have done a terrible job of regulating LTCI with the result that consumers' retirement security plans have been become insecure. Regulators' response to problems with LTCI insurance pricing – for well over a decade – has been to allow insurers to recoup costs for their mistakes on the backs of consumers instead of clawing back bonuses from management and dividends from policyholders. And to allow insurers to charge more than expected costs in hopes of avoiding future rate increases.

Despite the poor track record, regulators continue to permit continued use of, and approve new, LTCI products with no cap on future rate increases. A first step to promoting retirement security is to stop the sales of products that promote retirement insecurity.

Misleading Sales Materials and Illustrations

The key information used by insurers and producers to sell investment-type life insurance and annuities are illustrations and comparisons of accumulation with insurance products to other types of investments. Despite NAIC models for advertisements and for illustrations, the current disclosure and illustration regime produces unrealistic projections and misleading information to serve as the basis for retirement security planning. The current framework for life insurance and annuity illustrations needs rethinking, reengineering and modernization to serve, not defeat, consumers' retirement planning.

Hollowed-Out Property and Health Insurance Policies Resulting from Major Exclusions and Massive Deductibles

Consumers' plans for retirement security include purchase of insurance to guard against natural and health catastrophic events. The growth in exclusions and higher deductibles undermines the role of these types of insurance products in recovery and retirement security.

Support Strengthening of Public Social Programs That Deliver Benefits More Efficiently and Effectively Than the Private Sector

Private markets and private sector actors can often deliver products and services more effectively and efficiently than the public sector. In the world of insurance, private insurers could deliver flood insurance more effectively and efficiently than the federal NFIP.

On the other hand, public programs like Social Security and Medicare deliver retirement benefits and health care far more efficiently than the private sector.

The decline of employer-based pensions and the rise of individual retirement accounts has caused much higher transaction costs for individuals.

While the insurance industry has critical products to offer to help with retirement security, regulators should support strengthening of public programs when those programs deliver benefits more efficiently and effectively.

For example, how should we think about the best use of federal resources to promote retirement security? Current and proposed tax policies provide or would provide tax credits for LTCI premiums. Yet, these federal expenditures – in the form of foregone tax revenue – go overwhelmingly to the more affluent taxpayers who don't need the benefit or who would buy LTCI whether or not the tax credit existed. In contrast, if these same federal dollars went to strengthening social programs, the federal assistance would go to those most in need of the assistance for retirement security.

Ensure Insurance Products Deliver Good Value to Consumers and Don’t Strip Consumers of Crucial Retirement Assets

An essential role for insurance regulators is to ensure that life insurance and annuity products deliver solid value to consumers – meaning that the vast majority of the premiums are spent on benefits paid to the consumer. Insurance products that deliver only low-value systematically strip consumers of their scarce retirement assets.

Ensuring good value in products means that regulators must assess the value of the products and communicate that value to consumers, discussed below.

Develop Insurance Consumer Information, Education and Disclosures That Identify the Value and Cost of the Insurance Proposition. Focus on Value-Added from Insurance Regulators.

CEJ urges the NAIC to focus on activities for which insurance regulators have particular expertise and can best leverage that expertise. For example, partnering with educators and other organizations already deeply engaged in research and education related to Americans' savings and financial practices.

As previously discussed, there is a need to inventory and review consumer information, education and disclosures in NAIC life insurance, annuity and long-term care models related to retirement security and recommend improvements and coordination as needed.

In relation to relevant information for consumers on insurance product value, there is no currently little or no information regarding the value of life insurance and annuity products as measured by traditional benefit (claims) ratios. In contrast, we see regularly the loss ratios – and, consequently, aggregate average value to consumers – of most types of property/casualty insurance and health insurance. Developing and publishing benefit ratios and/or the cost of insurance will better enable consumers to see the value of insurance products.

For example, when a consumer buys an auto or home insurance policy, they pay a premium and therefore know the cost of the insurance protection they are receiving. When a consumer buys, say, an indexed life insurance policy, that policy provides important insurance protections, but the cost of those protections is not currently available to the consumer. ***We suggest the NAIC develop methods and metrics to assess the cost and benefits of life insurance, annuity and long-term care insurance products.***