M Benefit Solutions®
Bank Strategies
An M Financial Group Company

The Bottom Line

Executive and Director Benefits and BOLI

Volume 33 August 2013

Highlights of this Issue

S&P Revises Outlooks on Six Insurance Groups Following Revision to Outlook on U.S. Sovereign Rating

On June 10, S&P revised the outlook on the sovereign credit rating of the United States of America to stable from negative. S&P followed the announcement by revising the outlook on six U.S. insurance groups to stable from negative. The affected groups included Teachers Insurance & Annuity Association, Massachusetts Mutual Life Insurance Co., Northwestern Mutual Life Insurance Co., and New York Life Insurance Co. The financial strength rating for the companies remains "AA+" (Very Strong).

In August 2011, S&P downgraded the U.S. credit rating to "AA+" with a negative outlook and similarly downgraded the ratings of the aforementioned insurance groups under the premise that the groups had significant investments tied to the U.S. S&P's rating policy prohibits the ratings of companies with significant ties to a country to have ratings higher than the country's sovereign credit rating.

Fitch's Credit Outlook for U.S. Life Insurance Industry Remains Stable for 2013

Fitch Ratings maintained their stable outlook for the U.S. life insurance industry reflecting the industry's strong balance sheet fundamentals and improved liquidity profile. Fitch said these positive factors help mitigate its ongoing concerns over challenging macroeconomic conditions pressuring industry operating fundamentals. Fitch said the large majority of its North American insurance rating actions in 2012 and into 2013 were affirmations with stable outlooks.

Fitch expects sustained low interest rates over the next two years will negatively impact earnings growth rates, but will not have a material effect on industry capital. If interest rates remain low much beyond 2014, Fitch stated that its outlook for the industry would likely turn negative.

The New Capital Rule and BOLI

The Office of the Comptroller of the Currency and Board of Governors of the Federal Reserve System (Board), are adopting a final rule that revises their risk-based and leverage capital requirements for banking organizations. The FDIC is adopting a substantially identical interim rule with request for comments. A considerable period of time has passed since the proposals were made to this final rule, and although major changes were made with regard to minimal capital requirements, the real surprise was that some critical items in the proposal were omitted in the final rule.

Treatment for residential mortgage exposures went unchanged and an option to exclude Accumulated Other Comprehensive Income (AOCI) components in regulatory capital were part of the final capital rule.

Risk-Weighting for BOLI

While there were revisions to risk weights, the risk weighting for Bank-Owned Life Insurance (BOLI) assets remained essentially unchanged. General Account BOLI continues to receive a 100% risk weighting. Banks holding Separate or Hybrid Account BOLI assets, for risk weighting purposes, must treat these similarly to an exposure to an investment fund. There continues to be a 20% risk weight floor applied to these product types and a bank must utilize one of the following three look-through approaches to determine risk for the underlying account asset:

Category	Current Risk Weight	New Capital Rule	Section
Equity exposure to investment funds	*There is a 20% risk weight floor on investment fund holdings.* Two approaches available: 1. Risk weight is the same as the highest risk weight investment the fund is permitted to hold. 2. A banking organization may assign risk weight on a pro rata basis based on the investment limits in the fund's prospectus.	Unchanged 1. Unchanged. (Now called the Simple Modified Look-Through Approach.) 2. Unchanged. (Now called the Alternative Modified Look-Through Approach.) 3. A third treatment (called the Full Look-Through Approach) has been introduced and it risk weights each asset of the fund (as if owned directly) and multiplies by the banking organization's proportional ownership in the fund.	Subpart D, §.53

Source: OCC New Capital Rule Community Bank Guide;
http://www.occ.gov/news-issuances/news-releases/2013/2013-110b.pdf

(Continued on next page)

Capital Conservation Buffers

Also under the new rule, community banks must hold minimum capital conservation buffers in order to avoid limitations on capital distributions, including dividends, as well as certain discretionary bonus payments to executive officers. The following table illustrates the amount that a bank can pay out in capital distributions or discretionary bonus payments.

Capital Conservation Buffer* (As a Percentage of Risk-Weighted Assets)	Maximum Payout (As a Percentage of Eligible Retained Income)
Greater than 2.5%	No payout limitation applies
Less than or equal to 2.5% and greater than 1.875%	60%
Less than or equal to 1.875% and greater than 1.25%	40%
Less than or equal to 1.25% and greater than 0.625%	20%
Less than or equal to 0.625%	0%

Source: OCC New Capital Rule Community Bank Guide;
http://www.occ.gov/news-issuances/news-releases/2013/2013-110b.pdf

**The capital conservation buffer requirements will be gradually phased-in beginning January 1, 2016.*

Links

The full rule and guidelines to the rule can be found at the following sites:

Final Rule:
http://www.fdic.gov/news/board/2013/2013-07-09_notice_dis_a_res.pdf?source=govdelivery

OCC New Capital Rule Community Bank Guide:
http://www.occ.gov/news-issuances/news-releases/2013/2013-110b.pdf

OCC Quick Reference Guide for Community Banks:
http://www.occ.gov/news-issuances/news-releases/2013/2013-110c.pdf

Expanded Community Bank Guide to the New Capital Rule for FDIC-Supervised Banks:
http://www.fdic.gov/regulations/capital/Community_Bank_Guide_Expanded.pdf

Federal Reserve Guide for Community Banks:
http://www.federalreserve.gov/commbankguide20130702.pdf

ICBA Summary:
http://www.icba.org/files/ICBASites/PDFs/BaselIIIFinalRuleSummary.pdf

ABA Basel III Newsbytes Edition:
http://www.aba.com/Issues/Documents/NewsbytesSpecialEditionBaselIII.pdf

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Sun Life Financial Completes Sale of Domestic U.S. Entities to Delaware Life Holdings

On August 2, 2013, Sun Life Financial completed the sale of two domestic U.S. entities to Delaware Life Holdings (Delaware Life):

- Sun Life Assurance Company of Canada U.S. (Sun Life US)
- Sun Life Insurance & Annuity Company of New York (Sun Life NY)

Delaware Life is owned by shareholders of Guggenheim Partners (Guggenheim), a privately held global financial services firm with more than $160 billion in assets under management. Guggenheim provides asset management, investment banking, and capital markets services, as well as insurance, institutional finance, and investment advisory solutions, to institutions, governments and agencies, corporations, investment advisors, family offices, and individuals.

M Commentary

M Financial sees the closing of the Sun Life/Delaware Life transaction, in conjunction with the NY regulatory approval with additional policyholder protections and the strong track record of Guggenheim managing Security Benefit Life, as positive signs that Guggenheim/Delaware Life will manage M Financial's in-force block consistent with our standards.

In addition, M Financial has secured a service agreement with Delaware Life regarding business with Sun Life placed by M Member Firms such as M Benefit Solutions. The service agreement, which applies to business transferred to Delaware Life, includes service standards, contacts, and annual meetings between the management teams regarding the management of the in-force block.

Just the FAQs

Q: Why do life insurance companies ask for a W9 Form before paying a tax-free policy death benefit?

A: Except in uncommon circumstances, life insurance death benefits are not subject to income tax when received by a policy beneficiary. However, all but a few states require insurance companies to credit interest on life insurance death claims to prevent the insurer from profiting on pending claim payments (i.e., by holding the money that will be used to pay the claim after the insured's death and continuing to receive earnings on it). While the requirements differ from state to state, interest is generally credited from the date the insured dies to the date the insurer pays the death claim. The interest is subject to income tax because it is in addition to the life insurance policy death benefit. Insurance companies require policy beneficiaries to submit a W9 Form in order obtain the information needed to correctly report the taxable income to the IRS and to the beneficiary.

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ING U.S. IPO in May 2013 and Rebranding as Voya Financial in 2014

In May 2013, ING U.S., Inc. (ING US) made an initial public offering. The offering of 65 million shares at $19.50/share provided ING US with nearly $600 million in new capital and reduced the ownership stake by parent company ING Groep N.V. to 75%. Following the offering, Moody's Investors Service commented on the event as a "credit positive" for ING US. Moody's said the IPO will improve the company's overall capitalization and financial flexibility.

In addition, the company will be rebranded Voya Financial; however, the rebranding will not begin prior to 2014 and is not expected to be fully complete until late 2014 at the earliest.

M Benefit Solutions and M Financial remain in regular contact with ING US to gain a better understanding of the transaction and advocate on behalf of clients to ensure our standards and expectations are met. M Benefit Solutions and M Financial will continue to proactively monitor developments with ING US and provide information as it becomes available.

Recent Event

FMS 2013 Finance & Accounting Forum

June 16–18, 2013
Seaport Hotel & World Trade Center
Boston, MA

Upcoming Event

2013 ABA Annual Convention

October 20–22, 2013
Hyatt Regency
New Orleans, LA

Advisor Firms

M Benefit Solutions - Bank Strategies is structured to provide our clients with consistent nationwide coverage. We have identified several Advisors with extensive experience in bank executive and director benefits and BOLI to provide consulting services to clients nationwide.*

Distributed throughout the country, these Advisors work interactively with M Benefit Solutions and bank clients to design programs which meet each bank's specific needs and to ensure high quality administrative and compliance services.

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**These Advisors are associated with our Broker/Dealer, M Holdings Securities, Inc.*

About M Benefit Solutions - Bank Strategies

M Benefit Solutions - Bank Strategies, based in Portland, Oregon, is a division of M Benefit Solutions, a Subsidiary of M Financial Group. Please go to www.mfin.com/DisclosureStatement.htm for further details regarding this relationship. M Benefit Solutions is a recognized leader in the community bank executive and director benefits and BOLI marketplace. Through a network of firms located in key markets across the country, M Benefit Solutions - Bank Strategies helps banks attract, retain, and reward key executives and directors through the design, implementation, and administration of benefit programs that aim to maximize the use of a bank's financial resources. M Benefit Solutions - Bank Strategies is the Independent Community Bankers of America's (ICBA) Preferred Service Provider for executive and director benefits and BOLI. For more information, please visit www.mben.com/bank.

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