Statement

Insurance Association of Connecticut

Commerce Committee

March 20, 2012

HB 5529, An Act Concerning Public Employees Pensions Solvency

The Insurance Association of Connecticut is opposed to Section 2 of HB 5529, An Act Concerning Public Employees Pensions Solvency, as it pertains to the purchase of universal life insurance.

Section 2 of HB 5529 would have the state procure universal life insurance policies of every state employee with the state being the sole beneficiary. HB 5529 would mandate that the state enter into a contract with an insurer to procure life insurance on every single state employee with the state being the sole beneficiary of such policies. The proceeds from such policies, when the employee dies, will be used to replenish the State Retirement Fund. This type of insurance arrangement, the government maintaining life insurance on its employees is referred to as Government Owned Life Insurance, GOLI. The industry has not seen a proposed GOLI deal that is workable. Most of the proposals attempting to establish such an arrangement that the industry has seen in the past have been suspect. To the best of our knowledge there is not a product currently available on the market that would be able to satisfactorily fulfill the mandates of HB 5529.

As drafted, HB 5529 is extremely vague and the details of the product, the enrollment and scope of the coverage are complete unknowns. For all insurance to be maintained the benefactor of the policy must have an insurable interest in the life of the named insured. Does the state have such an interest in all its employees? If the state does have an insurable interest in all its employees surely the interest varies from employee to employee. Yet this proposal is silent on how, or even if, the state employees are to be distinguished. Furthermore, pursuant to the provisions of HB 5529, the duration of the policy appears to be indefinite, remaining in force even after an individual leaves the state's employ.

Another reality of insurance is that an individual only has so much insurance capacity, meaning a person can only insure their life up to a certain dollar amount. The insurable capacity varies greatly from person to person. Depending on how much life insurance the

state procures on the life of an employee, the employee may be limited, or even barred, from obtaining life insurance on their own life to benefit whom they desire.

HB 5529 also mandates that the state enter into a contract with an insurance company to provide individual universal life insurance policies. This provision in of itself raises several concerns. Will the treasurer have to contract with one single insurer or can the treasurer split the book and procure the coverage from multiple insurers? Will the Treasurer be required to accept the lowest bid or have the discretion to factor in financial strength of the insurer, and other relevant information? Does one company even have the capacity to underwrite every single state employee? Would an insurer be required to write all state employees or could the insurer only write certain groups of employees? For example the risk associated with an employee of the Public Safety Commission is far different than that of someone employed by Legislative Management, so would an insurer be able participate in the program but not write the Public Safety personnel?

HB 5529 further mandates that the Connecticut State Employee Retirement Commission determine the amount required to insure each individual state employee. As HB 5529 mandates the policies that are to be procured by individual universal life policies that would require the commission to have to be able generate actuarial figures and underwrite each individual separately. Does the Commission even the have the personnel and financial resources to fulfill the requirements of this proposal? **Where will funds come from to pay the premiums on these policies? As the state will be responsible for maintaining these policies, where will the funds come from to pay the premiums for all these policies?**

Finally, HB 5529 does not prevent the state from settling the policies. So in tough economic times when the state may not have the funds to cover either the premiums or to meet funding requirements of the retirement fund, the state may sell the policy to an third party. The result will be strangers owning life insurance on state employees to whom they have no interest, the very thing this legislature prohibited just two short years ago.

The IAC respectfully requests you carefully consider HB 5529.