

ABCs of Insurance



A primer for understanding terminology, regulation and available resources

Kansas Insurance Department

Sandy Praeger • Commissioner of Insurance

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Kansas Insurance Department

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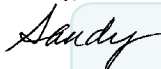
Dear Kansas consumer,

As you know, insurance can be a complicated and confusing subject. It's also an essential part of daily life and financial security. This primer is designed to help you make sense of the terminology and to provide you direction in how to find answers to your insurance questions.

This guide is divided into sections that represent the three-pronged mission of the Kansas Insurance Department: (1) to regulate the industry, (2) to educate consumers and (3) to advocate for consumers. We hope you'll find it to be a useful tool.

As always, feel free to call our in-state hotline if you have any questions: 800-432-2484.

Sincerely,



Sandy Praeger,
Commissioner of Insurance



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| Adverse selection | Health maintenance organization |
| Annuity | Health savings account |
| Asset-backed securities | Major medical |
| Assigned risk plans | McCarran-Ferguson Act |
| Book of business | Mine subsidence coverage |
| Broker | Mortgage guarantee insurance |
| Captive agent | Mortgage insurance |
| Coinsurance | Mutual insurance company |
| Commercial lines | Point of service plan |
| Credit scoring | Pre-existing condition |
| Deductible | Preferred provider organization |
| Derivatives | Premium |
| Domestic insurance company | Premium tax |
| Employee Retirement Income Security Act of 1974 | Provider network |
| Errors and Omissions Coverage | Reserves |
| Excess lines | Risk-based capital |
| Flex rating | Self-insurance |
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About us

Kansas Insurance Dept.

The Kansas Insurance Department (KID), established in 1871, assists and educates consumers, regulates and reviews companies, and licenses agents selling insurance products in the state. In 2008, more than \$15 billion in premium was written in Kansas. The state is second nationally in the number of out-of-state insurance companies doing business here. More competition means more competitive rates for Kansas consumers.

KID has approximately 135 full-time employees in the following divisions: Accident & Health, Property & Casualty, Life, Anti-Fraud, Consumer Assistance & Market Conduct, Financial Surveillance, Producers (Licensing), Government & Public Affairs, Legal, Administration and Administrative Services.

In fiscal year 2008, KID collected \$117.9 million in premium tax. Premium tax money is deposited in the state's general fund.

By phone: 800-432-2484 (toll-free in Kansas)

Online: www.ksinsurance.org

E-mail: commissioner@ksinsurance.org

Commissioner Praeger

Sandy Praeger was elected Kansas' 24th Commissioner of Insurance in 2002 and again in 2006. She served as the 2008 president of the National Association of Insurance Commissioners.

Commissioner Praeger was elected to the Kansas Senate in 1992, 1996 and 2000 and to the state House of Representatives in 1990. She also served on the Lawrence City Commission from 1985 to 1989 and was mayor of Lawrence from 1986 to 1987.

Regulate

Companies

KID regulates and reviews the companies that sell policies in the state to make sure they are solvent and comply with insurance laws and regulations. In 2008, approximately 1,700 companies sold policies in the state, and 66 were headquartered (domiciled) in Kansas.

Agents

As of November 2008, about 22,000 resident agent-producers and 67,000 nonresident agent-producers were licensed in Kansas to sell insurance products. The Kansas Insurance Department also requires agents to meet ongoing continuing education requirements.

Firefighter Relief Fund

This fund, which is administered by the insurance department, is used to assist firefighters and their families when accidents or deaths occur in the line of duty. It is generated by a 2% tax imposed on insurance companies writing fire insurance coverage in Kansas. The tax is collected, placed in a special fund and distributed to approximately 550 cities, counties, townships and fire districts. The 2008 distribution of the fund totaled nearly \$8.9 million.

Regulate

What we don't regulate

COBRA (Consolidated Omnibus Budget Reconciliation Act)

COBRA gives workers and their families who lose their health benefits the right to choose to continue their group health benefits for limited periods of time when they leave their job or during other life events. Qualified individuals are required to pay the entire premium for coverage up to 102% of the cost to the plan. COBRA is regulated by the U.S. Department of Labor.

By phone: 866-4-USA-DOL
816-285-1800 – Kansas City, Mo., office

Online: www.dol.gov/ebsa

HHealthWave

HealthWave is a Kansas program that enables families with children who are eligible for Medicaid and the State Children's Health Insurance Program (SCHIP) to have the same health plan and provider for all family members. HealthWave is regulated by the Kansas Health Policy Authority, a state agency. See also *Medicaid and State Children's Health Insurance Program* on Pages 4 and 6.

By phone: 800-792-4884

Online: www.kansashealthwave.org

Regulate

What we don't regulate

NFIP

(National Flood Insurance Program)

The Federal Emergency Management Agency (FEMA) oversees flood insurance, which is sold through independent agents.

Homeowner's insurance policies don't cover flood damage losses. The availability of flood insurance depends on your community's participation in the NFIP.

If you live in a floodplain, your mortgage lender will require you to have flood insurance. Contact the NFIP to learn about agents in your area who sell flood insurance.

By phone: 888-379-9531

Online: www.floodsmart.gov

Medicaid

Medicaid is a partnership between the federal government and state governments, which share funding and administration. It provides health and long-term care coverage to low-income children and their parents, seniors and individuals with disabilities. Participants must meet income criteria, including possible asset tests. See also *HealthWave* on Page 3.

By phone: 800-792-4884

Online: www.cms.hhs.gov/home/medicaid.asp
or www.khpa.ks.gov/MedicalAssistanceProgram/default.html

Regulate

What we don't regulate

Medicare

Medicare is health insurance for people 65 and older or those with certain disabilities or End-Stage Renal Disease. It provides medical care coverage, but there are many costs it doesn't cover. For example, it provides very limited long-term care. Medicare has the following parts:

Part A – Hospital insurance

Part B – Medical insurance

Part C – Medicare Advantage plans, run by private companies but regulated by the Centers for Medicare and Medicaid Services

Part D – Prescription drug coverage

Medicare supplement insurance is regulated by state insurance departments.

By phone: 800-MEDICARE

Online: www.medicare.gov
or www.cms.hhs.gov/home/medicare.asp

Multi-Peril Crop Insurance

The U.S. Department of Agriculture's Risk Management Agency oversees crop insurance, which is sold through independent agents.

By phone: 785-228-5512 – Topeka regional office

Online: www.rma.usda.gov

Regulate

What we don't regulate

SCHIP (State Children's Health Insurance Program)

SCHIP was created by Congress in 1997 as an option for states to cover low-income children who don't qualify for Medicaid. Kansas' program, HealthWave SCHIP, serves children up to 200% of the federal poverty level. See also *HealthWave* on Page 3.

Self-insured health plans

Many large companies self-insure their health plans. Self-insured plans have their own appeals process. Consumers should refer to their employer's summary plan booklet to learn about the appeals process.

Out of any 10 health plans in Kansas:

- 3 are regulated by KID.
- 4 are self-funded plans under the Employee Retirement Income Security Act of 1974 (ERISA).
- 3 are Medicare or Medicaid.

State of Kansas employees' health plans are self-funded and are overseen by the Kansas Health Policy Authority (KHPA).

Also called *self-funded*. See also *Employee Retirement Income Security Act of 1974* on Page 18.

By phone: 785-296-3981 – KHPA

Online: www.khpa.ks.gov/

Regulate

What we don't regulate

SHICK

(Senior Health Insurance
Counseling for Kansas)

SHICK is a free program offering older Kansans an opportunity to talk with trained community volunteers and get answers to questions about Medicare and other issues, like Medicare supplement insurance and long-term care. SHICK is a Kansas Department on Aging program.

By phone: 800-860-5260

Online: www.agingkansas.org/SHICK/shick_index.html

Workers' compensation

The Kansas Department of Labor is the primary state agency charged with the oversight of workers' compensation in Kansas. KID's responsibilities with workers' compensation are limited to approval of rates, oversight of the high risk plan, the administration of the Workers' Compensation Fund (previously known as the second injury fund) and the investigation and prosecution of fraud and abuse by insurance companies in the payment of workers' compensation claims.

By phone: 785-296-2996

Online: www.dol.ks.gov/wc/html

Other

KID also doesn't have regulatory oversight regarding physicians, 401(k) plans, flexible spending accounts and other payroll deduction issues.

Regulate

Related organizations

Guaranty associations

Funds in these associations protect resident policyholders in the event an insurance company becomes insolvent. All insurers are members of the guaranty association for their line of insurance, and the association covers claims, within limits, against companies that fail.

The Kansas Insurance Guaranty Association contracts with Western Guaranty Fund Services to administer property and casualty claims should an insolvency occur. The Kansas Life & Health Insurance Guaranty Association is composed of all insurers licensed to sell life insurance, health insurance and annuities in Kansas.

Western Guaranty Fund Services: 303-759-5066

Kansas Life & Health Insurance Guaranty Association:
785-271-1199

Kansas FAIR Plan

Short for “Fair Access to Insurance Requirements,” the Kansas FAIR Plan was created by the Kansas Legislature to insure property that insurance companies refuse to cover. To be eligible for consideration under the FAIR Plan, property coverage must first be declined by three insurance companies. To apply for coverage under the plan, contact any agent who sells property insurance. The FAIR Plan agent will inspect the property to determine whether the plan will offer coverage. Approval in the plan is not guaranteed. In Kansas, the association is called the Kansas All-Industry Placement Facility.

By phone: 785-271-2300

Regulate

Related organizations

KAIP

(Kansas Automobile Insurance Plan)

The plan provides coverage for drivers who are unable to purchase automobile insurance in the private market. To be eligible for consideration under the Kansas Automobile Insurance Plan, the driver's coverage must have been rejected by three insurance companies. To apply for coverage under the plan, contact any agent who sells personal auto insurance.

KHIA

(Kansas Health Insurance Association)

Sometimes referred to as the state high-risk pool, KHIA was created by the Kansas Legislature to provide coverage to consumers who are unable to buy health insurance from an insurance company.

If you have been a resident of Kansas for at least six months and you meet one of the following criteria, you are eligible to buy coverage through KHIA:

- Your previous health insurance coverage was involuntarily terminated for any reason other than nonpayment of premium.
- You have been turned down by two insurance companies because of health conditions.
- You have applied for health insurance and have been quoted a premium rate that is in excess of the KHIA rate.
- You have been accepted for health insurance but the policy contains a permanent rider excluding a pre-existing condition.

If you leave a group health plan, have exhausted group continuation coverage or had previous health coverage

Regulate

Related organizations

for at least 18 months, you are exempt from the six-month residency requirement.

By phone: 800-362-9290

Online: www.khiastatepool.com

NAIC

**(National Association
of Insurance Commissioners)**

Headquartered in Kansas City, Mo., the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC's overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, it is the oldest association of state officials.

In 2007, state insurance departments employed approximately 12,200 personnel to regulate 7,773 insurers, which generated \$1.6 trillion in premiums. During that same year, states collected more than \$17.5 billion in revenue from insurance sources. Of this amount, \$1.4 billion – roughly 8% – went to regulate the industry and the remaining \$16.1 billion went to states' general funds.

Online: www.naic.org

Educate

Tips and tools

Request a speaker

KID employees speak at dozens of conferences, meetings and other engagements throughout the state annually. On the left side of the KID homepage, there is a quick link to the online form to request a speaker for your group's event. Engagements are listed, and a map shows recently visited counties.

Online: www.ksinsurance.org/about/speaker.htm

Publications from KID

To educate consumers about insurance, KID publishes booklets, rate guides and brochures on many kinds of insurance coverage. The following booklets can be requested online or by phone, or they can be printed from the KID Web site:

Life and health

- “Long-Term Care Insurance”
- “Long-Term Care Insurance Shopper’s Guide”
- “Medicare Supplement Insurance Shopper’s Guide”
- “Health Insurance in Kansas”
- “Life Insurance and Annuity Basics”

Property and casualty

- “Auto Insurance and Shopper’s Guide”
- “Homeowner’s and Renter’s Insurance”
- “Homeowner’s and Renter’s Insurance Shopper’s Guide”
- “Personal Home Inventory”

General

- “Consumer Complaint Ratio Report” (annual)
- “Annual Report”

Online: www.ksinsurance.org/consumers/publications.htm

Educate

Complaint ratio

A complaint ratio is a statistic that shows the number of closed complaints for every \$1 million of premium a company sold in Kansas during that calendar year. For example, if a company has a complaint ratio of 1.58, it means the company had 1.58 complaints for every \$1 million of premium sold in Kansas. The lower the number of complaints per million, the better. A company with a complaint ratio of 1.58 has a better complaint ratio than a company with a 3.58 ratio. If a company has a zero (0) ratio, no complaints were filed against that company.

Home inventory

A home inventory is a document that anyone with homeowner's or renter's insurance should maintain to ensure appropriate coverage on the contents of the dwelling. A home inventory is also a valuable resource should a home be burglarized or damaged in a disaster.

KID's "Personal Home Inventory" booklet — which can be printed from the KID Web site or ordered from KID — offers tips for recording the contents of a home, as well as tips for photographing or video recording contents. The booklet's charts focus on different areas of a home and include recommendations about the types of items to include.

Auto insurance/coverage

A basic personal automobile insurance policy requires four types of coverage:

- Bodily injury liability
- Property damage liability
- Personal injury protection (PIP)/Kansas no-fault
- Uninsured/underinsured motorist protection

Educate

A consumer may also want to purchase collision or comprehensive coverage, which aren't required by Kansas law but may be required by a lender or bank until the vehicle is paid off. Collision provides coverage for the repairs or actual cash value of your own vehicle in a motor vehicle collision or rollover. Comprehensive provides coverage for damage to your own vehicle caused by fire, theft, windstorm, hail or other losses.

Auto insurance/ratings

Details about you and your driving record help decide how an auto insurance company rates you as a driver. Companies use three categories:

Preferred – Drivers usually have had no moving traffic violations and/or chargeable accidents in the past three to five years. These drivers pay the lowest premium rates.

Standard – Moderate-risk drivers who have a reasonably clean driving record with no more than one moving traffic violation and no chargeable accidents in the past three to five years.

Nonstandard – Drivers considered to be high-risk. These drivers may be young, have less driving experience, have had moving traffic violations and/or chargeable accidents in the last three to five years, have poor payment history or have had convictions for driving under the influence of alcohol or drugs. These drivers pay the highest premium rates.

See also *Kansas Automobile Insurance Plan* on Page 9.

Educate

Shopping for individual health

When shopping for an individual health insurance policy, it is important to make sure you are buying the health care plan you want and can afford. You should make a list of your needs to compare with the benefits offered by a plan you are considering. Listed below are some questions you should ask when shopping for health insurance.

Questions about coverage

- What does the plan pay for, and what does it exclude?
- What are the pre-existing medical condition limits?
- Will the plan pay for preventive care, immunizations, well-baby care, substance abuse, organ transplants, vision care, dental care, infertility treatment, durable medical equipment or chiropractic care?
- Will the plan pay for prescriptions?
- What mental health benefits are available under the plan?
- Will the plan pay for long-term physical therapy?
- Are my providers in the network?
- What pregnancy care is covered?

Questions about premiums

- Do rates increase as you age?
- How often can a company change rates?
- How much do you have to pay when you receive health care services (co-payments and deductibles)?
- What is the limit on how much you must pay for health care services you receive (out-of-pocket maximums)?
- What is the limit on the number of times you may receive a service (lifetime maximums or annual benefit caps)?

Questions about customer service

- Has the company had an unusually high number of consumer complaints?
- What happens when you call the company's consumer complaint number?
- How long does it take to reach a real person?

Educate

- Does the company have an easy-to-use Web site that is helpful?

A health insurance company isn't required to accept you as a client, but it is required to explain to you or your physician why it turned down your application.

H Health policy mandates

Health insurance policies in Kansas are subject to certain statutory mandates. The mandates address coverage for the following services:

- Alcoholism treatment
- Breast reconstruction (mastectomy)
- Dental anesthesia
- Diabetic supplies and education
- Drug abuse treatment
- Emergency services
- Mammography screening
- Maternity care and minimum covered stay
- Mental health, general
- Mental health parity
- Ob-gyn access
- Off-label drug use
- Osteoporosis diagnosis and treatment
- Pap smear coverage
- Prostate cancer screening
- Well-child care

They also require that the following providers be recognized for services they provide that are covered under a policy: chiropractors, nurse anesthetists, nurse practitioners, optometrists, osteopaths, podiatrists, psychologists and social workers.

The mandates require that plans cover newborns and adopted children, that group plans can be converted to nongroup coverage and that continuation rights extend to dependents and employees.

Educate

Insure U

The Insure U curriculum teaches consumers about insurance in an informal, online program. Participants can research the topics that affect them, then take quizzes to test their knowledge. Consumers learn about auto, home, health and life insurance decisions that often depend on their stage in life. Information is geared toward young singles, young families, established families, seniors, domestic partners, single parents, grandparents raising grandchildren and military members. There's also a segment for small-business owners.



Insure U was developed by the National Association of Insurance Commissioners.

Web site: www.insureuonline.org

Educate

Key terms

Actual cash value v. replacement value – Replacement value is the amount needed to buy an item new. Actual cash value means a policy will pay damages equal to the replacement value of damaged property minus depreciation.

Adverse selection – The tendency of those at a greater risk to seek more coverage than those at less risk. Adverse selection concentrates risk rather than spreading it. For example, if only people with poor health seek health insurance, rates will go up. Also called *antiselection* or *selection against the company*.

Annuity – A life insurance product that pays income benefits for a specific period or for the consumer's life. Deferred annuities let assets grow tax deferred before they're converted to payments. Immediate annuities can begin payments after a single premium is paid.

Assigned risk plans – Plans through which a consumer can buy insurance if they have been denied coverage in the regular market because they are considered too great of a risk. The term is most often applied to auto insurance. Every insurer licensed in the state must participate in these plans.

Book of business – The total amount of insurance on an insurer's books at a given time for a specific type of insurance, like long-term care insurance.

Broker – An individual or firm that acts as an intermediary between a consumer and an insurance company. Brokers work on commission and generally sell commercial insurance. They are considered to be licensed producers.

Captive agent – An agent who represents only one insurance company.

Educate

Coinsurance – In health insurance, it is the amount above the deductible that a consumer must pay on each claim. Consumers are responsible for all allowable charges up to the amount of a deductible (for example, \$500 per calendar year), then are responsible to pay coinsurance (for example, 20% of claims) until the out-of-pocket limit is met (for example, \$2,500). In property insurance, coinsurance refers to the percentage amount of insurance a consumer is required to carry on a property to receive full payment on a loss.

Commercial lines – Products for businesses. For example: directors and officers liability, fire and allied lines, medical malpractice liability, workers' compensation.

Credit scoring – Insurers commonly review the credit history of consumers to produce an insurance score that is used in underwriting and rating insurance policies.

Deductible – The amount a consumer must pay before an insurance policy begins to pay benefits.

Derivatives – Contracts whose value is derived from the value of something else, like stocks or foreign currencies.

Domestic insurance company – A company incorporated in Kansas.

Employee Retirement Income Security Act of 1974 (ERISA) – Federal legislation that pre-empts state insurance law from regulating employer self-funded benefit plans. It also sets minimum standards for private health benefit plans and pensions.

Errors and omissions coverage (E&O) – Covers the policyholder for negligent acts and omissions that may harm clients. E&O coverage is not required in Kansas.

Educate

Excess lines – Property and casualty coverage that — because of the nature of the risk — isn't readily available in the standard marketplace (from an admitted carrier). Also called *nonadmitted*, *substandard* or *surplus lines*.

Flex rating – Flex rating bands allow companies that sell property and casualty and personal lines to raise or lower rates within a band (in Kansas, the band is 12%) without approval from the insurance department.

Gramm-Leach-Bliley Act – Federal legislation that enables insurance companies, banks and securities firms to engage in each others' activities and own one another.

Guaranteed replacement cost coverage – A homeowner's insurance policy that pays to replace or repair a home even if the cost exceeds the policy limit.

Health maintenance organization (HMO) – A managed care plan that provides health services through a network of doctors, hospitals, laboratories, etc. When you enroll in an HMO, you must choose a primary-care physician to manage all of your health care and refer you to an HMO-approved specialist. See also *point of service plans* on Page 20 and *preferred provider organization* on Page 20.

Health savings account (HSA) – These savings accounts let consumers pay for health expenses and save for future medical and retiree health expenses on a tax-free basis. A consumer must be covered by a High Deductible Health Plan (HDHP) in order to take advantage of an HSA. The consumer owns and controls the money in an HSA. The HDHP must be approved by KID.

Major medical – Insurance that covers a much broader range of medical expenses than standard health insurance. It generally has higher individual benefits and policy maximum limits.

Educate

McCarran-Ferguson Act – Federal legislation that declared states could continue to regulate insurance companies and agents.

Mine subsidence coverage – A rider to homeowner's insurance policies that covers losses caused when the land under property collapses into a mine shaft.

Mortgage guarantee insurance – Coverage required by a lender in case the mortgage holder defaults on a loan. Also called *private mortgage insurance*.

Mortgage insurance – Term insurance that covers the life of the person taking out a mortgage to pay the mortgage if that person dies. The coverage amount decreases as the mortgage is paid off.

Mutual insurance company – A company that is owned by its policyholders, who receive dividends.

Point of service plan – A managed care plan that gives members the option of seeking care from a specialist without a referral from a primary-care physician. Such services are subject to a higher deductible and/or coinsurance. See also *health maintenance organization* on Page 19 and *preferred provider organization* on Page 20.

Pre-existing condition – A condition for which a reasonably prudent person sought and received medical treatment prior to the effective date of a company's coverage.

Preferred provider organization (PPO) – A managed care plan that provides health services through a group of doctors, hospitals and other health care providers (preferred providers) who have agreed to provide services to members of a health plan for discounted fees. Some employers combine a PPO with a traditional major medical plan so the consumer can use providers who are not on the PPO's preferred list for a higher out-of-pocket expense. See also *health maintenance organization* on Page 19 and *point of service plan* on Page 20.

Educate

Premium – The price of an insurance policy.

Premium tax – A state tax on consumer premiums, collected by insurance companies and deposited in the state's general fund, where it is appropriated by the legislature.

Provider network – The group of doctors and specialists with which an insurance company contracts. The copay to see a network provider is generally less than to see an out-of-network provider.

Reserves – Money collected by companies from premiums and set aside to pay claims.

Risk-based capital – The need by insurance companies to maintain capital relative to the risk of the types of insurance they sell. Higher risk types of insurance require higher amounts of capital.

Self-insurance – To assume the financial risk by oneself, without paying premiums to an insurance company. Also refers to businesses that choose to self-insure health benefit plans. Such plans are exempt from state regulation but may be subject to ERISA plans. Also called *self-funded*.

Solvency – A company's ability to pay claims.

Third-party administrator – A business that processes claims for an insurance company.

Viatical settlement – The sale of a life insurance policy for more than the cost of premiums but less than the death benefit. Policyholders are often terminally ill. Also called *life settlement*.

Advocate

Consumer assistance

KID's Consumer Assistance representatives set a record in 2007, recovering nearly \$15.1 million for consumers. They handled 4,418 complaints and 1,509 inquiries.

Consumers with questions or concerns are encouraged to call the Consumer Assistance Hotline. See also *filing a complaint* below.

Consumer Assistance Hotline: 800-432-2484

Filing a complaint

If consumers have tried unsuccessfully to resolve a claim dispute with their company or agent, we encourage them to contact KID. Often companies resolve the matter after the department intervenes.

Consumers may file a complaint online through the KID Web site, but we recommend they also call because we may be able to provide immediate assistance.

If a consumer does need to file a formal, written complaint, we require the following information:

- Name.
- Address.
- Daytime telephone number.
- The name of the insurance company, agent or adjuster.
- The policy number.
- The type of insurance involved (automobile, homeowner's, health, life, etc.).
- A clear, concise written explanation of the complaint — this can be sent by mail or filed through our Web site.
- Copies of supporting letters, police reports, notes, etc.
- An explanation of what has been done, including who spoke with the consumer and what they were told (names, dates, times, places, etc.).

Advocate

Consumers shouldn't send original records, and they should keep a copy of the letter sent to KID.

Upon receipt of a complaint, KID will investigate and provide updates as they occur. A consumer filing a complaint will receive a letter from the assigned consumer assistance representative, and the representative will contact the insurance company on the consumer's behalf. KID representatives need written complaints in order to assist.

Financial ratings

Financial stability helps ensure a company can pay its claims. KID enforces statutory requirements and monitors the financial solvency of companies licensed and operating in the state. Rating agencies consider company earnings, capital adequacy, operating leverage, liquidity, investment performance, reinsurance programs and management ability, integrity and experience.

You can check an insurance company's financial rating by contacting one of these ratings organizations: A.M. Best Co., Fitch Inc., Moody's Investors Service, Standard & Poor's insurance rating services, Weiss Ratings Inc.

Legislative presence

KID introduces bills each legislative session to further strengthen, clarify or bring into compliance existing statutes for legislative consideration. KID participates in the legislative process to explain and clarify how proposed bills would affect Kansas consumers. The agency advocates on behalf of some bills and against others. KID also chairs formal and informal committees. The agency currently is chairing a committee that addresses the problem of uninsured motorists. As part of KID's presence at the Statehouse, the agency also works to educate lawmakers about insurance issues.

Advocate

John Meetz, government affairs liaison:

(785) 296-7804 or jmeetz@ksinsurance.org

Cindy Hermes, director of Government and Public Affairs:

(785) 296-7808 or chermes@ksinsurance.org

Long-term care Partnership

The Kansas Partnership for Long-Term Care is a program that provides insurance consumers dollar-for-dollar asset protection. Each dollar that a long-term care Partnership policy pays out in benefits entitles the consumer to keep a dollar of assets before being eligible to apply for Medicaid services. Partnership-qualified policies must be tax qualified, contain certain consumer protection provisions and provide inflation protection. About 20 companies have Partnership endorsements approved in Kansas.

Online: www.ksinsurance.org/ltc

Small business tax credits

Eligible employers can receive a tax credit for contributions they make to health savings accounts or insurance plans for employees. Small businesses, associations or trusts with two to 50 employees are eligible if they haven't contributed to a health insurance premium or health savings account on behalf of an employee in the past two years. In the first year, the credit is \$70 per month per eligible covered employee. In the second year, the amount is \$50, and in the third year it's \$35. To participate, a business must contact KID to register.

By phone: (785) 296-7850

Online: www.ksinsurance.org

Advocate

STOLI

**(Stranger/Investor-
Originated Life Insurance)**

A STOLI is an agreement made by a consumer and a broker or third-party investor to sell the consumer's life insurance policy for a profit. In a life settlement, an existing life insurance policy is sold to a third party for more than its cash value and less than the death benefit amount. A consumer might seek a life settlement for many reasons, including because of hardship or divorce.

A STOLI arrangement uses the same life insurance policy as a viatical or life settlement, but the method used to obtain the death proceeds is an attempt to circumvent state insurable interest statutes. "Insurable interest" means a person wanting to buy a life insurance policy on someone else's life must have an interest in that person remaining alive or expect emotional or financial loss if that person died. The investor in a STOLI arrangement, a stranger, has an interest in the early demise of the insured individual: Investors are speculating that an insured will die before the investor has paid too much in policy premiums.

See also *viatical settlement* on Page 21.

ABCs of Insurance



Kansas Insurance Department

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Sandy Praeger
Commissioner of Insurance