



WHERE WE STAND ON LEGISLATIVE ISSUES

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 300,000 business owners and their employees who offer all types of insurance and financial services products.

Unlike company-employed 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.

IIABA agents and brokers not only advise clients about insurance, but they also recommend loss-prevention ideas that can cut costs. If a loss occurs, the independent agent or broker stands with the client until the claim is settled.

IIABA was founded in 1896 as the National Local Association of 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 became the Independent Insurance Agents of America in 1975. The association’s name was 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 affect insurance agent and broker issues in Washington through IIABA’s active, professional staff on Capitol Hill. Their willing support has made IIABA’s political action committee—InsurPac—one of the largest federal trade association PACs in the nation.

TRUSTED CHOICE®

Trusted Choice® is the national consumer brand created exclusively for association members by the Independent Insurance Agents & Brokers of America (IIABA) and its insurance company partners. In just five years, participation has grown to more than 7,100 agencies and 42 insurance companies.

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.

Consumers are taking note of the brand’s powerful message. Through national advertising campaigns, public relation activities, local agency marketing, state affiliate marketing and an innovative Web site, Trusted Choice® is educating consumers and becoming the defining brand identity for agents and brokers nationwide. For more information, visit www.TrustedChoice.com.

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IIABA POSITION: IIABA believes that a repeal of the McCarran-Ferguson limited antitrust exemption would disrupt the insurance marketplace. A vibrant system of direct state supervision and law enforcement supplemented by a limited application of federal antitrust enforcement has served the industry and consumers well. IIABA sees no reason for making wholesale changes to the antitrust laws that apply to the insurance sector.

Consequently, the Big “I” opposes S. 618 and H.R. 1081, the “Insurance Industry Competition Act,” sponsored by Sen. Patrick Leahy (D-Vt.) in the Senate and Rep. Peter DeFazio (D-Ore.) in the House. While IIABA has concerns about any modifications to the McCarran-Ferguson Act limited antitrust exemption, we believe that, in particular, the long-standing practices of the sharing of historical loss data (but not final prices) and the joint development of standardized policy forms must be protected. IIABA is also opposed to the dual federal and state oversight that this legislation would create.

BACKGROUND: The McCarran-Ferguson Act provides a limited exemption to the “business of insurance” from the federal antitrust laws. This is not a sweeping exemption for the industry, and entities are not exempt for conduct that is not a core activity necessary to the business of insurance. The McCarran-Ferguson Act only exempts from federal antitrust laws insurance activity that is regulated or supervised by state authorities, including being subject to state antitrust scrutiny. Even this limited exemption from federal antitrust laws does not extend to “any agreement to boycott, coerce or intimidate, or act of boycott, coercion, or intimidation,” which remain subject to federal antitrust law.

IIABA strongly opposes S. 618 and H.R. 1081, the “Insurance Industry Competition Act,” which would repeal this limited exemption, resulting in a negative and direct impact on consumers, agents and insurers. This legislation would expand federal antitrust regulation in the insurance market at the expense of competition and consumer protections. IIABA believes that a repeal of the McCarran-Ferguson limited antitrust exemption would create uncertainty in the insurance market and jeopardize pro-competitive and consumer-friendly activities.

Under the current limited exemption, the insurance industry is a very competitive and non-concentrated marketplace. According to the Insurance Information Institute (III), there were approximately 2,700 property-casualty insurers and 1,300 life-health insurers operating in the United States in 2004 and concentration was well under the level that would raise concerns with the federal antitrust agencies.

IIABA believes that a repeal would not only negatively affect the livelihood of our members, but it also would have a disparate impact on small and medium-sized insurance companies that rely on the exemption to compete on a level playing field with much larger insurers. IIABA is concerned that repeal could reduce competition, increase costs and reduce availability because the threat of antitrust litigation could make insurers unwilling to engage in efficiency-enhancing cooperative activities.

This concern is particularly acute in those regions of the country already suffering insurance availability problems due to hurricane exposure. In many of these states, risk pools have been established to allow insurers to work together to ensure the availability of property coverage. IIABA is concerned that a repeal of the McCarran-Ferguson limited antitrust exemption could lead to less cooperation in these needed pools because of fear that these arrangements could violate federal antitrust laws. The result, therefore, could be that repeal would actually exacerbate many of the availability problems that Congress wants to solve.

In particular, IIABA believes that certain activities should continue to be protected under federal law and not subject to federal antitrust challenge:

Standardization of Forms

McCarran-Ferguson has permitted the development of standardized policy forms under the vigilant eye of state regulators. This has greatly benefited consumers by permitting “apples to apples” comparison of material terms of coverage. Cooperation on the design of policy forms is pro-competitive because it facilitates comparison shopping by insurance consumers using common policies. Without standardized forms, consumers would be left with the challenge of trying to compare and contrast policies with different language, which would lead to, at best, consumer frustration and confusion, and, at worst, a loss of coverage and unpaid losses. Additionally, without this activity being protected, it will be difficult for agents to interpret and explain differences in policies to consumers.

Collection of Historical Loss Data

This limited antitrust exemption also protects the pro-consumer activity of sharing past loss data. Without a safeguard for the pooling of historical loss data, small and medium companies that require pooled data to properly measure risk would be severely disadvantaged. This would result in a competitive advantage for large national companies with economies of scale that can assess risk accurately based on their own internal data. Failure to protect this activity would substantially limit consumer choice. In addition, while the information gains from data pooling are greatest for small insurers, even large insurers benefit from data pooling in niche lines, particularly in states and lines where their own experience is relatively thin. Congress should take care not to destroy these pro-competitive benefits.

Redundant State-Federal Regulation

IIABA is also concerned that the Insurance Industry Competition Act would lead to unnecessary dual federal and state regulation by granting the Federal Trade Commission additional oversight powers to investigate the insurance market. Insurance companies are subject to state antitrust laws and, where not regulated by the state, federal antitrust laws. The insurance market is already heavily-regulated at the state level, and subjecting the market to additional oversight from the federal government would create serious problems.

INSURANCE REGULATORY REFORM

IIABA POSITION: IIABA supports reform and modernization of state insurance regulation via federal legislation that makes the system more uniform and streamlined. IIABA opposes federal insurance regulation and, instead, advocates a pragmatic reform approach that utilizes targeted, federal legislative tools to improve the state-based system. IIABA strongly opposes optional federal charter legislation introduced last Congress by Sens. John Sununu (R-N.H.) and Tim Johnson (D-S.D.) and Rep. Ed Royce (R-Calif.). IIABA supports H.R. 1065, the Nonadmitted and Reinsurance Reform Act, introduced by Reps. Dennis Moore (D-Kan.) and Ginny Brown-Waite (R-Fla.) in the House and S. 929, introduced in the Senate by Sens. Bill Nelson (D-Fla.) and Mel Martinez (R-Fla.).

BACKGROUND: Enactment of financial services modernization, coupled with continuing frustration over the lack of insurance regulatory uniformity at the state level, continues to spark interest in regulatory reform. Three options have evolved for achieving reform: modernizing individual state laws by working with state legislatures and the National Association of Insurance Commissioners (NAIC); constructing an entirely new regulatory structure at the federal level through enactment of mandatory or optional federal regulation; or improving the state-based system by creating greater uniformity and efficiency via targeted federal legislation.

Virtually every industry stakeholder—insurance companies, agents and brokers, consumers and regulators—has voiced significant concerns with the current regulatory system, characterizing it as slow, inefficient and a patchwork of different laws and regulations that adds unnecessary expense. Specifically, while limited progress has been made in the area of producer licensing reciprocity, additional action is needed to ensure a completely uniform licensing process for producers (agents and brokers). Streamlining agent licensing will enable insurance agents and brokers to better serve consumers and help provide a more competitive and dynamic insurance market.

IIABA believes there are consumer advantages in the state regulatory system, but significant reform of the system is needed. Although the need for greater efficiency and uniformity is clear, IIABA believes optional federal chartering, federal regulation and the creation of a new federal bureaucracy go too far—the equivalent of “throwing the baby out with the bath water.”

The Big “I” opposes federal regulation, and more specifically an optional federal charter, for a number of reasons, including: 1) local insurance regulation works best for consumers because the state-based system ensures a level of responsiveness that could not be matched at the federal level; 2) establishing a dual state/federal system would be very confusing to consumers who may have some insurance products regulated at the state level and others at the federal level; 3) federal regulation would lead to additional regulatory burdens on agents and brokers and would negatively impact our members’ ability to represent their customers; 4) the dual structure established by an optional federal charter would complicate solvency regulation, which ensures that companies meet their obligations to consumers; 5) federal regulation

will negatively affect state licensing revenues and could threaten state premium tax revenue, critical funding heavily relied upon by the states and 6) federal regulation would unnecessarily infringe on states' rights and lead to a needless and costly federal bureaucracy.

Consequently, IIABA strongly opposes optional federal charter legislation, such as bills proposed last year by Sens. John Sununu and Tim Johnson in the Senate and Rep. Ed Royce in the House.

Rather than a one-size-fits-all scheme, IIABA advocates for a pragmatic, middle-ground approach that proposes federal legislative tools to fix state insurance regulation by creating a more uniform and streamlined regulatory system. This approach would overcome state-level impediments to reform and build on, rather than dismantle, the states' inherent strengths—diversity, geographical uniqueness, innovation and responsiveness to consumers—to meet the challenges of a rapidly changing insurance marketplace.

IIABA believes that a variety of federal legislative tools — national standards with state regulation, national reciprocity or multi-state uniformity, incentives and preemption of certain state laws—can be used on an issue-by-issue basis to achieve reform. This approach offers the best solution because it will promote more uniform standards and streamlined procedures from state to state thereby enhancing marketplace responsiveness while protecting consumers. The result for all stakeholders would be a more efficient, modern and workable system of regulation. IIABA strongly supports agent licensing reform through targeted federal legislation, which could finally achieve much-needed reciprocity and uniformity in producer licensing.

IIABA also supports legislation such as the Nonadmitted and Reinsurance Reform Act, H.R. 1065, introduced by Reps. Dennis Moore and Ginny Brown-Waite and S. 929, introduced by Sens. Bill Nelson and Mel Martinez. This legislation, which would streamline surplus lines insurance regulation and improve reinsurance regulation, is an excellent example of pragmatic reform that utilizes targeted, federal tools. Legislation such as this would help modernize state insurance regulation but would not create a federal regulator. Unlike far-reaching proposals to create a new federal bureaucracy, this proposal has the support of virtually the entire insurance marketplace and passed the House last year on a unanimous 417-0 vote.

IIABA POSITION: IIABA applauds Congress and the Bush Administration for working to enact a two-year extension of the Terrorism Risk Insurance Act of 2002 (TRIA) in 2005, and urges policymakers to work toward a solution beyond expiration of the Act at the end of 2007. IIABA supports a long-term extension of the federal terrorism insurance program to continue protecting our country's economic security against the threat of terrorism.

BACKGROUND: In 2005, Congress passed the Terrorism Risk Insurance Extension Act (TRIEA) to reauthorize, with some modifications, the public-private partnership established by TRIA for two additional years. The legislation moved through Congress after it became clear that the marketplace for terrorism insurance had not fully developed and that significant coverage would not be available without a continued federal backstop.

Since passage, the reaction of the marketplace and oversight of the program have indicated that the partnership has continued to work well to stabilize the commercial insurance marketplace that underpins the U.S. economy. However, as TRIEA nears expiration, it is unlikely that there will be a sustainable market for terrorism insurance in the program's absence due largely to the continued threat of terrorist attacks and the inability to underwrite the risk associated with potential attacks.

In fact, a 2006 report by the President's Working Group on Financial Markets (PWG) highlights that these and other challenges make an "evaluation of the potential degree of long term development of the terrorism risk insurance market somewhat difficult." The PWG report also notes the complexity of chemical, nuclear, biological and radiological (CNBR) risks and the current lack of coverage in that segment of the market. Specifically, the PWG report found that "there has been little development in the terrorism risk insurance market for CNBR risks" and concluded that "there may be little potential for future market development."

Accordingly, IIABA strongly supports a long-term extension of the federal reinsurance backstop to ensure the continued availability of terrorism coverage for the consumers that independent insurance agents and brokers serve. The Big "I" is especially supportive of inclusion of three major provisions in any extension legislation: 1) reasonable trigger levels that protect small and regional insurance companies and the communities they serve; 2) specific inclusion of "CNBR" coverage to protect policyholders and taxpayers and 3) limited federal intervention in the insurance market.

The Big "I" remains committed to continuing to work with interested parties in the public and private sectors to develop long term solutions to the failure in the market for terrorism insurance. In addition, IIABA is currently working with stakeholders in the insurance and policyholder communities to assess the capabilities and constraints of the market and to ensure that terrorism insurance is available and affordable beyond the program's 2007 expiration.

IIABA POSITION: Continuation and reform of the National Flood Insurance Program (NFIP) is vital to ensure the efficacy of this much-needed program in the future and to protect property owners from flood losses. IIABA supports necessary increases in the NFIP's temporary borrowing authority to ensure that consumers who purchased flood insurance obtain their rightful insurance payments. The Big "I" encourages Congress to consider eliminating the NFIP's incurred debt resulting from Hurricanes Katrina and Rita. IIABA also supports modernized coverages, expansion of the mandatory purchase requirement with improved enforcement, increased mitigation/decreased subsidization, simplified processing and claims and empowering consumers with information on flood loss histories. The Big "I" supports the Flood Insurance Reform and Modernization Act of 2007 (FIRM), introduced by House Financial Services Committee Chairman Barney Frank (D-Mass.).

BACKGROUND: IIABA supports the NFIP, historically a self-supporting program that protects individuals whose properties have suffered flood damage. 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 people to protect against the loss of homes or businesses due to flooding. Working with the approximately 90 Write Your Own (WYO) insurance companies, independent agents and brokers play a vital role in the flood insurance delivery system and serve as the primary distribution method for flood insurance. It is IIABA's position that the program should be continued and strengthened for the future.

Prior to the creation of the NFIP in 1968, the federal government spent increasing sums of money on assistance to flood victims. Since that time, the NFIP has reduced the need for federal disaster assistance funding. For nearly two decades, no taxpayer money was used to support the NFIP; rather, it supported itself using funds collected annually from premiums. Unfortunately, this changed with the unprecedented 2005 hurricane season. The NFIP has reached a record level of borrowing from the U.S. Treasury to cover insured losses in the Gulf Coast region and the 109th Congress had to pass a number of increases in the NFIP temporary borrowing authority. Additional increases to the borrowing authority may be necessary this year to ensure that consumers who had the foresight to purchase flood insurance receive the money to which they are legally entitled.

The 2005 hurricane season made it clear that additional reforms to the NFIP are necessary. IIABA proposes a 23-point reform initiative offering suggestions on how best to enhance consumer protection, modernize coverage, increase mitigation, decrease subsidization, simplify processing and claims, improve enforcement and bring more participants into this vital national program. IIABA offers seven major recommendations:

1. **Modernize Coverages:** The NFIP currently has a number of gaps in coverage that leave consumers unprotected in the event of flood loss. IIABA suggests modernization of coverage and the inclusion of the following: optional business interruption insurance for commercial policyholders; an automatic, base amount of additional living expenses coverage for residential consumers with the option to purchase increased coverage for a fee; a base amount of finished basement coverage on residential policies; and optional, replacement cost coverage for contents and commercial buildings.

2. **Increase Maximum Coverage Limits:** Increase the maximum coverage limits above the current \$250,000 residential/\$500,000 commercial limits to correspond with modern-day real estate prices.

3. **Removal of Subsidies for Nonresidential, Vacation and Second Homes:** Gradually remove all subsidies for nonresidential, vacation and second homes by allowing the NFIP to increase rates annually until the full actuarial rate is realized.

4. **Provide Better Enforcement:** Improve oversight to ensure full participation in the program for owners of properties for which participation is mandatory to better guard against flood loss and bring more policyholders into the program.

5. **Provide Additional Resources for Flood-Loss Mitigation Efforts and Map Modernization:** Additional funding should be made available to mitigate repetitive flood-loss properties and also to properly modernize the outdated flood mapping system.

6. **Increase the Annual Premium Hike Limit:** Extend the elasticity band on premium increases beyond the current 10% restriction per year in order to charge more actuarially accurate rates in flood-prone regions.

7. **Require Mandatory Flood Information Disclosures:** Many individuals buy their properties without receiving information about flood risks. Mandatory disclosure of the flood history of properties would help buyers make better-informed decisions, which would keep the NFIP from having to pay for artificially over-valued properties.

Congress has recognized the need for reform, with Chairman Frank recently introducing the FIRM Act, which includes many of the IIABA's suggested reforms. IIABA supports Chairman Frank's bill and is working closely with Senate Banking Committee Chairman Chris Dodd (D-Conn.), who has indicated that flood insurance reform will be a top priority of his Committee this year.

NATURAL DISASTER RISK

IIABA POSITION: The Big “I” is working with interested parties to discuss all potential solutions, including federal catastrophe funds, insurer tax-free reserving and expansion of the National Flood Insurance Program (NFIP) to include windstorm coverage. IIABA supports legislation, such as H.R. 330, the Homeowners’ Insurance Availability Act, which encourages more insurance companies to enter markets that are prone to natural disasters and to increase availability and affordability of homeowners’ insurance coverage. The Big “I” also supports the creation of a national commission to study the issue and report possible solutions (S. 292 and H.R. 537, the Commission on Catastrophic Disaster Risk and Insurance Act of 2007).

BACKGROUND: While the 2006 hurricane season did not rival the catastrophes our country faced in the previous year, the availability and affordability of property-casualty insurance remains a major issue. The market is continuing to adjust to the devastating 2005 hurricane season, which accounted for \$61 billion in losses from 24 disasters, according to the Insurance Information Institute (III).

The high costs of natural disasters from previous years combined with the fear of future catastrophes have restricted homeowners’ insurance availability in many markets. The threat of these multibillion-dollar events creates exposure and solvency issues for companies that write homeowners’ insurance in disaster-prone areas. As a result, many insurance companies have stopped writing new business in at-risk markets, withdrawn altogether or significantly raised rates to respond to the increased risks. This reality has made it difficult for residents to find homeowners’ coverage.

Because the Big “I” is deeply concerned about the marketplace’s ability to adequately insure consumers for natural disaster risk, IIABA supports legislation to increase both homeowners’ insurance availability and affordability in catastrophe-prone areas. We are encouraged by several measures aimed at these goals.

The Big “I” supports H.R. 330, the Homeowners’ Insurance Availability Act of 2007, introduced by Rep. Ginny Brown-Waite (R-Fla.), which allows private insurance companies to purchase, at auction, reinsurance contracts directly from the U.S. Treasury. Under H.R. 330, the private sector and the federal government share the responsibility for natural disasters equal to, or greater than, a one-in-100 year event. Any such event that does not meet this threshold would still be covered by the private market. For any disaster exceeding this threshold, insurance companies would cover 50 percent. Previously, this legislation has been scored as “revenue neutral,” meaning no cost to the government. The program will encourage more companies to enter disaster markets—increasing availability and market stability.

Additionally, the Big “I” strongly supports S. 292, introduced by Sens. Bill Nelson (D-Fla.) and Mel Martinez (R-Fla.) and H.R. 537, introduced by Rep. Kendrick Meek (D-Fla.). This legislation would establish a Commission to study and report back to Congress the problems of insurance availability and affordability in natural disaster areas and potential solutions to this problem.

IIABA is also interested in another proposal that would create a natural catastrophe reinsurance program, H.R. 91 and S. 928, the Homeowners Insurance Protection Act of 2007, introduced by Reps. Ginny Brown-Waite and Vern Buchanan (R-Fla.) in the House and Sens. Nelson and Martinez in the Senate. Under this proposal, states that have their own catastrophe funds could be eligible to purchase reinsurance from the federal government, thereby encouraging states to establish catastrophic funds to protect against natural disasters and reduce costs to homeowners. The legislation also creates catastrophic capital reserve funds (basically tax-deferred reserves) for use in a one-in-100 year event, and it includes a new requirement that savings be passed on to consumers.

H.R. 164 and S. 926, the Policyholder Disaster Protection Act of 2007, introduced by Rep. Bobby Jindal (R-La.) in the House and Sens. Nelson and Martinez in the Senate, also attempts to provide stability in the homeowners' insurance market. This legislation would provide federal assistance in the form of insurer tax-free reserves. Under the proposal, insurers are authorized to create policyholder disaster protection funds that will be excluded from their taxable income for the purposes of natural disaster claims. Overall, the legislation increases capacity in markets by allowing insurers to build up tax-free reserves to pay consumer claims arising from certain catastrophic events.

S. 927, additional legislation introduced by Sens. Nelson and Martinez would attempt to address natural disaster issues by creating tax-exempt catastrophe savings accounts (CSAs) for consumers and allowing for tax-free distributions from CSAs to pay expenses resulting from a presidentially declared major disaster. S. 930, also introduced by Sens. Martinez and Nelson, would attempt to provide incentives to prevent natural disaster loss by creating tax credits for mitigation expenditures.

The Big "I" will continue to pursue and analyze these and other measures aimed at alleviating the impact of future natural disasters. This includes legislation, H.R. 920, the Multiple Peril Insurance Act of 2007 introduced by Rep. Gene Taylor (D-Miss.), which would add optional windstorm coverage to the National Flood Insurance Program.

IIABA POSITION: IIABA strongly opposes Premium Reduction Plans (PRPs) because they circumvent state insurance licensing laws and are vulnerable to rebating, anti-consumer tying arrangements and unfair marketing. The precedent established by PRPs jeopardizes the efficacy of the crop insurance delivery system. IIABA calls on Congress to reauthorize the PRP funding limitation amendment passed in the 2006 federal budget. IIABA additionally advocates for repeal of the PRP provision. Finally, IIABA calls upon Congress to ensure that the 2007 Farm Bill does not diminish the integrity of the Federal Crop Insurance Program (FCIP).

BACKGROUND: IIABA has been a key player in the evolution of the FCIP as it moved from a federally-provided program to a public-private project. Initially, crop insurance was sold, delivered and administered exclusively by federal employees. Today, the federal government reinsures policies that are administered by private insurance companies and delivered to farmers by independent insurance agents and brokers.

Congress has addressed the needs of American farmers by frequently modifying the program since it was enacted in the early 1980s. IIABA will strive for continued cooperation between the private sector, Congress and the Risk Management Agency (RMA) of the U.S. Department of Agriculture (USDA) to improve the program.

IIABA will work to ensure that farmers are well-served and protected and that independent agents continue to be the most effective distribution channel for crop insurance. Any reforms should promote private sector delivery mechanisms and leverage the servicing expertise of independent agents. It is imperative that free-market incentives remain to ensure maximum farm coverage.

In 2005, IIABA noted significant problems with the PRP program. This program was intended to allow companies to use cost cutting to pay premium rebates to customers. However, when the statute was created in 1994, the A&O reimbursement rate – the amount paid to the companies by the government to administer the program – was considerably higher than its current amount, which made efficiently operating below it a realistic possibility. Since 1994, the reimbursement rate has dropped significantly, thus reducing possible A&O surpluses as well as company underwriting gains. Furthermore, PRPs provide an incentive to squeeze agent commissions (the primary source of cost savings for companies to operate below their A&O), and thereby reduce the role of independent agents in the delivery of crop insurance. PRPs also operate to the detriment of farmers, by limiting the quality of work that goes into writing policies in order to correspond with the reduction in commissions.

IIABA was concerned that the introduction of a broad, subjective model into the crop insurance marketplace could have harmful unintended consequences. Furthermore, IIABA contended that the rules governing PRPs were promulgated in a fashion that circumvents state insurance laws and undermines the state insurance departments' abilities to police market conduct.

As a result, IIABA advocated for, and Congress adopted, a funding limitation amendment in the 2006 federal budget that effectively restricts funding for implementing PRPs during the 2007 reinsurance year, which began on July 1, 2006. The main goal behind this “timeout” was to afford both Congress and the RMA the necessary time to adequately study PRPs and to determine if they have a role in today’s marketplace or if they have outlived their reasonable shelf life. A continuation of the “timeout” appears also to have been included in this year’s Continuing Resolution (CR) for the 2007 Fiscal Year, and IIABA will work with the Appropriations Committee and the RMA to ensure that the CR’s implementation includes this important “timeout.”

As Congress considers the 2008 federal budget, IIABA supports a reauthorization of the PRP program funding limitation in order to extend the “timeout” on PRPs through 2009. During this period, IIABA will continue its dialogue with the authorizing committees of the House and Senate as they consider the 2007 Farm Bill proposal. IIABA will advocate for a full repeal of 508(e)3, the PRP-authorizing statute in the Federal Crop Insurance Act (FCIA). IIABA believes that PRPs are comparable to rebating and they promote unfair marketing practices that undermine the integrity of the FCIP.

IIABA will work with the Agriculture Committees and the USDA to ensure that any proposals in the Farm Bill continue to ensure the widespread availability of the FCIP and to ensure that Farm Bill proposals do not diminish the integrity of the program.

IIABA POSITION: IIABA strongly supports H.R. 46, the Small Business Tax Fairness and Simplification Act of 2007, introduced by Rep. Nydia Velazquez (D-N.Y.) which addresses the discrepancy between marketplace reality and the tax code's treatment of intangible assets when a small business is purchased. The Big "I" also supports making the individual income tax reductions permanent, and permanently eliminating, or significantly modifying, the estate tax.

BACKGROUND: The current Internal Revenue Code is filled with burdensome taxes that hurt small business owners and discourage job creation. Modernizing the depreciation schedule for intangible assets in order to better reflect their useful economic life is one way to encourage small business economic development.

Under current law, intangible assets, such as customer lists, are required to be depreciated over 15 years, even though this schedule does not reflect the marketplace reality. The mandatory 15-year amortization period for intangible assets is far longer than the actual useful life. In fact, business experience has shown that an intangible asset has a much shorter shelf life of closer to five years, while a covenant not to compete is generally closer to two or three years.

Since many small businesses are primarily service businesses with significant intangible assets, the marketability and value of these businesses has been adversely affected by the unduly long write-offs that potential purchasers face. For these reasons, IIABA supports legislation that will amortize small business intangible assets over a shorter time period.

Last Congress, the Tax Fairness for Small Business Act introduced by Reps. Eric Cantor (R-Va.) and Earl Pomeroy (D-N.D.), and by Sens. Jim Bunning (R-Ky.) and Kent Conrad (D-N.D.), would have allowed the purchaser of an eligible small business (less than \$5 million annual gross receipts) to write off up to \$5 million of an intangible asset over a five-year period, with the remainder depreciated over the 15-year schedule.

This Congress, Rep. Velazquez (D-N.Y.) included that bill language in H.R. 46, the Small Business Tax Fairness and Simplification Act of 2007, which would amend the Internal Revenue Code to provide tax incentives for small businesses. H.R. 46 would not only allow accelerated amortization of certain intangible assets acquired from a small business, but would also allow long-term care insurance to be sold pre-tax through Section 125 cafeteria plans and flexible spending arrangements.

These proposals would provide significant tax relief to small businesses across the nation. A quicker depreciation schedule also would allow these businesses to reinvest more cash in their operations, which importantly, would encourage economic growth and development.

IIABA also supports making the income tax reductions permanent. Many small businesses are Subchapter S corporations that pay the individual income tax rates. Making the current rates permanent will continue to help small business expand their operations and create new jobs. Additionally, IIABA supports permanent elimination or significant reform of the estate tax to encourage investment and growth in small businesses.

INSURPAC

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 is the largest property-casualty insurance industry PAC in the country.

By pooling the voluntary individual financial contributions of thousands of independent insurance agents and brokers, InsurPac supports candidates and members of the U.S. House of Representatives and U.S. Senate who share IIABA's business philosophy.

InsurPac and IIABA are separate but affiliated organizations. InsurPac's governing board of trustees is appointed by IIABA's Executive Committee. All InsurPac disbursements are reported to the Federal Election Commission (FEC). Copies of InsurPac reports are available for purchase at the FEC office in Washington, D.C.

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 300,000 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 35 former insurance professionals currently hold seats in the U.S. Congress. Agents play an important role in their communities as local business and civic leaders. With hundreds or even thousands of agents, brokers and their employees in every congressional district, IIABA's grassroots activists also play a key role in supporting federal, state and local candidates for elected office.

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 "Action Alert" system. These calls to action are shared via email with IIABA members and their employees, friends and family. IIABA's comprehensive grassroots Web site allows members to quickly contact their elected officials on issues essential to the livelihood of independent insurance agents and brokers.

New challenges in Washington, D.C. and the financial services marketplace demand that more IIABA members become informed and involved in the political arena. IIABA's grassroots program will play a vital role in shaping and promoting the agency system. Please contact Elizabeth Furey at elizabeth.furey@iiaba.net to become involved in the association's grassroots efforts or to obtain legislative information and political background materials.

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