



POLICYINSIGHT

A Policy Newsletter on Life and Health Insurance and Financial Security Issues

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General Custer Had Protected His Family

You rarely hear General Custer and McDonald's iconic leader Ray Kroc mentioned in the same sentence, let alone together with the words "good decision." But there's one good call both of these men shared: the decision to invest in life insurance.

Life insurance has been around since Ancient Rome, when military leader Caius Marius set up a club to pay for fallen soldiers' burials and provide a small stipend for their survivors. By the late 1700s, life insurance had become more common. Even back then, people understood the value of insurance in protecting against a risky occupation, a long voyage, poor health or business risk.

As a veteran of the Civil War, General George Armstrong Custer knew the dangers of battle quite well. In 1784, a couple of years before his final stand at Little Bighorn, Custer and several of his officers bought life insurance. Custer designated his wife as his beneficiary on a \$5,000 policy issued by New York Life.

Whether Custer had an intuition about his fate during the Indian Wars will remain one of history's great mysteries. However, historians were able to track down Custer's original life insurance document from New York Life. Today you can see a replica of Custer's policy at the Custer House, located in the Fort

Abraham Lincoln State Park in North Dakota.



11 Million
life insurance policies
owned by Texans.

Life insurance wasn't limited to people in high-risk occupations. In 1784, Thomas Jefferson was tasked by the Commonwealth of Virginia to find an artist to create a historic sculpture of George Washington. Jefferson selected famous French sculptor Jean-Antoine Houdon. Soon after the agreement was signed, Houdon fell ill. There is no record of the specific ailment that Houdon suffered. However, it was serious enough that after Houdon recovered, he insisted upon a life insurance policy before traveling to the United States to take detailed measurements of Washington. Houdon made sure that his family would be taken care of if tragedy were to strike.

Jefferson and the Commonwealth of Virginia wanted the project to be protected from risk as well. They knew that Houdon was a critical asset — he was key to the successful completion of the sculpture. From this understanding came one of the first recorded instances of "keyman insurance." If something were to happen to Houdon, not only would his family be covered, but the investment to celebrate America's founding hero George Washington would also be protected.

Keyman insurance, also called "key person insurance," is one way that businesses protect themselves when their most important asset is their top people. Star athletes, celebrities and ...[Continued on page 4](#)

IN THIS ISSUE:

A Texas-Sized Investment Made By Life Insurers2

As Nation Implements ACA, Supplemental Policies Remain Important Option for Consumers3



A Texas-Sized Investment Made By Life Insurers

Most people understand the value of life insurance in protecting families against unforeseen tragedy. What's less well-known is the profound economic benefit that life insurance companies provide the state of Texas, in the form of jobs and billions of dollars in investments.

At its core, life insurance is a tool for mutualization of risk among a large group. In today's world, the risk of an early death from illness or accident is small, yet to the extent that the potential is there, people insure against it. Businesses also recognize the advantage of distributing the cost of risk across large groups of workers, and frequently offer group life insurance as an employee benefit.

Certain types of life insurance also double as investment tools. Called permanent insurance or "cash-value" life insurance, they allow individuals to use the policy as a savings tool, with some tax benefits. Funds can be borrowed from cash-value policies for specified purposes, such as business

start-up costs or for cash to put toward a home purchase. Also, policyholders may cash out their investment before the policy ends.

Altogether, Texans carry approximately \$2 trillion in life insurance coverage. This figure includes over 11 million individual policies, along with group life coverage totaling over \$810 billion.

What does this mean for the state of Texas? Foremost, it means that many Texans have invested in their family's financial stability. In 2011, life insurance companies paid Texans \$21 billion in death benefits, surrender values, dividends and other payments. For the sake of comparison, that's almost 10 times more than the Texas Lottery Commission paid out in prize winnings the previous year.

The impact of life insurance stretches beyond the lives of individual Texans. Life insurers also invest in communities where policyholders live and work, contributing over \$375 billion to Texas' economy — approximately \$14,650 for every Texas resident. These investments include mortgage loans, real estate investments, stocks and bonds that support business development, and job creation.

In fact, the life insurance industry generates more than 166,000 jobs in Texas, including both direct employees and noninsurance jobs. To put that number into perspective, that's more people than live in either the cities of McAllen or Waco.

As Texas grows, so do the demands on infrastructure. Life insurers play an



\$20 Billion
paid to Texans in life insurance benefits in 2011.

important role here too, purchasing over \$7 billion in Texas-related Build America Bonds, which fund capital costs for hospitals, schools and transportation corridors.

There's no doubt that Texas will continue to expand, with its robust culture, favorable business climate and strong job market adding thousands of new residents each week. As the state grows, so will life insurers' commitment to provide financial security to an expanding population while also investing in Texas in a way that benefits policyholders and the state as a whole.

Sources:

American Council of Life Insurers, www.acli.com

US Census, www.census.gov

Texas Lottery Commission report, http://www.txlottery.org/export/sites/lottery/Documents/Winning_Dec10Jan11.pdf



166,000 Jobs
in Texas supported by the life insurance industry.



As Nation Implements ACA, Supplemental Policies Remain Important Option for Consumers

Supplemental insurance policies, a type of which are fixed indemnity policies, are insurance products designed to provide cash benefits, itemized or lump sum, to assist consumers with expenses beyond what a basic health policy might cover. Supplemental policies can be particularly attractive, as they allow individuals to customize coverage themselves, beyond their primary medical coverage, to meet their personal and family needs. Supplemental policies are often purchased to cover expenses beyond primary coverage, and are in fact lump sum payments that, once received, can be used for any purpose, including normal living expenses, mortgage payments and childcare.

Passage of the Affordable Care Act is expected to fuel interest in supplemental policies among both employers and consumers. Many businesses are expected to offer a full array of supplemental policies to allow employees to customize their benefits package to complement coverage

they receive from their employer or through an Exchange. Consumers' interest in these specialized insurance products has increased, as individuals want choices to round out and tailor their benefit packages and provide a financial safety net for their families.

Benefits covered by a fixed indemnity or supplemental policy are typically paid as a fixed amount for certain medical services (hospitalization, surgery, doctor visits, etc.) or other expenses that occur during a period of lost wages due to an accident or illness.

Consider a policy advertised as fixed indemnity coverage. The policy will contain a list of procedures it covers, with a fixed dollar amount paid for each service. For example, a policy could cover doctors' visits at \$50 per visit, hospitalization at \$100 per day, various surgical procedures at different dollar rates per procedure, and/or prescription drugs at \$15 per prescription.

While the payments provided by the policies can be used for any purpose, many find them appealing because they can help cover expenses related to health care costs that include:

- deductibles, co-pays and co-insurance
- hospital stays
- transportation needed for medical treatment
- medical tests or procedures
- treatment related to a specific illness

Some of the more popular supplemental policies include:



\$376 Billion
invested in the Texas economy, making the life insurance industry one of the largest sources of investment capital for the state.

- Accidental Death and Dismemberment
- Accident-Only Health Insurance
- Disability Income
- Hospital Indemnity Coverage
- Long-Term Care
- Medicare Supplement (Medigap)
- Specified Disease (e.g., cancer)
- Prescription
- Dental

An especially attractive aspect of these products is that they provide income replacement for expenses such as mortgage payments when one is off work due to illness or injury, or to pay for out-of-pocket medical co-pays and deductibles. It is important to note that medical expense payments do not go to the medical provider, doctor or hospital; rather, the payment is made directly to the consumer.

For these and other reasons, the National Association of Insurance Commissioners (NAIC) has stated that supplemental policies are a beneficial ...Continued on page 4



\$4 Billion
paid to Texans in life and annuity benefits in 2011.



(General Custer)

...Continued from page 1

CEOs are often covered by keyman insurance, so that if something happens to them, the enterprise is able to recover.

Cash-value life insurance has also played a role in supporting successful businesses, especially during the critical start-up phase.

Remember Ray Kroc? When he first purchased the small McDonald's hamburger chain, Kroc was running as much on ambition and business acumen as he was on cash. Oftentimes, liquidity was scarce as he rapidly expanded his fast-food empire. To cover those lean times, Kroc borrowed from his two cash-value life insurance policies in addition to securing bank loans. It was a strategic move that paid off handsomely, in light of the worldwide success of the

McDonald's chain.

History shows that no one is immune to risk, whether it's a seasoned war general or a savvy businessman on the cusp of building a multi-billion dollar enterprise. While the stories of Custer, Houdon and Kroc are notable enough to be inscribed in history, countless other successful businesspeople, entrepreneurs and artists have also relied on life insurance to build and protect their dreams.

(Supplemental Policies)

...Continued from page 3

product for consumers and should remain available in the market.

According to the NAIC, supplemental policies have "proven to be popular and we see no reason they should be eliminated as options for supplemental coverage."

Many insurers offer some form of supplemental insurance products to consumers, ranging from MetLife, Nationwide and Mutual of Omaha to Trustmark, Assurant and National Teachers Associates. Aflac is one of the most recognizable supplement product



In 2011, life insurers invested
\$7.3 Billion
 in Texas-related BUILD
 AMERICA BONDS (43% of
 the bonds issued).

issuers. The 2013 Aflac Workforces Report highlights the value consumers place on a voluntary insurance

product, such as supplemental insurance. According to the report, 46 percent of workers reveal they have less than \$1,000 in savings to pay for an unexpected health event, and more than half (57 percent) say they do not have a financial plan. Still, more than ever, these workers are facing increasing medical costs due to changes to the health care system and increasing trends toward consumer-driven health care models. Often, having these voluntary policies can help workers to build a safety net that protects them from out-of-pocket costs, unexpected debt and may even prevent bankruptcy, helping them to focus on getting better and getting back to work.

REGULAR MEMBERS

- AFLAC
- AIG
- Allianz Group
- Allstate
- American Fidelity Group
- American National Insurance Company
- Americo Group
- Assurant Group
- Best Life & Health Insurance Company
- Blue Cross and Blue Shield of Texas
- Central Security Life Insurance Company
- Central States Group
- Colonial Life Insurance Co. of Texas
- Conseco Insurance Group
- Croy-Hall Management, Inc.
- Funeral Directors Life Insurance Company
- Genworth

- Germania Life Insurance Company
- Government Personnel Mutual Life Insurance Company
- Guardian Life Group
- HCC Life Insurance Company
- HealthMarkets, Inc.
- Landmark Life Insurance Company
- Liberty Bankers Life Insurance Company
- MetLife
- Mutual of Omaha Group
- National Farm Life Insurance Company
- National Guardian Life Insurance Company
- National Life Group©
- National Teachers Associates Life Insurance Company
- Nationwide
- National Western Life Insurance Company
- New Era Life Insurance Company

- New York Life Group
- Pacific Life Insurance Company
- Principal Financial Group
- Prudential
- Reliable Life Insurance Company
- Southern Farm Bureau Group
- State Farm Insurance
- SWBC Life Insurance Company
- Life Protection Insurance Company
- TIAA-Cref
- TrustMark Companies
- United Benefits, Inc.
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