

Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

February 14, 2012

SB 20, An Act Concerning The Assessment Methodology Used By The Insurance Department And The Office Of the Healthcare Advocate

The Insurance Association of Connecticut (IAC) is opposed to SB 20, An Act Concerning The Assessment Methodology Used By The Insurance Department And The Office Of The Healthcare Advocate.

Currently the Insurance Department's operating costs are funded by an assessment against domestic insurers. SB 20 would expand the assessment base to include all insurers doing business in the state.

While on its face SB 20 might appear to be a positive change for domestic insurers, it actually will cause financial harm to Connecticut insurers that compete for business throughout the country by exposing them to increased retaliatory taxes in other states. SB 20 will result in increased tax collections in other states, benefiting their coffers, but will have a counterproductive effect on the state's insurance industry as they compete for business in those other states.

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 adopts SB 20, 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.

SB 20 would not conform Connecticut law to a national model for funding an insurance department. Many states fund their insurance departments with general fund dollars. Some insurance departments also retain all fees and fines they collect as part of their funding base (in Connecticut, fees and fines are forwarded to the state's General Fund). Some states combine various types of assessments with fines and fees. There is no standard mechanism that states use to fund their respective departments.

Reviewing information published by the National Association of Insurance Commissioners in December, 2011, it appears that approximately 18 states and Washington DC use insurer assessments as a means of funding their respective insurance departments in whole or in part. Of those, several states have established mechanisms to protect their domestic insurers from retaliation. For example, New York and Connecticut only assess domestic insurers. Of the remaining states, most either do not have a major domestic insurer presence or have a low premium tax rate, so the

retaliatory risk for their domestic industry is diminished. It should also be pointed out that several states (such as Kentucky, Maine and Massachusetts) with the statutory authority to assess insurers for funding purposes were reported to have made no such assessments in 2011.

Insurance is an export business. Well over 90% of the policyholders of Connecticut insurers are located outside of Connecticut. Passage of SB 20, 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, and outweigh any local savings SB 20 may create.

IAC urges rejection of SB 20.