WHERE WE STAND

ON LEGISLATIVE ISSUES

2012

Trusted Choice®

Independent Insurance Agents & Brokers of America, Inc.

WHO WE ARE

The Independent Insurance Agents & Brokers of America (IIABA), often referred to on Capitol Hill as the Big "I," is a national alliance of approximately a quarter of a million individuals (business owners and their employees) who offer all types of insurance and financial services products.

Unlike company-employed or "captive" agents, IIABA agents and brokers represent more than one insurance company which allows them to offer clients a wider choice of auto, home, business, life, health, employee benefit and retirement products. Independent agents and brokers offer a broad range of commercial and personal insurance products. In fact, independent agents and brokers are responsible for more than 80% of the U.S. commercial lines market.

IIABA agents and brokers not only advise clients about insurance, but they also recommend risk management ideas that can cut costs. If a loss occurs, the independent agent or broker stands with the consumer until the claim is settled and serves as a true consumer advocate.

IIABA was founded in 1896 as the National Association of Local Fire Insurance Agents. With the expansion of property-casualty business and coverages, the organization's name was changed to the National Association of Insurance Agents in 1913. To emphasize its members' ability to work with a variety of insurance companies, the organization then became the Independent Insurance Agents of America in 1975. The association's name was most recently changed in 2002 to the Independent Insurance Agents & Brokers of America to reflect the diversity of its membership, which includes both independent insurance agents and brokers.

IIABA is a voluntary federation of state associations and local boards. Its independent insurance agents and brokers are politically astute and are involved both locally and nationally. They monitor and influence insurance agent and broker issues in Washington, D.C. through IIABA's well-respected, professional staff on Capitol Hill. Their willing support has made IIABA's political action committee, InsurPac, the largest property-casualty agent PAC and one of the largest federal trade association PACs in the nation.

Trusted Choice® is the national consumer brand created for independent insurance agents by the IIABA and its insurance company partners.

Extensive consumer research conducted by IIABA found that the three most important attributes influencing consumers in their choice of a trusted insurance advisor were the value added services that independent insurance agents and brokers offer their clients: choice of insurance companies, customization of policies and advocacy support.

The brand employs these attributes to position independent insurance agents and brokers to consumers as the smart way to purchase insurance and financial services, and to set Trusted Choice® agencies apart from their competitors. Consumers are taking note of the brand's powerful message.

Through national advertising and social media campaigns, public relations activities, local agency marketing and state affiliate marketing, Trusted Choice® is educating consumers and becoming the defining brand identity for agents and brokers nationwide.

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FLOOD INSURANCE EXTENSION & REFORM

IIABA POSITION: The National Flood Insurance Program (NFIP) is an essential public-private partnership that protects 5.7 million consumers and 22,000 participating communities from the dangers of floods. An extension of this program is vital to the real estate market and to ensure that property owners are protected from flood losses. The IIABA's No. 1 priority on flood insurance is for Congress to take action and pass a long-term extension. As a part of any reauthorization, IIABA supports reforming the program for its long-term solvency by reducing subsidies, dealing with repetitive loss properties and making the program more attractive for consumers through the modernization of coverages. The Big "I" supports H.R. 1309 by Rep. Judy Biggert (R-Ill.) in the House and S. 1940 by Sen. Tim Johnson (D-S.D.) in the Senate, both of which would extend the program for five years and make these needed reforms.

BACKGROUND: The private insurance industry is largely unable to underwrite flood insurance due to the catastrophic nature of this exposure. Therefore, the NFIP is virtually the only way for many people to protect against the loss of their homes or businesses due to flooding. Working with the approximately 85 Write Your Own (WYO) insurance companies that administer this government program, independent agents and brokers serve as the primary distribution method for flood insurance. Federally-backed flood insurance is available to communities that agree to adopt and enforce flood-plain management ordinances designed to reduce flood damage. It is mandatory that property owners with federally backed mortgages in one in 100 year flood plains purchase flood insurance.

The NFIP is a Congressionally-authorized program that requires periodic extensions. Traditionally, these extensions have been for multiple years (often for five-year periods), but in recent years Congress has not passed a long-term extension of the program and instead has opted to pass numerous short-term extensions. Last year alone the NFIP nearly expired three separate times, only to be granted a last minute short-term extension by Congress.

In previous years, these short-term extensions have not come quickly enough, and unfortunately in 2010 the NFIP actually expired on three separate occasions. Each expiration of the program led to concrete damage to the real estate market and the country's economy. The Big "I" is concerned with the economic impact should another expiration occur on May 31, 2012.

Some erroneously argue that the program should be eliminated or completely privatized. These arguments center on the assumption that the private market could step in and offer flood insurance coverage. However, at this time, there is no evidence that the private market would be capable of underwriting this catastrophic risk, especially in the most high-risk zones where it is needed. H.R. 435, the "National Flood Insurance Program Termination Act of 2010," introduced by Rep. Candice Miller (R-Mich.), is one such proposal that would completely eliminate the NFIP. The Big "I" strongly opposes this legislation and urges Congress to reject the elimination of the NFIP.

Additionally, there is some criticism that the program is a poor use of taxpayer funds. However, with the exception of the truly historic losses of the 2005 hurricane season, the program has been solvent throughout its history. From 1986 (when Congress stopped making a separate appropriation for the NFIP) to 2005, the program had been completely self-supporting, covering all expenses and claims payments out of income from premiums and fees. It was a single devastating year, 2005, which caused the severe financial distress now facing the program. Hurricanes Katrina, Rita and Wilma caused almost $23 billion in NFIP losses, which are almost double the entire cumulative losses experienced by the program in its entire history prior to 2005. The program is now in debt approximately $17.2 billion (and has been gradually paying down this debt each year). While the program should be reformed and improved, the Big "I" believes that the existence of the NFIP helps mitigate taxpayer bailouts for natural disasters. Absent a healthy and competitive market, having a structure for collecting premiums and paying claims in place before a natural disaster occurs leads to less taxpayer exposure than ad hoc post-event disaster aid.

While the NFIP serves a critical need and should also be extended, the program should be reformed for the future. In

particular, Congress should take steps to put the program in a more financially secure position by phasing out subsidies, and the Big "I" encourages Congress to start this process by removing any subsidies for second or vacation homes. Congress should also deal with the ongoing problem of repetitive-loss properties by forcing them to adopt stronger mitigation standards or even removing them from the NFIP. Despite recent attempts at reform, these properties continue to comprise a large and disproportionate amount of claims payments for the program.

The NFIP must also modernize the coverage it provides in order to respond to customer demand. Modernizing coverage by increasing the coverage limits and indexing them for inflation will help the program to more accurately and soundly protect its policyholders. Also, the addition of optional, actuarially-priced coverages, such as business interruption for commercial policyholders or additional living expenses for residential consumers, will make the program more sound and will help attract new customers to the program, thereby spreading the risk amongst more policyholders.

INSURANCE REGULATORY REFORM

IIABA POSITION: The strength of state insurance regulation was exhibited by the stability and solvency of the insurance industry in the wake of the 2008 financial crisis. While Congress enacted sweeping reforms for most of the financial services industry in the form of the "Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010" (Dodd-Frank), it wisely left day-to-day regulation of the insurance market at the state level. However, Dodd-Frank does contain provisions that affect the insurance industry, and IIABA is committed to ensuring that these new provisions are properly implemented. IIABA is being particularly vigilant to ensure that the newly created Federal Insurance Office (FIO), an informational office within the Treasury Department with no regulatory authority, does not experience "mission creep" and exceed its very limited mandate. As a result, the Big "I" sees merit in H.R. 3559, introduced by Rep. Steve Stivers (R-Ohio), which would prohibit the FIO from issuing subpoenas to insurers.

Finally, while IIABA supports a modernized state regulatory system, it strongly opposes federal insurance regulation via either the so-called optional federal charter (OFC) or mandatory federal regulation.

BACKGROUND:

The Success of State Insurance Regulation

IIABA remains dedicated to preserving state insurance regulation, and the foundation of the state system remains as strong as ever. State regulation continues to offer considerable benefits especially in the vital areas of solvency regulation and consumer protection. Even in the most tumultuous times, state insurance regulators ensure that insurers are solvent, claims are paid, and consumers are protected. Should insolvency occur, a strong state safety net exists: the state guaranty fund system, which protects policyholders from losses. If the worst case scenario occurs and an insurer fails, other companies are well-positioned to fill the gap as the insurance marketplace is extremely competitive.

Further, unlike other financial sectors, many insurance products (particularly property-casualty) are geographically

sensitive and vary from region to region. State regulators possess considerable regulatory experience and expertise, handle many inquiries from consumers every year, and understand the local concerns and unique conditions facing citizens in their states. State officials have proven time and time again to be best-positioned to respond to the needs of the local marketplace and local consumers.

These strengths were evident during the 2008 financial markets crisis. The decision by federal policymakers to refrain from restructuring state insurance regulation reflected the consensus that the market turmoil experienced in the banking and securities sectors did not extend into the insurance market. IIABA believes that state regulation is the primary reason for the insurance market stability during this time.

Implementation of Dodd-Frank

In 2010, Congress passed and President Obama signed Dodd-Frank into law. The legislation is more than 2,300 pages and full implementation of the law is scheduled to take years. While most of the law applies to banks, securities firms and other financial institutions, there are some elements of the law that have an impact on the insurance market. The Big "I" is committed to working with the appropriate federal agencies, state regulators and Congress to ensure that the implementation of these provisions does not inappropriately intrude upon or interfere with state regulation of insurance or place undue burdens on independent agents and brokers, the companies they work with, or the consumers they represent.

FSOC

The Financial Stability Oversight Council (FSOC) was created as part of Dodd-Frank and tasked with developing guidelines used to determine systemically important financial institutions (SIFIs), which will be subject to greater federal financial oversight. The FSOC may recommend to the Federal Reserve elevated financial standards and capital requirements for bank and nonbank financial institutions (including insurance companies) that potentially pose a "systemic risk" to the overall capital markets. The new Office of Financial Research (OFR) will serve as the information-gathering arm of the FSOC.

It is important to note that compared to other financial services institutions, insurance companies (especially property-casualty) present very little systemic risk to the economy. Specifically, insurers have lower leverage ratios and generally hold greater amounts of capital in relation to their liabilities, thereby reducing their vulnerability to market shocks.

Additionally, the very nature of insurance products makes them inherently less vulnerable to systemic risk. Insurance companies are financed by premiums paid in advance, and payments are subject to the occurrence of insured events, essentially eliminating a "run-on-the-bank" scenario. As an additional safeguard, state regulators have broad authority to take insurers into receivership, effectively "walling off" their assets from the holding company and providing priority to policyholders. Any decision by the FSOC to include insurance companies in its oversight should recognize these inherent differences between the insurance industry and other financial services sectors.

Federal Insurance Office (FIO)

The main duties of the FIO are to brief the Treasury Secretary, FSOC, Congress and the Administration on the status of national insurance issues. To facilitate this, FIO was granted limited information-gathering powers that include the authority to subpoena insurers. However, before collecting information directly from an insurer, the FIO is required to coordinate with relevant regulators in order to determine whether the information is otherwise available. H.R. 3559, the "Insurance Data Protection Act," introduced by Rep. Steve Stivers (R-Ohio), would revoke FIO's and OFR's authority to subpoena information from insurance companies. IIABA sees merit in further limiting the ability of these new federal entities to subpoena information from its company partners.

In addition to information gathering, FIO will assist the U.S. Trade Representative in the negotiation of certain international insurance agreements and participate in the International Association of Insurance Supervisors. The office will also monitor the extent to which underserved communities have access to insurance and will assist in administering the Terrorism Risk Insurance Act (TRIA). The office is also required to conduct several reports – most notably on how to modernize and improve the system of insurance regulation in the United States.

While the new office has the potential to play a positive role in the insurance market, IIABA is focused on ensuring that that the informational office does not experience any "mission creep." State regulation has a steady track record of accomplishment and this new office should not take any actions that would unnecessarily infringe on the state system.

Surplus Lines

Dodd–Frank did include important reforms to the nonadmitted (surplus lines) marketplace. The surplus lines market exists to provide insurance coverages for difficult to place risks (i.e. amusement parks, horse farms, etc.) that are unable to be secured from the standard carriers. The Nonadmitted and Reinsurance Reform Act, included as Subtitle B of Title V of Dodd-Frank, is nearly identical to bipartisan legislation which was previously passed by the House on numerous occasions. These provisions, which had strong industry support, became effective on July 21, 2011. They are generally designed to streamline the market for nonadmitted insurance and reinsurance by limiting interstate application of regulation and encouraging implementation of uniform standards. The provisions would eliminate duplicative licensing requirements for surplus lines brokers and instead rely on the insured's home state for licensing and general placement of surplus lines insurance. IIABA is currently working with other interested stakeholders and state officials in an attempt to properly implement the law. This has proven especially difficult in regard to the tax provisions of the law that deal with allocation of surplus lines taxes among the states.

Federal Regulation of Insurance

Frustration over the lack of insurance regulatory uniformity at the state level continues to spark interest in insurance regulatory reform. Several proposals have evolved for achieving reform: (1) modernizing state laws by working in each state capitol or with groups such as the National Association of Insurance Commissioners (NAIC) and the National Conference of Insurance Legislators (NCOIL), (2) constructing an entirely new regulatory structure at the federal level through enactment of mandatory or optional federal regulation, and (3) improving the state-based system by creating greater uniformity and efficiency via targeted federal legislation. (Please refer to the section on agent licensing for more information.)

IIABA remains dedicated to preserving state insurance regulation and firmly believes that the benefits and attributes of the system dramatically outweigh any shortcomings or inefficiencies. Although the need for greater efficiency and uniformity is clear, IIABA believes federal regulation goes too far and holds great risk for the insurance marketplace. IIABA opposes federal regulation, and more specifically the so-called Optional Federal Charter (OFC) for a number of reasons, including:

Local Regulation Works Best:

- Property and casualty insurance needs vary greatly from region to region due to a wide variance in risks such as hurricanes, earthquakes, tornadoes, hail, mold, etc.

- If a federal regulator were created, all interested parties – consumers, agents/brokers, companies – would lose the ability to communicate with local regulators who understand local marketplaces.

OFC Would Create a Massive New Bureaucracy:

- An OFC would create a vast, new bureaucracy in addition to the one that already exists at the state level. This could mean thousands of new federal employees, most of whom would lack specific geographic knowledge of the varying insurance regions across the country.

- It would take more than 50 regional offices and at least a duplication of the more than 11,000 state regulatory personnel to come even close to the responsiveness of the current state system. Why replicate at the federal level what is already in place at the state level?

OFC is Not Optional for Small Businesses or Consumers:

- The dual state/federal structure created by an OFC would require independent insurance agents and brokers to become experts in both state and federal systems of insurance regulation to properly represent consumers (even if those agents can remain only state licensed).

- OFC would not be optional for consumers, but rather for the large insurers choosing their regulator.

An OFC Would Result in Mandatory or Dual Insurance Regulation:

• The pursuit of the concept of an OFC will undoubtedly lead to enactment of dual regulation, or worse, for the insurance market. This is exemplified in Dodd-Frank which created both the CFPB and FSOC: multiple layers of new federal regulation for the banking industry.

• The insurance industry is well-regulated at the state level and does not need additional layers of duplicative oversight that would inevitably occur through federal regulation.

AGENT LICENSING REFORM

IIABA POSITION: The Big "I" strongly supports legislation to streamline the nonresident licensing of agents and brokers process to allow them to better serve the insurance consumer. This legislation, H.R. 1112 or NARAB II, was introduced by Reps. Randy Neugebauer (R-Texas) and David Scott (D-Ga.) and has passed the House by a voice vote in the previous two Congresses. NARAB II would improve the insurance market and allow agents and brokers operating on a multistate level to avoid duplicative licensing requirements while maintaining important consumer protections.

BACKGROUND: The Big "I" strongly supports H.R. 1112, the "National Association of Registered Agents & Brokers (NARAB) Reform Act," sponsored by Reps. Randy Neugebauer (R-Texas) and David Scott (D-Ga.). This legislation would provide non-resident (beyond one's home state) licensing reform while preserving the rights of states to supervise and discipline agents and brokers. The legislation would apply to marketplace entry only; agents and brokers would also have to adhere to each state's laws.

The average multistate independent agency is authorized to operate in at least eight states, and it is not uncommon for small and medium-sized agencies to be licensed in 35-50 jurisdictions. More than 60% of Big "I" members have at least one full-time staffer whose job is essentially to establish and maintain licenses for the agency and its personnel. Insurance producers are operating and obtaining licenses in more jurisdictions than ever, and the lack of true reciprocity makes compliance challenging, costly and presents additional burdens that are ultimately detrimental to insurance consumers.

This legislation would immediately establish NARAB as a private, non-profit entity managed by a board composed of a majority of state insurance regulators, as well as marketplace representatives. NARAB would not be part of any federal agency and would not have any federal regulatory power. NARAB II would only apply to marketplace entry, as day-to-day state insurance laws and regulations would not be affected. The legislation would permit producers in good standing in their home state to receive additional licenses if they satisfy NARAB membership criteria. Producers could

remain licensed in the traditional manner, but those operating in multiple jurisdictions could apply for NARAB membership. For producers operating in multiple states, and those who would like to expand their operations, NARAB would effectively create one-stop producer licensing for additional licenses beyond the home state.

NARAB would not negatively impact state revenue as agents and brokers would continue to pay the appropriate fees required by each state in which they operate. Additionally, NARAB II would provide higher and more consistent national consumer protection standards through establishing membership requirements. NARAB would require a national criminal background check, which is not required in many states, as part of its membership criteria and would coordinate with the states to establish a central clearinghouse for license issuance and renewal and collection of regulatory information on producer activities.

The Big "I" strongly supports this common-sense reform of agent licensing to reduce the administrative burdens faced by our small business members.

IIABA POSITION: The Patient Protection and Affordable Care Act (PPACA) has been particularly harmful to independent insurance agents, since it negatively impacts Big "I" members both as small businesses and as health insurance advisors.

A focus for IIABA has been to gain relief for agents, brokers and the consumers they serve from the detrimental Medical Loss Ratio (MLR) regulations. As a result, the Big "I" strongly supports H.R. 1206, introduced by Reps. Mike Rogers (R-Mich.) and John Barrow (D-Ga.) in the U.S. House of Representatives and S. 2068, introduced by Sens. Mary Landrieu (D-La.) and Johnny Isakson (R-Ga.) in the U.S. Senate. Both bills would preserve consumer access to agents and brokers by excluding agent compensation from the MLR calculation.

In addition, the creation of exchanges and navigator programs will be of enormous importance as 2014 approaches. The Big "I" also supports H.R. 1173 by Reps. Charles Boustany (R-La.), Phil Gingrey (R-Ga.), and Dan Lipinski (D-Ill.) as well as S. 720 by Sen. John Thune (R-S.D.). Both bills would repeal the stalled and actuarially unsound Community Living Assistance Services and Supports (CLASS) Act. Finally, IIABA is concerned about the numerous tax increases on small businesses enacted as part of the PPACA.

BACKGROUND: The PPACA's implementation is scheduled to take place over an eight year period, with two years already having passed. For agents and brokers, the most detrimental and consequential provisions to be implemented so far are those regarding the MLRs which were put into force on Jan. 1, 2011. The year 2014 will also be a watershed moment for the new law, as January 1 of that year the health insurance exchanges are due to go online. The last provision of the law to be implemented will be the punitive "Cadillac tax" on high value health plans in 2018.

The following sections provide more detail on issues that directly impact the livelihood of independent insurance agents and brokers:

Medical Loss Ratios (MLRs)

On Jan. 1, 2011, the U.S. Department of Health and Human Services (HHS) put into force MLR regulations for insur-

ance carriers. These regulations mandate that at least 80% (individual and small group) or 85% (large group) of premiums collected must go toward either claims payments or "health care quality improvement". In other words, no more than 20% or 15% of premiums may be used on "non-claims costs", which include items such as profits and administrative expenses. If these ratios are breached, rebates are due to the consumer.

Unfortunately, through the regulatory process agent compensation was erroneously added to the "non-claims cost" category. As a direct result, since the MLR regulations went into force, agents across the country have experienced significant cuts in compensation and a decreased ability to serve consumers. The timing could not possibly be worse, since the PPACA is causing large and fundamental changes to the health care system. More than ever, consumers need the advice of trained, professional and accountable health insurance advisors. In fact, in December 2011 the National Association of Insurance Commissioners (NAIC) passed a resolution urging the Obama Administration and Congress to take immediate action with regard to the MLR regulations in order to preserve consumer access to agents and brokers.

In a healthy free-market environment, independent agents would fill the role of guiding consumers (both individuals and businesses) through the labyrinth of laws governing the health care system and assisting them in determining what coverage best suits their needs. In addition, the role of an agent does not stop at the point of sale. Agents remain with the consumer throughout the life of each policy, providing advice through the claims process and assisting in the prevention of fraud. Unfortunately, due to the MLR regulations' detrimental effects, this role is being put at risk.

Consequently, the Big "I" strongly supports both H.R. 1206, the "Access to Professional Health Insurance Advisors Act of 2011," by Reps. Mike Rogers (R-Mich.) and John Barrow (D-Ga.) and S. 2068, the "Access to Independent Health Insurance Advisors Act of 2012," by Sens. Mary Landrieu (D-La.) and Johnny Isakson (R-Ga.). H.R. 1206 would exclude agent compensation from the MLR formula entirely, relieving the negative impacts on agents and the consumers they serve. The Senate version of the bill, S. 2068, would exclude agent compensation from the MLR formula in the individual and

small group markets only, while keeping any "bonuses" in the administrative cost category.

Health Insurance Exchanges/Navigator Programs

The centerpiece of the PPACA is the creation of health insurance exchanges to help consumers and small businesses enroll in qualified health insurance plans, administer subsidies and provide a portal for enrollment in government health care plans. The new law charges states with designing and implementing their own exchanges according to federal guidelines, with the federal government stepping in if a state fails to take the necessary steps to create such an exchange.

When creating either state or federal health insurance exchanges, the Big "I" has urged officials to establish as much of a free-market approach as possible and, no matter the chosen structure, to not allow these entities to be used to pick winners and losers. It is also important to include as many individuals with real world expertise as possible on any exchange governance board. An option should be provided for individuals and small businesses to contact a licensed, certified agent or broker for assistance with exchanges. In addition, agents and brokers should continue to be fairly compensated through the carriers with which they do business.

Also within the exchanges, the PPACA authorizes the creation of "navigator programs." These programs are designed to empower certain groups to perform outreach with the goal of raising public awareness regarding availability of qualified health plans, as well as providing referrals for enrollees with grievances, complaints or questions. Perhaps most alarmingly, "navigators" will be charged with "facilitating enrollment" in qualified health plans.

The Big "I" believes individuals and small businesses seeking information on what health insurance plan best fits their needs should be able to count on sound advice from a licensed health insurance agent, broker or consultant. It would be reckless for state or federal governments to hand this trusted role over to any individual or entity with no relevant health care background, training, accountability or oversight.

CLASS Act

The CLASS Act, which passed as part of the PPACA, was intended to be a voluntary, government run long-term care insurance program. The Obama Administration halted implementation of the CLASS program in October 2011 after deeming it unworkable under the statutory requirement that the program must be actuarially sound over 75 years.

The parameters of the program are such that a classic case of adverse selection would ensue if the program were ever implemented. Only those who are already in need of benefits would likely be attracted to apply, causing premiums to rise to the point where healthy individuals would be discouraged from enrolling. This would inevitably lead to spiraling, unfunded costs and eventual insolvency.

Although HHS has temporarily ceased implementation of this program, many worry that the CLASS Act could be resurrected at a later date by this or some future Administration, since the authorizing law is still in statute. The Big "I" believes that the most prudent course of action would be for Congress to legislatively repeal the CLASS Act so that this can never take place.

Reps. Charles Boustany (R-La.), Phil Gingrey (R-Ga.) and Dan Lipinski (D-Ill.) have introduced bipartisan legislation, H.R. 1173, the "Fiscal Responsibly and Retirement Security Act of 2011," which would repeal the CLASS Act in its entirety. This legislation passed the House this Congress by a wide margin, yet a companion bill in the Senate, S. 720, the "Repeal the CLASS Entitlement Act" by Sen. John Thune (R-S.D.), has yet to be considered. IIABA urges Congress to advance this important legislation and repeal this flawed program.

Small Business Tax Increases

In 2013, two new tax increases on certain individuals and small businesses will take effect as part of the PPACA. A new 0.9% Medicare surtax will be imposed on the wages of individuals and small businesses that pay at the individual rate and earn $200,000 ($250,000 per family) or more. In addition, a new 3.8% tax on nonwage (investment) income for these same individuals and small businesses will also be imposed. These income thresholds are not indexed to inflation, meaning the new taxes will capture more and more individuals and small businesses over time.

The Big "I" is alarmed at the potential impact of these tax increases since the majority of IIABA member businesses pay at the individual rate through Subchapter S Corporations, Partnerships or Sole Proprietorships. These tax increases will also hit at a time when all 2001-2003 tax cuts are due to expire. IIABA's membership is comprised of thousands of small businesses that will be hurt by this misguided, ad-hoc tax policy. The Big "I" urges Congress to consider the impact of these tax increases on the association's small business membership, especially given the current economic climate.

FEDERAL CROP INSURANCE

IIABA POSITION: IIABA strongly supports the Federal Crop Insurance Program (FCIP) and urges Congress to continue this valuable program for American agriculture. As Congress continues to work on the 2012 Farm Bill, it is imperative that any decisions or changes to the present crop program serve our farmers' risk management needs and not simply shift funds away from the FCIP. The reductions endured by the FCIP through the 2008 Farm Bill and the 2011 Standard Reinsurance Agreement (SRA) total $12 billion. IIABA understands the need to revisit federal programs over time and supports the overall goal of budget deficit reduction. However, additional drastic cuts to the FCIP will reverberate in small, rural communities across the country, jeopardizing the efficient and effective quality provided to farmers. Further cuts to the FCIP will only hinder small business growth in America's heartland.

As the exclusive sales force of the FCIP, independent agents are extremely proud of the public-private partnership that has successfully protected America's crops and farmers for 30 years. Agents should remain the exclusive sales force of the FCIP and should not be supplanted by a system of federal bureaucrats. Farm Services Association (FSA) federal employees will never be able to achieve the level of service provided to farmers by independent agents.

BACKGROUND: Independent agents have been an essential component in the evolution of the FCIP as the program moved from a federally-provided program to a public-private partnership in the early 1980s. Today crop insurance covers 83% of all cropland acres and provides the strongest safety net to America's world food producers. This astounding growth is a result of strong agriculture policy, a dedicated agent force and the support of lawmakers.

As part of the evolution of the FCIP, the terms of the SRA, which determines the Administrative and Operating (A&O) reimbursements and underwriting gains for crop insurance companies, are renegotiated every five years. In June 2010, the Risk Management Agency (RMA) and approved crop insurance companies negotiated and finalized the 2011 SRA. Despite agents' critical role in this market, independent agents are not parties to this negotiation and have no formal input regarding the details of the SRA.

The Big "I" strongly opposed the 2011 SRA, which cut the FCIP by $6 billion over 10 years and made unprecedented and sweeping changes to the delivery system. First, the 2011 SRA radically changed the reimbursement rate for A&O expenses in a way that shifted significant delivery dollars between states, choosing winners and losers. Second, the SRA imposed caps on the compensation a private company may pay private agents for the delivery of insurance.

This unreasonable agreement represented the first time RMA has attempted to enforce price controls and regulate agent crop insurance commissions directly rather than allow the marketplace to determine the appropriate agent commission rate. The Obama Administration punctuated all of these sweeping changes by including a covenant not to sue which binds not only company signatories but also agents not privy to the SRA.

As strong advocates for the FCIP, and as the largest trade group representing crop insurance agents, IIABA urges Congress to support the FCIP and oppose any further destabilizing reductions. In addition, the Big "I" strongly urges Congress to address the overreaching policies created in the SRA in the 2012 Farm Bill. Without significant reforms to these policies, which hinder the day-to-day business of selling crop insurance, small businesses across the heartland will continue to suffer. Finally, the Big "I" will continue to work with Congress as changes to the crop program are proposed, but urges Congress to consider the impact of any proposals, particularly additional draconian cuts, on the future of agriculture in this country.

Additionally, recent calls by the FSA to take back the sales and servicing of the FCIP from the private market would not only be incredibly costly and inefficient, but would completely reverse and repeal the enormous strides made by this critical safety net.

IIABA POSITION: The Big "I" is encouraged by current discussions of a broad tax code reform effort. If any such effort comes to fruition this Congress, IIABA urges Congress and the Administration to address individual rates along with corporate rates as many of IIABA's small business members file individually as pass-through entities. In the event that passage of a tax code reform overhaul is not possible this Congress, IIABA supports an extension of all 2001-2003 rates, as current law is set to expire at the end of 2012. Additionally, the Big "I" supports extending current law as it relates to the estate tax.

BACKGROUND: In December 2010, as part of a post-election lame-duck session, Congress and the Obama Administration wisely saw fit to extend the 2001 and 2003 tax rates and set the estate tax at 35% with an inflation indexed $5 million exemption per individual ($10 million for joint filers) for two years. The Big "I" strongly supported this legislation.

The expiration of current law is fast approaching with a limited legislative calendar due to the presidential election. IIABA urges Congress to address this important issue as soon as possible.

Tax Code Reform

IIABA supports efforts to overhaul the tax code with the goal of simplification and providing more certainty for individuals and small businesses. However, any tax code reform effort should address individual rates along with corporate rates. As with many small businesses throughout the country, the majority of IIABA member businesses are organized as Subchapter S Corporations, Partnerships or Sole Proprietorships and therefore file at individual rates. In addition to helping small businesses, comprehensively addressing individual and corporate tax rates would also prevent gaming of the system and would provide the level playing field needed for economic growth. However, the value of eliminating certain deductions to offset costs should be carefully weighed, as this could have a damaging effect on small businesses and negate the positive effects of any tax code overhaul.

2001-2003 Tax Rate Extension

The extension of the 2001-2003 tax rates provided a boost to thousands of Big "I" small business members. If individual tax rates are not extended once again at the end of 2012, the top two tax brackets for ordinary income will increase from 33% to 36% and 35% to 39.6% respectively. This does not count the 0.9% tax increase on wages for individuals earning more than $200,000 ($250,000 for joint filers) passed as part of the Patient Protection and Affordable Care Act (PPACA) and due to come into effect in 2013.

In addition, long-term capital gains rates would increase from the current 15% level to 20% and tax rates on qualified dividends would be raised from 15% to as high as 39.6%. Also, separately as part of the PPACA, a 3.8% increase on investment income will come into effect in 2013 for individuals earning more than $200,000 ($250,000 for joint filers).

Allowing the 2001-2003 tax rates to lapse would be severely detrimental to small businesses across the country, especially when combined with the tax increases that will take place as part of the PPACA. Such a tax increase would siphon billions of dollars in capital from private businesses, leading to a staggeringly negative effect on small business expansion and job growth. As the debate over tax reform continues, the Big "I" believes Congress should move quickly to prevent such a tax increase on small businesses from taking place.

Estate Tax

The estate tax rate is currently set at 35% with an inflation-indexed $5 million ($10 million for joint filers) exemption level. IIABA supports these rates and exemption levels and urges Congress to extend them. Unfortunately, rates are once again scheduled to reset to draconian levels of 55% with a $1 million exemption at the end of 2012. Without real, long-term relief, family-owned small businesses will be unable to plan ahead and make important business decisions in the coming years. The real world result of this damaging tax is lost jobs, since many times a small business must liquidate in order to cover estate taxes due.

TERRORISM INSURANCE

IIABA POSITION: The current authorization for the Terrorism Risk Insurance Act (TRIA) expires on Dec. 31, 2014. IIABA urges Congress to begin work toward enacting an extension of this important program, and to continue protecting our country's economic security against the threat of terrorism.

BACKGROUND: The TRIA program was created on Nov. 26, 2002 in response to the Sept. 11, 2001 attacks and the ensuing failure in the commercial property-casualty insurance markets' ability to underwrite the risk associated with such massive and unpredictable acts of violence. Since its inception, the TRIA program has undergone two additional extensions in 2005 and 2007 along with modifications to cost sharing mechanisms between the private sector and the federal government.

In the 10 years since passage of the program, the reaction of the marketplace and oversight of the program have indicated that the public-private partnership has continued to work well to stabilize the commercial insurance marketplace that underpins the U.S. economy. However, as the most recent TRIA authorization nears expiration, the threat of a terrorist attack remains and the inability of the private market to underwrite the catastrophic and unpredictable risk associated with potential attacks still exists. Accordingly, IIABA strongly supports an extension of the federal reinsurance backstop to ensure the continued availability of terrorism coverage for the small and large businesses that independent insurance agents and brokers serve.

The Big "I" looks forward to continuing to work with Congress and stakeholders to develop long-term solutions to the failure in the market for terrorism insurance.

INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA POLITICAL ACTION COMMITTEE

InsurPac, the political action committee (PAC) of the Independent Insurance Agents & Brokers of America (IIABA), was established in 1975 to complement IIABA's legislative program. It pools voluntary personal contributions from thousands of independent agents and brokers, and then disburses the funds to campaign accounts for federal office, including those for members of the U.S. House of Representatives and U.S. Senate.

InsurPac is roughly a $2 million PAC per election cycle and is the largest property-casualty agent PAC in the country. It is also one of the largest small business PACs across all industries.

InsurPac and IIABA are separate but affiliated organizations. InsurPac's governing board of trustees is appointed by IIABA's Executive Committee. Monthly reports are filed with the Federal Election Commission (FEC). These reports reflect all InsurPac disbursements and receipts from individuals that aggregate in excess of $200 in a calendar year.

BIG "I" GRASSROOTS: PROTECT AND PROMOTE YOUR BUSINESS

The Independent Insurance Agents & Brokers of America's (IIABA) grassroots program is the backbone of legislative advocacy on agent and broker issues on Capitol Hill and in state capitals. IIABA's quarter of a million agents, brokers and their employees comprise a formidable grassroots constituency that ranks among the most respected on Capitol Hill.

IIABA encourages its members to be active in local, state and national politics. In fact, more than 30 former insurance professionals currently hold seats in the U.S. Congress. IIABA's grassroots strength lies not only in agents' strong relationships with federal legislators, but also in the number of concerned agent and broker activists that can be mobilized at a moment's notice by IIABA's e-mail "Action Alert" system.

To learn more and become involved in the association's grassroots efforts call 202-863-7000 or send an e-mail to IIABAGrassroots@iiaba.net.

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