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Testimony of the American Council of Life Insurers
Before the Commerce Committee
Tuesday, March 15, 2011

House Bill 6583 – An Act Concerning Public Employees Benefit Solvency

Senator LeBeau, Representative Berger, and members of the Commerce Committee, the American Council of Life Insurers ("ACLI") appreciates the opportunity to offer the following comments in opposition to **House Bill 6583 – An Act Concerning Public Employees Benefit Solvency**. The ACLI has evaluated proposals to fund state retirement funds with government-owned life insurance (GOLI). No proposal that we have examined has been determined to be sound as a matter of insurance principles or likely economic viability. The ACLI respectfully recommends HB 6583 be rejected or, at the least, referred for continued study. The Committee should be aware of the following concerns.

Insurable Interest

In order to prevent strangers from taking out life insurance policies on an individual and then profiting from that individual's death, the law requires that a person have an **insurable interest** the individual's life in order to obtain a life insurance policy. A fundamentally important principle of life insurance since the 17th century, insurable interest stands for the proposition that at the time the life insurance policy is issued, the person who procures the policy, or causes the policy to be procured, must have a lawful and substantial economic interest in having the life of the insured individual continue, as distinguished from an interest that would only arise by, or would be enhanced in value by, the death of the insured. A person is generally deemed to have insurable interest when the purchaser of the life insurance policy has a reasonable expectation of benefit from the continued life of the insured. For instance spouses have insurable interest in each other and parents have insurable interest in their children. If insurable interest laws did not exist, some people might be tempted to take out life insurance on strangers and then murder them for the profit.

There is no traditional recognition of government having an insurable interest in its employees. Moral hazards arise with regard to several issues. Government licenses insurers and its agencies might be influenced to affect insurance company underwriting, rating, pricing and claims administration to the benefit of government and detriment of private business and its shareholders. Government operates medical programs and, therefore, its agencies could be influenced to deliver or withhold medical services to government beneficiaries with chronic or terminal illness to maximize life insurance support of the retirement programs. Officials can also order government employees into harm's way. The most concerning scenario involves the challenges in sustaining premium payments. The pressure to pay the extraordinary cost of maintaining the life insurance policies will encourage the sale of policies on the secondary market. Speculators seeking intermediary fee income may propose settlement of government-owned policies to strangers also lacking insurable interest in the lives of government employees. The argument for such settlements

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will be to generate short-term liquidity for premium payments but the effect will be destructive to the adequacy of funding the purpose and goals of the government insurance program.

The proposal before you today has all the markings of janitor insurance and certainly runs counter to the sprit of current statutory restrictions on employee owned life insurance.

Cost to Government

It will be extremely costly for government or a public retirement system to purchase life insurance on the lives of employees and/or retired employees. Questions arise whether non-discriminatory classes of employees and retirees sufficiently large and diverse to permit sound underwriting exist. In any likely scenario, the premium to insure a sufficiently large group would likely amount to millions of dollars a year even for a small state or public employee retirement system. Even if funds might be found in a short term from existing reserves for government-employee or pension funds, such funds were collected by taxation, and any shortfalls in sustaining the insurance policies might require higher taxes. The insurance benefits to government retirement plans would take years to realize net gains, if ever, but the premium costs would be incurred in the early years of any program. A government agency seeking relief from current or near-time relief of under-funding of public employee retirement programs would likely exacerbate rather than diminish its financial dilemma by adding large insurance premium costs.

Additional Questions to Consider

Will the state continue to pay premiums as budgets are stressed? How will these policies be "managed" as the investment and budget environments evolve? Does everyone get underwritten, or is this a guaranteed issue offer? What mortality implications will there be? Is this it's own segmented class, where the dividends payable are isolated to this business alone? How big are the projected dividends? If so, will they actually emerge as illustrated. If the policies are experienced rated through the dividend process, the "low" bidder may not end up being the low-cost provider. And lastly, with this large a population, the policy maintenance costs will be high. As a result, what kind of customer service is required of this business, and what are the costs?

Thank you for considering our position in opposition to HB 6583 regarding government owned life insurance. Please contact Kate Kiernan at 202-624-2463 with questions.

ACLI is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 242 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.