

the Colorado Regulator

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State of Colorado*

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Agencies*

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ISSUE FOCUS:
New Commissioner
Consumer Insurance Council
Electronic Licensing
Medicare Procedures/Options
Annuities

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WELCOME TO THE NEW COMMISSIONER

Governor Bill Ritter, Jr, appointed Marcy Morrison as Insurance Commissioner effective January 24, 2007. Ms. Morrison comes to the Division of Insurance with a wealth of experience. She served as an El Paso County Commissioner from 1984 to 1992. In 1992, Ms. Morrison began her legislative career. She served from 1992 to 2000 in the Colorado House of Representatives. Ms. Morrison chaired the Health Environment, Welfare and Institutions Committee (HEWI). The HEWI committee debated bills concerning public health, children's insurance, Medicaid, and the regulation of health care professions. Further, the HEWI committee had legislative oversight for the Colorado departments of human services, public health and environment, and health care policy and financing. As a Representative in the House, Ms. Morrison also chaired an interim committee on Health Care as well as sponsoring legislation for the Division.

In November 2000, the people of Manitou Springs elected Ms. Morrison as Mayor. Manitou Springs is home to approximately 5,000 residents.

Prior to Governor Ritter's appointment of Ms. Morrison, she has also served as the Chair of the Division of Insurance's volunteer Consumer Council and was a consumer representative to the National Association of Insurance Commissioners. Ms. Morrison's strong background in health care issues and advocacy for consumers will be assets to the people of Colorado.

Consumer protection is our mission. The Division focuses on balancing consumer needs with a competitive regulatory environment.

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CONSUMER'S CORNER

*Penny Baldwin,
Chair of the Consumer Council*

The Consumer Insurance Council was established a little over five years ago. The Division invited consumer groups to apply for membership as well as business associations. The selection of Council members was based on the need for diversity of organizations and a balance of constituencies. The Council continues to ask organizations and individuals to apply in order to add new voices to our discussions.

The Council has duties that serve consumers. We observe The General Assembly and the bills that impact various forms of coverage. Occasionally, the Council will make a recommendation to the sponsors of a specific bill that will have a major impact on consumers. We often invite speakers to educate us about certain constituencies that are not represented on the Council. For example: closed head brain injuries and the treatments necessary. The Division frequently presents pending problems to the Council in order to understand the consumer perspective prior to recommending a legislative or regulatory solution. Members of the Council bring issues affecting their organizations' constituency to the Division for discussion and solutions.

We monitor the complaints that come into the Consumer Protection area of the Division. We have provided input to the Division on topics that can be put into brochures available to consumers with specific questions.

The Council meets quarterly, with two extra meetings during the Legislative Session. The meetings are at the Division and are open to the public. The new and improved web site for the Division includes information on the Council members and a schedule of meetings for the year.

Initially, Colorado was among the vanguard in establishing a Consumer Council, with more states adding councils each year. One of the Consumer Council members also represents consumers at the NAIC meetings.

The Council welcomes questions and ideas that will impact consumers. We hope to continue to expand our membership and to inform Colorado residents of the work of our Council and the consumer protections available through the Division.



OTHER INSURANCE NEWS

SURPLUS LINES BROKER ONLINE PREMIUM TAX FILING

Ray Akers, Corporate Affairs

The Division attempted to contact all licensed surplus lines brokers during December and provided log-in instructions to our on-line premium tax database, which became operational December 1, 2006. This contact campaign did generate several requests for new log-on ID's and telephone calls for log-in assistance. If you are a licensed surplus lines broker and do not have a log-on ID, please contact Carla Gardner at 303-894-2949, Bill Thompson at 303-894-2371, or Ray Akers at 303-894-7836 for assistance.

The on-line system did receive two programming enhancements during January, these enhancements are contained in the "Statements" file. The "Bulk Upload" enhancement provides the broker with a method of transferring several policies at once from the brokerage database into the Division's on-line premium tax system. The "Make Payment" enhancement will display the broker's year-to-date premium tax amount and provides a means of making a premium tax payment at any time during the year. Please contact Carla Gardner or Bill Thompson to learn more about these system additions.

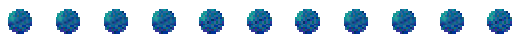


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COLORADO DIVISION OF INSURANCE ANNOUNCES NEW FILING AND DISCLOSURE REQUIREMENTS FOR LONG TERM POLICIES

Craig Chupp, Actuarial

The Division, as part of the Long Term Care Partnership initiative, has amended Colorado Division of Insurance Regulation 4-4-1, concerning "Requirements for Long Term Care Insurance". Included in the amendments were new filing and disclosure requirements that went into effect on January 1, 2007. The new filing and disclosure requirements are outlined in Sections 9 and 10 of the Regulation. As part of the new filing requirements, an actuary must make certain specified certifications regarding premiums, policy design, coverage provided, underwriting, the claims adjudication process, and the reserve basis. The new disclosure requirements apply to any long-term care policy issued on or after July 1, 2007. As part of the new disclosure requirements, the insurer must provide a statement to the applicant at the time of enrollment that the policy may be subject to rate increases in the future. In addition, the insurer must also provide an explanation of potential future rate increases and information regarding past premium rate increases on the same policy form. A copy of the disclosure form or statements must be submitted to the Division's Rates and Forms Section.



ELECTRONIC LICENSING - The Future Has Arrived

JT Thompson, Producer Licensing

The Division would like to remind all licensed insurance producers and all new applicants that effective January 1, 2007, paper applications will no longer be accepted. This new change was introduced by Colorado Division of Insurance Bulletin 05-06 dated October 25, 2006. All applications to include new, renewal, and continuation applications must now be submitted electronically. This change will reduce costs

significantly for the Division and will dramatically streamline the licensing process.

The Division has offered the online renewal service to insurance producers for several years, and producers have found this method to be expeditious. Electronic applications allow producers access on a 24/7 basis and eliminate issues associated with last minute renewals such as applications being lost by the postal service, incomplete applications, and the payment of incorrect fees. The process is a web-based service that is accessible by the applicant from home, office, or while away on business. Applicants log on, confirm information, and pay their fee online. The process takes less than 10 minutes and provides the producer or new applicant with the confirmation number of their action.

Paper applications received will be returned unprocessed with all attachments.

Applications are received by Promissor within 48-hours, and in most cases, the application is processed and the license issued and mailed in approximately 72-hours. New applicants are also reminded that the Division will no longer issue temporary licenses at the testing facilities. Any temporary license issued must be approved by the Division and must meet the criteria set forth in Section 10-2-410, C.R.S.

In addition, the method of renewal or continuation notification has also changed. Approximately 90 days before the renewal date, producers will receive a renewal notice from the Division through Promissor. This notice will provide detailed information to the producer regarding the online renewal process. The Division envisions future notification by e-mail.

For those individuals who do not own a personal computer or do not have access to one, the Division suggests that they visit their local library, or the Promissor processing center located at 3131 S. Vaughn Way, Suite 205, Aurora, CO 80014.

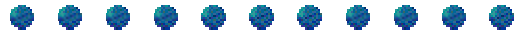
For convenience, there are two websites available to make application for a license:

www.sircon.com/colorado or
www.licenseregistry.com

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Authorized methods of payment include VISA, MC, AMEX, electronic checks, or VISA, MC, and AMEX cash cards.

**cash cards are available through a number of Banks, Department Stores and Grocery Stores.



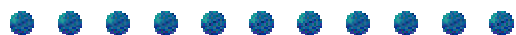
PROTECTION OF YOUR INFORMATION AND IDENTITY IS IMPORTANT TO US

JT Thompson, Producer Licensing

The Division has received some complaints about moving to an electronic system for applications, address changes, and a number of other processes. Producers have voiced their concerns regarding the protection of their personal information contained in SIRCON, Colorado's producer licensing database.

The SIRCON database uses a variety of security technologies and procedures to protect personal information from access, use, or disclosure, and is committed to protecting this security. Data provided to SIRCON is stored on computer servers with limited access in controlled facilities. In addition, whenever sensitive and personal information (credit card number, SSNs, etc.) is transmitted, the data is encrypted and protected by the Secure Socket Layer protocol.

The personal information collected on the SIRCON database is used to provide the services required to keep license information up to date to include the completion of transactions such as the renewal of licenses, requests for letters of certification, or addresses that are requested or authorized. Information may be disclosed on SIRCON if required to do so by law; to conform to the law or to comply with legal processes served on the SIRCON site, to protect and defend the rights or property of SIRCON, or to act under urgent circumstances to protect the personal safety of SIRCON employees or agents, users of SIRCON products, or members of the public.



SENIOR HEALTH INSURANCE NEWS

NEW PROCEDURES FOR SUBMISSION OF MEDICARE SUPPLEMENT RATE FILINGS

Shirley Taylor, Rates & Forms

The Division has revised the procedures for submitting Medicare Supplement Rate filings (paper filings and State Electronic Rate and Form Filing [SERFF] filings). If a company is submitting rate filings for Plans A, B, C, etc. with a separate HR-1 Form and Actuarial Memorandum containing plan specific information, EACH plan's rate filing must be a separate and compliant filing. This means that each filing would require its own Filing Transmittal Form (either the NAIC Transmittal or the Colorado Transmittal; not both), its own HR-1 Form, Actuarial Memorandum and supporting documentation. For example: if submitting a rate change for Plans A, B, C, D, & F, one would be required to submit 5 separate and complete filings.

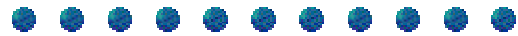
If the requested rate change is based on aggregated data over some or all of the plans in the series, a separate and compliant rate filing should be filed over each such data set. A separate Actuarial Memorandum based on the underlying data set, should be part of the rate filing. If different rate changes are requested by plan, the Memorandum should discuss how each rate change was determined.

Filings not prepared in compliance with these requirements may be rejected or disapproved. This includes submissions through SERFF.

NOTE: When coding Medicare Supplement filings, please do not use **MS06** for anything other than Medicare Supplement Advertising and Annual Reports such as Refund Calculations.

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If you have any questions regarding this procedural change, please contact Shirley Taylor at 303-894-7554.



NEW OPTIONS IN MEDICARE ADVANTAGE PLANS

Liz Tredennick, SHIP and SMP Program

Recent changes have created new Medicare health plan options and enrollment-periods available to Colorado consumers. More choice and more options are good, but can lead to more consumer confusion. The Division is urging consumers to use caution, make informed healthcare decisions, and use the resources of the Division's SHIP/SMP program to help them make an appropriate choice.

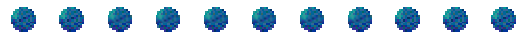
Medicare Advantage (MA) plans include HMO, PPO and the new Private Fee-For-Service (PFFS) plans. Consumers need to take the time to compare plans thoroughly, and check with their medical providers before signing up, to determine if this is the right choice for them. The Division has received complaints from beneficiaries that some insurance producers are not making them fully aware of the plan benefits and are not informing them that enrollment may require changing doctors, specialists or hospitals. Additionally, some beneficiaries are being told that enrollment into a PFFS plan will not change the way they receive their Medicare and won't cancel their current insurance coverage. That is not correct!

With more than a dozen companies offering over 30 plan options, people with Medicare have much to consider.

Enrollment periods for these plans have changed. People can choose to get into or out of a Medicare Advantage plan with drug coverage (MA-PD) between January and March. After April 1, consumers are "locked in" to the MA-PD plan they've chosen until the end of the year.

Consumers who don't have Medicare Part D or have it through a stand-alone plan (one that doesn't include health coverage) will be allowed to enroll in an MA plan that offers medical coverage without

drug coverage (MA only) at any time during 2007 or 2008.



OTHER INSURANCE NEWS

ON-LINE PREMIUM COMPARISON TOOLS

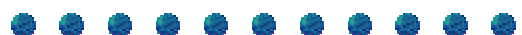
Julie Hoerner, Director of External Affairs

The Division has three online premium comparison tools – homeowners, auto, and small group health insurance.

Homeowners - The online guide provides premiums for three different types of homeowners' policies (homeowners, renters and condominiums) and for two types of structure (frame or masonry). The interactive guide is an important tool for consumers to use when choosing homeowners insurance.

Auto – This interactive online service compares auto insurance premiums for 21 cities/zip-codes in Colorado. The tool allows consumers to determine which companies offer the most competitive rates based on consistent search criteria.

Small Group Health Insurance – The online interactive small employer group health premium tool provides price comparisons for the Colorado mandated small group health benefit plans marketed in Boulder, Colorado Springs, Denver, Ft. Collins, Grand Junction, Greeley and Pueblo. The prices quoted are the result of a survey of health carriers that write small employer group health products in Colorado. Carriers were asked to provide the monthly premium quotes in effect as of January 1, 2007 for all six types of the small group basic and standard mandated plans.



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EQUITY INDEXED ANNUITIES – If It Seems Too Good To Be True, It Probably Is!

Craig Chupp, Actuarial

A while ago, I received a surprise phone call from my uncle, who lives in Ohio. He wanted me to take a look at an annuity that he was thinking about buying. He told me that what the company was offering just seemed too good to be true. He was wondering if he was missing something!

The product that he was considering was a flexible premium deferred annuity with a so-called “equity-indexed” feature. The equity-index feature allowed the consumer to earn interest based upon an “index”. The index is tied to stock market performance, or some other index. The most common index being used is the S&P 500, but the buyer may find other indices being used as well (such as the Nasdaq-100). If the index goes up, a percentage of the increase up to a maximum rate is earned. If the index goes down, one still earns a guaranteed rate, usually 1%-2%. These products seem to capture the best of both worlds, growth tied to the performance of the stock market with no downside risk! Also, with these products, there is no question of when to sell as there is when one plays the stock market. The consumer locks into the index gains at regular intervals, typically once each year.

This product was offering a 10% premium bonus on all premiums received during the first 5 years. If the policy is annuitized (that is, the consumer elects to begin receiving monthly annuity payments) before the 6th year, the consumer loses the 10% bonus; or if the policy is surrendered at any time, the consumer loses the bonus. The product guaranteed a 2% rate after the first year.

The catch - Companies that sell equity-indexed annuities may offer a bonus on premiums paid or some other incentive, but may then make it almost impossible for the consumer to actually receive the bonus in cash due to surrender charges and low interest rates that are used upon annuitization. Most policies have what is called an “annuitization value,” which works similar to a savings account. When the buyer pays a premium, a “load” is

deducted from the premium and the “net” premium is added to the annuitization value. Interest is earned on the annuitization value based upon the performance of the market index, up to a maximum rate. When the consumer elects to begin receiving the monthly payments, the annuitization value is used to determine the amount of the monthly annuity benefit that will be received. The catch is that the consumer really does not have access to all the money in the annuitization value. If the consumer chooses to withdraw some of this money, the consumer may find that the withdrawal of only a certain percentage, maybe up to 50%, is possible. If the consumer wishes to withdraw all of it, there is a surrender charge that is typically much more than the premium bonus received.

But what if the consumer does not want to withdraw any money? What if the consumer buys it with the intent of holding it until retirement, at which time the consumer begins receiving a monthly annuity benefit? Well, there may still be a catch. There are two basic assumptions that a company will use to determine the amount of the monthly benefit: the mortality table and the interest rate. Of these two assumptions, the interest rate is the most important. This is the rate that the company is expecting to earn on the funds from which the monthly benefits are paid. The higher the rate, the higher the monthly benefit the consumer will receive. Most companies will guarantee a rate (such as 1%) and then may use a higher rate based on current interest rates (such as 5%) to determine the monthly benefit when the consumer elects to begin receiving monthly payments. The company may use an interest rate which is considerably lower than the rate it can actually earn as a way to get back some of the premium bonus. If the interest rate is low enough, it may cancel out all of the benefit received from the premium bonus. So, in other words, the company may make it virtually impossible for the consumer to actually receive the premium bonus in cash.

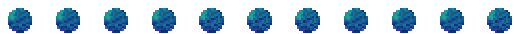
There are other things that a buyer needs to look for if considering the purchase of an equity-indexed annuity; for example, how is the interest earned tied to the market index? Since there is no product that will allow one to participate in all of the gains from

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the stock market with no downside risk, it is important that the consumer understands how the company limits the amount of interest that can be earned. If the consumer's annuity is qualified, that is, if it meets all of the IRS requirements for favorable tax status, then the consumer will earn interest tax-deferred until the time the consumer begins receiving the monthly annuity benefit. However, when the consumer begins to receive monthly payments, it will be necessary to pay tax on a part of each monthly payment. Also, the IRS imposes a penalty tax for withdrawals made if the consumer is under the age of 59½.

Like many states, Colorado has what is referred to as a "suitability" regulation; Colorado Division of Insurance Regulation 4-1-11, which is designed to protect prospective buyers of an annuity from purchases that may not be appropriate for their needs and financial objectives. The Regulation requires the agent or company selling the annuity to make reasonable efforts to obtain information from the prospective buyer to help the buyer make an informed decision about whether or not the purchase is suitable.

So, if one is looking to purchase an equity-indexed annuity, be careful. Make sure to read all of the fine print. Be sure to ask questions. Look at how the index has performed in the past and compare the past returns of different index options that the company may offer. Make sure to get the details about how the interest on the policy is credited, as well as any withdrawal and surrender penalties. Be sure to find out what interest rate the company is currently using to convert the annuitization value into a monthly income benefit.



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DID YOU KNOW THAT:

REVISED WEBSITE

DOI has changed its website to make it more user-friendly. We welcome your suggestions. Please check the DOI homepage:

<http://www.dora.state.co.us/insurance>.

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