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ACLHIC ROUNDTABLE
GOVERNOR KEMPTHORNE
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Bill Cameron, thank you very much for the introduction.

It's great to be back at your roundtable. I appreciate the invitation. I last joined you three years ago in Newport Beach.

I always enjoy coming to California. After all, it's my home state.

I was born in San Diego and went to high school in San Bernardino.

Isn't this a wonderful setting?

Pebble Beach is universally recognized as one of the most beautiful golf courses. Every year the best golfers in the world compete in a PGA Tour event here. Pebble Beach has also hosted five U.S. Opens, and will host the Open again in 2019 – the 100th anniversary of the course.

We all know that the golf world lost one of its all-time greats last month when Arnold Palmer died at the age of 87.

Palmer won 62 times on the PGA Tour, earning about $2 million in prize money, back when that was big money. Surprisingly, he never won a tournament here at Pebble Beach. But he did the next best thing --- he <u>bought</u> the place.

In 1999, Palmer and his partners purchased Pebble Beach Corporation. He served on the board of directors until he died.

Palmer was known as The King, and not just for his golfing ability. He was the first modern sports entrepreneur. He paved the way for generations of athletes who make considerably more from their business ventures than from their sporting accomplishments.

And do you know what started it all? A life insurance policy.

In 1961, Palmer was negotiating a new 20-year contract with his equipment manufacturer, Wilson.

Palmer was 31-years-old, married with two daughters. He wanted more security for his future. So, he told Wilson's Chairman that in order for him to sign the deal, Wilson would have to take a portion of his pay and buy him a $300,000 life insurance policy. It would have cost the company about $880 a year.

Wilson's Chairman said no. He didn't want to give a golfer – even the defending Masters and U.S. Open champion - something that most Wilson executives didn't receive.

That was the last straw for Palmer. He played out his existing Wilson contract, then launched his own company— Arnold Palmer Enterprises.

Palmer's charisma and appeal transcended golf. He soon became one of the most-sought after sports figures in the world for endorsements. Last year, some 42 years after his last victory on the PGA Tour, Palmer made about $40 million from endorsements and other business deals.

His lifetime earnings were estimated at $875 million.

What's the moral of this story? Never underestimate the power of a life insurance policy.

I'm kidding about the moral of the story, of course. But the power of life insurance is very real.

Californians know this. After all, if it weren't for life insurance, California's most popular tourist attraction, Disneyland, might never have been built. Walt Disney got part of the start-up capital for the theme park from the cash value of his life insurance policy.

Californians have $3.4 trillion in total life insurance coverage, more than any other state.

What Californians may not know is how insurance companies are investing in their state's future. Insurers invest the premiums received from their policyholders in major projects throughout the state. Insurers have invested:

Nearly $15 billion in bonds to support schools and universities like the University of California system.

Nearly $7 billion for transportation projects like the expansion underway at the Port of Oakland, the nation's fifth-largest port … AND …

More than $5 billion in water system projects including improvements at the Santa Clara Valley Water District.

All told, insurers currently hold $51.3 billion in bonds to support vital California projects.

In addition, insurers are investing billions of dollars through the California Organized Investment Network (COIN) program. The COIN program was established 20 years ago within the California Insurance Department to guide insurers on making investments that yield environmental benefits and/or social benefits within the State's underserved communities.

Insurers invested nearly $22 billion last year through COIN. Of that amount, nearly $19 billion was invested by life insurers.

That money was used to help build schools, housing, infrastructure and health facilities. For example, COIN investments helped Open Door Community Health Centers construct new clinics in Fortuna (FOR-TUNA) and Arcata (AR-KATE-AH) and to pay back construction debt for the Eureka Community Health Center. These health centers will serve approximately 39,000 patients in highly distressed rural communities.

The COIN projects have done a lot of good for this state. So has another initiative called Impact Community Capital. Impact is a for-profit corporation founded by leading insurers to promote socially responsible investments in underserved communities, particularly in California. Impact focuses on financing affordable housing and community facilities to benefit lower income individuals, families and communities.

Impact’s investments and investment commitments currently exceed $1 billion. Among its projects are the Curran House in downtown San Francisco, named after Sister Patrick Curran of the Sisters of Mercy. This building provides 67 apartments for low-income families, a retail storefront and office space for the Tenderloin Neighborhood Development Corporation.

Insurers’ investments truly make a difference in our communities. And it is important to note that these are safe, sound, productive investments, just like all we make on behalf of the policyholders we serve. They are fully recognized as admitted assets by our regulators.

However, some of our other well-performing investments recently have come under scrutiny.

In January, the California insurance department unveiled its Climate Risk Management Carbon Initiative. It called on insurance companies to divest from their investments in utilities and other businesses that use thermal coal and to disclose all their investments in the carbon economy.

Well, we have answered the data call. But we also let the department know about our serious concerns with their request that they themselves describe as “voluntary” divestment.

By their definition, complying with this request would include making no new investments, not renewing any existing investments and selling or withdrawing from existing investments in thermal coal.

Insurance Commissioner Dave Jones has expressed his concern that as the world moves away from coal and carbon fuel sources, insurance company’s investments in coal and the carbon economy run the risk of becoming stranded assets of diminishing value.

The changing energy sector is certainly worth monitoring, as are other major shifts in our global economy. We welcome the commissioner’s interest and do not shy away from constantly assessing investment risk. We believe the data call will reveal that our members have very sound investment policy reasons for holding on to these assets. And as we noted in our joint letter with six other trade associations to the commissioner, our reviews of investments in the utility sector show that policyholders are being protected and in fact, very well served by portfolios that are balanced and sound.

We need to make sure we do the right thing. And we'll be working closely with Commissioner Jones and his colleagues to ensure that they have the facts they need to confirm that our investments are safe and serve our customers.

We've also been engaged on another California initiative, the creation of a state-run IRA retirement plan for private workers.

As you know, Governor Brown signed Senate Bill 1234 into law last month.

Like the carbon initiative, this bill is also well-intentioned. In fact, we strongly agree with the bill's sponsors that every effort should be made to make it easier for people to save more for retirement.

But this bill certainly isn't what we would have designed. We believe that there are potentially large costs, liabilities and education challenges for a program of this magnitude. That's why we have stood with our colleagues in the employer community and with our agents to ensure these issues were addressed in the final bill.

The state's Secure Choice Investment Board will now face many of those challenges as it seeks to implement the bill. For example, in order to gain the Department of Labor's safe harbor exemption for employers, the state will need to take responsibility and liability for worker contributions and savings and ensure that employers and workers are not put at risk.

ACLI has engaged with California lawmakers about this bill since it was originally introduced in 2012. Now that it has been signed into law, we will continue to remain engaged as a resource.

Similar state-run retirement bills have been introduced around the country. Most legislatures have rejected them. But a few, including Connecticut, Maryland, Illinois and Oregon, have passed them.

It is worth noting that two states approved market-based retirement bills that we actively supported.

Washington and New Jersey passed bills setting up state-run retirement marketplaces.

The marketplaces will connect private retirement plan providers vetted by the state with small businesses looking to establish retirement plans for their workers.

These voluntary programs were supported by ACLI, the business community and the AARP.

Under the marketplace program, there is no mandate on employers. There is minimal cost for the state taxpayers. It doesn't put employers or the state at risk of violating federal ERISA guidelines. And it taps the existing power of private marketing and innovation.

Our members are working with state of Washington officials right now to ensure a successful launch on January 1, 2017.

We are experts and leaders in designing and administering retirement plans. Retirement security is what we do. We are a solution to America's retirement insecurity.

Insurers always want to be part of the solution, whether it is making large-scale investments in a critical infrastructure project, providing guaranteed lifetime income for retirees or supplying vital benefits after the loss of a loved one.

We are very good at what we do. But we recognize there is more to be done. Many people are not ready for retirement. Many people do not have adequate life insurance. And the world is changing fast. I sometimes wonder if our industry is keeping up with the changes.

I remember asking college students, “What is your view of life insurance?”

Do you know what they said? They said, “It’s death insurance.”

Sadly, that’s how we’re thought of by many millennials today. But I know we can change that.

Let me tell you about a trip that ACLI’s chairman Pete Schaefer of Hannover Re organized for 10 CEOs of ACLI members and myself.

We went to the Human Longevity, Inc. laboratory… HLI… in San Diego. HLI is unlocking the mysteries of aging and helping us understand our internal makeup in ways we never imagined through its sequencing of the human genome.

Now, stay with me on this for a moment.

We walked into the office of Dr. Craig Venter, the distinguished and brilliant scientist who first sequenced the human genome and started HLI. On his wall was his genome sequence. It represents his complete genetic makeup. The nuclear genome comprises approximately 3.2 billion nucleotides of DNA. Nucleotides form the basic structural unit of nucleic acids such as DNA.

From his own sequencing, Dr. Venter learned that he had a predisposition to melanoma. The finding ultimately saved his life.

The genome predicts risk. It provides opportunities for early detection of diseases and conditions. It is the code of life.

It also carries risks for the industry, as there is concern about the potential for anti-selection. We must be vigilant to ensure a level playing field remains in place in the underwriting process. One side can’t have more information than the other. It will remain absolutely vital that we maintain access to all relevant health and medical data about our applicants. And that is why our policy on access to this information is so important.

Genomics has fueled a movement where, as an example, upon the birth of a child, parents may choose to have the baby’s umbilical cord blood frozen cryogenically for however long it is needed.

A person’s “bio bank” is rich in stem cells which can be used to treat diseases that harm their blood and immune system if they're attacked in the future. One of the doctors at HLI, a renowned pathologist named Kenneth Bloom, said this is one of the most promising ways to save children from leukemia. It can be a life support system… a biological savings bond.

If I had known about this earlier, I would have sought bio banks for my four grandsons. I just did not know.

So, what does this mean to the life insurance industry? May I humbly suggest it may be an opportunity to promote this science to the benefit of our policyholders and the industry.

Perhaps one day in the future people will say: we are alive because of our life insurance policies… that life insurance means companies are doing everything that we can to keep policyholders alive.

It may be that a Millennial couple purchases a life insurance policy when a child is on the way. Perhaps they could buy a new kind of policy rider that provides an entirely different way to provide protection against the unknown. This rider would help finance bio banking for the baby.

Or, if an adult develops cancer, that person can undergo genetic sequencing of the cancer tumor. The genetic information gathered from the sequencing could provide a variety of possible cures based on the individual's own specific makeup. The physician will have access to everything he or she needs to provide the most precise medical treatment.

Might that type of sequencing also be a type of policy rider?

It is fair to say that all of the CEOs on this trip were amazed by the science and the pace of change. The scientists at HLI think our industry can be a key catalyst for widespread adoption of human genomic sequencing.

Now, let me stress, this only represents an idea. Yet, it fits squarely within our history of aligning our interests with policyholders' interests. To its credit, the ACLI Board or Directors, our Risk Classification Committee and our Genetic Testing Task Force are considering advances in genomics.

In addition, the Task Force wants to host a symposium in 2017 on genetic and genomic information where these issues can be discussed.

Pete Schaefer put it well when he said an initiative like this might lead to the fulfillment of a dream of his of someone telling him that a life insurance policy was responsible for them being alive.

We could be part of the launch of… life assurance… for life. To help keep you healthy and strong for 100 years or more.

This is happening whether we are part of it or not. The future is unfolding right now. And, it is going to affect our industry one way or the other.

Is it exciting? Can we make it exciting? This industry needs to continue charting new solutions for this new age and its new challenges.

Our industry does amazing things every day – in California and all across the United States. We are a force for good. We help society and we help people.

We help more Americans be self-reliant, not government-reliant. We are the private-sector supplement to public pensions.

We need more people to know this – on the street and in state capitals like Sacramento.

It's easy to take us for granted. After all, the life insurance industry has been keeping its promises to policyholders for longer than any federal entitlement program has ever existed.

We need to remind lawmakers of that. Every two years, new lawmakers are elected. And they bring new staff members, many who are not aware that some 75 million families nationwide have turned to our products and know they can rely on them.

That's 75 million families that will never have to depend solely on the government. Our nation would have far less to worry about if more Americans made those same choices.

It is essential that lawmakers "do no harm" to an industry that can directly help people and society and allow governments to focus their resources on the people who need help the most.

This is an interesting time in our country's history … a time when the stories we see on the television news or in the papers are disheartening to say the least. But, there are still positive stories. Let me tell you one.

It comes out of the Midwest. This is a story is about Sam Foltz, the punter for the Nebraska Cornhuskers football team.

Sam tragically died last summer in a car accident. He was returning from a kicking camp for young athletes where he was an instructor. His death was a terrible shock to his team.

Last month the Cornhuskers were playing their first game of the season, hosting the Fresno State Bulldogs.

When the Cornhuskers failed to get a first down early in the game, the coach sent out the punting unit. But, instead of the regular 11 players, the coach sent out only 10. The one empty position on the field was the punter's, which Sam would have occupied.

As the clock wound down to zero, the referees blew the whistles and penalized the Cornhuskers for delay of game.

Fresno State refused the penalty.

The entire stadium stood and amidst tears … there were cheers. It was a beautiful way to honor a young man's memory.

That story gives me hope that, no matter how grim things may appear now, we have people in this great nation who are kind, compassionate and doing the right thing. There is hope for the future. The same hope I see in this room today.

To the ACLHIC team, Brad, Ann, Ted, Oliver and Steffanie, and to the entire ACLHIC Board, thank you for their tireless advocacy on the behalf of our industry. Thank you.