Wisconsin State Senate
John Lehman
Senator – 21st District

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Testimony of Senator John Lehman
Senate Committee on Health, Human Services, Insurance and Job Creation
January 17, 2008 Public Hearing
Senate Bill 47

Thank you for the opportunity to provide testimony on behalf of Senate Bill 47, increasing the limit on life insurance policies issued through the State Life Insurance Fund from $10,000 to $20,000.

The State Life Insurance Fund was established in 1904, according to the Commissioner of Insurance, in response to national scandals over the practices of some life insurance companies.

The fund is organized as a nonprofit and does not receive any fiscal support from sources other than policy premiums. It does not advertise and is prohibited from using commissioned agents. Only Wisconsin residents are eligible to purchase policies.

The last time the maximum policy benefit was modified was 1965 when it was increased from $5,000 to the current $10,000.

In 2007, the consumer price index was over 6.5 times higher than when the fund's maximum policy value was last changed. What you could buy for $1.00 in 1965 would cost $6.55 today.

The Office of the Commissioner of insurance is not able to estimate what impact Senate Bill 47 would have on the number of policies issued or modified but they do not foresee any negative consequences to the stability of the fund.

Although not widely known, it does provide policies to over 28,000 Wisconsinites. An adjustment in the maximum benefit amount would help those who wish to increase their policies or allow new policy holders to purchase a larger benefit.

I hope the committee agrees that a modest increase in the maximum policy to $20,000 is an appropriate step to take and that Senate Bill 47 will have your support.

Thank you.

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Allianz Life Insurance Company of North America
American Family Life Insurance Company
Ameriprise Financial Services, Inc.
Aviva USA
Catholic Knights
CUNA Mutual Insurance
Equitable Reserve
Guardian Life Insurance Company of America
National Guardian Life Insurance Company
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State Farm
Thrivent Financial for Lutherans

MEMORANDUM

TO: HONORABLE MEMBERS OF THE WISCONSIN STATE SENATE COMMITTEE ON HEALTH, HUMAN SERVICES, INSURANCE, AND JOB CREATION

FROM: CONNIE L. O'CONNELL,
WISCONSIN COUNCIL OF LIFE INSURERS

SUBJECT: SENATE BILL 47, RELATING TO THE STATE LIFE INSURANCE FUND

DATE: JANUARY 17, 2008

The Wisconsin Council of Life Insurers, an organization representing both domestic and nondomestic life insurance companies licensed in Wisconsin, respectfully requests your opposition to Senate Bill 47 relating to the expansion of the State Life Insurance Fund (SLIF).

SLIF is a residual market insurance mechanism. A residual market mechanism is state created and provides insurance to individuals who are otherwise entitled to coverage but cannot obtain insurance in the voluntary market. SLIF was created in the early 1900's as a result of a national crisis in confidence with the life insurance industry. At the forefront of this issue was the state of New York which conducted an investigation, known as the Armstrong Committee Investigation, uncovering numerous abusive practices[1] and

[1] "Among the abuses uncovered by the committee were interlocking directorates, the creation of subsidiary financial institutions to evade restrictions on investments, the use of proxy voting to frustrate policyholder control of mutuals, unlimited company expenses, tremendous spending for lobbying activities, rebating (the practice of returning to a new client a portion of their first premium payment as an incentive to take out a policy), the encouragement of policy lapses, and the condoning of "twisting" (a practice whereby agents misrepresented and libeled rival firms in order to convince a policyholder to sacrifice their existing policy

prompting other states to conduct their own investigations and take actions[2]. Wisconsin was among the states to take such action, investigating industry practices and creating SLIF.

The success of these measures in restoring confidence in the life insurance industry is evidenced by the surge of new company organizations and a dramatic increase in life insurance in force in the following years. Whereas only 106 companies existed in 1904, another 288 were established in the ten years from 1905 to 1914. Life insurance in force rose from $20 billion on the eve of the hearings to almost $46 billion by the end of World War I.[3] Today we have a well regulated competitive market with 30 life insurers domiciled in our state and hundreds of insurers licensed to sell life insurance products here.

SB 47 increases the limit on a life insurance policy that may be issued by SLIF from $10,000 to $20,000. Rather than filling a gap in the competitive market, this increase in policy amount would put SLIF in direct competition with the private market. When SB 47 was first introduced, WCLI surveyed our member companies to inquire about the cost of small face amount insurance policies from the commercial marketplace compared to SLIF. We found that while not all of our member companies offered policies in this market segment, products were available at prices competitive to SLIF.

Because the private insurance marketplace has products available at competitive prices, we submit that it is unnecessary and inappropriate to expand the state's authority to sell life insurance and respectfully request your opposition to SB 47. Please do not hesitate to contact us if you have any questions or concerns with our comments.

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and replace it with one from that agent)." Sharon Murphy, *Life Insurance in the United States through World War I.* EH.Net Encyclopedia, edited by Robert Whaples. August 15, 2002. URL http://eh.net/encyclopedia/article/murphy.life.insurance.us

[2] Investigations were conducted by New Jersey, Massachusetts, Ohio, Missouri, Wisconsin, Tennessee, Kentucky, Minnesota, and Nebraska. Id.

[3] Id.

NAIFA WISCONSIN

NATIONAL ASSOCIATION OF INSURANCE
AND FINANCIAL ADVISORS – WISCONSIN

TESTIMONY OF MICHAEL NICHOLSON, CLU, ChFC
BEFORE THE SENATE INSURANCE COMMITTEE
JANUARY 17, 2008

IN OPPOSITION TO SENATE BILL 47

Members of the Senate Insurance Committee:

My name is Mike Nicholson of Middleton. I am a Chartered Life Underwriter, a Chartered Financial Consultant and past president of the National Association of Insurance and Financial Advisors, a professional society with 80,000 members nationwide and 1,600 members in Wisconsin. In my 40-plus years in the life insurance industry, I've been in sales as well as in the corporate offices, serving as a Sr. VP and as President of a company whose products are widely distributed here in Wisconsin.

Today I am testifying on behalf of NAIFA and also on behalf of the Professional Insurance Agents of Wisconsin and the Independent Insurance Agents of Wisconsin. Together our professional societies represent approximately 10,000 insurance agents in the State of Wisconsin. Our members are in every town and village across the state working with your neighbors and your constituents to

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insure the lives and property of Wisconsin citizens and provide the financial stability on which our state's economy depends.

We testify against Senate Bill 47 today. This legislation is utterly unnecessary and that is about the best thing we can say of it. In today's times, the State Life Fund itself is a dinosaur. Some of you may even remember that about twelve years ago, legislation was introduced to eliminate it.

Today, Wisconsin residents enjoy a thriving, competitive life insurance marketplace with over 40,000 resident insurance agents available to advise them on insurance matters, over 400 companies licensed to sell life insurance products in our state, and of course more information and purchase opportunities available than ever before in history, due to the evolution of the internet. Today we also have a huge variety of more adaptable, flexible, multipurpose products in the market than could have possibly been dreamed of in 1911 when the state launched itself into the life insurance business.

There is no rationale to increase the state's competition with the private sector in the life insurance marketplace. There is no impaired distribution network, no shortage of product and, by law there is no price advantage or preferred

underwriting for people who purchase insurance through the State. In fact, by purchasing life insurance through an agent, a Wisconsin citizen is likely to have the agent perform a good comprehensive insurance check-up, something that won't happen purchasing insurance from the State. So, one could argue that Wisconsin citizens are actually being under-served when they do business with the State Life Fund since they will not get the more comprehensive review and advisory services performed by a professional agent.

The thoughts and comments of our Wisconsin Insurance Commissioner in his most recent newsletter of Winter, 2008 seem applicable on this subject. Commissioner Dilweg says:

> "Insurance is certainly not as flashy as the Packers, and it's not as well known as the agriculture or manufacturing industry, but it is a stable mainstay of the Wisconsin economy. Wisconsin's insurance industry is the sixth largest in the nation. We are the 18th largest state in terms of population, yet we operate an insurance industry three times our size. Wisconsin's large and healthy insurance industry is a positive force in the state not only for our economy but also for the public."

So, you see, we are very good at the business of insurance here in Wisconsin. It is not surprising therefore that the lives insured and the premium volume of the State Life Fund has been on a downward trend for many years. And finally, I would