

**STATEMENT**

**INSURANCE ASSOCIATION OF CONNECTICUT**

**Insurance and Real Estate Committee**

**March 12, 2013**

**HB 6611, An Act Concerning State Employees' Pensions Solvency**

The Insurance Association of Connecticut is opposed to HB 6611, An Act Concerning State Employees' Pension Solvency.

Although HB 6611's statement of purpose claims that it seeks to gather data and information on ways the state can improve the level of funding for state retirement and pension benefits, it is nothing more than a veiled Request for Proposal, RFP, for the procurement of state-owned life insurance policies.

HB 6611 sets forth information that the Connecticut State Employees Retirement Commission must collect and make available to a "responder". It would appear that a "responder" is a vendor who might provide state-owned life insurance policies to the state. As such, HB 6611 is not seeking information to conduct a thorough and careful analysis of what state-owned life insurance is and how it functions, but more of a demand for information with a pre-determined result.

State-owned life insurance policies, are better known as government owned life insurance policies, GOLI. These are insurance arrangements that the government maintains life insurance on its employees, a concept that the legislature has rightfully rejected for the past two years. The insurance industry has not seen a proposed GOLI deal that is workable, as most of the proposals the industry has been presented have been suspect. To our knowledge there is not a product currently available on the market that a "responder" would have sufficient information or data to independently meet the requirements of HB 6611, hence the need for assigning tasks to different state entities.

GOLI, and GOLI-like products, that are being advanced currently are not sound as a matter of insurance principles or likely economic viability. To be a viable insurance product, the law requires that there exist an insurable interest in the life of the individual for which a life policy is procured. There is no traditional recognition of government having an insurable interest in its employees, therefore GOLIs are not

viable products used in the market. However, HB 6611 seeks to require the Insurance Department to resolve that dilemma by providing guidance to an ultimate vendor on how to overcome this hurdle.

Additionally, such products come with high price tags as the State must incur the cost to procure life policies on the lives of employees and/or retired employees. Questions arise whether non-discriminatory classes of employees and retirees are sufficiently large and diverse to permit sound underwriting. HB 6611 would use the Attorney General's office to try identify smaller classes of employees that such policies may be maintained to reduce the initial cost, something that the advocates for the use of GOLIs have not been able to resolve on their own. Even if there was a viable way to properly identify and underwrite such classes of employees, the premium to insure a sufficiently large enough group would likely amount to millions of dollars a year. The insurance benefits to government retirement plans would take years to realize net gains, if ever. However, the premium costs would be incurred early, therefore for underfunded plans such a program may just exacerbate rather than diminish its financial dilemma. And unlike businesses, the state would not realize any tax advantage under such a financial arrangement.

Although HB 6611 attempts to shift the burden to the state to resolve the failings of GOLI, and GOLI-like products to the benefit of a vendor, it ignores many of the realities of insurance that cannot be answered away. For example, 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 might procure 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 6611 is not a study on feasibility of using such investment mechanisms, like GOLI, but an edict that such a plan must be recommended by January 1, 2014. As there is no viable product on the market and HB 6611 is nothing more than a masked RFP for the procurement of GOLI, or a GOLI-like product, by 2014, the IAC strongly urges your rejection of HB 6611.