



House of Representatives

File No. 605

General Assembly

February Session, 2012

(Reprint of File No. 214)

Substitute House Bill No. 5229
As Amended by House Amendment
Schedule "A"

Approved by the Legislative Commissioner
May 2, 2012

**AN ACT CONCERNING REPORTING AND FINANCIAL
REQUIREMENTS OF CERTAIN ASSOCIATIONS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 38a-625 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective July 1, 2012*):

3 (a) Nothing contained in sections 38a-595 to 38a-626, inclusive, as
4 amended by this act, 38a-631 to 38a-640, inclusive, and 38a-800 shall be
5 so construed as to affect or apply to: [(a)] (1) Grand or subordinate
6 lodges of societies, orders or associations doing business in this state
7 on January 1, 1958, [which] that provide benefits exclusively through
8 local or subordinate lodges; [(b)] (2) [orders,] societies, orders or
9 associations [which] that admit to membership only persons engaged
10 in one or more crafts or hazardous occupations, in the same or similar
11 lines of business, and the ladies' societies or ladies' auxiliaries to such
12 [orders,] societies, orders or associations; [(c)] (3) domestic societies
13 [which] that limit their membership to employees of a particular city
14 or town, designated firm, business house or corporation, [which] that
15 provide for a death benefit of not more than four hundred dollars or

16 disability benefits of not more than three hundred fifty dollars to any
17 person in any one year, or both; [(d)] (4) domestic societies or
18 associations of a purely religious, charitable or benevolent description,
19 [which] that provide for a death benefit of not more than four hundred
20 dollars or for disability benefits of not more than three hundred fifty
21 dollars to any one person in any one year or both; [or (e)] (5) nonprofit
22 voluntary associations [which] that provide ambulance service [,] and
23 are financed by subscription or gifts only; or (6) associations that are
24 tax-exempt organizations under Section 501(c)(23) of the Internal
25 Revenue Code of 1986, or any subsequent corresponding internal
26 revenue code of the United States, as amended from time to time.

27 (b) Any such society or association described in subdivision [(c)] (3)
28 or [(d)] (4) of subsection (a) of this section, [which] that provides for
29 death or disability benefits for which benefit certificates are issued, and
30 any such society or association included in subdivision [(d) which] (4)
31 of subsection (a) of this section that has more than one thousand
32 members, shall not be [exempted] exempt from the provisions of
33 sections 38a-595 to 38a-626, inclusive, as amended by this act, 38a-631
34 to 38a-640, inclusive, and 38a-800 but shall comply with all
35 requirements [hereof] in said sections. No society [which] that, by the
36 provisions of this section, is exempt from the requirements of said
37 sections, except any society described in subdivision [(b)] (2) of
38 subsection (a) of this section, shall give or allow, or promise to give or
39 allow, to any person any compensation for procuring new members.
40 Every society [which] that provides for benefits in case of death or
41 disability resulting solely from accidents, and [which] that does not
42 obligate itself to pay natural death or sick benefits, shall have all the
43 privileges and be subject to all the applicable provisions and
44 regulations of said sections, except that the provisions [hereof] in said
45 sections relating to medical examination, valuations of benefit
46 certificates and incontestability shall not apply to such society. The
47 commissioner may require from any society or association, by
48 examination or otherwise, such information as will enable [him] the
49 commissioner to determine whether such society or association is

50 exempt from the provisions of said sections. Societies [.] exempted
51 under the provisions of this section [.] shall also be exempt from all
52 other provisions of the insurance laws of this state. Except as provided
53 in subsection (b) of section 38a-614, as amended by this act, and section
54 38a-615, as amended by this act, associations exempted under the
55 provisions of subdivision (6) of subsection (a) of this section shall also
56 be exempt from all other provisions of the insurance laws of this state.

57 Sec. 2. Section 38a-595 of the general statutes is repealed and the
58 following is substituted in lieu thereof (*Effective July 1, 2012*):

59 Any incorporated society, order or supreme lodge, without capital
60 stock, including one exempted under subdivision [(b)] (2) of subsection
61 (a) of section 38a-625, as amended by this act, whether incorporated or
62 not, conducted solely for the benefit of its members and their
63 beneficiaries and not for profit, operated on a lodge system with
64 ritualistic form of work, having a representative form of government,
65 and [which] that makes provision for the payment of benefits in
66 accordance with sections 38a-595 to 38a-626, inclusive, as amended by
67 this act, 38a-631 to 38a-640, inclusive, and 38a-800, is declared to be a
68 fraternal benefit society. When used in sections 38a-595 to 38a-626,
69 inclusive, as amended by this act, 38a-631 to 38a-640, inclusive and
70 38a-800, "society", unless otherwise indicated, means fraternal benefit
71 society and "premiums" means premiums, rates or other required
72 contributions by whatever name known.

73 Sec. 3. Section 38a-614 of the general statutes is repealed and the
74 following is substituted in lieu thereof (*Effective July 1, 2012*):

75 (a) [Reports] A society shall [be filed and] file reports and publish
76 synopses of annual statements [shall be published] in accordance with
77 the provisions of this [section] subsection.

78 (1) [Every] Each domestic society transacting business in this state
79 shall, annually, on or before the first day of March, unless the
80 commissioner has extended such time for cause shown, [such time has
81 been extended by the commissioner,] file with the commissioner, and

82 electronically to the National Association of Insurance Commissioners,
83 a true and complete statement of its financial condition, transactions
84 and affairs for the preceding calendar year and pay a fee of ten dollars
85 for filing the same. The statement shall be in general form and context
86 as approved by the National Association of Insurance Commissioners
87 for fraternal benefit societies and as supplemented by additional
88 information required by the commissioner. An electronically filed true
89 and complete report filed in accordance with section 38a-53a that is
90 timely submitted to the National Association of Insurance
91 Commissioners [does] shall not exempt a domestic [insurance
92 company or health care center] society from timely filing a true and
93 complete paper copy with the commissioner.

94 (2) [Every] Each foreign society transacting business in this state
95 shall, annually, on or before the first day of March, unless the
96 commissioner has extended such time for cause shown, [such time has
97 been extended by the commissioner,] file with the commissioner, and
98 electronically to the National Association of Insurance Commissioners,
99 a true and complete statement of its financial condition, transactions
100 and affairs for the preceding calendar year and pay a fee of ten dollars
101 for filing the same. The statement shall be in general form and context
102 as approved by the National Association of Insurance Commissioners
103 for fraternal benefit societies and as supplemented by additional
104 information required by the commissioner. An electronically filed true
105 and complete report filed in accordance with section 38a-53a that is
106 timely submitted to the National Association of Insurance
107 Commissioners shall be deemed to have been submitted to the
108 commissioner in accordance with this [section] subsection.

109 (3) [A] Not later than June first, annually, each society shall print
110 and mail to each benefit member of the society a synopsis of its annual
111 statement [providing] that provides an explanation of the facts thereby
112 disclosed concerning the condition of the society. [thereby disclosed
113 shall be printed and mailed to each benefit member of the society not
114 later than the first day of June of each year, or, in] In lieu thereof, a
115 society may publish such synopsis [may be published] in the society's

116 official publication.

117 (4) (A) As part of the annual statement [herein] required under this
118 subsection, each society shall, annually, on or before the first day of
119 March, file with the commissioner a valuation of its certificates in force
120 on December thirty-first last preceding, provided the commissioner
121 may, [in his discretion] for cause shown, extend the time for filing such
122 valuation for not more than two calendar months. Such report of
123 valuation shall show, as reserve liabilities, the difference between the
124 present midyear value of the promised benefits provided in the
125 certificates of such society in force and the present midyear value of
126 the future net premiums as the same are in practice actually collected,
127 not including therein any value for the right to make extra assessments
128 and not including any amount by which the present midyear value of
129 future net premiums exceeds the present midyear value of promised
130 benefits on individual certificates.

131 (B) At the option of any society, in lieu of the [above] valuation
132 specified in subparagraph (A) of this subdivision, the valuation may
133 show the net tabular value. Such net tabular value as to certificates
134 issued prior to January 1, 1959, shall be determined in accordance with
135 the provisions of law applicable prior to January 1, 1958, and as to
136 certificates issued on or after January 1, 1959, shall not be less than the
137 reserves determined according to the Commissioners' Reserve
138 Valuation method as hereinafter defined. If the premium charge is less
139 than the tabular net premium according to the basis of valuation used,
140 an additional reserve equal to the present value of the deficiency in
141 such premiums shall be set up and maintained as a liability. The
142 reserve liabilities shall be properly adjusted if the midyear or tabular
143 values are not appropriate.

144 (5) Reserves according to the Commissioners' Reserve Valuation
145 method, for the life insurance and endowment benefits of certificates
146 providing for a uniform amount of insurance and requiring the
147 payment of uniform premiums, shall be the excess, if any, of the
148 present value, at the date of valuation, of such future guaranteed

149 benefits provided for by such certificates over the then present value of
150 any future modified net premiums therefor. The modified net
151 premiums for any such certificate shall be such uniform percentage of
152 the respective contract premiums for such benefits that the present
153 value, at the date of issue of the certificate, of all such modified net
154 premiums shall be equal to the sum of the then present value of such
155 benefits provided for by the certificate and the excess of (A) over (B), as
156 follows: (A) A net level premium equal to the present value, at the date
157 of issue, of such benefits provided for after the first certificate year,
158 divided by the present value, at the date of issue, of an annuity of one
159 per annum payable on the first and each subsequent anniversary of
160 such certificate on which a premium falls due; provided such net level
161 annual premium shall not exceed the net level annual premium on the
162 nineteen year premium whole life plan for insurance of the same
163 amount at an age one year higher than the age at issue of such
164 certificate; and (B) a net one-year term premium for such benefits
165 provided for in the first certificate year. Reserves according to the
166 Commissioners' Reserve Valuation method for (i) life insurance
167 benefits for varying amounts of benefits or requiring the payment of
168 varying premiums, (ii) annuity and pure endowment benefits, (iii)
169 disability and accidental death benefits in all certificates and contracts,
170 and (iv) all other benefits except life insurance and endowment
171 benefits shall be calculated by a method consistent with the principles
172 of this subdivision.

173 (6) The present value of deferred payments due under incurred
174 claims or matured certificates shall be deemed a liability of the society
175 and shall be computed upon mortality and interest standards
176 prescribed in subdivision (7) of this [section] subsection.

177 (7) Such valuation and underlying data shall be certified by a
178 competent actuary or, at the expense of the society, verified by the
179 actuary of the department of insurance of the state of domicile of the
180 society. The minimum standards of valuation for certificates issued
181 prior to January 1, 1959, shall be those provided by the law applicable
182 immediately prior to January 1, 1958, but not lower than the standards

183 used in the calculating of rates for such certificates. The minimum
184 standard of valuation for certificates issued after January 1, 1959, shall
185 be three and one-half per cent interest and the following tables: (A) For
186 certificates of life insurance, American Men Ultimate Table of
187 Mortality, with Bowerman's or Davis' Extension thereof or, with the
188 consent of the Insurance Commissioner, the Commissioner's 1941
189 Standard Ordinary Mortality Table or the Commissioner's 1941
190 Standard Industrial Table of Mortality, or the Commissioners' 1958
191 Standard Ordinary Mortality Table, except that, with the approval of
192 the commissioner, the valuation of contracts on female risks may be
193 calculated, at the option of the society, according to an age not more
194 than three years younger than the actual age of the insured; (B) for
195 annuity certificates, including life annuities provided or available
196 under optional modes of settlement in such certificates, the 1937
197 Standard Annuity Table; (C) for disability benefits issued in connection
198 with life benefit certificates, Hunter's Disability Table, which, for active
199 lives, shall be combined with a mortality table permitted for
200 calculating the reserves on life insurance certificates, except that the
201 table known as Class III Disability Table (1926), modified to conform to
202 the contractual waiting period, shall be used in computing reserves for
203 disability benefits under a contract which presumes that total disability
204 shall be considered to be permanent after a specified period; (D) for
205 accidental death benefits issued in connection with life benefit
206 certificates, the Inter-Company Double Indemnity Mortality Table
207 combined with a mortality table permitted for calculating the reserves
208 for life insurance certificates; and (E) for noncancellable accident and
209 health benefits, the Class III Disability Table (1926) with conference
210 modifications or, with the consent of the commissioner, tables based
211 upon the society's own experience. The commissioner may [, in the
212 commissioner's discretion,] accept other standards for valuation if the
213 commissioner finds that the reserves produced thereby will not be less
214 in the aggregate than reserves computed in accordance with the
215 minimum valuation standard herein prescribed. The commissioner
216 may, in his or her discretion, vary the standards of mortality applicable
217 to all certificates of insurance on substandard lives or other extra

218 hazardous lives by any society authorized to do business in this state.
219 Whenever the mortality experience under all certificates valued on the
220 same mortality table is in excess of the expected mortality according to
221 such table for a period of three consecutive years, the commissioner
222 may require additional reserves when deemed necessary in [his or her]
223 the commissioner's judgment on account of such certificates. Any
224 society, with the consent of the insurance commissioner of the state of
225 domicile of the society and under such conditions, if any, [which the]
226 that such commissioner may impose, may establish and maintain
227 reserves on its certificates in excess of the reserves required
228 thereunder, but the contractual rights of any insured member shall not
229 be affected thereby.

230 (8) A society [neglecting] doing business in this state that fails to file
231 the annual statement in the form and within the time provided by this
232 [section] subsection shall [forfeit] pay a late filing fee of one hundred
233 seventy-five dollars per day for each day [during which such neglect
234 continues] from the due date of such statement, and, upon notice by
235 the commissioner to that effect, its authority to do business in this state
236 shall cease while such [default] failure to file continues. The
237 commissioner may waive the late filing fee if (A) the society cannot file
238 such statement because the governor of such society's state of domicile
239 has proclaimed a state of emergency in such state and such state of
240 emergency impairs the society's ability to file the statement, or (B) the
241 insurance regulatory official of the state of domicile of a foreign benefit
242 society has permitted the society to file such statement late.

243 (9) Notwithstanding the provisions of this [section] subsection, a
244 society may, with the approval of the Insurance Commissioner, use the
245 standards for valuation and nonforfeiture authorized by the provisions
246 of sections 38a-61, 38a-77, 38a-78, 38a-81, 38a-82, 38a-284, 38a-287, 38a-
247 430 to 38a-454, inclusive, and 38a-458.

248 (b) Each association that is (1) a tax-exempt organization under
249 Section 501(c)(23) of the Internal Revenue Code of 1986, or any
250 subsequent corresponding internal revenue code of the United States,

251 as amended from time to time, (2) doing business in this state, and (3)
252 not licensed under sections 38a-595 to 38a-626, inclusive, as amended
253 by this act, 38a-631 to 38a-640, inclusive, and 38a-800, shall, annually,
254 on or before the first day of May, file with the commissioner a true and
255 complete financial statement audited by an independent certified
256 public accountant or accounting firm of its financial condition,
257 transactions and affairs for the preceding calendar year and pay a fee
258 of ten dollars for filing the same.

259 Sec. 4. Section 38a-615 of the general statutes is repealed and the
260 following is substituted in lieu thereof (*Effective July 1, 2012*):

261 (a) In addition to the annual report required under section 38a-614,
262 as amended by this act, the commissioner, when [he] the commissioner
263 deems it necessary, may require any fraternal benefit society licensed
264 under sections 38a-595 to 38a-626, inclusive, as amended by this act,
265 38a-631 to 38a-640, inclusive, and 38a-800, or any association set forth
266 in subsection (b) of section 38a-614, as amended by this act, to file
267 financial statements on a quarterly basis.

268 (b) In addition to such annual report and the quarterly report
269 required under subsection (a) of this section, the commissioner,
270 whenever the commissioner determines that more frequent reports are
271 required because of certain factors or trends affecting companies
272 writing a particular class or classes of business or because of changes
273 in the company's management or financial or operating condition, may
274 require any fraternal benefit society licensed under sections 38a-595 to
275 38a-626, inclusive, as amended by this act, 38a-631 to 38a-640,
276 inclusive, and 38a-800, or any association set forth in subsection (b) of
277 section 38a-614, as amended by this act, to file financial statements on
278 other than an annual or quarterly basis.

279 (c) If, in the opinion of the commissioner, an association set forth in
280 subsection (b) of section 38a-614, as amended by this act, has not
281 maintained qualified assets, as defined in section 38a-71, sufficient to
282 meet its liabilities and minimum capital and minimum surplus

283 requirements as determined by the commissioner, the commissioner
284 may order such association to increase its capital and surplus. If the
285 association is unable to satisfy such order, the commissioner may order
286 such association to cease and desist from assuming any additional
287 liabilities in this state until such time as the association is able to satisfy
288 the capital and surplus requirements ordered by the commissioner.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2012</i>	38a-625
Sec. 2	<i>July 1, 2012</i>	38a-595
Sec. 3	<i>July 1, 2012</i>	38a-614
Sec. 4	<i>July 1, 2012</i>	38a-615

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 13 \$	FY 14 \$
Insurance Department	GF - Revenue Gain	Minimal	Minimal

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill grants an exemption from the insurance statutes for tax-exempt companies organized before 1880. The one company to which this provision applies already falls outside the jurisdiction of the Department of Insurance, so there is no state fiscal impact.

The bill also establishes a \$10 annual filing fee for these companies and increases late filing fees from \$100 to \$175 per day. This will result in a minimal revenue gain for the state.

House "A" made several technical changes and included the fee changes noted above.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 5229 (as amended by House "A")******AN ACT EXEMPTING CERTAIN ASSOCIATIONS FROM THE INSURANCE STATUTES.*****SUMMARY:**

This bill exempts Internal Revenue Code § 501(c)(23) tax-exempt organizations (those that primarily provide insurance to veterans and their dependents) from most Connecticut insurance laws. The bill requires such organizations to file financial statements with the insurance commissioner annually by May 1 and pay a \$10 filing fee for each. The commissioner, when he deems necessary, may require the organizations to file statements quarterly or more frequently.

Under the bill, if the commissioner determines that such an organization has not maintained qualified assets sufficient to meet its liabilities and minimum capital and surplus requirements as determined by the commissioner, he may order the organization to increase its capital and surplus. If the organization is unable to do so, the commissioner may order it to stop assuming any additional liabilities in Connecticut until the time when it can meet the capital and surplus requirements.

By law, fraternal benefit societies must file financial statements with the insurance commissioner annually by March 1. The bill increases, from \$100 to \$175 per day, the fee a society must pay if it fails to timely file a complete statement. The bill allows the commissioner to waive the late filing fee if (1) the society cannot file on time because the governor of its domiciliary (home) state proclaims a state of emergency that prevents the society from filing the statement or (2) the society's domiciliary state's insurance regulator has allowed it to file the

statement late.

The bill also makes technical changes.

*House Amendment "A" removes a sunset provision; adds exceptions to the insurance law exemption for Internal Revenue Code § 501(c)(23) organizations; increases, from \$100 to \$175 per day, the late filing fee for fraternal benefit societies' annual financial statements; and allows the insurance commissioner to waive the late filing fee in specified circumstances.

EFFECTIVE DATE: July 1, 2012

BACKGROUND

501(c) (23) Organizations

To be tax-exempt under Internal Revenue Code § 501(c)(23), an organization must:

1. have a principal purpose of providing insurance and other benefits to veterans or their dependents,
2. have more than 75% of its members be past or present members of the U.S. armed forces, and
3. be an association organized before 1880.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 19 Nay 0 (03/15/2012)