The National Council of Insurance Legislators (NCOIL) Life Insurance & Financial Planning Committee met at The Sheraton New Orleans Hotel on Thursday, November 17, 2022 at 3:30 p.m.

Representative Carl Anderson of South Carolina, Acting Chair of the Committee, presided.

Other members of the Committee present were:

Rep. Deborah Ferguson, DDS (AR) Sen. Walter Michel (MS)
Rep. Rod Furniss (ID) Asm. Kevin Cahill (NY)
Rep. Matt Lehman (IN) Sen. George Lang (OH)

Other legislators present were:

Sen. Kirk Talbot (LA) Sen. Mike Azinger (WV)
Rep. Matthew Willard (LA)
Sen. Lana Theis (MI)

Also in attendance were:

Commissioner Tom Considine, NCOIL CEO
Will Melofchik, NCOIL General Counsel
Pat Gilbert, Manager, Administration & Member Services, NCOIL Support Services, LLC

QUORUM

Upon a Motion made by Rep. Matt (IN), NCOIL Immediate Past President, and seconded by Del. Steve Westfall (WV), the Committee voted without objection by way of a voice vote to waive the quorum requirement.

MINUTES
Upon a Motion made by Rep. Joe Fischer (KY) and seconded by Rep. John Ilg (LA), the Committee voted without objection by way of a voice vote to adopt the minutes of the Committee’s July 15, 2022 meeting in Jersey City, NJ.

DISCUSSION AND CONSIDERATION OF NCOIL PAID FAMILY LEAVE INSURANCE MODEL ACT

Rep. Anderson stated that he would like to turn things over to Sen. Paul Utke (MN), sponsor of the NCOIL Paid Family Leave (PFL) Insurance Model Act for some brief remarks. Sen. Utke thanked Rep. Anderson and stated that he is proud to sponsor this Model and is very confident you will see versions of it being introduced in legislatures around the country this coming year including my home state of Minnesota where we actually passed something like this last year in the start of our Senate but that’s as far as it got so we have to come back and start over. You can view the Model on the NCOIL website and on the app and it also appears in our binders on page 87. Just to briefly summarize the Model, it establishes PFL as a class of insurance and would authorize state insurance departments to receive and approve PFL policies in their states. The Model authorizes insurers who are licensed to transact life insurance or disability insurance business in the state to issue policies covering PFL and this would empower employers to be able to give PFL to their employees. The Model is also very flexible in that it can be used in states that have mandatory PFL requirements for their employers and it can be used in states that don't have any PFL requirement, but the employers want to offer it as an enhanced benefit to their employees as we see an ever increasing competitive employment market. I look at this as an extra tool in the toolbox for the employers. It's a tool that can be used to retain or recruit new employees. We're seeing more and more what we have out there as far as a shortage in our labor market and this may be one of the tools if it fits your business model that would be great for them. Also the Model is drafted in such a way that it can be adopted just as an authorization statute and then have as a regulation the standards that would go into that policy or you can put the entirety of it into your statute when you propose it. Virginia went the authorization route, and they are now working on the regulations as an example. Thank you, Mr. Chairman and I look forward to the Committee's support of the Model.

Karen Melchert, Regional VP of State Relations at the American Council of Life Insurers (ACLI) thanked the Committee for the opportunity to speak and stated that I've been before you now four or five times with this proposal beginning back in March 2020 when we first brought it forward. I'm grateful for the support of Rep. Deborah Ferguson, DDS (AR), NCOIL Secretary, and Sen. Utke in sponsoring this. We do believe that this is a tool for states that have a mandatory PFL requirement and for those that do not who wish to expand the benefits to their employees. The ACLI supports the Model and requests the Committee’s support as well.

Rep. Jim Dunnigan (UT) asked Ms. Melchert if the ACLI has had any discussion with insurers to see if they’re interested in this and if they going to be able to come up with an actuarial analysis. Ms. Melchert stated that we have and we have several companies that are preparing products to be filed in Virginia once the regulations are finalized so they have been able to put that together. We've been working on this for several years so they've been working on developing these products while we've been trying to get this off the ground starting with Virginia and then we have a handful of states that we have teed up for 2023 and once those are approved and the regulations are adopted then we expect them to be filing policies at that time too. And they're already doing this to some degree in the states where there is a mandate where the state has outsourced it to other insurance companies to help run so they've got experience out there for this product in particular just not necessarily as an insurance product on its own but operating
this type of program in states where it's been mandated already. Rep. Dunnigan stated that I'm curious about pricing and if you have seen any pricing models. Ms. Melchert stated that I have not seen any pricing models myself but I can certainly get some of that information for you from the folks that are looking at that from an actuarial perspective. I'm told it's similar to a disability income insurance product. Rep. Dunnigan asked if the employer has a short term disability policy, how does this interact with that? Ms. Melchert stated that this could be attached as a rider. It can't now because there's no authorization for it but it could be included in your disability income insurance policy as an added on benefit as a rider for an additional premium but not a significant additional premium from what I'm told. Rep. Dunnigan stated that one of the things I like about this is it's an offering instead of mandate and instead of the government coming and saying you have to do it. - you're saying here's a tool if you want to do it.

Rep. Ferguson stated that I think this is a great Model and I am glad that Sen. Utke brought the Model forward. Not only is it a good private insurance option for states that have mandated family leave but I'm from Arkansas and we don't have mandated family leave and I did some checking with my insurance department and found that it will require some statutory change for us to allow this and I look at it much like disability insurance but in Arkansas we will have to run a bill so that the insurance company can actually allow these companies to operate in the state. So you might want to check with your insurance Commissioners and see if you need that. But as noted, it has really become a very competitive employment market where people are looking for time off and they're looking for 401k's. To attract employees now you look for more ways to empower that and certainly in medical offices you employ a lot of young women that have babies or have family they need to help take care of so this is very attractive to me for those reasons.

Rep. Brenda Carter (MI) asked if the Model allows States the flexibility to opt-in or opt-out or to modify the Model if needed to fit their State requirements. Sen. Utke stated that the flexibility remains with the state and each state can take as much or as little as they would like to make this work for them.

Sen. Bill Gannon (NH) stated that I don't know if you're familiar with the model we did New Hampshire. We passed the legislation about a year ago. The state has state family medical leave for our employees and businesses in the state can sign on and join that. Sen. Gannon asked Sen. Utke if he is familiar with how NH is doing that and would the Model be better? Sen. Utke asked Sen. Gannon to clarify if NH has a state-mandated portion of PFL. Sen. Gannon replied that NH has one for state workers and then businesses in the state can join onto that program. Sen. Utke stated that in this case the employer can buy this as an insurance policy and I think what I've seen in some of the mandated states is that you come down to a certain level and the smaller employers are exempted and if you happen to be one of those small employers then this was that piece that you needed to recruit your employees that you're after. In the private sector, you could go out and purchase this. There are other employers where none of this works for them. You may only have a few employees and you can't afford your employees to actually take off three or six months as much as you want to help them out. So, the flexibility is in the employer's hands which is great. They can use it however it best fits their business model. Rep. Ferguson stated that there are several differences among the states. Obviously there are states like mine where it would just be up to the employers to buy it. There are states where it's mandated and they do it with private insurance. But really New Hampshire is a great model because you're empowering private companies to be included in your plan which makes it more affordable for them so I hope that's something that we'll look at in Arkansas.
Hearing no further questions or comments, upon a Motion made by Sen. Utke and seconded by Rep. Jonathan Carroll (IL), the Committee voted without objection by way of a voice vote to adopt the Model.

DISCUSSION ON UNIFORM REGULATION OF INSURER INVESTING

Rep. Anderson provided some quick background on this topic before the panel began. We had a session on private equity’s influence and impact on the insurance marketplace in July which generated discussion on whether or not there should be increased regulatory scrutiny of private equity-owned insurers. This session today is meant to continue that discussion and bridge the gap by offering information as to why such scrutiny should be based on the activities and investments of the insurers and not ownership structure.

Michael Porcelli, FSA, Senior Director at AM Best Rating Services thanked the Committee for the opportunity to speak and stated that you're probably not aware of AM Best. We're a rating agency. We rate insurance companies. It's really all we do. We were established in 1899. I'll give you a sense of what AM Best does. We rate insurance companies. We've been doing it for almost a 125 years. We are exclusively a rating agency for the purpose of rating life and property and casualty insurers. We rate companies from the U.S. and all around the globe. We have 135 rating analysts located in five different offices. We rate 3,300 insurance companies worldwide. We also have research publications. We became a Nationally Recognized Statistical Rating Organization (NRSRO) in 2007 right before the financial crisis. And so how do you rate insurance companies? Well, we have a criteria that we use and I want to show you it's a building block approach. When we rate insurance companies we publish and issue a credit rating and also a financial strength rating. Basically in a rating committee we vote on an issue creating a credit rating in the map to the financial strength rating. Financial strength ratings are what people traditionally associate with AM Best and they're actually a bit more granular and we have a mapping for that. We also issue debt ratings. Here are our building blocks and the foundation of the building blocks is actually the balance sheet strength. So the first thing we do is we assess the balance sheet of the company. We then make adjustments up or down for their operating performance, up or down for the business profile, and up or down for the risk management practices and then what we ultimately wind up with is that issue of credit rating that I was talking about. The highest you can get on balance sheet strength is an A+ and then the movements up and down can get you all the way up to an AAA. There are some companies that are AAA in our portfolio.

For new companies and the kind of companies that were talking about here, they are actually limited on their balance sheet strength to an A. And what's the basis for that? It's going to be the projections that they provide for us in our management meeting that we have with the company. And here’s an overview of what that looks like for the point of view of the building blocks and some of the components in here and the main thing that you’re going to notice is that we don’t actually include the form of ownership. So if you are a mutual, a fraternal, a stock company or whatever it may be, if you're owned by private-equity, you're not going to see anything here that goes in and penalizes you or rewards you for your ownership structure. But what is important to know is that there are certain things that come along in our analysis that are driven by your ownership structure. For example, I don't think it's a secret that companies we've been labeling private equity insurers typically have more asset risk so they usually have some sort of expertise in certain asset classes. So what does AM Best do to get themselves familiar with it? The answer is we have a capital model and we apply capital charges and we have a published Best’s Capital Adequacy Ratio (BCAR) score that we use. We also have an investment working group. So we've had many companies come to us and say you know we got
this asset class we believe that we can achieve superior returns with. What we have to do is we have to take that asset class and put in front of our investment working group and the reason for that is to make sure that we're applying the proper capital charges.

There are a few other things that you're going to see with private equity firms. There could be a reliance on reinsurance. There could be different financial flexibility based on the level of commitment from the parent. Those are all components of how we rate companies but ultimately I think one of the things that we really have to get our arms around is the fact that the time horizons for the capital involved in life insurance and annuity insurance is longer than what is traditionally associated with private equity. Private equity firms tend to look at three to five year types of time horizons and everyone in this room knows that the life insurance business and the annuity business are not three to five year businesses. So my concluding remarks are that I don't believe that there are any barriers to actually enter the life and annuity insurance business. It’s actually a fairly simple to do. If you can go and raise some capital, come to us, get a rating, and put together a management team you could be in the insurance business. It's not the barriers to entry that matter, it's actually the barriers to exit because getting out of the insurance business is actually much harder to do given the long-term nature of the liabilities.

Jennifer Webb, AVP, Assistant General Counsel and Head of State Gov't Affairs at Pacific Life thanked the Committee for the opportunity to speak and stated that I plan to take the next several minutes to provide a high level review of regulation of life insurer investing and to note a key National Association of Insurance Commissioners (NAIC) workstream that Pacific Life and several other companies believe is particularly important. State policymakers are charged with safeguarding the ability of insurance companies to keep their promises to policyholders by ensuring their financial health. One of the tools that regulators use to measure financial health of a company is risk based capital (RBC). The RBC requirement is a statutory minimum level of capital that's based on two factors. One is the the insurance company size and two is the risk profile of its financial assets and operations. In other words the company must hold capital in proportion to its risk. The purpose of the RBC requirement is to identify weakly capitalized companies before there’s a problem. It’s in effect an early warning system so think like a check engine light. For my remarks today I want to focus on the second factor of the RBC calculation, the risk profile of a company's financial assets, and how regulators determine RBC charges.

Generally speaking, state regulators use an activities based approach to determine RBC. That's to say they look at the types of financial instruments that insurers are investing in and the types of products the insurers offer to look at the risk level. Given that there’s more private equity-backed companies that are entering or have entered the life insurance space, it was previously discussed at the July meeting that ownership structure is coming under scrutiny in relationship to riskiness. While there has certainly been attention paid by policymakers to the growing presence of private equity firms in the life insurance space this is not in my opinion the current focus at the NAIC because RBC calculations apply to all companies no matter their ownership structure. So what is being discussed around RBC calculations currently? Last year the NAIC took an important first step in updating the life RBC framework with the adoption of revised capital factors for bond investments. These changes introduced more granular RBC charges for bonds by expanding the number of NAIC designations from six to 20 similar to the rating scales that the rating agencies use. This was always acknowledged by the NAIC and the industry to be the first phase of a longer-term initiative exploring the differentiation of RBC treatment across diverse asset risks. The NAIC has chosen to begin the next phase of this project with a focus on asset-backed Securities or ABS. Generally speaking ABS its kind of like a mortgage-backed security except the underlying assets are something other than mortgages. The NAIC is currently focusing on CLO's or collateralized loan obligations which are a type of ABS generally composed
of highly leveraged corporate loans. The timing of this work is important because insurers have become the biggest U.S. investors in the CLO market topping banks, pension plans and hedge funds. In fact, insurers currently hold 60% of all single A and Triple B rated CLO’s which are riskier than the triple A and double A holdings and certain firms tend to hold higher concentration of CLO’s with this credit quality on their books. The NAIC has taken note of these developments and has developed a high priority workstream around CLO’s and RBC charges. While RBC is intended to be a blunt instrument at the same time it is critical that any capital charges are appropriately calibrated across different types of asset classes to accurately reflect risk. If the capital charges don't match the risk for an asset this could be problematic from a financial solvency perspective.

Currently for RBC, CLO is treated the same as corporate bonds but they do not share the same risk characteristics. To be clear CLO’s are not bad - Pacific Life invests in them. If used well they provide insurers with high quality options to tailor cash flows for different investor return needs. However, CLO’s come with long-term risk sensitivities. They’re not well captured in the current RBC framework. Simply puts CLO’s are not the same as a corporate bond and CLO’s did not perform the same and stress as corporate bonds. And under a stress test performed by the NAIC’s Securities Valuation Office (SVO), these assets are shown to suffer losses that are not consistent with corporate bonds, again potentially posing solvents risks. This is why the NAIC is working to model CLO’s similar to the process they currently use for mortgage-backed securities and make sure the RBC charges are appropriate. Pacific Life supports the NAIC’s work and is working with a diverse group of companies who are aligned to modernize the RBC framework. This group includes Equitable, New York Life, Northwestern Mutual and Western and Southern among others. The ACLI has also expressed support for this project. Finally, I'd like to briefly note that beyond the CLO modeling the NAIC has several other workstreams going on in their Macroprudential Working Group that are looking at insurer investment activities including financial disclosures, investment management agreements and other items. And Pacific Life supports this holistic approach. In conclusion, Pacific Life supports the NAIC’s current review of RBC treatment of CLO’s, and this review will continue to ensure that capital charges are appropriately calibrated for the risk of the asset class. Once adopted, these risk charges will apply regardless of ownership structure to all U.S. insurers.

The Honorable Jim Hodges, former Governor of South Carolina and now Executive Director of the National Alliance of Life Companies (NALC), thanked the Committee for the opportunity to speak and stated that the NALC is a group of small to mid-sized life insurers from all across the country so we come with the perspective of smaller life insurers, midsize like insurers, who are sensitive to try to preserve capital options. I do want to make a few general comments before getting into our feelings about these specific proposals. I think we’re pretty well aligned with the NCOIL statement on this issue and I'll elaborate a bit on that later but I can't help but notice that some of this arises out of comments from Members of Congress who expressed some concern about private equity investment in life insurance. I can't help but be a bit amused by that because if you look at the financial crisis back in 2008 and 2009, life insurers did pretty well - state regulated life insurers. The banks that were federally regulated didn't do so well and our friends in Washington seem to want to scrutinize the level of scrutiny we provide to those entities that regulate life insurers. And I might say that in my twenty plus years around state regulators, state legislators have done a pretty good job of keeping insurers solvent so I think when we receive inquiries and suggestions from Washington we need to be careful about it. They don't understand insurance very well and they've shown that. They have their own struggles with regulation and they have shown that. And we have done a good job at the state level. You all have done a good job. State regulators have done a good job. But there always seems to be this sensitivity when Washington says something that there’s a fear that there’ll be some
imminent federal regulation if we don't jump. I don't think this is a case in which we jump and I think you all have appropriately had a measured approach to this.

From a small company perspective, I think I would say this - we feel as though every investor ought to be treated the same. I think you have a good system in place whether its private equity or other sources of capital. Everyone should be treated the same. There should not be a specific class to single out for a lot of reasons. One is it makes no sense and there's no evidence that that's needed. But the second piece is when you are a smaller company, and we all know we want more small companies growing around the country and a number of you are from states that probably have a limited number of life companies, we need to preserve options for capital. And the more unnecessary regulations we put into place that really aren't serving policyholders or companies than the more we limit potential investment options to allow these small companies to invest in your communities and to grow their businesses. And that is a major concern of ours that we preserve meaningful capital options and that we do nothing that unnecessarily harms or scares away potential sources of capital for our companies. And a final comment here - there have been periods in the last decade where regulators when there are companies that were in trouble, regulators encouraged private equity enterprises to invest in insurance companies because they felt like that was capital that could be used to try to prop up and help ensure those insurance companies remain successful. We don't want to get into that situation again where we create unnecessary obstacles to that investment and we want to preserve options that are available for companies to try to grow and prosper. And we believe that the framework is already in place in our state regulatory regime to properly evaluate these companies that are choosing to invest and to scrutinize the decisions that they make in terms of how they invest those dollars and to protect policyholders. So those are the comments of the NALC and we feel strongly that the current system is working pretty well and as you seem to have indicated in your statement, finding a way in which any changes that we make are consistent for all of the entities or enterprises that invest in insurers makes the most sense.

Rep. Anderson asked Gov. Hodges to clarify if he meant all investors should be treated the same or all insurers should be regardless of ownership structure. Gov. Hodges stated that he thinks all insurers regardless of ownership structure is probably the better way of saying that but ultimately if you are looking at putting capital into an insurance company and you got an additional level of scrutiny that others don't have it is going to discourage those who might put capital in. That's the point I was trying to make.

Sen. Gannon stated to Rep. Anderson regarding the clarification he just asked for - why wouldn't we treat all investors equal? Rep. Anderson stated that I wanted Gov. Hodges to make his point clear. I wanted him to clarify that he was talking about the insurers so that we got the right wording because we want to make sure the minutes are right.

Rep. Dunnigan asked Mr. Porcelli what is AM Best's view on these investors that come in and participate in the insurers? Mr. Porcelli stated that the view is always driven by our methodology and because the methodology is actually not reflecting the ownership structure it's never really about that and just like my co-panelists here have said, our view has been all along that it's not that you're a mutual or you're a private equity-owned firm. It's really about the activities that fall out of that. So just like we talked about with the RBC model, our capital model that we use is very similar. If we see that unnecessary asset risk is being taken on we're in a position to go and adjust our capital model and adjust the ratings outcome and that's the kind of thing that we're going to look for. Rep. Dunnigan asked if a private equity company came in and purchased or bought in and they're trying to get a short-term gain would you be able to recognize that and adjust your rating under its portfolio? Mr. Porcelli stated that to be as clear as I possibly can, if
looking at short-term gains in the life or annuity business, we're going to meet with the management team, we're going to ask them questions so that we could sniff that out. We are a data point. We are not the only datapoint but certainly the fact that we meet with every management team as part of our rating process and as part of our methodology makes us relevant in this. And I can tell you that we would be able to without a doubt sniff that out and the reason for that is because in our process we need to see what kind of capital commitment is there and by capital commitment I don't just mean the capital that's put in today, but also the long-term capital commitment. In addition, because so many of us have years in insurance it really candidly is hard to find a management team that comes to us that are people we haven't heard of before. It just comes with being in the business for 30 years. Rep. Dunnigan asked Ms. Webb if she had anything to add. Ms. Webb stated no as Mr. Porcelli did a good job in his response.

Rep. Anderson thanked everyone for speaking and stated that if anyone thinks NCOIL should continue to discuss this topic please reach out to me or NCOIL staff. The Hon. Tom Considine, NCOIL CEO, stated that this topic is not on the agenda for the NCOIL-NAIC Dialogue tomorrow and I mean this totally respectfully but here was no NAIC representative at the table today and to the extent that time permits tomorrow under any other business I just wonder if any of our NAIC colleagues are in the room because I just wonder if they'd have any feedback that they could tell us tomorrow at the dialogue about this issue - is it something that they agree with about that regardless of ownership structure the rules should be the same for everyone? And further if they have any thoughts on that CLO issue.

PRESENTATION ON LIFE INSURER INVESTMENTS IN SOCIAL INFRASTRUCTURE AND COMMUNITY DEVELOPMENT INITIATIVES

Kelly Edmiston, Ph.D., Policy Research Manager at the NAIC Center for Insurance Policy and Research (CIPR) thanked the Committee for the opportunity to speak and stated that I want to talk to you about some of the work that the CIPR at the NAIC has been doing around social infrastructure investment which I think more in terms of community development types of Investments. I want to thank you for the opportunity to speak to you about this research initiative. I was a Community Development Economist at the Federal Reserve Bank of Kansas City for many years so I've been working in the space for a long time and I'm very happy to see the insurance industry taking an increased interest in community development and social impact investing more generally. So, when we're talking about social impact investments we're talking about the S in environmental, social, and corporate governance (ESG). We're talking about investment having intentional direct and measurable positive effect on social outcomes. And for the insurance industry, the life insurance industry in particular, we're looking at investments that not only have a positive effect on social outcomes but also that generate competitive risk-adjusted return. In October of last year the CIPR published a report and it's on our website called “Can insurance company investments help fill the infrastructure gap?” And there we were talking about physical infrastructure and economic infrastructure and our conclusion was and is that they can. We find that the financial performance of the infrastructure backed investments were superior to other non-financial corporate investment across several domains but not every domain. They're long-lived assets. They helped diversify portfolios. They can hedge against inflation. They generally produce competitive returns and they have an appealing risk profile. So even within a single rating if across all organizations rated double-A for example the infrastructure backed financial investments tend to have lower default rates, greater recovery rate upon default, and more stable ratings.
But in this work we did not consider social infrastructure and we since turned our attention to a similar question within social infrastructure. The question being whether the insurance industry can help build a social infrastructure gap specifically in community development space, and more specifically in the affordable housing space, not with their foundation investments but with their general account or balance sheet investments. In terms of what is social infrastructure? It's in some sense not economic infrastructure, not physical infrastructure. It's infrastructure that increases the quality of life in a community. It could include many assets like hospitals and schools and community facilities but our effect is largely on tangible community development investments or assets. And so these are assets that remain critical for low and moderate-income communities which typically are already struggling and we’re specifically talking about issues of affordable housing and community resilience to natural catastrophes as those are particularly significant in this regard. At the CIPR we're working closely with the impact investing team at the Robert Wood Johnson Foundation (RWJF) in this endeavor. As researchers we’re agnostic and I want to emphasize that for CIPR it’s a research effort but the hope of RWJF is that and the reason they came to us is that if insurance as large institutional investors can they infuse additional capital in the space and to help close the gap between community needs and the availability of social infrastructure and community assets.

Then based on CIPR’s previous work in the physical and economic infrastructure space which I just mentioned, RWJF approached us about similar work that can be done in the social infrastructure community development space. And so beginning this summer we embarked on an exploratory phase of this research basically to see if there's any there-there. The idea is to see if this effort to help close the social infrastructure or community development investment gap would be feasible for insurers. Can they make a positive social impact with their general account investments that generate an appropriate risk-adjusted return and meet the necessary regulatory requirements? And then can they do that at scale? This initial exploratory effort which we’re wrapping up currently was to survey the landscape and to generate a list of questions to be addressed which we would then approach with a deeper and more sophisticated research effort that we hope to do over the next couple of years. It was a learning effort and through events and one on one meetings we've engaged with insurance industry stakeholders including the investment strategists, regulators, financial intermediaries, trade organizations, and also community development practitioners who are on the ground doing these types of things. I’ll spend just a brief few minutes discussing what we found thus far and where we plan to go with the research. Insurers have already undertaken impact investing efforts so it's not totally new by any means but the primary consideration of insurer investors of course is to fulfill their fiduciary responsibility by enhancing the general accounts risk adjusted return. And social impact investment of investors within the industry have generally found that they generated competitive risk-adjusted returns with these investments. Moreover, like investments in the physical and economic infrastructure space, these social impact investments can bring increased diversity to existing portfolios.

We’ve also discovered additional value added with these investments. Insurance of course is a risk based business and addressing social issues through their investments could potentially mitigate some types of underwriting risk. There was a report out by Nuveen just yesterday and they were discussing the fact that inequality is a systemic risk to their portfolio and to the entire financial system and investing in companies and assets that provide solutions to those problems can mitigate those risks as well. Furthermore, most insurers want to be good corporate citizens especially in their own backyards. And finally, insurers or major employers with vast numbers of clients and stakeholders are increasingly demanding socially responsible investing. We've discovered a number of vehicles for these investments and that was a big part of the project and no doubt there are more vehicles that we have yet to discover and as the insurance industry is
financially innovative no doubt there will be new structures developed along the way. Chief among these that we have is the low income housing tax credit. I don't have time to delve deeply as it's a rather complex investment but in general terms it's the chief avenue for the federal government to subsidize the construction of affordable housing. They allocate a number of tax credits to each state which in turn allocate tax credits to developers and so developers can't use these tax credits because they're not nonprofits. So what happens is investors put money into syndicators to purchase the credits and so they can buy these tax credits generally for less than a dollar and then get dollar-for-dollar tax reductions or tax credits with these instruments. One of the benefits of the syndication, the funds that they invest in, is that other than monitoring the financial performance as investors get regular detailed reports on the financial performance, these investments are largely hands off for the investors. The syndication fund is a limited partner and they take responsibility for monitoring the investments for compliance. These investments are quite popular and have performed well financially for investors. Investors could directly invest equity in a development that's less usual or less common but in general would be done through an intermediary.

I just want to mention a couple more community development financial institutions or CDFIs that offer an opportunity or an avenue for making debt investments in affordable housing projects. The insurer investor can invest directly in the CDFI which then does the due diligence in defining and monitoring affordable housing development for which to issue debt. I might add that several of the CDFIs have been rated by major rating agencies and the 11 who have been rated by S&P Global Ratings are investment grade generally along the lines of an A-. And then municipal bonds is another avenue for investing private activity bonds, that is bonds that are issued by municipalities by states and local government for private activities that have a community benefit. And potentially in terms of scale an insurer could buy an entire bond issue. And finally there are other intriguing alternatives like there’s a community development fund that’s a standard institutional investor only mutual fund that uses its proceeds for impact while generating respectable return for its investors. Keep in mind I’ve just scratched the surface of opportunities for investing with social impact. The CIPR looks forward to delving deeper with their research effort into this social impact investing space as investment alternatives for the insurance industry. There remain many questions to be addressed. Our intent is to better understand the risk return profile of these investments, to uncover and analyze the various investment strategy structures that are available for social impact investing and how they should be evaluated and to understand the regulatory concerns that may arise and how they might be addressed. And so, I thank you again for the opportunity to share the work of the CIPR at the NAIC in evaluating the feasibility of bringing social impact investing to scale in the insurance industry.

Pat Reeder, Vice President & Deputy General Counsel at ACLI thanked the Committee for the opportunity to speak and stated that the ACLI came to me six months ago and they asked me to operationalize our affordable housing initiative and I'm here today to talk to you about what we're doing and I want to make sure we emphasize that the initiative that we're working on is an initiative of the life insurance industry broadly. How we can bring our scope and scale and our investing expertise into the affordable housing area? But we are not alone - it isn't just individual companies that are putting great resources and a great deal of intellectual capital into this space. And we have an example here today. So I'll give the history of what we're doing and why we're doing it. The life insurance industry has been engaged in our communities for 175 years. It's one of the cornerstones of what the life insurance industry does. And you all know that. You've been engaged in this in your professions and you understand what the life insurance industry does. And a lot of the work in affordable housing and community development has been done by their foundations. They have a lot of charitable arms and they put a significant amount of money and work into affordable housing through their foundations and through just their broad
engagement with the communities where their employees are. But if you go to the summer of 2020 and the death of George Floyd, the insurance industry and many industries and organizations got together and said we need to do something. They were motivated and our CEOs were very wise.

The ACLI had a statement. We spoke into this as it's important that you speak into these issues and that you have your voice be heard. But our CEOs were wise and they said that's not enough. We don't want to just talk about this, we want to do something. We want to do something that is supposed to be stainable and that is meaningful and that is going to actually make an impact. And from that the CEOs instructed us to develop an initiative that's called our Economic Empowerment and Racial Equity Initiative. It's got four pillars. One of the pillars is closing the racial wealth gap. And the idea is that the insurance industry is really good at certain things and are CEOs told us very clearly don't get ahead of your skis - let's not try to do things that we're not good. While there are important social issues that are out there and we can make a positive impact on our society in our communities, let's not try to do things that we're not good at. So we said what are we really good at? The life insurance industry is really good at protecting people's financial futures. The life insurance industry is really good at long-term investing. And so we'd look into those things and we said how do we use those things to close the racial wealth gap? And that gave rise to the development a subsidiary of ACLI and an initiative called 360 Community Capital and 360 Community Capital is a nonprofit organization that is being established and set up by ACLI member companies. In April of this year the ACLI board of directors voted unanimously and they said go operationalize this. This is important and make it happen. And from that, 42 of our member companies not only voted to do this, they put money up to get this operation started.

So what are we trying to do? We're going to start with the premise that we want to find ways to take insurance companies' general account dollars and put those general account dollars to work in affordable housing. Affordable housing is so foundational to closing the racial wealth gap we thought we would start there. It doesn't end there but we need to start somewhere. It's the idea of boiling the ocean or whatever phrase that you like. I always talk internally about start by starting and so that's what we're going to do to start with affordable housing because that's so foundational. And we're going to use general account funds and we're going to start with debt as life insurers love debt. We're going to start long-term. Life insurers love long-term and liquid debt. We're really good at that and we've been doing that a long time. We're going to need these investments to be investment grade. For general account dollars, the general account investing for a life insurer needs to be able to pay claims when due. That's the purpose of what those investments are. But we want to find affordable housing investment that do the good that Dr. Edmiston talked about and also meet our needs to our policyholders and our members and so that's going to be of investment-grade and it's got to be market rate returns. Again, we have this obligation. Our companies do tons of work in the foundation space and in the charitable space but this is market rate and we believe there's a market out there in affordable housing. Affordable housing is a term of art in the community development space. Affordable housing is a measure of area median income. So it's sort of what is the income of the people in a certain community -- the average median income. Affordable housing has different ranges but affordable housing is usually defined as 60% to 80% of average median income.

But there's another piece of affordable housing that's really important. It's going to be a part of this initiative and that's what's often called workforce housing and workforce housing is typically defined as 80% to 120% of average median income. Think of your shopkeepers, your teachers. And so if we can find ways that the life insurance industry can work on what they called naturally occurring affordable housing or NOAH which we think of with rehab in terms of houses and
apartment complexes and condominiums that are rehabbed for the purpose of affordable housing where the rent will be set in such a way that they will be able to be maintained as affordable housing units. So affordable housing but also workforce housing and we think that's the way that we can do that. We think this is going to be hard. The CDFI world has been doing this a long time and there's an ecosystem out there as there's a lot of low income tax credits and banks with community development investing requirements. There are cities and municipalities that are putting money into this and all that's very important. So we must find out how do we use these insurance company general account funds? How do we create those opportunities? And it's going to take some time and it's going to be hard. We will be working with the NAIC because you heard about the RBC and the charges. Again, life insurers are investing in their general accounts so that they can pay claims so they can make good on their promises. What we're trying to do here is to find a way that we can do those investments and we're making good on their promises but we're also going to be investing into our communities and affordable housing.

One last thing I'm going to talk about is to provide a very specific example of what New York Life is doing. We get asked a lot - why affordable housing? And is that all you're going to do? What if one of our CEO's said well what if we build these great affordable housing units and it's in a food desert? What about that? And as I said before we need to start by starting and we think affordable housing is foundational and we think it'll do two things. One - it's going to track other money. If you start building affordable housing units that are in this space you're going to be able to get other areas that may come in and they may take care of the medical services or they may invest in the transportation or they may invest in the fresh fruits and vegetables. And the second thing is we think that once we get started we're going to be able to create some momentum, that's our goal. To me that's our success case. That we build momentum. That more people come in and say wait a minute we don't just need to do affordable housing, we want to work on the schools. We want to work on the grocery stores. We want to find ways to do this with general account dollars because we think that can move the needle. And again we have an example of what New York Life has done. New York Life has not just been a participant and an intellectual capital driver of what the life insurance industry has been doing, they're doing something specifically for themselves too.

Doug Wheeler, Senior Vice President of Government Affairs at New York Life thanked the Committee for the opportunity to speak and stated that as Mr. Reeder just mentioned, we are a very proud partner of the 360 Community Capital Project. New York Life in the Spring of 2021 announced a billion-dollar impact investing initiative and primarily so far we’ve deployed pretty much the billion dollars. A lot of it’s been mostly the tax credit for housing tax credit areas because that’s the low hanging fruit. And the initiative was really focused in three areas: affordable housing, small business investment, and community development. And again, so far a lot of focus has been around affordable housing and we’ve obviously seen some challenges and that's one of the things Mr. Reeder alluded to in terms of working with the NAIC to make sure we’re using balance sheet dollars as we have to get returns, and we have to make sure the capital charges and all those accounting issues and some of these other issues at the NAIC get addressed. And I have to tell you we are completely in mission align with NAIC. We have had meetings with leadership and other Commissioners. We met at a recent NAIC meeting and almost 20 Insurance Commissioners attended. There was so much interest because when we do these investments, first of all it's all 50 states. It's in all of your states and all of your communities and this is about again bridging the wealth gap and serving undercapitalized and underserved communities and when you provide affordable housing and when you invest in small businesses you're creating jobs. And as Mr. Reeder just mentioned that leads to the building of schools and hospitals and for New York Life, we have 12,000 agents across the
country. These are people that now actually have jobs and want to build wealth and build communities and so for us it's an opportunity to sell our products and provide financial security and again bridging that wealth gap is a win-win for everybody. And so again the NAIC is completely aligned with us. They’re working with us and certainly we appreciate their efforts. We participated in part of the CIPR’s work as well and again this is something that is a win-win for everybody and it’s obviously a win-win in your communities as well.

Sen. Mike Azinger (WV) stated that he listened to all three speakers and he thinks that the intent of the mission described is to make the insurance industry “woke.” Is that accurate? Mr. Reeder stated that’s actually not how I would describe it. Sen. Azinger stated to Dr. Edmiston that you mentioned the banking industry and ESG. ESG is just “woke” critical theory infused in the banking system. And I listened to you mostly. You used the most code words of critical theory of all of the three speakers. To me, that's what it sounds like what you're doing - am I incorrect there? Dr. Edmiston stated I think so and the reason is CIPR, which is the research center in NAIC, is agnostic on this. Sen. Azinger stated that I don’t think you’re agnostic. Sen. Azinger stated that we are agnostic. The question came to us: is this something that the insurance industry can do? And so, we’re asking the questions. Can they generate more reasonable or adequate or whatever necessary risk-adjusted return and do the social impact investment at the same time? And is that going to meet regulatory and statutory accounting standards? Sen. Azinger stated that’s all “woke Marxism.” Dr. Edmiston stated that we’re completely agnostic. Sen. Azinger stated that’s not agnostic. I’ve read enough on it. I won’t belabor it. Dr. Edmiston stated that we’re researchers. It’s either we’re going to find that it is acceptable or we’re going to find that it isn’t. I don’t care personally as that’s not my job. I’m a researcher. It’s up to the insurers. Sen. Azinger stated that you’re a threat to the free markets and the free markets of insurance.

Rep. Forrest Bennett (OK) stated that I’ve heard comments similar to Sen. Azinger’s from my colleagues back home in Oklahoma but would you not agree that the efforts that were described today also have the side effect of eventually creating a larger base of people who are able to afford life insurance products and other things like that? These other societal benefits, as bad as some people think they are, create a wealthier and healthier environment for our economy, correct? Mr. Reeder replied, yes - that is one of the purposes of what we’re trying to do.

Sen. Gannon stated that I look at things more from a financial aspect and so for me, the district I represent in Southern New Hampshire is middle America so when my people hear you talk they're not thinking “woke” or racism. They're thinking you’re going to cost our community because you’re going to put in workforces or affordable housing in my twelve little towns who can’t afford the tax increases and that’s going to result in tax breaks to these workforce housing units. You’re going to add students to our schools which are already overburdened. The average family in my little district is paying about $10,000 to $15,000 in taxes for little cape houses and they can't afford taking on additional responsibilities. In New Hampshire, our cities want it and our more liberal towns want it. If they want to take it, that's great but they're trying to now hoist this on to my small communities who can't afford the burden to our educational system. We're averaging around $21,000 per student so if you're putting in workforce housing where they’re not either going to get a ten year tax break or they're going to pay less money, they're not putting into the educational system and you're putting a burden on an overstressed property tax in my case. Mr. Reeder stated that I think the idea of what this is trying to do is that you’re trying to enhance the economy all over because if you think in the workforce housing space, you're thinking of the people that work in the stores of your community shop. Those are the people that work there. The teachers that you're worried about that are overburdened and overstressed, that's certainly real all across the country but if they're working one job instead of
three because they have a predictable rent as opposed to a rent that they don't know when it's going to go up, those are the kinds of things that we think that we're going to have what I will call knock-on effects into the community. And so I recognize and appreciate your concern but we think that the results of what could be done by these investments can have great effects in the community.

Sen. Lana Theis (MI) stated that she appreciated all of the presentations and stated that my struggle is where do you balance the fiduciary responsibilities of actually investing in known returns on investment to what you believe will have an effect on community planning which may or may not actually meet itself out successfully. There's no doubt that this is a higher risk because you're looking longer-term and believing that you can effect a change that may or may not happen. Where the fiduciary responsibility balance there? Mr. Reeder stated that's a great question and I'm really glad you asked it because one of the key pieces of this initiative is investing - these aren't donations. These are investments and those investments need to be investment-grade and they need to have a market return. That isn't easy - the needs to be investment-grade meaning risked similar to other risks that are out there similar to corporate bond, similar to the A and B references we heard in the prior panel, that's the kind of investments that this initiative is looking at and for the very reason that you're talking about. There is this obligation - the fiduciary obligation. Again, these members are making investments so they can pay their claims. If they could do social good that's great. But they're making investments to be able to pay their claims. And so that doesn't change with these investments. What we're trying to do that hasn't been done before is to find investments that meet that obligation that you're concerned about that are investment-grade that provide market returns so that companies can make good on their promises and do the social good. It is not an or it's an and. And it's a good question and that really is an important guidance that we have and our members have given us.

Sen. Theis stated that so you're saying literally all things being equal or are you saying there's a cost that we're willing to take? Mr. Reeder stated that it is all things being equal. These are going to be investment-grade and market return. That's what our members have said and we've done our due diligence and we've been doing the work to say those opportunities are out there. They're sometimes harder to find and we're going to do that work because we think that's work worth doing but again it is an and it is not an or. Mr. Wheeler stated that it's a great question. We have an impact investing team within our investment shop at New York Life. It's investment first so it must meet the requirements and criteria for our investments regarding returns and other things. The social good is the check. That's the added plus to the investment and obviously it's nice to have and we want to do more of it but it's investment-grade first. It has to generate returns because as we've said over and over and over again these are balance sheet dollars to pay claims down the road at some point in time. But we look at certain investments and using these CDFI's, those are the folks in these communities and are the ones who helped build the deals and those are the ones that know where the needs are and they come to us and they say okay here's the proposal and we have to make the economics work. That's the first thing. And obviously if it goes to fruition and there's a social good, again that's an extra check. We want to do a lot of it. Our industry wants to do a lot of it but it's investment first because that's our fiduciary responsibility. Dr. Edmiston stated that the investments have to meet the standard regulatory requirements and statutory accounting requirements that are in place now. No one is talking about changing the regulatory requirements for these types of investments.

Sen. Theis stated that I get the concerns that some of us have that you're adding an extra element into the algorithm for the consideration for what to do with the investment. The algorithm has a lot of unknowns associated with it. We've seen in the investment markets they're ongoing right now. There are some very major issues associated with adding something in that
is purely fiduciary as you’re moving forward. So I have significant concerns with someone’s idea of what is a social good as opposed to strict dollar responses and I understand the arguments for both sides but I have extraordinary concerns when we’re not just simply looking at the primary fiduciary responsibility and instead adding more in. And while I understand that we’re speaking within our current regulatory system there’s a lot of flex in that regulation as you look at what’s the best and you invest in the best and right now we’re saying we’re going to redefine what the best looks like and that I think is a concern that a lot of us have.

ADJOURNMENT

Hearing no further business, upon a motion made by Rep. Fischer and seconded by Sen. Bob Hackett (OH), the Committee adjourned at 5:00 p.m.