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Testimony of the American Council of Life Insurers before the Insurance & Real Estate Committee
Tuesday, March 12, 2013

House Bill 6611 – An Act Concerning Public Employee's Pensions Solvency

Senator Crisco, Representative Megna, and members of the Insurance & Real Estate Committee, the American Council of Life Insurers ("ACLI") appreciates the opportunity to offer the following comments in opposition to House Bill 6611 – An Act Concerning Public Employee's Pensions Solvency. The ACLI has evaluated proposals to fund state retirement funds with government-owned life insurance (GOLI). No proposal that we have examined has been determined to be sound as a matter of insurance principles or likely economic viability. The ACLI respectfully urges your opposition to HB 6611. The proposal before you today runs counter to the spirit of current statutory restrictions on employee owned life insurance.

There is no traditional recognition of government having an insurable interest in its employees. In order to prevent strangers from taking out life insurance policies on an individual and then profiting from that individual's death, the law requires that a person have an insurable interest in the individual's life in order to obtain a life insurance policy. A fundamentally important principle of life insurance since the 17th century, insurable interest stands for the proposition that at the time the life insurance policy is issued, the person who procures the policy, or causes the policy to be procured, must have a lawful and substantial economic interest in having the life of the insured individual continue, as distinguished from an interest that would only arise by, or would be enhanced in value by, the death of the insured. A person is generally deemed to have insurable interest when the purchaser of the life insurance policy has a reasonable expectation of benefit from the continued life of the insured. For instance spouses have insurable interest in each other and parents have insurable interest in their children. If insurable interest laws did not exist, there is a moral hazard that a person could take out life insurance on strangers and then murder them for the profit.

It will be extremely costly for government or a public retirement system to purchase life insurance on the lives of current and retired employees. The premiums could run into the millions of dollars a year even for a small state or public employee retirement system. Taxpayer money would need to be used to purchase the policies and any shortfalls in sustaining the insurance policies might require higher taxes.

Will the state continue to pay premiums as budgets are stressed? How will these policies be "managed" as the investment and budget environments evolve? Does everyone get underwritten, or is this a guaranteed issue offer? What mortality implications will there be? Is this its own segmented class, where the dividends payable are isolated to this business alone? How big are the projected dividends? If so, will they actually emerge as illustrated? If the policies are experienced rated through the dividend process, the "low" bidder may not end up being the low-cost provider. And lastly, with this large a population, the policy maintenance costs will be high. As a result, what kind of customer service is required of this business, and what are the costs?

Thank you for your consideration of our position in opposition to **House Bill 6611 - An Act Concerning State Employees' Pensions Solvency**. Please contact John Larkin at (860) 508-9924 or Kate Kiernan at (202) 624-2463 with any questions.

ACLI is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 233 ACLI member companies licensed to do business in Connecticut, accounting for 90 percent of the ordinary life insurance in force in the state.