



ENDSIGHT

ALERT!!!
 September 17, 2008

ENDSIGHT is a quarterly publication of Executive Compensation Solutions, who is entirely responsible for its content. Please contact us at www.ecs-m.com, creditunion@ecs-m.com or (626) 914-2333.

ECS INSURANCE CARRIERS REMAIN STRONG IN FACE OF FINANCIAL MARKET TURMOIL

Credit union executives nationwide are undoubtedly closely watching the financial markets to determine the potential impact of the spreading crisis on their financial statements. With the closing or takeover of banks and other financial institutions, the government takeover of Fannie Mae and Freddie Mac, the recent bankruptcy of Lehman Brothers and the Federal Reserve's \$85 billion bridge loan to the country's largest insurance company, American International Group ("AIG"), credit unions are vigorously working to determine potential negative impact to their balance sheets and income statements. As the financial markets appear to be entering the "eye of the storm," some credit unions may experience a direct negative impact if the credit union has dealings or exposure to an injured financial entity. In some cases, there could be an indirect impact as well as seemingly unaffected credit unions feel the "ripples" of the storm.

Insurance companies, which, until now, had largely avoided the severe consequences of present economic conditions, are now front-page news with the Federal Reserve's and public company efforts to save AIG from a collapse. As of the writing of this **ENDSIGHT Alert**, AIG recapitalization efforts came in the form of a bridge loan from the Federal Reserve Bank for \$85 billion at an 11 percent interest rate. This government bailout has far-reaching effects beyond the immediate impact to AIG policyholders. Historically, with previous insurance company failures, all death benefits and variable cash were paid to clients. However, in some cases, cash values were not paid out on surrender at 100 percent and loans were suspended. We should note that this history of payouts is not a guarantee of future results.

With the above being said, two important points can be made here. First, **Executive Compensation Solutions ("ECS") does not have any direct or indirect exposure to AIG.** Second, **our credit union clients that have funded their executive benefits through purchased life insurance products did so with highly**

rated insurance carriers. None were placed with AIG. The life insurance carriers primarily used by ECS include Pacific Life, Manulife/John Hancock Financial¹, and Lincoln Financial Group.

ECS INSURANCE CARRIERS ARE HIGHLY RATED

Each of these insurance carriers continues to perform well despite the turmoil in the financial markets. In addition, each carries some of the strongest credit ratings from respected independent ratings firms who routinely assess their financial strength and stability. The following table summarizes the ratings for your executive benefit insurance carriers:

	PACIFIC LIFE	MANULIFE/ JOHN HANCOCK	LINCOLN FINANCIAL GROUP
A.M. Best	A++	A++	A+
Standard & Poor's	AA	AAA	AA
Moody's	Aa3	Aa1	Aa3
Fitch	AA	AA+	AA

As you can see in the ratings table above, each insurance carrier has received very strong ratings from each of the major independent rating agencies. An example of the rating definitions for A.M. Best's A++ rating is "Superior." A.M. Best goes on to say that the A++ rating is "...assigned to companies that have, in our opinion, a superior ability to meet their ongoing obligations to policyholders." In addition, Manulife/John Hancock is one of only two publicly traded life insurance companies rated 'AAA' by Standard & Poor's. We will continue to monitor these independent ratings and alert you should any adverse rating actions take place.

While ratings are an important component of a credit unions due diligence on any financial counterparty, relying solely on independent ratings falls far short of adequate due diligence. Other components to be reviewed on a regular basis for all insurance carriers include capital, diversification, asset quality, as well as management. Pacific Life, Manulife/John Hancock, and Lincoln Financial Group are considered appropriately capitalized, assets are well diversified,

asset quality remains high, and management of each continues to produce strong financial performance and demonstrate a consistent and well-balanced investment philosophy.

FINANCIAL CONDITION

The financial information below represents a snapshot of each of the three carriers as of June 30, 2008. Each of the insurance carriers has assets in excess of \$95 billion, a strong equity position, and continues to generate positive earning results.

(IN MILLIONS)	PACIFIC LIFE	MANULIFE/ JOHN HANCOCK ²	LINCOLN FINANCIAL GROUP
Assets	\$95,397	\$351,787	\$184,281
Equity	\$3,755	\$23,329	\$11,306
Net Income	\$322	\$1,731	\$125

In addition to the strong financial metrics above, the quality of each insurance carrier's investment portfolio continues to be strong. Each has minimal exposure to non-investment grade securities and other high-risk assets such as those backed by sub-prime mortgages. Non-investment grade securities represent only 4%, 4.8%, and 5.2% of the total investments held by Pacific Life, Manulife/John Hancock, and Lincoln Financial Group, respectively. Also, each had very minimal exposure to Collateralized Debt Obligations ("CDO's") which often are backed by multiple Residential Mortgage Backed Securities ("RMBS") that contain subprime loans. Each also holds a minimal amount of investment securities directly backed by sub-prime mortgages. They represent 2%, .3%, and 1.2% of total investment securities held by Pacific Life, Manulife/John Hancock, and Lincoln Financial Group, respectively. These securities are all classified as Available-For-Sale ("AFS") and carried on the books at fair value with a corresponding unrealized loss carried through Other Comprehensive Income ("OCI").

Credit derivatives are an important tool for insurance companies in mitigating risk. Each of the carriers utilized by ECS has employed credit derivatives in a prudent manner. Unlike AIG's parent company, these carriers do not participate in uncovered credit swaps.

ECS RECOMMENDS DIVERSIFICATION OF CARRIERS

Executive Compensation Solutions has had a long-standing practice of advising our credit union clients to remain diversified amongst insurance carriers despite the fact that no regulation currently exist requiring credit unions to do so. We recommend and credit union clients have followed a practice of investing a maximum of 15 percent of capital with any single insurance carrier. Some might call that

diversification practice a "belt and suspenders" approach to investing with insurance carriers. We simply call it a sound purchasing practice.

FINAL THOUGHTS

While the credit crisis has implications that are far reaching, the breadth of which is still not known, like the credit union industry, these insurance carriers continue to be well capitalized and have avoided many of the problems plaguing the banking industry and AIG. We will continue to monitor developments in the financial markets and the insurance industry that might impact our credit union clients and provide you with updates as appropriate. Please don't hesitate to contact Executive Compensation Solutions should you have additional questions.

¹In 2004, John Hancock Financial Services, Inc. merged with Manulife Financial Corporation headquartered in Toronto, Canada. The John Hancock companies operate as the U.S. division of Manulife. Both Manulife and John Hancock carry the same ratings from A.M. Best, Standard & Poor's, Moody's and Fitch.

²Financial information for Manulife/John Hancock is presented on a consolidated basis. The financial highlights for Manulife have been converted to U.S. dollars for comparative purposes. The exchange rate as of 9/16/2008 was utilized in the conversion.

This material is provided for informational purposes only and should not be construed as legal or tax advice. Please consult with your attorney or tax advisor, as applicable.