ACLI
Financial Security. For Life.

5433
FTR

Kate Kiernan
Senior Counsel, State Relations

Testimony of the American Council of Life Insurers
before the Insurance and Real Estate Committee
March 9, 2010

House Bill 5433 – An Act Adjusting Insurance Guaranty Fund Credits

Senator Crisco, Representative Fontana, and members of the Insurance and Real Estate Committee, we appreciate the opportunity to offer the following comments in opposition House Bill 5433 – An Act Adjusting Insurance Guaranty Fund Credits.

The American Council of Life Insurers ("ACLI") opposes the passage of HB 5433. If adopted, the proposal would result in a set-back to the guaranty fund security net for Connecticut consumers.

If Connecticut's premium tax offset is reduced, well-managed Connecticut insurance companies would be penalized three times. First, when they lose business to competitors who inadequately price their products; second, when they are assessed by the guaranty association to cover the costs of those competitors' insolvencies; and third, when they are unable to offset a portion of their paid assessments against premium taxes.

As a matter of fairness, companies that are assessed to pay the unpaid claims and obligations of poorly-run competitors should be able to recover some of their costs through tax offsets.

Through the guaranty system, solvent companies essentially provide interest-free loans to the state in order to cover a competitor's policyholder obligations. The tax offset provision contained in current Connecticut law, C.G.A. 38a-867(h)(1), permits life and health insurers to offset paid guaranty assessments against premium taxes at a rate of 20% a year over 5 years. If an insurer is assessed $100,000 and is allowed a tax offset of 20 percent over 5 years, the insurer's net recovery (after taking into account the time value of money) is only about $76,000 (assuming a 10% discount rate based on the cost of capital). 44 states and the District of Columbia have tax offset provisions.

There have been comparisons made between banking institutions contributions to the Federal Deposit Insurance Corporation ("FDIC") and insurer payments to the guaranty fund. It is important to note that banks receive a federal tax deduction for payments to the FDIC. If banks receive a tax deduction for protecting deposits against their own failure, similarly insurers should be allowed to offset for covering the claims and obligations of a competitor and protecting Connecticut consumers from financial loss.

In conclusion, life insurers have limited ability to recoup guaranty fund assessments through premiums. The premiums of most life insurance policies are fixed for years into the future. The reduction of the tax offset could expose insurers to future liabilities that are unknown and unquantifiable.

Thank you for considering our position in opposition to HB 5433 – An Act Adjusting Insurance Guaranty Fund Credits. Please contact Kate Kiernan at 202-624-2463 with questions.

American Council of Life Insurers
101 Constitution Avenue, NW, Washington, DC 20001-2133
(202) 624-2463 t (866) 953-4114 f katekiernan@acli.com
www.acli.com