Kentucky LOMA Society Newsletter

Vol. XIV No. 1 Spring 2009

Formerly known as The Derby City FLMI Society

www.kyloma.org

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Remember to renew your 2009 membership. Application is on the website

www.kyloma.org

President's Message

It's that time of year again and we would like to invite you to be a member of the Kentucky LOMA Society. Maybe you don't remember all the benefits that come with membership:

- Expand your horizons and stay involved in the insurance and financial services industry.
- Promote quality, low-cost or no cost educational programs.
- Benefit from continuing professional education credits (for certain designations).
- Meet new people and have fun at social events.
- Network with insurance industry professionals and make valuable contacts at other companies.
- Develop leadership skills in an officer role or through board or committee participation.
- Attend Annual Banquet to honor those with new LOMA designations.
- Opportunities to serve others through community service activities.

This newsletter includes a great summary of Dr. Jeff Rosen's presentation from the 2008 Annual Banquet, "Markets in Turmoil." Of course, we had no idea at the time of his speech (November 12, 2008) that we would face the significant economic rollercoaster of the past few months. It is especially during times like these where professional networks like the Kentucky LOMA Society are invaluable. We hope that you consider renewing your membership or joining us as a new member.

Finally, please check out the member profiles. **Thomas Bookout** of Investors Heritage Life Insurance Company and **Mark Grabiak** of AEGON were both honored at the 2008 Annual Banquet for achieving LOMA designations. Thomas became a FLMI and Mark achieved the ACS designation. Congratulation to Thomas and Mark! We periodically offer this feature so that you can get to know your fellow members and colleagues.

Meredith Hettinger, KY LOMA Society Board President

CHAPTER ACTIVITIES

Spring Lunch and Learn

Our first lunch and learn of 2009 was held on March 24 featuring the topic **Managing Multiple Generations in the Workforce** presented by Jennifer McGill, Senior Manager, Ernst and Young. Approximately 30 members and guests gained new insights into the generational differences in the workplace**.** A future issue of the newsletter will provide highlights from the presentation.

Community Service Projects

Save your pull tabs for Ronald McDonald House. The Society will collect the tabs at the annual banquet.

DERBY FESTIVAL FOUNDATION ACADEMIC CHALLENGE – VOLUNTEERS NEEDED

The Kentucky LOMA Society supports the **Derby Festival Foundation Academic Challenge.** The competition is for middle and high school students from around Kentucky. They compete in quick answer recall of school curriculum and general knowledge subjects. **To volunteer for the April 23-25, 2009 event** held in Pasteur Hall at Bellarmine University, contact Mark Evans, 502-560-2338.

RONALD McDONALD HOUSE

The chapter collects contributions for the Ronald McDonald House each year at the annual banquet. One way we can all contribute is to save the pull tabs from soft drink cans. Start saving your pull tabs today and bring the container to the annual banquet. To get a Ronald McDonald House container to save the can pull tabs, contact Allison Craig.

Support your LOMA Chapter

2009 Membership application is available with this link. Membership Application
Join or renew your membership today.

The chapter is looking for members to serve on the Board or as Officers. Would you like to have an opportunity to grow your talents and bring new ideas to your chapter? This is a small commitment of time for the rewards you gain in being active with your local chapter. Ask any current officer or board member how you can contribute.

Member Profile – Thomas Bookout, Investors Heritage Life Insurance Company

1. Please provide your title or department where you work. Also, please provide a little background about the work that you do. What do you find to be challenging about your job? What do you find to be rewarding about your job?
Department: Policy Services Title: Management Trainee - Do I have an official title? I work with our clients and agents to help solve their problems. Also, I process policy loans, cash surrenders, fund withdrawals, exchanges, and various other requests. Business process documentation and working with various auditors is another segment of my job description along with various review and managerial tasks.

2. How long have you worked in the financial services industry? What industry(ies)did you work in before getting a job at an insurance company?
I have worked in the financial services industry for about four and one-half years (since October 2004). Prior to working in the financial services industry I worked for a few months after college as an interim director for the convention center in Danville, KY.

3. Please let us know how many LOMA designations you have achieved.
FLMI Fellow, Life Management Institute, ALMI Associate, Life Management Institute, ACS Associate, Customer Service Program

4. Why did you decide to study and take LOMA exams?
Strengthen my knowledge of insurance and financial services industry; I like to learn new things; Financial incentives by my employer; Seeking promotional opportunity; Strongly encouraged by my employer

5. Please tell us a little bit about your education. What was your major and where did you go to school?
I graduated from Centre College in 2004 with a Bachelor of Arts double major in Government and History.

6. Please provide anything that you would like to share about your career.
Working in the policy owner service area of the company has forced me to learn a little bit about every area of our company and has provided me with a fairly broad perspective on the financial services industry. Not only do I have to be familiar with current products, but also with products sold in the distant past. Being able to discuss the details of contracts with clients who are less familiar with financial services is a challenge. There is always something new to be learned in my career.

7. If you are willing, please provide a little personal background information (e.g. married, kids, pets, native of KY,etc.)
I was born in West Virginia and have also lived in South Carolina and Virginia, but have been in Kentucky most of my life. Lexington feels like home as much as anywhere else and I might as well be a native. I am still single without any kids or pets.

8. What activities do you like to do in your spare time?
In my spare time I enjoy traveling, spending time with friends, working out, hiking, snow skiing, saltwater fishing, photography, model railroading, and volunteering with railroad preservation at the Whitewater Valley Railroad and Kentucky Railway Museum.

Thinking about a LOMA designation?
All individuals earning a LOMA designation are honored at the Society Annual Banquet held in the 4th Quarter.

Member Profile –Mark Grabiak, AEGON USA

1. Please provide your title or department where you work. Also, please provide a little background about the work that you do. What do you find to be challenging about your job? What do you find to be rewarding about your job?
Title: Intermediate Accountant Department: Financial Reporting - AFP Challenging: Balancing work in order to meet deliverables, especially around year end & quarter end. Sometimes can be very stressful. Rewarding: In light of the above a sense of accomplishment of how much my department and I deliver on a consistent basis. The greatest reward would have to be working with a great bunch of people, especially those in my team but also others at my location and within the division.

2. How long have you worked in the financial services industry? What industry(ies)did you work in before getting a job at an insurance company?
Will be 10 years in November. Worked at the School of Accountancy while at University of Louisville, Worked in retail (Video store and Target) when I first moved to Louisville in mid 90's.

3. Please let us know how many LOMA designations you have achieved.
ALMI Associate, Life Management Institute
Certified Public Accountant.

4. Why did you decide to study and take LOMA exams?
Strengthen my knowledge of insurance and financial services industry; I like to learn new things; financial incentives by my employer; LOMA exams counts as continuing education for other designation; and oddly enough, I like to take tests.

5. Please tell us a little bit about your education. What was your major and where did you go to school?
Bachelor's Degree at University of Louisville, Associate in Arts Miami-Dade Community College

6. Please provide anything that you would like to share about your career.
In spite of the stress and hard work, I feel very fortunate to be where I am professionally. I also keep in perspective that I am privileged to be employed with a great company and quality people. In the current economy, a lot of folks might not be as well off as me. 20 years ago I wouldn't have imagined being exactly where I am right now, but 10 years ago I could have. That makes me feel like I have accomplished a great deal since making some decisions about my future.

7. If you are willing, please provide a little personal background information (e.g. married, kids, pets, native of KY, etc.)
Single - no kids Moved to Louisville KY from Miami Florida in 1995. Like Louisville but miss the weather in FL. Have a dog - black lab named Lotus. Enjoy being a homeowner as of Jan 08. Playing guitar for about 10 years. Playing golf for almost 4 years.

8. What activities do you like to do in your spare time?
Spend time at home with my dog. On weekends play guitar out at bars with friends or go to watch live music. Playing golf or once in a while fishing when the weather is warm. Watch movies, play video games. Reading fiction - Dean Koontz, Tom Clancy. I cook on the weekends.

November 12, 2008 Meeting Summary, "Markets in Turmoil"
Article submitted by Eddie Cook.

Dr. Jeff Rosen, an economist for AEGON USA, was the featured speaker at the Kentucky LOMA Society Annual Meeting held November 12th, 2008 at the AEGON Centre in Louisville, Kentucky. At AEGON, Dr. Rosen's responsibilities include: i) providing economic analysis on current market conditions, ii) producing macroeconomic forecasts, and iii) evaluating economic growth patterns for various asset sectors. The title of Dr. Rosen's presentation, "Markets in Turmoil", focused on the market volatility resulting from the recent financial crisis. More specifically, Dr. Rosen organized his presentation around the following:

- What happened?
- Why did it occur (why did financial institutions fall apart)?
- Where do we go from here?

Below is a recap of his presentation.

What happened?
The first shock to the financial system occurred on July 16, 2007, when two Bear Stearns subprime hedge funds collapsed. In response, on August 17, 2007, the Federal Reserve (Fed) extended the discount borrowing terms to 30 days from daily. In addition, to address liquidity problems, the Term Auction Facility (TAF) announced on December 12, 2007, it was offering $40 billion in term loans. Because of significant demand, the TAF expanded the offering to $60 billion and $100 billion on January 12, 2008, and March 7, 2008, respectively.

The second shock occurred when the primary dealers, which could not participate in TAF, began experiencing problems. As a result, the Fed announced on March 11, 2008, the Term Securities Lending Facility (TSLF) would lend Treasuries to primary dealers.

On March 14, 2008, Bear Stearns goes bankrupt and is purchased by JP Morgan. The Fed extends on March 16, 2008, the term on discount window loans to 90 days from 30 days, and Goldman Sachs requests to use the Fed window. The Fed responds by establishing on March 16, the Primary Credit Dealer Facility (PDCF), which enables primary dealers like Goldman Sachs to use the Fed window.

In an attempt to further relieve liquidity pressure on the credit markets, the Fed took two actions on May 2, 2008. First, it expanded the TAF to $150 billion. Second, it allowed the TSLF to purchase any AAA asset backed signature, which effectively allocated more of the bad assets to the Fed in exchange for Treasury financial instruments. And on July 20th, the Fed reformed the TAF to include 84 day loans along with 28 day loans.

There was a plethora of activity which took place during September of 2008 in response to the burgeoning liquidity crisis.

- Congress passed a resolution on September 7, to create a conservatorship for Fannie and Freddie.
- Merrill Lynch was sold to Bank of America.
- Lehman went bankrupt.
- Money market funds were affected adversely when the shares price of the Reserve Primary Fund fell below $1.00.
- Fed lent AIG $85 billion and effectively nationalized the insurance company.
- Fed extended non-recourse loans to finance purchases of high quality Asset-backed Commercial Paper (ABCP) from money market mutual funds.
- Treasury proposed the Troubled Assets Relief Program (TARP).

- Goldman Sachs and Morgan Stanley became bank holding companies.
- Washington Mutual's assets were sold to JP Morgan.
- TAF increased the size of the 84 day auctions to $75 billion from $25 billion.

October was a very busy month too.

- Congress eventually passed TARP.
- Wells Fargo purchased Wachovia.
- Fed announced it would pay interest on required and excess reserves.
- Fed established Commercial Paper Funding Facility and Money Market Investor Funding Facility.
- TARP restructured so it could purchase equity stakes in nine U. S. banks.
- Fed increased interest payments on excess reserves from Fed Funds.

On November 5, 2008, the Fed increased interest payments on required reserves from Fed funds.

Why did it occur?
(As background information leading up to the reasons why financial institutions failed, Dr. Rosen covered some economic concepts and theories. He discussed capital development and the "Financial Instability Hypothesis". He then tied these concepts and theories with the current residential mortgage problems.)

Capital Development is based on the Keynesian viewpoint of economics, and is essentially the exchange of present money for future money. In other words, present money pays for resources (investments) that serve as input for the production of output. The output is then sold for future money (profits). Therefore, investment is financed based upon the expectation of future profits, and repayments are financed by the realized profits.

Capital Development is not limited to business firms. Households borrow money through use of credit cards and pay off with future income. Likewise, governments issue short and long term debt that will be financed via future taxes.

Under Keynesian theories, a bank's only role is to provide funding for investments. However, Dr. Hyman Minsky, an American economist who proposed theories regarding the characteristics of financial market crisis and is credited with the "Financial Instability Hypothesis", argued that banks are profit seeking, and they profit through financing activities. Additionally, firms seeking funds for investment opportunities pay banks based upon the risk of the investment.

Dr. Minsky proposed that the future income-debt relationship for the firms could be broken down into three categories: hedge, speculative, and Ponzi finance. Hedge borrowers seek investments with the intent of repaying their investment obligations (interest and principal) with current cash flows. These investments are deemed relatively low risk. An example is the replacement of capital equipment used to produce a good.

Speculative borrowers believe they can service their interest portion but must continually roll over the principal into new investments. Future cash flows will need to increase in order to repay the principal payments. Relative to hedge financing, these investments are higher risk. An example is a corporation with floating issues of commercial paper.

Ponzi borrowers do not have adequate cash flows to pay back the interest payments or the principal payments from the financial activity. When engaging in this type of financing, the firms hope the assets will appreciate in value over time to pay off the debt. If cash becomes scarce, firms will be forced to sell the investment. During bad economic times, this may lead to a collapse of the assets' values. Ponzi is the riskiest form of financing.

So how do borrowers for residential mortgages fit? Well, prime borrowers, those with a fixed rate with at least 20% down, fall under the hedge financing category. Borrowers' with adjustable rate mortgages with at least 20% down fall somewhere between hedge and speculative financing. Finally, subprime borrowers, or Interest Only borrowers with no down payment, engage in Ponzi financing.

According to Dr. Minsky, a moment will occur when banks realize the income debt relationship moves from primarily hedge financing to primarily speculative/Ponzi financing. Once this moment occurs, banks become overly cautious and/or restrictive in their lending. Consequently, bankruptcies and foreclosure occur and asset values plummet.

This movement from financial market robustness to instability is what Minsky called the "Financial Instability Hypothesis". Additionally, the moment when banks realize the transition to a primarily speculative/Ponzi financing and restrict lending has been dubbed the "Minsky Moment".

In terms of recent events, subprime lending has been a catalyst to our current financial crisis. Early in this decade, cost of lending became very inexpensive as the Fed Funds were at historic lows. Seeing an opportunity, unregulated mortgage brokers processed a significant number of no/low document loans to risky buyers. Likewise, bankers were able to obtain large profits by purchasing the loans, securitizing them, and selling them to investors. Their loans were essentially all Ponzi financed, and they required the underlying assets to increase in order for the borrower to pay off their debt.

As mortgage rates increased, borrowers who had adjustable mortgages could not afford to pay their mortgage payments. New construction far outpaced housing demand and housing prices began to decline. Borrowers could not refinance their mortgage because the rates were higher than they could afford and their house was worth less than their current mortgage. Borrowers were forced into foreclosure which pushed housing prices further down.

By 2007, as more borrowers failed paying their mortgages, banks and other lenders realized they had entered into a Ponzi financing scheme. As noted earlier, in July 2007, two Bear Stearns subprime hedge funds failed, which sent the first shock wave through the financial markets. Banks tightened their lending standards and made it much more difficult on potential buyers (regardless of credit history) to obtain mortgage loans. The restriction caused housing prices to accelerate downward as the demand for housing was artificially stunted.

Where do we go from here?

It is very difficult to forecast what will happen next given that this financial crisis is somewhat unique. However, it is reasonable to assume that Gross Domestic Product (GDP) will be lower in the future due to an increase in household savings rate.

With anecdotal evidence suggesting banks are tightening household credit, it is only a matter of time before credit card limits will tighten, which implies that consumers will have to save more today so they can pay for goods tomorrow. This increase in the consumers' savings rate will prevent consumption growth (which represents 70% of GDP); thus lowering GDP.

(Additionally, Dr. Rosen indicated that his current forecast for the US fell within the mainstream of other economic forecasts. Other predictions included:)

- Next Export Growth will continue but at a more modest pace as the dollar has rallied greatly against the currencies of the US' trading partners
- Gross Domestic Investment will decline due to an over abundant supply of housing, which will continue to push investment in new construction lower.
- The unemployment rate will increase gradually to the end of 2010 due to job losses resulting from a very weak economy.

2008 Treasurer's Report for KY LOMA SOCIETY

2008 Annual Treasurer's Report:	
Membership dues	$520.00
Luncheons/breakfast meetings	$120.00
Annual banquet	$155.00
Total Income:	$795.00
Speaker/recognition gifts	$60.00
Annual banquet	$254.40
Luncheons/breakfast meetings	$260.84
Total Expenses:	$575.24
Net Income	$219.76
Beginning Balance:	$4,621.40
Ending Balance:	$4,841.16

	2009 Officers and Board Members
President	**Meredith Hettinger, FLMI, CPA** ResCare, Inc. mhettinger@rescare.com (502) 420-2502
Vice President	**Linda Sullivan, FLMI, CMA** AEGON lsullivan@aegonusa.com (502) 560-4671
Treasurer	**Allison Craig, AIRC** AEGON acraig@aegonusa.com (502) 560-3016
Secretary	**Polly Stone, FLMI, CPA** Atria Senior Living Group, Inc Polly.stone@atriaseniorliving.com (502) 779-7480
Board Member	**Eddie Cook, FLMI, CPA** Ecook55@yahoo.com (502) 228-2535
Board Member	**Jeremy Vessels, ASA, CFA, AAPA, ACs, CERT, FLMI, MAAA, UND, FFSI** AEGON jvessels@aegonusa.com (502) 560-3108
Board Member	**Karen Christensen, AAPA, ACS, CERT, FLMI, FFSI** Humana, Inc. Kchristensen@humana.com (502) 580-8840
Board Member	**Mark Evans, FLMI/M, FSA, MAAA** AEGON mevans@aegonusa.com (502) 560-2338
Board Member	**Dianne Jensen, FLMI** DianneJ@insightbb.com (502) 290-8600

2009 Committees	**Members Serving**
Audit	Meredith Hettinger
Community Service Projects KDF Academic Challenge Ronald McDonald House	 Mark Evans Dianne Jensen, Allison Craig
Distinguished Service Award	Mark Evans, Polly Stone
Education and Program	Karen Christensen, Mark Evans, Meredith Hettinger
Membership	Mark Evans, Allison Craig, Linda Sullivan
Newsletter and Publicity	Karen Christensen, Meredith Hettinger, Linda Sullivan
Nominations	Meredith Hettinger, Allision Craig
Social Events	Eddie Cook
Technology	Jeremy Vessels