NAIC

National Association of Insurance Commissioners

& The Center for Insurance Policy and Research

CIPR Summer Event:

Enhancing Protections and Empowering Consumers for a Secure Retirement

Tuesday, August 8, 2017
Philadelphia, PA

The Center for Insurance Policy & Research

WELCOME MESSAGE

Welcome to the NAIC Center for Insurance Policy and Research (CIPR) event: "Enhancing Protections and Empowering Consumers for a Secure Retirement." 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 and a number of webinars that bring together dynamic and informative speakers and panelists. These events offer a forum for opinion and discussion on major insurance regulatory issues.

Retirement security continues to be a key initiative for the NAIC this year. The cost of retirement averages $700,000. Many consumers' retirement savings are inadequate to cover these costs, especially in light of increasing longevity. Unforeseen circumstances can present additional retirement security risks. For instance, loss of employment, decline in heath and changes in social insurance policies can hamper the security of even the most prepared consumers. Private insurance plays an important role in filling these voids. But, what happens if your insurer becomes insolvent or your premiums become unaffordable? This event will focus on identifying unforeseen risks pre-retirees and post-retirees might face in retirement. The goal is to surface ideas on how state insurance regulators can empower consumers to better manage these potential in-retirement risks. It will also explore the impact of the U.S. Department of Labor legislation on fiduciary responsibility and the potential for revisions to the *Suitability in Annuity Transactions Model Regulation* (#275).

While you are here, I encourage you to take some time to explore the city of Philadelphia. I hope you enjoy the event and your stay!

Sincerely,
Eric Nordman
Director of CIPR and Regulatory Services

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National Association of Insurance Commissioners & The Center for Insurance Policy and Research

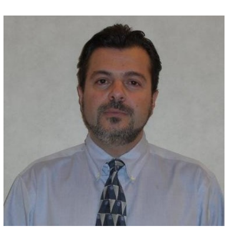
Meet the CIPR Team

Eric Nordman, CPCU, CIE, is the director of the NAIC Regulatory Services Division and the Center for Insurance Policy and Research (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 since 1991. Prior to his appointment as director of the Regulatory Services Division, Mr. Nordman was director of the Research Division and, before that, the NAIC senior regulatory specialist. Before joining the NAIC, he was with the Michigan Insurance Bureau for 13 years. Mr. 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 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 (CIPR). Ms. DeFrain received her bachelor's degree in finance/actuarial science from the University of Nebraska in 1989. She received her FCAS designation from the Casualty Actuarial Society (CAS), where she previously served as Vice President—International. Ms. DeFrain is a member of the American Academy of Actuaries and a Chartered Property and Casualty Underwriter.

Shanique (Nikki) Hall is the manager of the NAIC Center for Insurance Policy and Research (CIPR). She currently oversees the research, production and editorial aspects of the CIPR's primary work streams; the CIPR Newsletter, studies, events, webinars and website. Ms. Hall has extensive capital markets and insurance expertise and has authored copious articles on major insurance regulatory and public policy matters. She began her career at J.P. Morgan Securities as a research analyst in the Global Economic Research Division. At J.P. Morgan, Ms. Hall analyzed regional economic conditions and 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 financial services. 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). Since 2000, she has been at 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, Ms. Obersteadt 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 for 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 (CIPR). 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. Mr. 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.

LEARNING OBJECTIVES

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

- Explain how unforeseen circumstances in retirement impact consumers.
- Identify potential tools and approaches state insurance regulators could employ to empower consumers in the retirement security space.
- Explain the roles of social insurance programs and long-term care insurance in retirement security.
- Explain how state insurance regulators can address multigenerational and financial diversity in their tools and initiatives.
- Explain what non-traditional products are available to fill consumers' retirement needs.
- Identify common themes among abusive market practices observed by state insurance regulators.
- Explain various viewpoints on potential revisions to the *Suitability in Annuity Transactions Model Regulation* (#275).
- Explain the impact of the U.S. Department of Labor legislation on fiduciary responsibility.
- Identify consumer knowledge gaps and protection needs related to retirement security.

This is a NAIC Insurance Regulator Professional Designated program eligible for two 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 address you provided during registration. The survey can be found at the following link: https://www.surveymonkey.com/r/JCG7FCH.

CIPR Event: Enhancing Protections and Empowering Consumers for a Secure Retirement

Tuesday, August 8, 2017
Philadelphia Marriott Downtown
Grand Ballroom EF - Level 5
Philadelphia, PA

2:00 Registration and Check-in

3:00 Opening Remarks

Introduction: Overview of the Program

— *Ted Nickel, NAIC President*
Commissioner, Wisconsin Office of the Commissioner of Insurance

3:10 Retirement (In)Security for Today's Workers

How are today's workers positioning themselves for their future retirement security? With defined benefit pension plans disappearing and defined contribution plans failing to provide adequate funding for retirement, what must today's workers do differently to plan for their financial futures?

This presentation will examine the range of risks confronting today's workers and their families, and will identify options for addressing these risks. In addition to focusing on the roles Social Security and Medicare now play in providing retirement, disability, survivor and sickness protection, the presentation will look at growing risks, such as long-term care and caregiving, which are not currently covered by social insurance programs.

— *William Arnone, Chief Executive Officer*
National Academy of Social Insurance

3:30 Identifying Strategies to Fill the Consumer Knowledge and Protection Gaps

The panel discussion will focus on enhancing protections and empowering consumers across the generations for a secure retirement. The goal is to surface potential strategies and tools state insurance regulators and the NAIC can implement. Panelists will begin by identifying consumer knowledge gaps and protection needs related to retirement security, including long-term care insurance, Medicare supplement insurance and Medicare. They will then share their thoughts on how these issues can be addressed. This includes how to help consumers prepare for and manage unexpected circumstances in retirement, such as long-term care premium increases or insurer insolvencies, loss of health coverage, and reduced income from Social security. The potential for updates to the *Suitability in Annuity Transactions Model Regulation* (#275) for gaps in financial service sales standards will also be discussed.

Moderator:

— *Al Redmer Jr., Commissioner*
Maryland Insurance Administration

Panelists:

— *Elizabeth Kelleher Dwyer, Superintendent*
Rhode Island Division of Insurance
— *Bonnie Burns, California Health Advocates*
NAIC Funded Consumer Representative
— *Chelsea Crucitti, Vice President, State Affairs*
Insured Retirement Institute (IRI)

— *Dean L. Cameron, Director*
Idaho Department of Insurance
— *Micah Hauptman, Financial Services Counsel*
Consumer Federation of America (CFA)

5:00 Closing Remarks
— *Ted Nickel, NAIC President*
Commissioner, Wisconsin Office of the Commissioner of Insurance

ENHANCING PROTECTIONS & EMPOWERING CONSUMERS FOR A SECURE RETIREMENT
PRESENTER BIOGRAPHIES

HOST:
TED NICKEL
COMMISSIONER
WISCONSIN OFFICE OF THE COMMISSIONER OF INSURANCE

NAIC PRESIDENT

Governor Scott Walker appointed Ted Nickel as Commissioner of Insurance for the state of Wisconsin on January 3, 2011. The Office of the Commissioner of Insurance regulates the business of insurance in Wisconsin. The office has a staff of 153 and is responsible for examining industry financial solvency and market conduct, licensing agents, reviewing policy forms for compliance with state legislation, investigating consumer complaints and providing consumer information. In addition to its regulatory duties, the office administers the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Injured Patients and Families Compensation Fund.

Commissioner Nickel became president of the National Association of Insurance Commissioners (NAIC) in January 2017. He currently serves on the Executive (EX) Committee, Cybersecurity (EX) Task Force, Government Relations (EX) Leadership Council, International Insurance Relations (EX) Leadership Group and Internal Administration (EX1) Subcommittee. He is a member of the NAIC American Indian and Alaska Native Liaison Committee and serves on several other NAIC task forces and committees. In addition, he chairs the Mortgage Guaranty Insurance (E) Working Group.

Commissioner Nickel is also a member of the International Association of Insurance Supervisors (IAIS). He is a member of the Executive Committee, as well as the Audit and Risk Committee. Additionally, he chairs the Site Selection Committee.

In August 2014, he was appointed to the Federal Advisory Committee on Insurance, which serves as an advisory committee to the Federal Insurance Office (FIO).

Commissioner Nickel earned his bachelor's degree in business administration with a concentration in finance from Valparaiso University.

WILLIAM ARNONE
CHIEF EXECUTIVE OFFICER
NATIONAL ACADEMY OF SOCIAL INSURANCE

A founding Member and former Board Member of the National Academy of Social Insurance, William J. Arnone is now contributing his expertise in retirement security and employee benefits law by serving as Co-Chair of the Academy's 22nd Annual Policy Conference, *Beyond the Bad Economy: Jobs, Retirement, Health and Social Insurance.*

Mr. Arnone was a Partner in the Business Tax Services practice of Ernst & Young LLP, specializing in Employee Financial Education and Counseling. Before joining Ernst & Young in 1994, he was a Benefit Consultant and Director of Retirement and Financial Planning at Buck Consultants. Prior to that, he served as a Consultant on Older Workers for the Florence V. Burden Foundation, as Director of Senior Security Services for the New York Department of Aging, and as Executive Director of Helping Aged Needing Direction, Inc.

Mr. Arnone has published numerous articles in the area of retirement and has done extensive organizational work with the aging. He was selected as a Revson Fellow on the Future of New York City by the Columbia University School of Business.

BONNIE BURNS
CONSUMER ADVOCATE
NAIC FUNDED CONSUMER REPRESENTATIVE

Bonnie Burns has more than 35 years of experience in Medicare, Medicare supplemental insurance, and long-term care insurance and actively promotes improved consumer protection in state and federal legislative efforts concerning long-term care insurance products.

Ms. Burns has served as a consumer representative to the National Association of Insurance Commissioners (NAIC) since the inception of the program in 1992. In this role, she represents consumers in the development of Model Laws and Regulations used by states to regulate insurance companies and the marketing and sale of insurance products to older consumers.

Ms. Burns is a consultant to California Health Advocates (CHA) providing training and technical assistance on long-term care insurance, and representing CHA on policy issues related to financing long-term care for the middle class.

DEAN L. CAMERON
DIRECTOR
IDAHO DEPARTMENT OF INSURANCE

Dean Cameron was appointed by Governor C.L. “Butch” Otter to serve as Director of the Idaho Department of Insurance effective June 15, 2015. Director Cameron is a third generation insurance agent and has 27 years of experience in state government.

Director Cameron was a partner in Cameron and Seamons Insurance and Investments since 2004 and a partner in Cameron and Cameron Insurance Benefit Designers from 1989 to 2004. He is a former president of the Southern Idaho Life Underwriters Association and received the Life Underwriter of the Year award for 1994-1995.

Director Cameron served 13 terms in the state senate, including eight terms as Chair of the Senate Finance Committee and Co-chair of JFAC, the state’s budget committee. At the time of his appointment, he was the most senior member of the Senate. During his tenure in the Senate, Director Cameron was the senior member on the Senate Resources and Environment committee, Co-chair of the Health Care Task Force and former Chair and senior member of the Senate Commerce and Human Resources Committee, which handles insurance legislation. He sponsored nearly 20 pieces of health care and insurance-related legislation during his Senate service.

Director Cameron earned an Associate Degree in Political Science from Ricks College (now BYU-Idaho) in Rexburg, Idaho in 1984. Prior to his appointment, he was licensed in Life and Health, as well as Series 6 and 63.

CHELSEA CRUCITTI
VICE PRESIDENT, STATE AFFAIRS
INSURED RETIREMENT INSTITUTE (IRI)

As Vice President of State Affairs at the Insured Retirement Institute, Chelsea Crucitti provides leadership and support for IRI member company priorities in the state regulatory and legislative arenas, and works with member company representatives to develop effective government affairs and compliance programs that meet their business needs. Ms. Crucitti joined IRI in June 2016.

Prior to joining IRI, Ms. Crucitti was Associate Director of State Government Affairs at the Consumer Healthcare Products Association and State Government Affairs Specialist for the Mortgage Bankers Association from 2009 to 2013. In those capacities, she developed nationwide policy and guided legislative strategy across the country. She began her career tracking and reporting on legislation and regulations covering a multitude of issues at KSE FOCUS LLP in Montpelier, Vermont from 2007 to 2009.

Ms. Crucitti earned a Bachelor of Arts in Political Science from University of Vermont in 2006, and a Juris Doctor from Charlotte School of Law in 2016. She was admitted to practice law in the District of Columbia in 2017.

ELIZABETH KELLEHER DWYER
DEPUTY DIRECTOR & SUPERINTENDENT
RHODE ISLAND DEPARTMENT OF BUSINESS REGULATION

Beth Dwyer was appointed Deputy Director and Superintendent of Insurance and Banking on January 11, 2016. Prior to this appointment she had been employed by the Rhode Island Department of Business Regulation for fifteen years, first as General Counsel to the Insurance Division and later as Associate Director. Prior to government service, Ms. Dwyer was engaged in private law practice in California and Rhode Island specializing in litigation and insurance regulation.

Ms. Dwyer is a past president of the Rhode Island Women's Bar Association and served on the Rhode Island Supreme Court Advisory Committee on Gender in the Courts. She was awarded the 2010 Rhode Island Attorney General's Justice Award for Consumer Protection. She completed the Senior Executives in State and Local Government Program at Harvard University, John F. Kennedy School of Government Executive Education and has achieved the designation of Senior Professional in Insurance Regulation from the NAIC. She is currently chair of the NAIC Producer Licensing Task Force; Vice Chair of the Financial Regulation Standards and Accreditation (F) Committee and the Cybersecurity and Big Data working groups and a member of the NIPR Board of Directors.

Ms. Dwyer was admitted to practice law in California, Rhode Island, Massachusetts, the Federal District Courts of California and Rhode Island and the Ninth Circuit Court of Appeals. She received a JD from Pepperdine University and a BA in Political Science and Public Administration from Providence College.

MICAH HAUPTMAN
FINANCIAL SERVICES COUNSEL
CONSUMER FEDERATION OF AMERICA (CFA)

Micah Hauptman is a Financial Services Counsel at the Consumer Federation of America (CFA), a nonprofit association of nearly 300 national, state, and local pro-consumer organizations. At CFA, he performs research and engages in advocacy on investor protection issues.

Prior to joining CFA in January 2014, Mr. Hauptman worked on a broad range of banking and tax issues at Public Citizen, from 2011-2014. Prior to joining Public Citizen, he worked as a prosecutor for the Los Angeles City Attorney's office.

AL REDMER, JR.
COMMISSIONER
MARYLAND INSURANCE ADMINISTRATION

Al Redmer Jr. was appointed Maryland Insurance Commissioner by Governor Lawrence J. Hogan Jr. in January 2015. His term ends May 30, 2019. He previously served as Commissioner from June –October 2005. A respected businessman and former member of the Maryland General Assembly, Redmer most recently managed Redmer Insurance Group, LLC, and owned Redmer Financial Group. His business experience includes time as partner and president of Landmark Insurance & Financial Group and as CEO of Coventry Health Care of Delaware Inc.

During his 13-year tenure in the General Assembly representing Baltimore County, Commissioner Redmer served two years as the House Minority Leader. Throughout his career, he has stayed involved in numerous community, business and nonprofit organizations.

Commissioner Redmer is a member of the Governor's Sub-Cabinet on International Affairs and sits on the Board of Directors of the Maryland Health Benefit Exchange. Nationally, Redmer was named to the Federal Advisory Committee on Insurance.

Commissioner Redmer also represents the state's interests as an active member of the NAIC. He currently serves on the NAIC's Executive (EX) Committee, as the NAIC Northeast Zone's Chair and as co-chair of the Travel Insurance (C) Working Group of the Property and Casualty (C) Committee. He also sits on the Cybersecurity (EX) Task Force, and Senior Issues (B) Task Force, Market Regulation and Consumer Affairs (D) Committee, Financial Regulation Standards and Accreditation (F) Committee, Consumer Liaison Committee and State Government Liaison Committee.

At the Maryland Insurance Administration, Commissioner Redmer oversees the independent agency's approximately 266 employees and an annual budget of $31 million.

CIPR Summer Event: Attendee List (as of 7/26/17)

First Name	Last Name	Title	Company	Email	City	State
Lois	Alexander	Market Regulation Manager II	NAIC	lalexander@naic.org	Kansas City	MO
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CIPR Summer Event: Attendee List (as of 7/26/17)

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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.

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CIPR Events

The CIPR holds four events each year—three events during each of the NAIC National Meetings and one at the NAIC Insurance Summit. Additionally, CIPR now offers webinars.

2017 Events

- Enhancing Protections and Empowering Consumers for a Secure Retirement (Aug. 8)
- Understanding Blockchain Technology Webinar (June 1 & 5)
- The Future of Flood Insurance (April 10)
- Understanding the Changes to A.M. Best's Capital Model Webinar (Feb. 28)

2016 Events

- Regulatory Evaluation 2.0 – Meeting the Challenges of Innovation (Dec. 12)
- The Impact of Rating Agencies on the Insurance Industry Webinar (Oct. 14 & 20)
- Gearing Up for Autonomous Vehicles (Aug. 28)
- The Sharing Economy Webinar (June 18)
- CIPR Insurance Summit Mini-Conference (May 18)
- Technology and Insurance (April 5)

2015 Events

- Regulation of Captives (Nov. 18)
- All About Earthquakes (Aug. 14)
- Boom or Bust? A Look into Retirement Issues Symposium (June 15-16)
- 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 Symposium (Oct. 7-8)
- Commercial Ride-Sharing and Car-Sharing Issues (Aug. 16)
- Insuring Cyber Liability Risk (Mar. 28)

More information, including webinars, events prior to 2014 and **presentations and audio for all events**, can be found on our website at: www.naic.org/cipr_events.htm.

NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

CIPR newsletter

New U.S. Department of Labor Rule Could Affect Insurance Industry

By Anne Obersteadt, CIPR Senior Researcher, and Brooke Stringer, NAIC Financial Policy and Legislative Advisor

The U.S. Department of Labor (DOL) has proposed new regulations broadening its definition of fiduciary under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (Code). The proposed rule is comprehensive and complex, and would significantly change regulations put in place 40 years ago. It will vastly expand the definition of who is considered an ERISA fiduciary to include many insurance agents, insurance brokers and insurance companies. As such, it is expected to have far-reaching implications for the retirement industry. This article explores the main components of the proposal and its potential implications for the insurance industry.

◆ Regulatory Regimes Under Current Law

Currently, depending on the financial products offered and/or the financial services provided, an insurance agent could be simultaneously subject to various types of overlapping regulations at both the state and federal level. Under the current regulatory structure, an insurance agent could be subject to regulations set by state insurance regulators, the U.S. Securities Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and the DOL. Which regulatory regimes would depend on the specific activities, transactions and products offered by the insurance agent and how these products fell into a particular regulatory body's jurisdiction.

For example, if an insurance agent sells a variable annuity—which is considered both an insurance product and a securities product—the agent would be simultaneously subject to both state insurance regulation and the SEC or FINRA regulation. If the same insurance agent also works on a regular basis with products and/or provides services related to 401(k) plans covered by the federal ERISA, the agent would be subject to the DOL fiduciary regulations.

Given the differences in products, transactions and services, each regulator has its own standard of care to which the insurance agent must adhere to in order to be in compliance with its regulations. State insurance regulators impose suitability standards, while the SEC oversees two different standards of care: one for those defined as an investment advisor and one for those defined as a broker-dealer. Investment advisors must adhere to a fiduciary standard, and broker-dealers typically fall under the FINRA suitability standard. The DOL currently requires a fiduciary standard of care and is seeking to expand the scope of who is considered a fiduciary to ERISA retirement plans and IRAs. In addition to the DOL rulemaking, the SEC is reexamining its varying standards of care for broker-dealers and investment advisors and may consider imposing a uniform fiduciary standard.

◆ Overview of the Proposed DOL Rule

The proposed rule, put forward in April 2015, aims to create enforceable standards requiring advisors to act in the best interest of their clients. The new rules represent an updated proposal of the DOL withdrawn 2010 proposed rules. As a fiduciary, an advisor is legally bound to provide advice in the best interest of the client and cannot accept any payments, unless under specific exemption, which could create conflicts of interest. Current DOL guidelines, however, narrowly define "investment advice" under a five-part test. Only investment advisors that meet each of these five requirements, listed below, for each instance of advice are considered a fiduciary.

Current DOL Five-Part Test:

1. Make recommendations on investing in, purchasing or selling securities or other property, or give advice as to the investments' value.
2. On a regular basis.
3. Pursuant to a mutual understanding of that advice.
4. Will serve as a primary basis for investment decisions.
5. Will be individualized to the particular needs of the plan.[1]

The proposed rules would change this by extending the definition of investment advice to include a single recommendation, rather than advice provided on a regular basis. Under this new definition, fiduciary status would be expanded to include insurance agents who recommend investing distributions and rollovers from 401(k) plans and IRAs into insurance or annuity products. In its proposed regulation, the DOL noted the change was intended to address the growing complexity of investment products and services in the retirement plan market.

In addition, the Prohibited Transaction Exemption (PTE) 84-24 currently provides an exemption for a plan's payment of sales commissions to insurance agents, insurers and brokers in connection with a plan's purchase of insurance and annuity contracts and mutual fund shares. Without this exemption, fiduciaries would generally be prohibited from receiving commissions in connection with transactions involving plans and IRAs under ERISA and the Code.

The proposed rule will still allow this exemption for some insurance agents, insurers and brokers who make fiduciary recommendations depending on the products they sell, but it would require them to meet amended conditions.[2] The

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[1] Definition of "plan assets"-plan investments, 29 C.F.R. § 2510.3-101 (2010), Retrieved from *www.gpo.gov/fdsys/pkg/CFR-2011-title29-vol9/pdf/CFR-2011-title29-vol9-sec2510-3-21.pdf.*

[2] Notice of proposed amendment to PTE 84–24, Federal Register /Vol. 69, No. 177, 2004, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from www.dol.gov/ebsa/regs/fedreg/notices/2004020699.htm.

amendments redefine what can be considered an insurance commission and exclude revenue sharing payments, administrative fees, marketing payments and third-party payments. They also require compliance with impartial conduct standards to act in the best interest of the client, include new enhanced recordkeeping requirements and civil penalties and taxes for failure to maintain records or make them available for examination.

Perhaps the most significant proposed amendment to PTE 84-24 is the exclusion of variable annuity sales to IRAs. Instead, under the proposed rules, agents selling variable annuities to IRAs would need to adhere to a new "Best Interest Contract Exemption" (BICE).[3] The BICE essentially allows advisors to continue their compensation practices, provided they ensure the best interest of their clients, receive no more than reasonable compensation and abstain from making misleading statements.

Additionally, advisors must admit fiduciary status under ERISA. The BICE also requires advisors to enter into a contract with the client providing warranty on such things as adopted written policies and procedures designed to mitigate conflicts of interest and ensure adherence to standards of impartial conduct. Furthermore, advisors must comply with record-keeping and detailed disclosure reporting requirements.

◆ NAIC ENGAGEMENT

The NAIC submitted a comment letter in July, and several of its members have met with DOL officials to underscore the importance of providing clarity in the rule to limit the potential for unintended consequences, confusion or litigation. The NAIC has reiterated the importance of not limiting insurers' ability to sell proprietary products and encouraged the DOL to consider clarifications to affirm proprietary product sales are consistent with the standards proposed in their rule. The NAIC has also urged the DOL to provide clarity on how the agency will potentially operationalize a number of provisions of the rule, including the best interest standard, reasonable compensation requirements, and differences between educational activities and fiduciary responsibilities.

◆ ISSUES RAISED BY THE INSURANCE INDUSTRY

According to the DOL, the PTE 84-24 and BICE exemptions were intended to allow an avenue to engage in certain compensation arrangements normally prohibited under ERISA and the Code. However, many in the insurance industry have concerns on the impact of these exemption revisions to their business. The DOL published the proposed regulations for comment April 20, with the comment period ending July 6.[4] From Aug. 10-13, the DOL held a four-day public hearing to discuss its proposed conflict of interest rule. Following the public hearing, it reopened the comment period until Sept. 24. Many in the insurance industry participated in the hearing and comment periods.[5] An overview of many of the concerns expressed by the insurance industry during these comment periods and the hearing are outlined below.

Record-Keeping and Disclosure Reporting Costs

Complying with the record-keeping and disclosure reporting requirements may increase the costs and complexity involved in the sales process. The DOL estimates it will take an additional 66,000 hours of labor to meet the representation and disclosure requirements of the carve-outs, resulting in additional costs of $6.4 million.[6]

Proprietary Product Sales

Under the proposed rule, the BICE and revised PTE 84-24 require the advisor and financial institution to adhere to impartial conduct standards. They will be required to advise with care, skill, prudence and diligence "without regard to" the financial or other interest of the advisor or financial institution.[7] Concerns have been raised by the insurance industry as to how proprietary products could be recommended under these conditions, since there will always be the incentive to sell one's own products.

Additionally, there is concern the terms used within the BICE are too vague and could lead to legal interpretive issues and increased exposure to litigation. For example, under the rule, financial institutions selling proprietary products must justify the limitations they have placed on products they make available to their agents do not prevent the agent from acting in the client's best interest. They must also justify why the receipt of employee benefits as a condition of only selling proprietary products does not incentivize their agents to act in a manner that is not in the best interest of the client.

Reasonable Compensation

The BICE requires advisors and financial institutions to contractually commit they will not recommend an investment if the total amount of compensation exceeds "reasonable compensation" in relation to the total services they provide

(Continued on page 10)

[3] Proposed Best Interest Contract Exemption, Federal Register/Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from *http://webapps.dol.gov/FederalRegister/HtmlDisplay.aspx?DocId=28202&AgencyId=8&DocumentType=1*.

[4] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from *www.dol.gov/ebsa/regs/conflictsofinterest.html.*

[5] Comments on Conflict of Interest Proposed Rule and Exemption Proposals. Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from *www.dol.gov/ebsa/regs/conflictsofinterest.html.*

[6] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from *www.dol.gov/ebsa/regs/conflictsofinterest.html.*

[7] Ibid.

to the client.[8] There is concern this part of the rule uses vague language, creating potential uncertainty for the industry over how this standard will be determined.

Investment Education and Seller's Exception

The proposed rule carves out several exceptions from the definition of "investment advice," which would not trigger fiduciary status.[9] The proposal limits the carve-outs application only to advice to large plan fiduciaries with financial expertise. Recommendations to small plans, IRA owners or individual participants would not be covered by the seller's exception. Many in the insurance industry are advocating broadening the seller's exception.

The proposed rule also excludes "investment education" from the definition of fiduciary advice to allow advisors to provide general financial education.[10] There is concern the educational component's requirement that a BICE contract be signed once an advisor moves from general education to discussing the product will inadvertently trigger fiduciary status.

Variable Annuity Sales

Currently, prohibitive transaction relief for the receipt of sales commissions is available under PTE 84-24 for sales by "fiduciary" insurance companies, insurance agents and insurance brokers of fixed and variable insurance products to 401(k) plans and IRAs.[11] As stated earlier, the proposed rule revokes the exemption coverage for the sale of variable annuities to IRA account holders and stipulates receipt of commissions from such sales will only be permitted if the conditions of the BICE are met. The industry and broker community is advocating for the DOL to permit sales of variable annuities to IRAs under PTE 84-24.

Definition of Insurance Commissions

The insurance industry has raised concerns the definition of "insurance commission" under the proposed PTE 84-24 revisions is too narrow and should be broadened to include more traditional forms of compensation. Under the proposal, insurance commissions would be newly defined as commissions paid by the insurance company or any affiliate of the insurance agent, insurance broker or pension consultant for effecting the purchase or sale of an insurance or annuity contract. It would include renewal fees and trailers, but explicitly exclude revenue sharing payments, administrative fees, marketing payments and third-party payments.

Welfare Benefit Plans

The language in the proposed rule defines "plan" as "any employee benefit plan described in Section 3(3) of ERISA" and thus appears to cover employee welfare benefit plans, such as health, life and disability insurance.[12] Many in the insurance industry have raised concerns this broad definition would lead recommendations provided in connection with traditional employee welfare benefit plans to be included in the scope of the rule.

◆ CONCLUSION

The DOL is in the process of reviewing the comments it has received on its proposed rule and determining what changes, if any, to make to its proposal. Until the rule is finalized and implemented, it will be difficult to know the extent of the impact on the insurance sector. Therefore, it is imperative all insurance sector participants continue to monitor this significant development. Please look for future articles on this subject as implementation of the rule progresses.

ABOUT THE AUTHORS

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[8] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor.

[9] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/ Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from www.dol.gov/ebsa/regs/conflictsofinterest.html.

[10] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/ Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from www.dol.gov/ebsa/regs/conflictsofinterest.html.

[11] Definition of "plan assets"-plan investments, 29 C.F.R. § 2510.3-101 (2010).

[12] Conflict of Interest Proposed Rule, Retirement Investment Advice, Federal Register/ Vol. 80, No. 75, 2015, Employee Benefits Security Administration, U.S. Department of Labor. Retrieved from www.dol.gov/ebsa/regs/conflictsofinterest.html.

Managing the Impact of Long-Term Care Needs and Expense on Retirement Security Monograph—The Link Between Retirement and Long-Term Care

By Anna M. Rappaport

This article expresses the opinions of the authors and is not meant to represent the position or opinions of the NAIC or its members, nor is it the official position of any staff members.

Long-term care help and services are important to many Americans. The existing provision of long-term care services in the United States is fragmented and many parts of the system are facing significant challenges. Circumstances requiring a long period of long-term care support can present a major problem for families and often lead to retirement insecurity for those who experience such episodes.

Seeking to better understand the link between long-term care and its impact on retirement, the Society of Actuaries Committee on Post-Retirement Needs and Risks, working closely with the SOA long-term care section, issued a call for papers: *Managing the Impact of Long-Term Care Needs and Expense on Retirement Security: A Holistic and Multi-Generational View*. These papers are published in this monograph.

This article provides an overview of the rationale for the project, provides a summary of key points, provides some basic background and discusses the topics and issues covered by these papers.

◆ Why This Topic Is Important

Long-term care (LTC) expenses can be devastating to the retirement income and lifetime financial security plans of households as well as their family caregivers. Households manage this risk with a variety of approaches but few have a formal plan or insurance with their primary plan to rely on family and friends for care, and their last resort for protection is usually Medicaid.

This lack of protection has put middle-class households at risk and has severely exacerbated household and societal challenges to a financially secure retirement through:

- The depletion of retirement assets due to long-term care expenses for many of the families who purchase services in response to a major long-term care event.
- The impact on the financial security of the surviving spouse.
- The added responsibility and financial burden placed on family members who care for their parents and loved ones.
- The cost of health and long-term care needs...these costs often outpace general inflation and/or the amount that individuals and families have budgeted.
- The effect of increased longevity on the likelihood of the need for care during retirement.
- The limited participation by middle-income earners in the private insurance market.
- The societal impact of an aging population on Medicare and Medicaid.

◆ Linking To A National Discussion

This is a period of transition in the provision of support for long-term care services, and a period of searching for solutions. Experts generally agree that new solutions are needed. The Society of Actuaries' "Land This Plane" project highlighted the need for new solutions. The Federal Commission on long-term care in its work in 2013 agreed that the system is challenged, but with no consensus on solutions. The CLASS act, which proposed minimum amounts of support and was part of the Affordable Care Act, was never implemented. It is hoped that these papers will add to this discussion and further the consideration of new direction to meet these challenges.

◆ Summary Of Retirement Planning And Long Term Care—Big Ideas

The following are some of our major findings:

Many people will need support. It is most often limited, but for some people it will be a very large amount and/or support will needed over a very long time. About 20 percent of the people reaching age 65 will need some support for five years or more.

The support from family is a huge issue—those with family support have much less need for securing support from the market. For many families, offering support is loving and important, but it can come with a large and often hidden cost to it.

Caregiving is a form of intergenerational transfer in some families. For caregiving family members, caregiving over a long time may mean giving up a job, or moving to part-time employment, and/or giving up a great deal of personal time. Some caregivers also spend considerable out-of-pocket dol-

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lars. The consequences of caregiving on the future retirement security of the caregiver are usually not considered.

In couples, the healthier member is likely to help the other member of the couple who needs help. LTC for the first member of the couple who needs help can be costly and can drain assets that would be available for the second member of the couple. Adequate survivor benefits are important to reduce the risk that LTC for the first to die will leave the survivor destitute. LTC insurance can also help protect the survivor.

Women on average live longer, are more likely to be the survivor, have longer expected periods of needing support and are more likely to be alone in old age. Structuring assets and income so that the survivor is protected is a huge issue.

LTC insurance is an important option to make funds available to buy market services when needed. This is particularly important for middle-class households. It is better to buy early when costs are lower and insurability is usually not an issue. The match between what people need and insurance is imperfect, and insurance is not always the best solution. This is an area where employers can help.

People without LTC insurance need greater assets in order to pay for a major LTC event should one occur. People who use their personal assets to pay for care are not subject to the requirements and restrictions in insurance policies.

Housing that offers some support is an excellent option for some households. There is a wide range of such housing options. Generally they have higher monthly costs than housing without support and some of these types of housing require an upfront payment. It is very desirable to have sufficient retirement funds so that such housing is a viable option to be considered when the need for help arises.

Systems of care management are evolving as are supports to assist people who wish to have care at home or in the community. Some of the evolution is focused on programs that use volunteer help and mutual support to enhance community-based options.

The worth of a current home can be viewed as a resource to pay for long term. Paying off a mortgage by retirement or early in retirement makes this a more viable option. However, housing assets are illiquid and depending on market conditions, it may be hard to sell housing when needed. Reverse mortgages offer an option for the use of housing values while remaining in the home.

A healthy lifestyle and other preventative measures are important to help to reduce the chance of needing LTC and the potential intensity of the care needed. However, this offers no guarantee that LTC will not be needed and needed for a long time.

Both physical and cognitive decline contribute to the need for LTC. Both can occur slowly or in sudden, large steps as a result of specific health events. One of the important personal planning issues is how to manage after decline occurs.

Medicaid offers the payment system of last resort. However, it requires spend down of assets for eligibility and the care options covered by Medicaid are limited. Some experts view Medicaid long term care benefits as a barrier to the purchase of private insurance and as a deterrent to better personal planning. Relying on Medicaid as a long-term solution is quite risky as the rules are restrictive, can change and these benefits are under great financial pressure.

In the current landscape, it is clear that these issues are complex and there are no simple solutions.

◆ Setting The Stage: Current Situation

Sources of long-term care provision and funding: The majority of care is provided by family and friends on an informal basis. Only about 10 percent of the population has private long-term care insurance coverage and it is in a state of disarray, with many companies having exited the market and many more imposing rate increases because appropriate pricing of the coverage has been so difficult. Combination products that combine life insurance with long-term care benefits are growing in popularity. Medicaid is the largest funder of LTC, and these programs are under great financial pressure. Medicare funds a small amount of long-term carevia its coverage of post- acute care (but this amount is much less than many people believe) and it is also under financial pressure.

The LTC that is provided by a variety of facilities and providers is financed as follows (Table 1 on the next page):

The system for delivering care is fragmented and diverse, and includes home and community-based care. However, there is inadequate integration of family care with supplemental services in many situations. The financing numbers shown here do not include the “hidden costs” of family-provided care.

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TABLE 1: LONG-TERM CARE FINANCING
Source: Federal Long-Term Care commission Report

Source	%	Comments
Medicaid	62.2	Pays benefits to those with very low resources. Program varies by state and is under pressure due to state budgets. Medicaid spending for long-term care is heavily focused on nursing home care; home care and alternative programs under Medicaid are increasing.
Other public	4.6	Include Medicare, Veterans Administration and others.
Out-of-pocket	21.6	Many families spend down assets and then go on Medicaid; does not include value of informal care.
Other private	11.6	Insurance benefits are largest component of this source

Expected need for and spending on long-term services and supports (LTSS): The majority of people reaching age 65 will need some support, but not over long periods of time. However, about 20 percent are expected to need some support for five years or more (Table 2).

As indicated, most care is provided by family or friends on an informal basis. Some households however spend a great deal of money on purchasing care. About 6 percent of households reaching age 65 are expected to spend $100,000 or more (Table 3).

TABLE 2: DISTRIBUTION OF POPULATION REACHING AGE 65 BY EXPECTED DURATION OF LONG-TERM CARE SERVICES AND SUPPORTS
Source: Federal Long-Term Care commission Report

Duration of Expected LTSS Need for Persons Turning 65	Percentage of Total
None	31%
Under 1 years	17
1-2 years	12
2-5 years	20
5+ years	20
Total	100%

Different degrees of support needed: There is a wide variation in the amount of support needed. Health status and the need for support also change by age, increasing substantially after age 80. As shown in Table 4 on the following page, the percentage of the population who are disabled increases by age group for the over age 65 group. By age 85, more than 50 percent of the population have at least a mild or moderate disability. (Stallard, 2008)

TABLE 3: DISTRIBUTION OF POPULATION REACHING AGE 65 BY EXPECTED COST OF LONG-TERM SERVICES AND SUPPORTS
Source: Federal Long-Term Care commission Report

Cost of Expected LTSS Need for Persons Turning 65	Percentage of Total
None	50%
Under $10,000	25
$10,000 - $25,000	7
$25,000 - $100,000	12
$100,000 or more	6
Total	100%

Note: The study from which this table appears uses underlying data from 1994 and the distribution percentages are based on a calculation of the present value of out-of-pocket costs. The table represents a wide variation in family needs. More recent spending data was unavailable.

Individuals in categories IV and V on this table would generally be considered to be benefit- eligible under LTC insurance whereas those in categories I and II would not and they would need to rely on informal care or pay for this care out of pocket. Those in category III may be benefit eligible and that would depend on the insurance policy definition, and whether the categorization used in the research aligned with current insurance policy provisions and practices.

Experience with caregiving: Many Americans have experience with caregiving. A May 2014 survey from the Associated Press and National Opinion Research Corporation (NORC) titled, "Long Term Care in America, Expectations and Reality," found that 60 percent of Americans over age 40 have experience with long-term care. Of this group:

- 73% only provided care,
- 17% provided and received care,

(Continued on page 32)

- 7% received care only, and
- 4% financially supported the provision of care.

The majority of the caregivers (57 percent) provided care to a parent. Eighty-three percent of the caregivers reported that they had a positive experience. Fifteen percent reported that they did not have a positive experience. Seventy-seven percent of the caregivers said that caregiving strengthened their relationships. Fifty-one percent said it caused stress in the family. (Associated Press—NORC, 2014)

Impact of caregiving on employers and workers: The act of caregiving has significant impact the caregivers, those requiring care and society as a whole. Long-term care costs overall do not include the cost for informal care, but in fact families and businesses are paying a price for such care. It has been estimated that individual caregivers for aging parents lose more than $300,000 over a lifetime, factoring in lost wages, savings and Social Security benefits, and that businesses lose more than $25 billion per year in lost productivity due to caregiving. (Timmermann, 2014) Caregiving can be a major strain on the families who provide care.

Impact on women: Women are more affected by caregiving than men and are more likely to be caregivers. They are also much more likely to take time out from work or shift to a part-time schedule in order to provide care. Job and career decisions are likely to adversely impact their retirement savings and security. Women have longer expected periods of disability than men. Eric Stallard has estimated life expectancies by health status and age: non-disabled, mild or moderate disability, and more severe disability. Although it is generally understood that women have longer life expectancies, this analysis shows that they also have

(Continued on page 33)

TABLE 4: 1994 UNISEX POPULATION DISTRIBUTION (%) BY AGE AND DISABILITY GROUP[1]

Attained Age	Disability Group					
	I. Non-disabled	II. Mild/ Moderate Disability	III. HIPAA ADL only	IV. HIPAA CI only	V. HIPAA ADL + CI	Total
	1994					
All Ages	77.9	11.8	5.2	1.4	3.6	100.0
65-69	90.0	6.3	2.7	0.6	0.4	100.0
70-74	86.0	9.4	2.7	0.6	1.3	100.0
75-79	78.3	12.8	5.1	1.4	2.4	100.0
80-84	66.6	18.0	7.4	2.3	5.7	100.0
85-89	48.0	23.0	11.5	3.9	13.7	100.0
90-94	29.2	22.7	21.8	4.4	21.9	100.0
95-99	15.9	20.8	25.5	7.3	30.6	100.0
Age-Standardized	78.5	11.6	5.1	1.4	3.4	100.0

Note: Results for age 65+ were age-standardized to the pooled unisex population estimates for all years combined.

Source: Stallard, Eric, Estimates of the Incidence, Prevalence, Duration, Intensity, and Cost of Chronic Disability among the U.S. Elderly, paper presented at Living to 100, 2008 and published in SOA Monograph, Table 2. Table notes that author's calculations based on the 1984-1994 NLTCS.

[1] HIPAA ADL means disabled to the extent that the individual could qualify as a claimant on the basis of activities of daily living in a policy that meets the standards for long-term care insurance set forth in HIPAA. Group IV meets the standards in HIPAA with regard to Cognitive Impairment (CI) and Group V in Both. These are measures of severe disability and indications of eligibility as long-term care insurance claimants. HIPAA is U.S. federal legislation which defines the basis on which long-term care insurance policies can qualify for favorable tax treatment.

TABLE 5: LIFE EXPECTANCY BY AGE, DISABILITY GROUP AND GENDER

Age	Non-disabled	Mild or moderate disability	More severely disabled*	Total Life Expectancy
Males				
65	12.34	1.50	1.50	15.33
75	6.77	1.37	1.61	9.76
85	2.89	1.04	1.75	5.68
95	.81	.61	1.91	3.34
Females				
65	13.65	2.97	2.83	19.44
75	6.99	2.55	2.96	12.50
85	2.47	1.74	3.03	7.24
95	.52	.78	2.54	3.84

*More severely disabled includes those with ADL and Cognitive Impairments that would make them claim eligible under HIPAA qualified long-term care policies.

Source: Stallard, Eric, Estimates of the Incidence, Prevalence, Duration, Intensity, and Cost of Chronic Disability among the U.S. Elderly, paper presented at Living to 100, 2008 and published in SOA Monograph, Table 4.

longer periods of disability, and longer periods of serious disability, during that life expectancy.

Women are also more likely to be alone in old age. When all of these factors are considered together, the long-term care situation has the greatest impact on women.

◆ GENERAL OPTIONS FOR PRIVATE FINANCING LONG TERM SERVICES AND SUPPORTS

Individuals have a number of options for financing long-term care. Vickie Bajtelsmit and Anna Rappaport in their paper that appears in this monograph entitled, "The Impact of Long Term Care on Retirement Wealth Needs," offer a comparison of four methods of financing. The four options are insurance, personal savings, a continuing care retirement community with a life care contract, and housing equity. Their analysis demonstrates that none of the methods is a perfect match. The Bajtelsmit and Rappaport paper also provides results of stochastic modeling that show the impact of shocks, and how they can devastate retirement security. A key finding of that work is that a great deal more money is needed to be 95 percent sure versus 50 percent sure that there will be enough money for a secure retirement. Shocks are the biggest driver of the differences. Strategies that help improve the situation at the median often don't work in the event of shocks.

◆ HOW INSURANCE FITS IN

Insurance is suggested as an important method of private financing, but at present only about 10 percent of the U.S. population have long-term care insurance. Several of the papers in this monograph provide ideas for improving insurance solutions. Paul Forte suggests a new approach to insurance using an exchange; his approach is designed to fit the needs of middle income Americans, a market often underserved. He argues for Federal regulation and a new design for this system. Rachel Narva and her co-authors offer a regulatory and market overview of the existing insurance system. They contend that the product as currently designed does not meet the needs of consumers well. They provide their views of changes the existing product designs, etc. Kailan Shang and colleagues offer a different view of product design focused heavily on sharing of risk, particularly investment risk.

Some of these ideas may greatly expand the number of people with insurance and others will not. The organizers

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of this call for papers hope that these ideas will generate more dialogue on the framework of the marketplace and design of the insurance products, leading to better solutions. Dr. Stephen Holland and his colleagues look at how the use of long-term care insurance benefits relate to health care and how the benefits reduce medical spending, particularly at the end of life.

Karl Polzer offers ideas for the integration of 401(k) plans and paying for long-term care. His policy recommendations provide for restructuring the 401(k) and IRA rules to allow 25 percent of account balances to be set aside for long-term care, with favorable tax treatment, and distribution requirements that fit with long-term care needs. The funds in the special account can be used to pay insurance premiums or to pay for long-term care expenses directly.

The approach Polzer describes can be combined with any of the financing methods shown in the columns in the chart above. We hope that actuaries will consider this approach and use it to start a conversation about how to integrate retirement and long-term care financing.

John Cutler's paper looks even more broadly. What happens if these private and social insurance programs do not see major change? Where will individuals and society be in the near future? Among some surprising suggestions is that more is going on than we think; that we might actually be seeing long-term care changes underway but are happening in too incremental (and fragmented) ways to be obvious.

◆ The Perspective Of The Individual And The Housing Component

Two papers in the monograph look at case study examples with regard to long-term care and housing choices. The paper by Steve Cooperstein describes a specific situation, and how a combination of an annuity, housing values, and long-term care insurance were melded to help finance the care. It provides an innovative success story. Sandra Timmermann also looks at the family and the role of the caregiver, as well as the impact on employers and their role in supporting family caregiving.

The paper in the monograph by Anna Rappaport looks at several case studies and the choice of housing options, and provides insights into some of the challenges individuals have experienced and the solutions they have used. It provides insights into evaluating a range of housing choices, and discusses special issues where there is a large up-front payment. It also discusses some of the pros and cons of Continuing Care Retirement Communities. Rounding out the papers concerning housing, Barb Stucki explores how to better use home equity.

◆ Summary And Next Steps

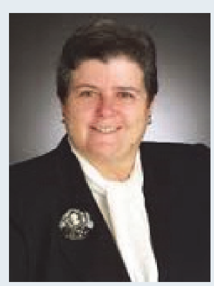
Some of the questions addressed by this effort include:

- How can individuals and families protect themselves from the expense of long-term care needs and avoid potential financial ruin should the expenses become exorbitant?
- How can long-term care advisors and their clients improve decision-making along with better ways to frame and communicate the challenges and potential solutions?
- Are there alternative product designs both private and public that can address the challenges many face? Are there alternative financing approaches?
- How can individuals and families finance their long term care needs while also addressing their basic retirement need to provide income and asset protection?

The papers in the monograph cover a variety of topics and should be helpful in thinking both about what individuals need to do today and about the structure of the long-term care system. The papers will be of interest to a range of audiences including individuals, advisors, financial service companies, and policymakers.

The organizers hope that this monograph will encourage further discussion of issues related to long-term care and retirement, and that products will evolve to meet changing needs.

About the Author



Anna Rappaport is an internationally recognized expert on the impact of change on retirement systems and workforce issues. Following a 28-year career with Mercer Human Resource Consulting, Rappaport has established her own firm, specializing in strategies for better retirement systems. Prior to working with Mercer she spent the years from 1958-1976 in the life insurance industry.

Rappaport served as President (1997–98) and is a Fellow of the Society of Actuaries, and is a member of the American Academy of Actuaries. She serves on the boards of the National Academy of Social Insurance, the Women's Institute for a Secure Retirement (WISER), and the Pension Research Council. She holds a Master's Degree in Business Administration from the University of Chicago.

NAIC National Association of Insurance Commissioners
& The Center for Insurance Policy and Research
CIPR newsletter

Long-Term Care Insurance Pricing Basics

By Eric King, NAIC Health Actuary, Research & Actuarial Department

◆ Introduction

Developing a rate, or pricing, for any type of insurance product begins with estimating the insurer's cost for claims in the given rating period. The claims costs the insurer is liable for are a function of the benefit design of the particular policy. Administrative expenses for various categories are added to the estimated claims cost for the given benefit design to arrive at the final rate charged to the policyholder. Long-term care insurance (LTCI) pricing requires estimating the number of policyholders who will need long-term care (LTC) for many years, even decades, into the future; how long the claimants will receive care; how many of the policyholders will continue paying premiums to keep policies in force; what interest rate the insurer expects to receive from assets backing the product; and administrative costs. This article gives an overview of the basic elements needed for the pricing of LTCI rates.

◆ Pricing Assumptions

Estimating claims costs for LTCI coverage requires developing assumptions for several components that contribute to the expected number of and amount of claims to be paid on behalf of policyholders. Insurers must determine assumptions to be used for expected claims costs, mortality, voluntary policy termination and expected investment income on assets to arrive at an appropriate estimate of how much will be paid out in benefits over the lifetime of each policy. Administrative costs, while not as complicated as claims costs, must be carefully considered to ensure sufficient levels to adequately service policies.

Claims Costs Assumptions

Expected claims costs comprise elements of incidence, continuance, investment income, mortality and voluntary policy termination. Each of these elements is described below.

Incidence refers to the expected number of policyholders eligible to receive benefits from the policy. Benefit eligibility is determined by the insured's inability to perform a contractually-defined number of activities of daily living (ADL) or the presence of cognitive impairment. The six basic ADLs are eating, bathing, continence, dressing, toileting and transferring (moving in or out of a bed, chair or wheelchair). Benefit eligibility due to cognitive impairment is as defined in the contract. In addition to the triggers for benefit eligibility listed above, the setting in which the policyholder receives care must be considered.

There are different expected incidences for care received in a nursing home, assisted living facility or home health care setting, and they can also vary by cause of the need for LTC. Incidence can vary by benefit design parameters such as elimination period, daily benefit amount and benefit period. Expected incidence can also vary by the attained age of the policyholder, and incidence generally increases with increasing attained age.

Continuance refers to the probability a policyholder will continue to require LTC services and be eligible to receive LTCI benefits. These probabilities are used by the insurer to project how long a policyholder will receive daily benefits, which is then used to calculate the total cost of care for each expected claim. Continuance can vary by benefit design parameters such as elimination period, daily/weekly/monthly benefit maximum, and maximum benefit limit. Continuance also can vary by care setting, attained age and reason (type of illness, injury, disability, etc.) for the policyholder needing LTC.

Insurers use industry-wide experience, their own company experience data or a combination of these to estimate incidence and continuance for pricing.

The interest rate an insurer expects to receive from the assets backing its LTC products is important for pricing due to the long-term nature of coverage. Rates are priced assuming claims occur many years in the future, and the time value of money is accounted for when projecting these costs. Expected claims costs are discounted for interest back to the time period for which the premium is collected. The portion of the rate used to prefund the expected future claims costs is held in reserve and is invested in various financial instruments.

The interest rate used in pricing reflects the insurer's anticipated rate of return on the block of assets used for prefunding. Greater interest rates yield lower discounted claims costs, which results in a lower required rate charged to the policyholder. The interest rates used in pricing are generally higher than statutorily prescribed interest rates for reserves. Lower statutory interest rates reflect the need for conservatism to ensure insurer solvency.

Mortality is an important consideration in pricing. Since LTC rates are priced based on the expected claims for the entire block of policyholders, insurers must account for policyholder deaths, which will reduce exposure to possible

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claims. Insurers use standard mortality tables, such as the 1994 Group Annuity Mortality Table, their own company mortality experience or a combination of both in their making mortality assumptions.

Voluntary policy terminations, or policyholder lapses, must be accounted for in pricing for the same reasons as mortality. Insurers generally use their own company experience in developing their assumptions for voluntary policy terminations.

Benefit Design

Insurers must reflect how policy benefit designs affect their liabilities when pricing LTCI rates. Many different benefit design features are offered by different insurers, but most LTCI policies include elimination periods, daily/weekly/monthly benefit maximums, maximum benefit limits and the option to purchase inflation protection.

- An elimination period is the length of time the policyholder must receive care before the LTCI policy will pay benefits. Elimination periods for different care settings may differ.
- The daily/weekly/monthly benefit maximum is the maximum amount payable per given time period to the policyholder. The maximum daily/weekly/monthly amount payable can vary with the setting where care is received. When claims costs are estimated, insurers take into account the probability the benefit actually paid is less than the maximum daily/weekly/monthly benefit. The estimates of lower-than-maximum payments are referred to as benefit utilization or salvage.
- Maximum benefit limits restrict the total amount paid to the policyholder over the life of the LTCI policy. The maximum benefit can be expressed in number of years or as a dollar amount.
- Inflation protection is designed to increase the policyholder's daily/weekly/monthly benefit maximum to account for anticipated higher care costs in the future. A maximum benefit amount currently sufficient for the policyholder's needs may not meet these needs in the future as facility or home health care costs increase. Inflation protection increases maximum benefit amounts annually by a fixed percentage, and the annual increase is calculated on either a simple or compound basis. For example, if the fixed percentage is 3%, the increase to the maximum benefit after five years calculated on a simple basis would be 15% (.03 + .03 + .03 + .03 + .03). Calculating the increase after five years on a compound basis results in an increase of 16% ((1.03)^5 - 1).

Administrative Expenses

LTCI administrative expense structures and categorization vary by insurer, but most administrative costs fit into one of six categories: underwriting, claims adjudication and processing, sales, premium taxes, overhead, and profit.

- LTCI policy underwriting ranges from simple to complex. Group or employer-sponsored policies often are underwritten, and the decision whether to offer a policy is made, using a health information form with only a short list of questions. Underwriting for individual policies generally gathers information from medical records, attending physicians and interviews with the proposed insured to determine whether a policy will be issued.
- LTCI policy claims adjudication and processing activities are fairly intensive, so these expenses tend to be greater than costs for similar activities associated with most other health insurance products. Determining if a policyholder is eligible for benefit payments requires the review of documentation from the claimant's physician and care providers. Also, once initial eligibility has been determined, additional information may need to be reviewed to determine if the claimant continues to be eligible for benefits.
- Sales expenses need to be accounted for in the LTCI rate. These expenses include advertising and producer commissions. Producer commissions are generally greater for LTCI policies than those for most other health insurance products due to the relative complexity of explaining policy features to prospective policyholders and servicing existing policies.
- Premium taxes must be paid to applicable states and are included in the rate charged to the policyholder. Premium taxes are assessed as a percent of paid premium, and the percentage varies by state.
- Overhead costs are an element of total administrative expenses. The insurer must account for its costs for employee salaries, benefits, offices and all other operational costs for the insurer.
- The profits an insurer expects to receive after the payment of all other administrative expenses and claims is included in rate pricing. Expected profits may not be realized in the event that claims costs are greater than priced for.

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- A minimum loss ratio (ratio of claims to premium) may be required by state laws and regulations. If this is the case, the portion of the priced rate allocated to administrative expenses can be no greater than 1 – minimum loss ratio.

◆ ADDITIONAL RESOURCES

- NAIC Long-Term Care Insurance Model Regulation (#641) www.naic.org/store/free/MDL-641.pdf.
- NAIC Guidance Manual for Rating Aspects of the Long-Term Care Insurance Model Regulation www.naic.org/documents/prod_serv_supplementary_ltc_gm.pdf.
- Actuarial Standards Board Actuarial Standard of Practice No. 18, Long-Term Care Insurance www.actuarialstandardsboard.org/asops/long-term-care-insurance/.
- NAIC Center for Insurance Policy and Research (CIPR) study. "The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations." May 2016. www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf.

ABOUT THE AUTHOR

Eric King is the health actuary for the NAIC, where he provides support to the Health Actuarial (B) Task Force. Mr. King joined the NAIC in May 2010. Prior to joining the NAIC, he worked for several insurers in the areas of Medicare Advantage, Medicare Part D, individual major medical, Medicare supplement, and short- and long-term disability. Mr. King is a Fellow of the Society of Actuaries (SOA) and a member of the American Academy of Actuaries (Academy), and he holds a Bachelor of Science in applied mathematics from Washington University in St. Louis.

By Shanique (Nikki) Hall, CIPR Manager

Introduction

There is no question retirement security is a major national concern. Today, many Americans struggle to accumulate enough wealth to ensure a financially secure retirement and lack confidence about their long-range financial status. A study from the National Institute on Retirement Security (NIRS) found retirement savings are dangerously low. According to the study, the average working household has virtually no retirement savings.[1] Moreover, many are undersaved and unprepared to manage the challenges brought on by longer life spans. Increased longevity means having to save more for a financially healthy future. There is a steadily growing population of aging adults who will need care with no clear system to provide or pay for that care.[2] Roughly 10,000 baby boomers, the youngest of whom are now in their 50s, retire daily in this country. However, in households where workers are approaching retirement (age 55 and older), about one half of households have no retirement savings and of those who have no retirement savings, many have few other resources.[3] The American Dream of retiring comfortably after a lifetime of work will be impossible for many.

Insurance regulators can play a crucial role in helping put Americans on a path toward a secure retirement. While the issue spans a broad spectrum of the population—from millennials to baby boomers—it also encompasses a broad spectrum of insurance-related areas such as life insurance, annuities and long-term care insurance (LTCI). Insurance is a key part of a comprehensive retirement plan. Personal financial security involves not only robust pensions and retirement savings plans, but also health, disability and long-term care (LTC) coverage.

The economic, political and public policy challenge this creates served as the impetus for the NAIC to launch a new Retirement Security Initiative (Initiative). The Initiative focuses on three major themes: education, consumer protection and innovation. This three-way approach allows insurance regulators to recognize regulatory or policy issues in need of evaluation and draw attention to the issues impeding innovation, product delivery and compliance. This article will provide an overview of recent retirement trends, examine several studies on retirement security and discuss each of the three major themes in the Initiative.

Retirement Trends

Advances in health care and more focus on overall health and fitness have led to people living longer. Living longer means more time spent in the golden years of retirement.

The Term "Retirement Security" Means Different Things to Different People. An NIRS Survey asked Americans:

How would you personally define what a secure retirement means to you?

- "Being able to have a house to live in and food to eat."
- "To have the relief of worrying about not having money to pay bills, buy groceries or medicine in my old age."
- "Being able to retire without seeking employment or additional income."
- "To live at the same standard while I worked and not have to take another job."
- "Having enough financial wherewithal to support myself, and take care of all my needs without having to depend on the government."
- "Being self-sufficient."
- "Where I can live month-to-month with money coming in so I can afford the expenses that I have."

Source: "Retirement Security 2015: Roadmap for Policy Makers. Americans' Views of the Retirement Crisis." National Institute on Retirement Security. March 2015.

That is a good thing. In the past, Americans achieved retirement security because their retirement income flowed from several sources: employer-based defined benefit (DB) pension plans; savings in retirement plans (such as 401(k)s or individual retirement accounts [IRAs]); Social Security; and other sources, such as non-retirement savings, home equity and wages. But, times have changed. Fewer employers today provide "defined-benefit" pension plans for their workers. Among those that do, many are offering "defined-contribution (DC)" plans (such as 401(k)s) plans rather than traditional DB plans, transferring the funding burden and risk from the company to employees.

Employers began to move away from DB pension plans, which provide a stable source of income lasting through retirement and are managed by professionals, in the 1980s. In their place, our country has solidly moved towards per-

(Continued on page 3)

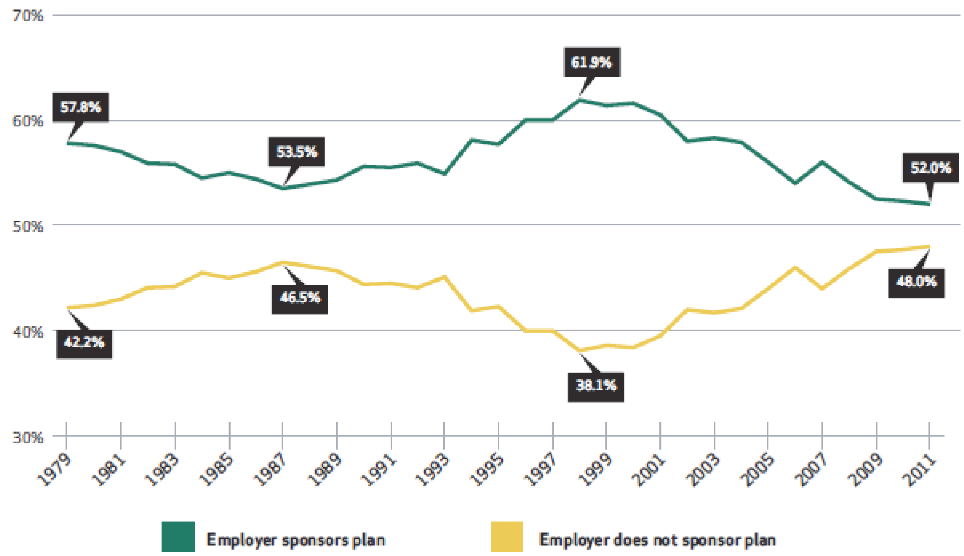
[1] "The Retirement Saving Crisis: Is it Worse Than We Think?", National Institute on Retirement Security. Retrieved from: www.nirsonline.org/index.php?option=content&task=view&id=768

[2] "Bonnie Burns Speaks to Long-Term Care Innovations: NAIC Public Hearing." Retrieved from: http://cahealthadvocates.org/bonnie-burns-speaks-to-long-term-care-innovations-naic-public-hearing/

[3] "Most Households Approaching Retirement Have Low Savings." U.S. Government Accountability Office. GAO-15-419. May 12, 2015.

FIGURE 1: ONLY HALF OF PRIVATE SECTOR EMPLOYEES HAVE ACCESS TO WORKPLACE RETIREMENT BENEFITS—LOWEST SHARE SINCE 1979

Private sector wage and salary workers age 25-64 by employer retirement plan sponsorship, 1979-2011



Source: "The Retirement Savings Crisis: Is It Worse Than We Think?" National Institute of Retirement Security. Author's analysis of the U.S. Bureau of Labor Statistics' Current Population Survey (CPS) Annual Social and Economic Supplement, various years.

sonal responsibility for funding and managing retirement assets. Figure 1 illustrates historical trends in both DB and DC plans among private sector wage and salary employees ages 25−64. The percentage of workers whose employers sponsored a retirement plan declined during the 1980s, to 54% in 1988. After rebounding slightly in the 1990s, due, in part, to strong economic growth and low unemployment, the percentage of private sector employees with access to a retirement plan declined steeply in the aftermath of the 2001 recession and then again after the 2007−2008 financial crisis. In 2011, only 52% had access to a retirement plan on the job—the lowest rate in the period 1979-2011.[4]

While the shift to DC plans arguably reduces the liabilities of business, it has significantly eroded the retirement readiness of Americans and increased the likelihood of a major crisis down the line. Employees themselves are now responsible for saving enough money for a comfortable retirement. This is a daunting task for many Americans and a pronounced shift from a few decades ago when many retirees could count on predictable, fixed streams of income from traditional pensions.

In the 1980s, 401(k)s gained popularity as an alternative workplace retirement benefit, designed to supplement DB plans. Much of the 401(k) era coincided with rising stock and housing prices that increased family wealth measures even as the savings rate declined.[5] However, the introduction of 401(k) plans, IRAs and similar savings plans were not intended to replace traditional pensions as a primary retirement vehicle, and they are poorly designed for this role. To begin with, putting relatively complex investment decisions in the hands of individuals with little or no financial expertise is problematic.[6] Not everyone has the investment expertise or time to make sound investment choices.

The trend in declining retirement security was exacerbated by the 2001 and 2007−2009 recessions. The share of families with retirement savings grew in the 1990s, but contracted after the two recessions, which had an enormous impact on the flow of money into and out of DB and DC plans, exposing the vulnerability of the new DC-centered retirement system. Assets in retirement accounts are more affected by economic downturns than pooled pensions since contributions to these plans are voluntary and funds may be withdrawn in hard times.[7]

(Continued on page 4)

[4] "The Retirement Saving Crisis: Is it Worse Than We Think?", National Institute on Retirement Security. Retrieved from: www.nirsonline.org/index.php?option=content&task=view&id=768.

[5] Morrissey, Monique. "The State of American Retirement." Economic Policy Institute. March 3, 2016.

[6] Merton, Robert. "The Crisis in Retirement Planning." Harvard Business Review. August 2014. Retrieved from: https://hbr.org/2014/07/the-crisis-in-retirement-planning.

[7] Ibid.

Following the 2007–2008 financial crisis and ensuing Great Recession, many workers were forced to dip into their retirement savings during a period of unemployment. Moreover, the slow economic and employment recovery as well as stagnant incomes eroded the median family income and made it more challenging to save for retirement. In addition, the housing market remains weak, leaving many unable to use home equity to bolster retirement security. Most families still have not recovered their losses from the Great Recession, let alone accumulated additional savings for retirement.

The Great Recession was particularly detrimental for those on the cusp of retirement, as they had less time to make up losses. Consequently, many older workers are continuing to work past their expected retirement age as a matter of necessity in order to help mitigate the impact of the shift toward the do-it-yourself retirement system. Longer life expectancy means many retirees will need their savings to last longer. Gallup polling indicates workers age 55 and older generally now expect to retire at an older age and work more in retirement than current retirees actually did.[8] Plans to retire later may be associated with low confidence in retirement savings. Moreover, the labor force participation of Americans aged 62–79 has notably increased since the mid-1990s.[9] Many older workers continue working under difficult conditions, unable to retire from demanding jobs, or end up among the long-term unemployed.

This makes Social Security critical for millions of retirees. Social Security remains the largest source of post-retirement income for most Americans. Nearly two-thirds of retirees count on Social Security for half or more of their retirement income and for more than three in 10, Social Security is 90% or more of their income. Yet, for those over age 65 in 2014, Social Security provided an average of only $12,232 per year (about 35% of their income), while 401(k)s and IRAs provided less than $1,000 per year on average.[10]

Moreover, Social Security has not kept pace with increasing longevity. The harsh reality is Social Security wasn't designed to finance 20-30 years of retirement. When the Social Security program was established, men reaching age 65 could expect to spend 13 years in retirement, or 16% of their lifetimes. Today, a male retiree will live 18 years on average beyond 65 and spend 20%-25% of his life collecting Social Security benefits. The 2016 Social Security Trustees Report warned the system's finances are facing growing pressure due to the aging of the population. Since 2010, the Social Security program has been spending more than it has been taking in, and the trustees predict the program's trust funds will be depleted by 2034. Without legislative action, all Social Security beneficiaries could face across-the-board benefit cuts by up to 21% in 2034.[11]

THERE ARE MANY REASONS FOR THE RETIREMENT CRISIS:

- Life expectancy has increased, which means more years will be needed to pay for in retirement.
- The retirement age for full Social Security benefits has risen to age 67, while people are often retiring at age 65 or before. This gives workers more years of expenses to cover while also forcing them to wait longer to begin receiving these full benefits.
- Health care costs have also risen substantially, thus resulting in higher expenses for retirees.
- The decline in real interest rates since 1983 means a given amount of wealth accumulated today now produces less retirement income than it would have in previous decades.
- And, the decline in pensions has meant people have had to rely on their own self-discipline to save for retirement with limited success.

Source: Coxwell, Kathleen. "The Retirement Crisis is Real." NewRetirement. April 24, 2015. Based on analysis by The Center for American Progress.

Numerous studies conducted by prominent organizations analyzing retirement security all point to the same conclusion: Most Americans have little or nothing saved for retirement. By whatever measure used, it is clear Americans are less prepared for retirement today and have not saved enough to offset the loss of a traditional company-funded pension. Following are key findings from three studies analyzing the Federal Reserve's Survey of Consumer Finances (SCF). This tri-annual survey is one of the nation's primary sources of information on the financial condition of different types of U.S. households.

Economic Policy Institute (EPI)

A 2013 EPI report, *The State of American Retirement*,[12] found nearly half of American families have no retirement account savings at all. This measure includes savings in 401(k) plans, IRAs, and Keogh plans for self-employed people and small-business owners and excludes assets held by DB pension funds. The study used the 2013 SCF to analyze retirement

(Continued on page 5)

[8] "Most Households Approaching Retirement Have Low Savings." U.S. Government Accountability Office. GAO-15-419. May 12, 2015.

[9] "The Increasing Labor Force Participation of Older Workers and its Effect on the Income of the Aged." Social Security, Office of Retirement and Disability Policy. Retrieved from: https://www.ssa.gov/policy/docs/ssb/v72n1/v72n1p59.html.

[10] Morrissey, Monique. "The State of American Retirement." Economic Policy Institute. March 3, 2016. www.epi.org/publication/retirement-in-america/

[11] Timiraos, Nick. Social Security, Medicare Face Insolvency Over 20 Years, Trustees Report. Wall Street Journal. June 22, 2016.

[12] Morrissey, Monique. "The State of American Retirement." Economic Policy Institute. March 3, 2016. www.epi.org/publication/retirement-in-america/

plan participation, savings, and overall assets of all U.S. households age 25–64.

The study found retirement wealth has not grown fast enough to keep pace with an aging population, to offset Social Security cuts, and to hedge against increased longevity. Retirement account savings increased before the 2007–2008 financial crisis as the large baby boomer population approached retirement. However, retirement account savings by age group has stagnated or declined following the crisis, even as traditional pension coverage continued to decline. The study notes the change in plan type from DB to DC should have been accompanied by an increase in retirement assets to account for the diminishing use of pooled pension funds.

The study also found:

- The median (50th percentile) working-aged family had just $5,000 saved for retirement in 2013. The 90th percentile family had $274,000, and the top 1% of families had $1,080,000 or more. These huge disparities reflect a growing gap between the haves and have-nots since the Great Recession as accounts with smaller balances have stagnated while larger ones rebounded.
- The large gap between mean retirement savings ($95,776) and median retirement savings ($5,000) indicates the large account balances of families with the most savings are driving up the average for all families (Figure 2.)
- Participation in retirement plans has declined in the new millennium, with a steeper decline for workers in DB plans than in DC plans. For families headed by working-age workers (age 32–61), participation in any type of plan fell from 60% in 2001 to 53% in 2013.
- When looking at the percentage of families with retirement savings by age, those between the ages 56–61 are more likely to have a retirement savings account (61%), while those between the ages 32–37 are least likely to have one (51%).
- Retirement savings by age group have stagnated or declined in the new millennium, even as traditional pension coverage continued to decline. Rather than stagnation, we should be seeing rising 401(k) and IRA account balances at all ages to offset declines in DB pension coverage and Social Security cuts.

National Institute on Retirement Security (NIRS)

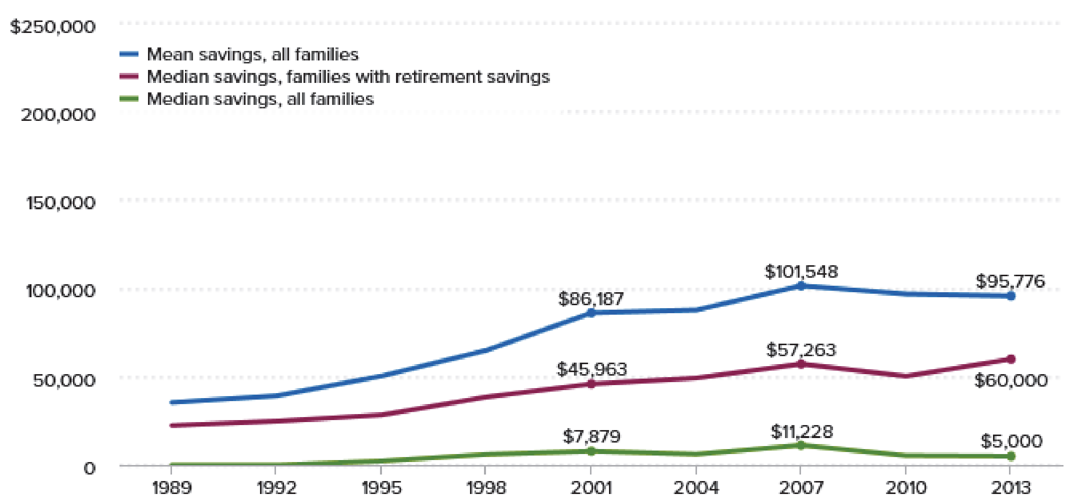
A 2013 NIRS study, *The Retirement Security Crisis: Is it Worse Than We Think?,*[13] examines how American households are faring in relation to the retirement savings targets recommended by some financial services firms. The study uses the 2010 SCF to analyze workplace retirement plan coverage, retirement account ownership, and household retirement savings as a percentage of income among U.S. households age 25–64. The study found the average working household has virtually no retirement savings, with the median retirement account balance being $3,000 for all

(Continued on page 6)

[13] "The Retirement Saving Crisis: Is it Worse Than We Think?", National Institute on Retirement Security. Retrieved from: http://www.nirsonline.org/storage/nirs/documents/Retirement%20Savings%20Crisis/retirementsavingscrisis_final.pdf.

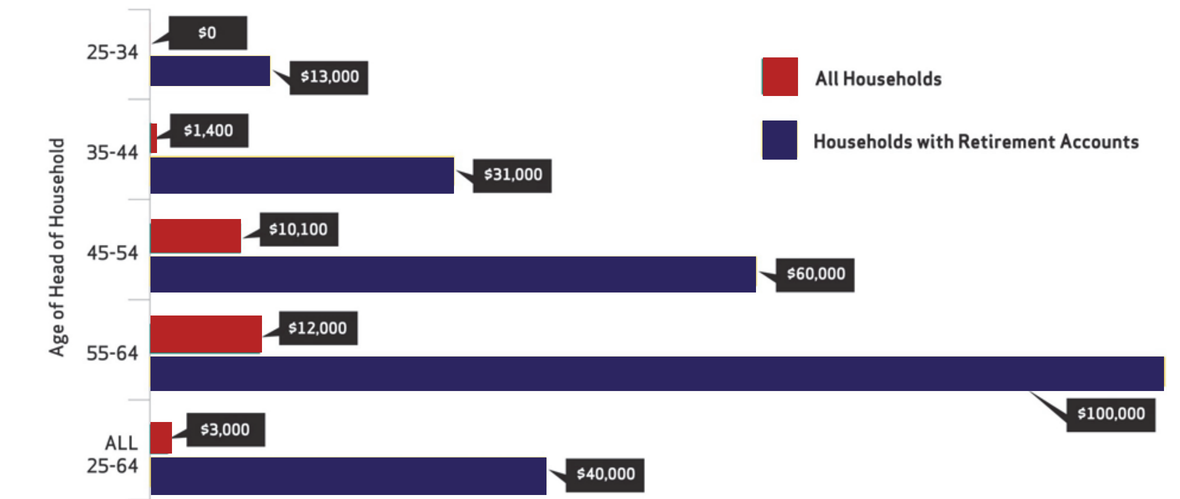
FIGURE 2: RETIREMENT ACCOUNT SAVINGS ARE INADEQUATE AND UNEQUAL

RETIREMENT ACCOUNT SAVINGS OF FAMILIES AGES 32–61 (2013 DOLLARS)



Source: Morrissey, Monique. "The State of American Retirement." Economic Policy Institute.

Figure 3: Typical Working-Age Household Has Only $3,000 in Retirement Account Assets; Typical Near-Retirement Household Has Only $12,000



Source: "The Retirement Saving Crisis: Is it Worse Than We Think?", National Institute on Retirement Security.

working-age households and $12,000 for near-retirement households (Figure 3.)

Other key findings include:

- Roughly 92% of working households do not meet conservative retirement savings targets for their age and income based on working until age 67.
- More than 38 million working-age households (45%) do not own any retirement account assets. This includes an employer-sponsored 401(k)-type plan or an IRA.
- Households with retirement accounts have significantly higher income and wealth—more than double the income and five times the non-retirement assets—than households without retirement accounts.
- Among households with retirement accounts, account balances are inadequate. The median balance of $100,000 for those nearing retirement will only provide a few hundred dollars per month in income if the full account balance is annuitized.
- Two-thirds of working households ages 55–64 with at least one earner have retirement savings less than one times their annual income, far below what they will need to maintain their standard of living in retirement.

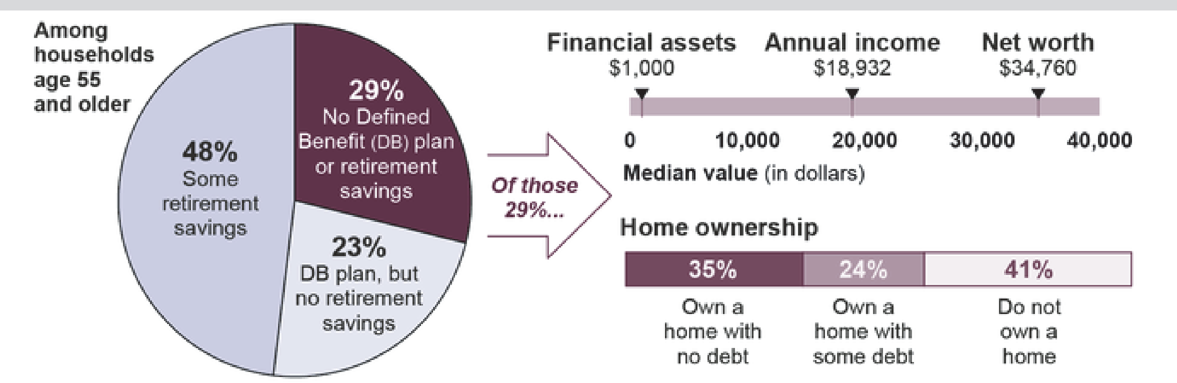
Government Accountability Office (GAO)

A May 2015 GAO study, *Most Households Approaching Retirement Have Low Savings,*[14] analyzed household financial data, including retirement savings and income from the 2013 SCF, reviewed academic studies of retirement savings adequacy,

(Continued on page 7)

[14] "Most Households Approaching Retirement Have Low Savings." U.S. Government Accountability Office. GAO-15-419. May 12, 2015.

Figure 4: Select Resources for All Households Age 55 and Older



Source: GAO analysis of 2013 Survey of Consumer Finances data. GAO-15-419.

analyzed retirement-related questions from surveys, and interviewed retirement experts about retirement readiness.

The study found:

- 52% of households age 55 and older have absolutely no retirement savings in a DC plan or IRA (Figure 4 on previous page). Among those with some retirement savings, the median amount of those savings is about $104,000 for households age 55−64 and $148,000 for households ages 65−74, equivalent to an inflation-protected annuity of $310 and $649 per month, respectively.
- Nearly 30% of households age 55 and older have neither retirement savings nor a DB plan.
- Among households with no DB plan or retirement savings, the GAO estimates the median financial asset value was between $763 and $1,237, the median annual income was between $17,809 and $20,055, and the median net worth was between $25,227 and $44,293.
- Social Security provides most of the income for about half of households age 65 and older.
- Many households ages 65−74 with no retirement savings have few other resources to tap into upon retirement.

◆ INSURANCE AND RETIREMENT SECURITY

An annual retirement confidence survey of American workers conducted by the Employee Benefit Research Institute (EBRI) finds compared to the record lows in confidence between 2009 and 2013, which followed the financial crisis, a larger percentage of workers are feeling better about their finances. More than one out of five workers say they are "very confident" about their ability to retire comfortably. Those who felt "somewhat confident" increased, while fewer said they were "not at all confident (Figure 5.)"[15]

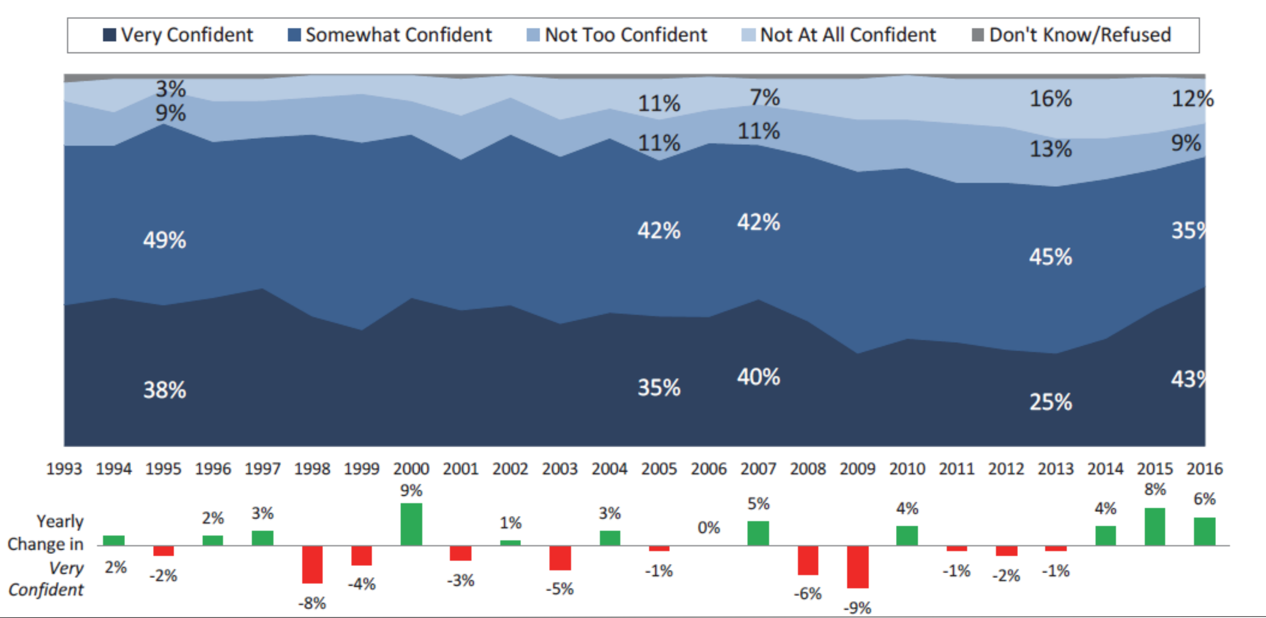
However, despite their improved confidence levels many Americans are still falling behind in their savings. The EBRI survey finds overall, 63% of workers and their spouses say they are currently putting away money for retirement. But 54% had amassed little in savings—less than $25,000. Only 26% reported assets of $100,000 or more. Among the reasons for lack of savings, 40% cited daily expenses and 11% said they were paying off debt. More than two-thirds of those without a plan had less than $1,000 stashed away, yet most say they need to accumulate $250,000 or more to retire comfortably. The study also found Americans are not counting heavily on Social Security and Medicare to help fund their shortfalls. Only about 10% of workers are very confident future Social Security and Medicare benefits will equal those now received by retirees.[16]

(Continued on page 8)

[15] Moeller, Philip. "5 Reasons the Retirement crisis is Getting Worse for Average Americans." Money.com. March 22, 2016.
[16] Ibid.

FIGURE 5: WORKER CONFIDENCE ABOUT HAVING ENOUGH MONEY FOR A COMFORTABLE RETIREMENT

Overall, how confident are you that you will have enough money to take care of your basic expenses during your retirement? (2016 Workers n=1,000)



Source: Employee Benefit Research Institute and Greenwald & Associates, 1993-2016 Retirement Confidence Surveys.

The good news is many Americans still have the potential to rescue their retirements by saving more and planning for long-term care expenses. Insurance can play an important part in overcoming these challenges and to help attain financial security in retirement.

Life Insurance

Life insurance is the cornerstone of any financial plan and plays an important role in preparing for—and living in—retirement. Many think life insurance and retirement planning are separate; however, life insurance can be one way to help plan for retirement. Life insurance can provide financial protection for loved ones should the policyholder unexpectedly die. The loss of one income could result in a significant setback to retirement planning. Life insurance proceeds can potentially help the beneficiary enjoy a financially secure retirement and maintain their standard of living by replacing years of retirement savings cut short by a premature death.

In addition, life insurance policies can provide benefits throughout life including whole life policies that build cash value[17] and pay a death benefit. Whole life insurance (also known as permanent life insurance) allows the policyholder to borrow from the accrued cash value of the policy, but doing so does reduce the amount the beneficiaries will receive. [18]

Annuities

Annuities can also play a role to secure additional income throughout retirement. An annuity is a contract (policy) in which an insurance company agrees to make a series of payments in return for a premium (or premiums) you have paid. An annuity pays a periodic (monthly, quarterly, semi-annual or annual) income benefit for the life of a person (known as the annuitant) or persons; and can also be purchased for a specified time period. There are various types of annuities available, each of which has varying levels of risk and guarantees. For example, income annuities are designed to provide a guaranteed income stream in retirement, while an immediate income annuity requires income payments to begin no later than one year after you pay the premium. Annuities are not for everyone. A financial professional is the best person to help determine whether and which annuity will fit your situation and retirement goals.[19]

Long-Term Care Insurance

While saving a sufficient amount is one major challenge, another is making sure those savings last through longer retirements, which may include the need for long-term care (LTC). Increased longevity means more medical care. Twenty percent of all retirement income is spent on health care, according to the U.S. Department of Labor. Out-of-pocket LTC costs are one of the biggest risks to financial security in retirement. A critical mistake many people make when planning for their retirement is failing to consider the impact of health care costs and LTC expenses associated with them. One major LTC event can devastate retirement security and jeopardize living standards and quality of life for most households. At least 70% of people over age 65 will require LTC services at some point in their lifetime, according to the federal Centers for Medicare & Medicaid Services (CMS).

LTC is different from traditional medical care. It helps one live as he or she is now; it may not help to improve or correct medical problems. LTC services may include help with activities of daily living (ADLs), home health care, respite care, hospice care, or adult day care. Care may be given in a nursing home, an assisted living facility, a hospice facility, a day care facility, or in your own home. LTC also may include care management services, which evaluate your needs and coordinate and monitor your long-term care services. [19]

LTC services can be expensive. The cost depends on the amount and type of care you need and where you get it. In 2010, the national average cost of nursing home care was $74,000 per year ($6,235 per month) for a semi-private room, $39,000 per year ($3,293 per month) for care in an assisted living facility, and $21 per hour for a home health care aide, according to longtermcare.gov. There are a number of ways to pay for LTC including: using personal resources; long-term care insurance (LTCI) and Medicaid for those who qualify. [20]

Many people mistakenly believe their general health insurance will pay for LTC or Medicare will cover it. Medicare, Medicare supplement insurance and health insurance you may have at work usually will not pay LTC. While Medicaid currently pays almost half of the nation's LTC bills, in order to qualify for Medicaid you must meet certain requirements, including having income and assets not exceeding the levels used by your state. Many individuals who apply for Medicaid find they have too many assets to qualify and must reduce, or "spend down[21]" the value of their assets. In addition, Medicaid has limited coverage—it will cover you only in Medicaid-approved nursing homes offering the level of care you need and only under certain circumstances will it pay for home health care.

(Continued on page 9)

[17] Cash value is the accumulation of premiums collected minus expenses and charges.

[18] "Life Insurance Roadmap." NAIC Consumer Alert. www.naic.org/Releases/2016_docs/consumer_alert_life_insurance_roadmap.htm.

[19] "A Shoppers Guide to Long-Term Care Insurance." NAIC. 2013. www.naic.org/documents/prod_serv_consumer_ltc_lp.pdf.

[20] Ibid.

[21] Under the "spend down" process a person may become eligible for Medicaid, even if he or she has too much income to qualify otherwise. This process allows someone to "spend down," or subtract, medical expenses from his or her income to become Medicaid eligible. For more see: https://www.cms.gov/Outreach-and-Education/Outreach/Partnerships/downloads/11249-P.pdf.

Having sufficient resources to pay for LTC can be challenging both for the individual, the individual's family and for government agencies. Long-term care insurance (LTCI) is one way to help pay for the costs of LTC. It is designed to cover some or all of the services provided by LTC. However, private LTCI currently plays a limited role in financing care. The LTCI market has changed dramatically since the products were first developed in the late 1980s. Insurers started leaving the market about 15 years ago due to issues around appropriately pricing these products. Today, few consumers choose to purchase LTCI and fewer companies are selling LTCI products. Despite brisk sales early on, LTCI policies sold in 2014 dropped to 129,000 from a high of 754,000 in 2002.[22]

To help address some of the challenges facing the LTCI market, the NAIC formed the Long-Term Care Innovation (B) Subgroup to examine the future of financing LTC, review the number of alternative insurance product structures, and consider potential changes to the legal and regulatory framework to improve the functioning of the private LTCI market. The goal of the Subgroup is to develop actionable, realistic policy options that might result in an increase in the take-up rate of LTCI through an examination of potential product modifications, reduction of regulatory barriers, and appropriate incentives to create a stronger market.

The Subgroup hopes to examine ways to increase consumer interest in finding a way to finance potential LTC needs and increase the number of insurance companies interested in developing products aimed at helping people affordably finance their LTC needs. Most recently, innovations have resulted in an increase in the inclusion of LTC coverage as an accelerated benefit rider to life insurance products. Additional ideas to spur innovation were provided in the CIPR recent study, *The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations.* The study supports the work of the Subgroup and provided a number of potential ideas by experts in the field on ways to improve the private LTCI market.[23]

◆ NAIC RETIREMENT SECURITY INITIATIVE

The NAIC launched its Retirement Security Initiative at the 2016 Spring National Meeting to both protect and educate consumers on a wide array of issues related to retirement. The Initiative encourages consumers of all ages to adequately plan for their retirement years. The core of the Initiative is its three-way approach focusing on consumer education, protection and innovation. This approach allows regulators to identify practical regulatory or policy issues in need of review, as well as highlight barriers to innovation, product delivery and compliance.

The NAIC is working to review current laws and regulations and consider new models for suitability and disclosure to protect against unlawful practices targeting the elderly. In addition, the association will step up its efforts with the insurance industry to encourage innovation and identify areas where current laws stifle innovation.

Consumer Education

The first platform of the Initiative is consumer education, which will help bring attention to the importance of retirement security. Consumer education also includes educating seniors about the risk of elder abuse and exploitation. In addition, the NAIC will review continuing education (CE) requirements for insurance producers to ensure strong knowledge of suitability requirements, as well as prohibitions on unfair marketing practices, especially those targeting senior citizens.

The NAIC "Insure U" recently launched a microsite to encourage consumers to get smart about insurance and retirement security and to help consumers understand financial security encompasses a broad spectrum of tools, including many insurance-related products and services.[24] The microsite pulls together the consumer education outreach into one easy-to-use online resource and contains helpful information and resources for those planning for their retirement, including a retirement planning checklist.[25]

Consumer Protection

The second platform of the Initiative is consumer protection. In this area, the focus will be on reviewing and updating current model laws and regulations to ensure they continue to meet public policy needs. Many of these models focus on annuities, from suitability and disclosure to senior-specific designations and certifications. Updates to these models and ultimately adoption into state laws will better protect individuals as they reach retirement age.

Innovation

The third platform is innovation to identify and address areas in current laws and regulations unnecessarily stifling innovation or do not take advantage of new technologies benefiting consumers. For example, antiquated laws not recognizing electronic signatures. Regulators should also work with consumer groups and the insurance industry to identify new or redesigned products that truly meet the

(Continued on page 10)

[22] "The State of Long-Term Care Insurance: The Market, Challenges and Future Innovations." NAIC Center for Insurance Policy and Research. May 2016. Available at: *www.naic.org/documents/cipr_current_study_160519_ltc_insurance.pdf*.
[23] Ibid.
[24] *www.insureuonline.org/insureu_retirement_security_resources.htm*.
[25] *www.naic.org/documents/consumer_alert_retirement_planning_checklist.htm*.

needs of American consumers. There is no greater area of the insurance sector in need of innovation than with LTCI. As part of a more comprehensive look at these products, including evaluating the challenges facing legacy policies, the Long-Term Care Innovations (B) Subgroup[26] is looking at ways to remove barriers to product offerings while ensuring consumers remain protected. The NAIC recently held a public hearing for insurance regulators, consumers and the insurance industry to help identify new and/or redesigned products that are affordable and meet the changing needs for future retirement security.[27]

◆ Life Insurance Policy Locator Application

Life insurance companies pay billions of dollars annually in claims on life insurance policies; however, a percentage of benefits due go unclaimed by policyholders. When a policyholder dies, a surviving family member may not know he or she had been named as a beneficiary in the deceased's life insurance policy or annuity contract. The life insurance company is required to pay the death benefit to the beneficiaries, or if they can not be located, to the state's unclaimed property program. According to state unclaimed property laws, life insurers must report the proceeds of policies not claimed.

Unclaimed life insurance policies can keep consumers from claiming funds rightfully theirs. Americans have yet to claim more than $1 billion in lost or forgotten life insurance policies, according to Consumer Reports.[28] That is why the NAIC is leveraging its technology and creating new tools to connect beneficiaries to these policies. The NAIC launched its Life Insurance Policy Locator application[29] this August and the locator went nationwide in November. The app is designed to make it easier for consumers to locate benefits by identifying the insurance company holding a lost life policy or annuity contract.

Consumers currently seeking assistance with finding life and annuity policies can use the National Life Insurance Policy Locator application[29] on the NAIC Retirement Security Initiative microsite. The NAIC can assist consumers in locating life insurance policies and annuity contracts of a deceased family member or close relationship. The development of this national service will help consolidate an often arduous process and provide a singular centralized place for consumers to go for assistance. When a request is received, the NAIC will:

- Ask participating companies to search their records to determine whether they have a life insurance policy or annuity contract in the name of the deceased.
- Ask participating companies that have policy information to respond to the requester if the requester is the designated beneficiary or is authorized to receive information.

◆ Conclusion

Americans face significant obstacles in preparing and saving for a financially secure retirement. In the U.S., both company-funded DB plans as well as Social Security have eroded substantially over the past several decades. There is now a growing responsibility for individuals to save for retirement on their own. The recent financial crisis led to large swings in overall retirement wealth and many continue to feel the pinch of the economic downturn.

Consequently, most Americans are in danger of not having enough money to maintain their standard of living in retirement. To be financially comfortable in later years, it is crucial individuals take on the responsibility to save and plan for their financial future at every life stage. The earlier individuals start planning, the more financially prepared they will be for long-term security. No matter what your definition of retirement security is, it pays to become knowledgeable and to plan ahead. The NAIC Retirement Security Initiative will play an important part in helping to address challenges, and presents an opportunity for state insurance regulators and the retirement income industry to partner together to help Americans attain financial security in retirement.

About the Author

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 CIPR's primary work streams, including: the CIPR Newsletter; studies; events; webinars and website. Ms. Hall has extensive capital markets and insurance expertise and has authored copious articles on major insurance regulatory and public policy matters. She began her career at J.P. Morgan Securities as a research analyst in the Global Economic Research Division. At J.P. Morgan, Ms. Hall analyzed regional economic conditions and 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 from Albany State University and an MBA in financial services from St. John's University. She also studied abroad at the London School of Economics.

[26] For more information, visit the Subgroup's webpage at: www.naic.org/cmte_b_ltci_sg.htm.

[27] www.naic.org/Releases/2016_docs/naic_public_hearing_ltc_innovation.htm.

[28] How to claim an unclaimed life-insurance policy. Consumer Reports. May 2013. Retrieved from: www.consumerreports.org/cro/magazine/2013/02/how-to-find-lost-life-insurance-policies/index.htm.

[29] https://eapps.naic.org/life-policy-locator/#/welcome.

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"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

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