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Joint Legislative Conference and Day on the Hill

January 27, 2010

National Association of Insurance and Financial Advisors – Wisconsin (NAIFA)

We are 1,500 Wisconsin insurance and financial professionals who provide Wisconsin citizens with financial security and wealth accumulation strategies. Our professional members include a diverse spectrum of producers in insurance based professions including life and property-casualty insurance agents and brokers representing a broad spectrum of companies, employee benefit specialists, financial planners and others. We have joined together to enhance our education, our reputation and to promote sound public policy. Our members belong to 16 locally based organizations throughout Wisconsin and we are federated with a national organization of 65,000 professional members. www.naifa.org

Wisconsin Association of Health Underwriters (WAHU)

The Wisconsin Association Health Underwriters is an association for the health insurance professional. Whether an agent, broker or consultant, WAHU represents those individuals engaged in providing products and services that help finance the cost of health care for Wisconsin consumers. WAHU represents over 3,000 health insurance professionals throughout Wisconsin, comprising nearly 600 individual members and their staffs.

ORGANIZATION CONTACT INFORMATION AND FACTS

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WISCONSIN ASSOCIATION OF HEALTH UNDERWRITERS

Wisconsin's Benefit Specialists

2009-2010 Legislative Agenda

The Wisconsin Association of Health Underwriters, through its members and Legislative Committee, are determined to keep healthcare and healthcare coverage part of the free market system while promoting the value of providing healthcare coverage through the agent delivery system.

Nearly all past and recent health care reform proposals have focused on changing the way we finance health care, and ignoring the real problem - high health care costs. WAHU members are determined to carry out our mission of bringing the cost of health care to the forefront of any reform discussion and to keep our health care and health care financing system in the private sector.

The failure of previous and current reform plans is a failure to address the real problem – the cost of care. While Wisconsin has done a tremendous job in assuring access to insurance, the fact is that true accessibility to health care and health care coverage is dependent upon whether it is affordable. According to the Centers for Medicaid and Medicare Services (CMS), 88 cents out of every insurance dollar goes directly to the cost of health care. Since 2000, health care inflation averaged 12% each year, compared to increases in the Consumer Price Index at 2.7% for this same time period and US Household Income increases at 3.7%. Therefore, the problem any reform plan should address is the cost of health care. We must review each reform proposal and ask one simple question - **how will this reduce health care costs?**

To meet our stated goal, WAHU offers a private market solution to greater access and coverage for all. Legislation and regulation (existing or proposed) that affects our mission will shape our Public Policy Strategy for the 2009-2010 Legislative Session.

WAHU considers the following items paramount to preserving and strengthening the health care and health insurance industry:

- **Oppose government interference/expansion in the health care/health insurance industry**
 - Oppose Single Payer / Universal Healthcare / Government run healthcare reforms. These schemes remove insurance as a means to finance health care costs and instead use tax dollars as a means to finance health care. Even if they were successful in reducing administrative costs, such savings are meaningless when provider costs continue to increase at 12%. None of these plans address health care costs.
 - Oppose extended role of government through continued Medicaid expansion. With the inherent problems of our current system (including reimbursement rates), expanding these programs simply expands these underlying problems. We support Medicaid reform.

- Oppose mandates which increase premium costs and force consumers to purchase unwanted and unnecessary coverage. Mandates remove the fundamental right of consumers to purchase health care benefits in a free market. They put the decision of what coverage people should buy in the hands of government.
 - Oppose other types of government interference to include Rate Band Compression and Community Rating practices. As previously stated, neither of these ‘reforms’ do a thing to address the actual cost of health care, rather they continue to only focus on the financing mechanism.
- **Support Sensible Health Care Solutions Provisions/Reforms**
 - Support return to original intent of insurance – to provide financial protection against large unexpected medical expenses.
 - Implement HSA / Consumer Driven Model Plans for public sector employees.
 - Reform our Medicaid system, particularly BadgerCare Plus, to provide assistance for low-income individuals but allow them to purchase coverage in the private market.
 - Support ‘Wellness’ initiatives in both the public and private sectors to create a financial incentive for consumers to lead healthier lifestyles and lessen need for medical attention.
 - Expand reach of IRS Section 125 allowing tax incentives to bring more individuals into the ranks of the insured.
 - Encourage Information Technology advancements to lessen administrative costs, enhance personal records security, and establish a more accurate database of individual medical history.
 - Work to reduce health care costs, encouraging greater transparency throughout the health care industry. More information, not less, will encourage competition in the health care industry, create competition, and give consumers the tools they need to make important choices regarding the care they receive.
 - **Raise public awareness of the real costs of health care coverage and dangers of government ‘solutions’**
 - Provide public presentations to civic and social groups, along with government entities around the state on Sensible Health Care Solutions, which will compare and combat big government takeover reform proposals.
 - Educate public officials, employers and employees about true health care reform. Bring forth sensible reforms that involve less government interference and support free-market answers to addressing the high cost of health care.



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ITS HEALTH CARE COSTS

Position Statement – January 2010

For the last year, we have seen a national debate transform from a discussion of health care costs to health insurance. For years, our state has been engaged in a relentless pursuit to incrementally change health insurance in Wisconsin. There is no disputing the facts that insurance administration costs average around 14%. This means that for every insurance premium dollar, the insurer keeps .14 cents and sends .86 cents to the provider. True affordability of health insurance cannot be addressed without consideration for the rising cost of health care. **How did we let our focus shift away from the real issue? Why did we let others move us from the more important discussion of health care costs?** We need to stop getting distracted from all of these insurance reforms (connectors, exchanges, public option, mandates, pre-existing conditions) and start reforming health care.

Over 2 years ago, our elected officials saw the expansion of BadgerCare as the solution for "State Reform". At that time, the insurance agent community warned that such an expansion will simply lead to more cost shifting on the private sector. We warned that the number of people who would be added to our Medicaid system was grossly underestimated. We warned that the cost to the taxpayer was grossly underestimated. Here we are two years later and unfortunately our predictions were correct. The State finds itself actually turning away people who want to get into the BadgerCare Program, but can't afford to let them in. Why? Because we have spent millions more than the state originally estimated and thousands more people have signed up for the plan than what the state predicted.

We hope that lawmakers will learn from these past lessons and listen to the experts in providing health care coverage to Wisconsin citizens. We need to expand coverage to the uninsured by using private market solutions. We need to stop the masquerade of trying to reform insurance and stating that the results will be more affordable coverage. We need to stop distorting insurance plans and start focusing on how to REDUCE HEALTH CARE COSTS. We need: transparency, consumer driven health care products, real competition among health care providers, a reduction in chronic illnesses, an increase in prevention and a focus towards wellness and lifestyles.

- Cover the Uninsured Without Expanding Medicaid
- Pass HSA Legislation That Encourages Consumer Driven Health Care Plans
- Pass Transparency Legislation, but Recognize Private Market Developments
- Create REAL Competition Among Providers
- Work to Reduce Chronic Illnesses Through Education and Incentives
- Implement Wellness and Lifestyle Programs for Government Plans
- Encourage Wellness and Lifestyle Programs for Private Sector



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Wellness – TRUE Health Care Reform

Position Statement – January 2010

As a nation the United States spends more on health care than any other country in the world. However, at the same time we also have the largest population of individuals with chronic medical conditions. According to the Rand Corporation over 47 percent of our population has a chronic medical condition. A chronic medical condition can be defined as an ongoing medical condition that generally requires treatment for 12 to 18 months if not over a lifetime. These diseases are often preventable and frequently treatable through better lifestyle choices, exercise and diet.

The statistics are staggering when you look at the cost of treating Americans with chronic medical conditions. They account for:

- 81% of hospital admissions
- 91% of all prescription drugs filled
- 76% of all physician office visits

The popular television show, "Biggest Loser" has demonstrated that these chronic medical conditions can be reversed if the individual takes control of their life again. Many of the successful contestants are no longer being treated for a variety of chronic medical conditions often including diabetes, high blood pressure, high cholesterol, and gastro reflux disease. Employers have seen the true value of promoting wellness among their work force and providing a path to greater self control over their lifestyle choices. However, for these initiatives to succeed state government should not be a barrier to their success. We need to create a safe-harbor for those employers that take action to promote wellness

Encourage Wellness Plans for Private Sector Employers

We believe lawmakers should do everything possible to enable employers to provide benefit incentives and premium flexibility through legal protections and tax breaks to enable them to implement smoking, drug, alcohol and wellness programs to encourage healthy lifestyles of employees and their families.

Implement Wellness Plans for All State Employees

As the state's largest employer, the state should implement a wellness plan for all state employees and municipal employees insured through the current ETF program; including health screening for all existing employees and all new hires. There are a myriad of wellness vendors operating in the state and we should use the same bid process in finding competitive health insurance plans to find competitive wellness vendors.

<http://www.fightchronicdisease.org/pdfs/ChronicDiseaseFactSheet.pdf>



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Health Care Transparency

Position Statement – January 2010

Medical cost transparency is particularly important, because medical care is likely the only service American consumers regularly purchase without having any upfront knowledge of the actual price or quality. Americans are very accustomed to “shopping” for the best price on goods and services. For health care to operate in the private sector, like any other industry, it must provide comparable information for consumers. When provided with the right incentives, health care patients will become savvy consumers determining what they perceive is value. The best example is the advancement of Lasik eye surgery. With typically no coverage provided for surgery to correct eye sight, this industry has not only provided advancements in technology for the service and a significant reduction in the cost of treatment, but it provides complete transparency in both cost and quality because consumers demand it.

Require DHFS to Make Data Public

Both the Department of Health Services (DHS) and the Department of Employee Trust Funds (ETF) are participating in a Public/Private Partnership relative to health care transparency. Both departments participate in the Wisconsin Health Information Organization (WHIO), which will use claims experience to track the episodes of care of patients to determine comparable cost and quality data on the providers of care. We believe DHS should be required to make the results of this data publicly available on their website to the benefit of all Wisconsin consumers.

Move the Private Market Where Necessary

The private market has made huge strides in providing cost and quality data to consumers. Insurers have extremely detailed websites that provide not only cost and quality information, but comparable information to help their customers become better consumers. There are also private market firms that work directly with consumers as their advocate when providers recommend services. These advocates obtain all the relative treatment codes, determine the total costs from the provider, determine discounts that the insurer will be able to obtain from the providers, compare those costs with other surrounding providers (including quality data) and provide the patient with a report, complete with the insured's expected out of pocket costs. There are legislative proposals in Madison that would attempt to provide additional transparency to the market. While we applaud the legislature for their effort to make health care transparent, we strongly urge the state to understand and recognize what the private market has accomplished thus far. It would be wasteful and counter productive if the state passed a bill that worked against the successful programs that are already operational or being implemented today. We support legislation that would require all health care providers to provide insured or these private market advocates cost information when requested. We support legislation that would make the collection of this data used by the private market to be obtained in a more cost effective manner.



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Stop With the Mandates

Position Statement – January 2010

From Autism to Mental Health Parity to Cochlear Implants to Contraceptives, mandates raise health insurance premium costs. Period. For many insurers in Wisconsin, the mandates just recently passed this year between the federal government and state government have increased premiums over 4%. For every mandate, the argument raised is that the increase is minimal and that it will increase productivity among workers. Looking at just a small employer with 40 employees, that 4% increase in premium represents over a \$14,000 increase to Wisconsin small business. With average Family premiums approaching \$12,500 per year, "only" a 4% increase means an over \$500 increase to Wisconsin families.

During this recent national debate on health care, the one resounding fact is that any increase to insurance premiums makes health care coverage more unaffordable for Wisconsin families. Mandates increase premiums. Why has our state legislature passed these countless mandates?

We urge you to oppose any and all additional mandates, including the Senate Bill 362 and Assembly Bill 512, which is one of the most expensive mental health parity mandates in the country. This bill would have huge premium increases, especially on small business.

In addition to benefit mandates, there are also other insurer mandates that are being proposed that will increase premiums throughout Wisconsin.

Assignment of Benefits or Anti-Provider Discount Legislation

Legislation is being proposed to mandate that insurers pay providers irrespective of in network or out of network providers and ignoring that providers are not party to the contract for insurance between an insurer and employer or insured. The biggest issue with this mandate is that it will most certainly cause health care costs to rise and thus increase premiums. In states that have implemented the mandate, providers used the mandate as an incentive not to negotiate lower cost health care for consumers and therefore consumers paid more for health care in those states and ultimately more for premium. We urge you to oppose this legislation.

State Interference in Federal ERISA Plans or Elimination of ERISA Benefit Choice

Villages, Counties, Towns and School Districts have all taken advantage of obtaining health insurance through a Self-Funded Benefit Plan. This saves taxpayers literally millions of dollars as these plans are often less expensive than fully insured plans. There is proposed legislation that would essentially remove all the cost effective measures of a municipality from obtaining health insurance through a Self-Funded Benefit Plan. The end result is that their costs will increase and taxpayers will pay more to insure these local government employees for the same type of coverage. It is important to note that these Villages, Counties, Town and School Districts oppose this legislation and do not want to lose their ability to purchase the most cost effective plan they can on behalf of taxpayers.

Dependents to Age 27

In the State's Biennial Budget Bill signed into law in June of last year, a mandate on insurers to cover dependent children until they reach the age of 27 was enacted into law. At the time, folks in the insurance industry warned that the provision would violate the federal definition of dependent as defined by the Internal Revenue Service (IRS) and there could be tax implications for both employers and employees. Our fears proved to be founded as several tax accounting firms have now confirmed that any adult dependent who obtains coverage through their parents and does not meet the federal definition of dependent according to the IRS will have tax issues. These accountants have stated that employees will have to pay the full cost of a premium for these adult dependents or face being taxed the value as income. If the employer does not exclude the full cost of this premium, they too could be taxed. The most severe implication is that if insurance companies do not charge a "correct" premium as defined by the IRS, any claim paid on behalf of these adult dependents could also cause a tax consequence to the employer and employee. As an example, an adult dependent with a \$100,000 insurance claim COULD be charged tax on the full value of that claim expense

We urge the legislature to pass legislation that would change this law and require it meet the federal definition of dependent.



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COVERING THE UNINSURED MOVING BEYOND MEDICAID

Position Statement – January 2010

The goals of Medicaid and BadgerCare are ones that WAHU fully supports – helping people afford health care and health care coverage. However, we believe the existing Medicaid and BadgerCare programs are fraught with problems.

Inaccessible Health Care – It is no longer a case of anecdotal evidence. People on Medicaid often have a difficult time finding providers willing to accept Medicaid rates and therefore unwilling to provide service. We just saw this with the Mayo Clinic in Arizona. Even among those willing to accept these patients, we are seeing the wait times are longer than those with private sector healthcare.

Insufficient Provider Reimbursements Lead to Cost Shifting - With Medicaid reimbursement rates at roughly 40 cents on the dollar, providers must cost shift this shortfall to the private sector. Each time rates go up in the private sector, more people become uninsured. An expansion of Medicaid and BadgerCare simply exacerbates the vicious circle of cost shifting to the private sector, and more potential for increasing the uninsured population.

Private Sector Crowd Out – Efforts to try and keep employees covered under their employers group plan (where their employer pays a portion of the premium) rather than have the state accept full financial responsibility within BadgerCare have failed. Crowd out is a reality of the system. The state is literally subsidizing millions of dollars that might otherwise be paid for by employers willing to contribute to their employees' health insurance.

Incentive to Remain Eligible for Medicaid and BadgerCare – Based on the structure of these programs, there is a perverse incentive for enrollees to remain at lower income levels just in order to qualify for health coverage through the state.

Poor Customer Service and Confusing to Enrollees - In a review of our current Medicaid and BadgerCare programs, it was determined that there were thousands of uninsured who actually qualified for these programs but never signed up for them. It was determined that part of the problem was that it was difficult and confusing for individuals to enroll and even more difficult to find someone to help them determine if they qualified and what their options were. By having to deal with a nameless and faceless 800 number; the end result is many simply go without coverage.

There is a better solution: Use The Existing Private Market to Cover the Uninsured

Health Coverage Accounts (HCA) – The goal of Medicaid is to help individuals afford health care. However, because of the faults within the system described above, we must continue to help these individuals afford health care by providing financial assistance to afford health care coverage. In addition, while the goal of BadgerCare is to help the working poor afford health care coverage until they no longer need the help, because of the faults described above, we must help these individuals afford health care coverage in the private market. For the majority of Medicaid and BadgerCare eligible, the state should create Health Coverage Accounts (HCA); which is an individual financial account for the recipient of Medicaid and BadgerCare. The purpose of these accounts is to help Medicaid and BadgerCare recipients afford basic health care coverage.

Private Market Health Care Coverage – If Medicaid and BadgerCare recipients could purchase their health care coverage through the private market, it would solve nearly all of the problems associated with these programs. It would completely eliminate Private Market Crowd Out, Insufficient Provider Reimbursements (thereby eliminating cost shifting to the private sector), and would offer these recipients the same superior, world-class health care afforded those in the private sector. It is likely that we will see federal health care reform and likely much of the responsibility will be placed on states to find ways to cover the uninsured. The State should submit a waiver request to the Department of Health and Human Services so that existing and future Medicaid matching dollars from the federal government could be used to fund a recipients HCA, and then to allow these individuals to use their HCA to purchase health care coverage in the private market. For those that are working and are offered coverage through their employer, these funds could be used for the employee's portion of their premium contribution to an employer sponsored plan. For those not eligible for an employer sponsored health insurance plan, the dollars in the HCA could be used to purchase an individual health insurance policy from the private market. In addition, the state should set up a cost sharing arrangement with these recipients that is based upon family income. A sliding scale should be implemented that helps finance health care coverage for those at certain percentages of the federal poverty level.

Public/Private Partnerships – So how is someone who is currently uninsured able to determine what programs they qualify for, and which plan is best for them? The answer is from the same resources the private sector uses to make such decisions - an insurance advisor. Washington has suggested we need "Exchanges" or "Connectors". The fact is, we have an entire cost effective system in place today to "connect" people with the right health care coverage. Wisconsin has thousands of licensed, regulated and educated insurance agents who have access to every insurance company offering coverage in Wisconsin. A Public/Private Partnership should be implemented between the state and the not for profit insurance agent associations, such as the Wisconsin Association of Health Underwriters (WAHU) and National Association of Insurance and Financial Advisors (NAIFA). These associations would be responsible for training insurance agents in this new program and would make available the list of insurance advisors who have agreed to help this population of people find coverage in the private market using the Health Coverage Accounts. The advisor would be in the field and would be a face the recipient could see and talk to, rather than a state worker on a telephone. The advisor would help the individual determine what options were best suited for them. If using the HCA in the employer sponsored plan made sense, then the agent would complete the necessary paper work on behalf of the recipient so the money in their HCA could be sent to the employer's insurance company. If the recipient had no option of an employer plan, then the agent would find the best coverage available for that specific individual in the private market, filling out the necessary paper work to have the HCA dollars be sent to the insurer of choice.



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FEDERALIZATION OF WISCONSIN TAX LAW ON RETIREMENT
 ACCOUNTS

Position Statement – January 2010

Position

NAIFA Wisconsin supports full federalization of the tax treatment of retirement accounts including the ability for all savers to make traditional to Roth IRA conversions *and including the full federally permitted contribution limits that can be deposited into retirement accounts for all savers*. It is incumbent on the legislature to keep Wisconsin's tax treatment of retirement savings accounts up to date so that Wisconsin savers are not penalized for the same transactions and amounts that people in other states can accomplish penalty-free. Wisconsin citizens should be given every incentive to save for their own retirement.

Summary

Wisconsin tax law is "federalized" which means it generally follows federal law with some modifications. However, Wisconsin is now the only state in the country that has not federalized provisions pertaining to retirement accounts. Legislatively, the issue has evolved in two categories:

- 1) the ability for all savers, not just some, to convert older "traditional" IRA accounts to the more modern "Roth IRA" accounts that are funded with already taxed contributions. And,
- 2) the ability to make deposits into retirement accounts up to federally set limits without being penalized by the state of Wisconsin.

Status

The Wisconsin legislature has several vehicles in each house that accomplish federalization of the traditional to Roth IRA conversion or that accomplish federalization of the maximum deposit limits into retirement accounts, or that accomplish both. These include: AB-608, AB-631, AB-648, SB-416, SB-439. SB- 439 and AB-648 have been heard in committee but not reported out as of 1/21.

On January 1, 2010, federal law allowing all savers (not just some) to roll traditional IRA's into Roth IRA Accounts became effective, but Wisconsin law did not follow suit and currently will penalize some savers for making such a conversion.

On January 1, 2011, Wisconsin law pertaining to allowable deposit amounts for retirement accounts (including "catch-up" provisions for older taxpayers) will roll back to pre-2001 levels because of changes made in the federal Pension Protection Act that were not adopted in Wisconsin.

Qualified Retirement Accounts – Annual Contribution Limit Comparison

Account Type	Federal Law 2011 Regular/Catch Up	Wisconsin Law Regular/CatchUp	WI Disadvantage
Traditional and Roth IRAs	\$5,000/\$1,000	\$2,000/Not available	\$4,000
SIMPLE IRA	\$11,500/\$2,500	\$6,000/Not available	\$8,000
401(k),	\$16,500/\$5,000	\$10,500/Not available	\$11,500
403(b), 457	\$16,500/\$5,500	\$8,000/Not available	\$14,000

Additional Issues

- Phase-out of income limitations re: who may contribute to a retirement accounts.
Failure to federalize in keeping with provisions of the Pension Protection Act will disallow many people from making any deductible contributions to their IRAs if their employer has a retirement plan. A married couple, filing jointly in this case would see their ability to get a tax deduction phased out beginning at \$52,000 of adjusted gross income and completely lost when their income reaches \$62,000.
- Freezing Availability of Certain Plans
Failure to adopt certain provisions of the Pension Protection Act will mean that Wisconsin will no longer allow contributions to any existing Roth 401(k) and 403(b) plans. This freezes the ability to save for retirement of every worker in Wisconsin who has this type of retirement plan.
- Federalization of Qualified Annuity Distributions for Long Term Care
Wisconsin law fails to conform with new federal tax provisions that bridge savings products from retirement to long term care needs, thus making long-term care more affordable for consumers. Aligning Wisconsin law with federal provisions for annuity/long-term care distributions would be consistent with Wisconsin's federalization of tax treatment of retirement accounts and its ongoing efforts to encourage consumers to plan for and fund beyond retirement to their long-term care needs.



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STRANGER ORIGINATED LIFE INSURANCE SETTLEMENTS – STOLI
Position Statement – January 2010

Position: NAIFA Wisconsin is strongly opposed to “stranger originated life insurance” settlements, commonly known in the industry as “STOLI” transactions. These transactions are, by definition, targeted at the elderly population and are, at their core, merely gambling by speculators on the mortality of the insured elder using life insurance policies procured specifically for that purpose. We support legislation (to be introduced this session at the request of the Commissioner of Insurance) to outlaw these transactions in accord with national models.

Summary: Life insurance is designed to protect beneficiaries from financial hardship upon the untimely death of the insured such as a primary wage earner in a family or a key partner in a business. In recent years, a productive secondary market has evolved for policies where either:

- The owner is terminally ill and needs early distribution of the death benefit (for example to pay medical costs) – “viatical settlements” or
- The owner no longer needs the insurance protection for the reason the policy was originally purchased and wishes to recoup some of the premiums paid – seasoned life settlements

The above settlements are in keeping with accepted law and practice in the industry.

A third type of life settlement has more recently evolved wherein the policy is sold to a person over 70 years of age, with a contemporaneous agreement to sell it to “investors” (speculators) who have in fact paid (by financing) all of the premium and arranged the purchase in the first place. The transactions are complex and fraudulent and present multiple financial perils to the insured elder. The insurance is never meant to protect anyone.

Status: The Office of the Commissioner of Insurance intends to introduce legislation to outlaw STOLI transactions during this session. A broadly representative working group was convened under the auspices of OCI on this subject and came to consensus on numerous issues.

Background: Both the National Association of Insurance Commissioners and the National Council of Insurance Legislators have recognized the dangers of STOLI transactions and have created models to deal with it. Many states have already initiated or passed legislation to eliminate STOLI transactions. The mainstream life insurance industry is opposed to these transactions and is supporting Commissioner Dilweg’s efforts to protect Wisconsin citizens from STOLI predators.