

Statement

Insurance Association of Connecticut

Finance, Revenue and Bonding Committee

March 7, 2011

SB 1007, An Act Concerning The Governor's Recommendations
On Revenue

The Insurance Association of Connecticut (IAC) opposes sections 1, 2 and 3 of SB 1007, An Act Concerning The Governor's Recommendations On Revenue, which would increase Connecticut's premium tax from 1.75% to 1.95%. The Connecticut Association of Health Plans shares our concerns with those provisions.

The insurance industry understands the serious challenges that Governor Malloy and the General Assembly face in developing a balanced state budget during these difficult times.

The insurance industry looks forward to working with you in your efforts to seek appropriate solutions to the state's fiscal problems. However, we believe that increasing the premium tax would actually be contrary to the best interests of the state, and should not be part of that solution.

If Connecticut increases its premium tax, all insurers (both domestic and non-domestic) will pay the increase to the state. Connecticut insurers will also have to pay increased taxes to other states where they do business, due to the existence of retaliatory tax laws.

Forty-nine states, including Connecticut (C.G.S. 12-211), have retaliatory, or reciprocal, tax statutes. Retaliatory tax is the mechanism through which insurance companies are protected from excessive or discriminatory taxation when doing business in another state. In its simplest form, a retaliatory tax calculation compares the tax burdens between two states, the state in which the insurer is doing business (host state) and the insurer's state of domicile (home state).

When a state other than Connecticut (State X) determines what taxes a Connecticut insurer must pay to it, it compares the amount of taxes insurers pay for doing business in State X to the amount of taxes that Connecticut charges to insurers domiciled in State X for doing business in Connecticut. If Connecticut taxes are higher, then State X will assess a retaliatory tax on Connecticut insurers doing business in State X equal to the excess amount in order to "level the playing field".

If Connecticut increases its premium tax rate, Connecticut insurers doing business across the country will suffer increased retaliatory tax liabilities in numerous states. The degree of impact will vary from insurer to insurer, based on the specifics of their business.

The total retaliatory tax impact of SB 1007 on a Connecticut insurer will likely be a multiplier of the additional amount that the insurer pays to Connecticut in increased premium taxes. As you can see from the attached exhibit, using estimates from five Hartford-area insurers, an increase in the state's premium tax from 1.75% to 1.95% will cost those insurers an additional \$4.7 million dollars in one year in Connecticut, but will cost them an additional \$49.2 million dollars in retaliatory taxes that they will be

forced to pay to other states. Those retaliatory taxes will certainly pad other state's coffers, as the exhibit shows, but will do nothing to help Connecticut's financial bottom line while having a counterproductive effect on the state's insurance industry.

Insurance is an export business. Well over 90% of the policyholders of Connecticut insurers are located outside of Connecticut. An increase in Connecticut's premium tax, and a corresponding increase in retaliatory taxes paid to other states, will increase the cost of Connecticut insurers doing business in those states, putting them at a competitive disadvantage.

Connecticut-based insurance jobs exist in large part because of state-domiciled insurers' ability to sell their products and services in other states. In the highly competitive insurance marketplace, an increased retaliatory tax burden will have a direct, detrimental effect on Connecticut insurers' ability to maintain their market shares across the country. It may also serve as a disincentive for insurers to domesticate here.

We urge rejection of sections 1, 2 and 3 of SB 1007.

SB 1007, An Act Concerning The Governor's Recommendations On Revenue

-Sections 1, 2 and 3: increase Connecticut's premium tax rate from 1.75% to 1.95%

Tax Impact on Five Connecticut Domiciled Insurers

(Aetna, CIGNA, The Hartford, Travelers, United Healthcare;
Total Employment in State: 31,448)

	<u>Additional Premium Taxes in CT*</u>	<u>Additional Retaliatory Taxes In Other States*</u>
Insurer A:	\$1,000,000	\$ 4,000,000
Insurer B:	645,660	10,528,065
Insurer C:	989,745	23,223,644
Insurer D:	855,150	5,558,754
Insurer E:	<u>1,223,580</u>	<u>5,866,222</u>
Total	\$4,714,135	\$49,176,685

Top Five Beneficiary States (Increased Retaliatory Taxes From Five Insurers)*

1. Texas:	\$10,046,325
2. Florida:	\$ 8,917,609
3. Illinois:	\$ 4,431,821
4. Ohio:	\$ 4,380,335
5. New Jersey:	\$ 3,665,901

*Estimated, Using 2010 Data