

Approved April 25, 1984
Date

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Rep. Rex B. Hoy at
Chairperson

3:30 ~~am~~/p.m. on March 20, 1984 in room 521 S of the Capitol.

All members were present except:

Rep. Peterson, who was excused.

Committee staff present:

Wayne Morris, Legislative Research
Gordon Self, Revisor's Office
Mary Sorensen, Committee Secretary

Conferees appearing before the committee:

Mark Heitz, Security Benefit Life
Richard Brock, Insurance Department

Others Present: See List (Attachment 1)

SB 560, by Senate Committee on Commercial and Financial Institutions-- concerning financial requirements for foreign and domestic insurance companies, was first up for final action. Wayne Morris, Legislative Research, briefly explained the bill, and that it was Insurance Department Proposal No. 1. He also explained the amendment that came out of the Senate. There were questions on the bill and amendment, and Richard Brock responded and explained why the Insurance Department thought the increases were needed. Rep. Cribbs moved to pass out SB 560 favorably as amended. Rep. Fuller seconded. The motion carried.

SB 697, by Senate Committee on Commercial and Financial Institutions-- concerning nonprofit dental service corporations, was next for final action. A brief review of the bill was given. Rep. Littlejohn moved to pass out SB 697 favorably. Rep. DeBaun seconded. The motion carried.

SB 551, by Senate Committee on Commercial and Financial Institutions-- concerning foreign insurance companies, raising certain fees, was next for final action. Mark Heitz spoke about the bill and the amendment added by the Senate Committee regarding payment of annuity taxes. The amendment was requested by Security Benefit Life, and Mr. Heitz explained the impact of the bill on SBL with and without the amendment. Mr. Brock from the Insurance Department gave further explanation of the bill and the amendment, and both Mr. Brock and Mr. Heitz responded to questions from the committee.

Rep. Spaniol moved to table SB 551 and recommend it for interim study. Rep. Sutter seconded. There was discussion on the motion and reference to the possible fiscal impact as set out in the Memorandum from Mr. Brock to Chairman Hoy dated March 15, 1984 (Attachment 2). Rep. Littlejohn offered a substitute motion to pass out SB 551 favorably. Rep. Fuller seconded. A vote was taken, and a division called for. 5 voted in favor, 7 in opposition, and the substitute motion failed. Rep. Spaniol withdrew his motion to table, and Rep. Sutter withdrew his second.

Rep. Spaniol moved to delete the language in Section 6 requiring a foreign company to be in operation at least 3 years before admission in Kansas and all language referring to admission fees reduced from \$1,000 to \$500. Rep. Sutter seconded. Rep. Littlejohn asked for a division of the question. Chairman Hoy announced the part on Section 6 would be first. A vote was taken, and that part of the motion failed. On the part of the motion to lower the fees from \$1,000 to \$500, a vote was taken and that portion passed.

Rep. Spaniol moved to strike the Senate amendment concerning payment of annuity taxes so it could be studied by the Assessment and Taxation Committee. Rep. Long seconded. Rep. Cribbs offered a substitute motion to pass SB 551 favorably as amended. Rep. L. Johnson seconded. Rep. Spaniol asked Mark Heitz to go over the figures he had presented earlier as to the fiscal impact of this amendment's language on SBL if the amendment is deleted,

CONTINUATION SHEET

Minutes of the House Committee on Insurance, March 20, 19 84

which Mr. Heitz did. Rep. Sprague said that he was opposed to Paragraph 8 which gives broad authority to the Insurance Commissioner. Rep. Cribbs changed his substitute motion to include deleting Paragraph 8. Rep. Littlejohn seconded. The motion carried. Rep. Spaniol asked to be recorded as voting No.

SB 704, by Sen. Meyers--concerning continuance and conversion of group sickness and accident insurance, was next for final action. Rep. Sprague passed out Attachment 3 setting out the six amendments to the bill worked out by the subcommittee and briefly explained each amendment. Rep. Spaniol moved to adopt the amendments. Rep. Cribbs seconded. The motion carried. Rep. Weaver moved to pass SB 704 out favorably as amended. Rep. Long seconded. The motion carried.

The meeting adjourned at 4:55 PM.

Attachment 2

M E M O R A N D U M

TO: The Honorable Rex Hoy, Chairman
Committee on Insurance
Kansas House of Representatives

FROM: Dick Brock *DB*
Kansas Insurance Department

SUBJECT: Senate Bill No. 551

DATE: March 15, 1984

Pursuant to requests from members of your committee, we have attempted to develop a reasonable estimate of the fiscal effect of the Committee Amendments to Senate Bill No. 551. As I advised your committee, these amendments were requested by the Security Benefit Companies on behalf of the members of the American Council of Life Insurance as well as themselves. Such amendments were prompted by Bulletin 1983-22 dated November 7, 1983 issued by this department wherein we advised insurers that Kansas law requires the payment of premium taxes on annuity considerations for the year such considerations are received, not when they are actually applied to the purchase of an annuity. As you know the amendment to Senate Bill No. 551 would, at the company's option, permit the taxes to be paid either when the annuity consideration is received or when the annuity is purchased.

Since, unbeknownst to this office, companies having been paying premium taxes on annuities in both of the ways permitted by Senate Bill No. 551 enactment of the bill would have no premium tax impact since it is assumed insurers would simply continue their current practice.

Attempting to develop a fiscal estimate other than the above is more difficult because we do not know with any degree of precision how many insurers currently pay the premium tax up-front. We do know, however, that the vast majority (some estimate as much as 90%) of the premium tax on annuities is paid in accordance with current law. We do know that approximately 60% of the annuity premiums received by insurers are exempt from premium taxes by virtue of being federally qualified and therefore specifically exempted by K.S.A. 40-252. We do know that calendar year 1982 produced \$491,000 in premium taxes on annuities. And we do know that when an insurer receives consideration for an annuity, interest accumulates.

In terms of a traditional fiscal impact statement, this knowledge does not produce an impressive array of figures showing additions to and/or reductions in general revenue funds. We can, however, gain some insight as to the monetary significance of the amendments. First, based on 1982 collections, \$491,000 is the maximum amount involved. Second, the change to relate the payment of premium taxes to actual purchases of annuities would certainly involve less (and probably much less) than 50% of the \$491,000 or \$245,500 at most. Third, all of the premium tax due has been and will continue to be paid. It is only the timing that is at issue, and more specifically it is the investment income the state might lose on \$245,500 because of its delayed payment. Fourth, the lost investment income is not a direct function of time and rate since premium taxes paid at the end of the annuity transactions are paid on the original investment plus accumulated interest. Finally, the fiscal impact would have to consist of a measurement of the difference between the interest

Atch. 2

Rex Hoy
March 15, 1984
Page Two

credited to the account by the insurer and that which would have been realized had the state invested the annuity consideration the first year it was received. Given this set of facts and circumstances we can conclude that the fiscal impact of the committee amendments to Senate Bill No. 551 will be quite minimal, but we cannot determine whether this minimal impact will be favorable or unfavorable from the state's perspective.

In addition to the foregoing, members of your committee requested information regarding the costs involved in the admission process that would be relevant to the increased fee proposed by Senate Bill No. 551 for "Examination of charter and other documents." You will note the costs involved average \$315 per admission but this does not include the costs involved in reviewing and acting upon required form and rate filings because there is too much variance from company to company to develop an average. The range of these costs could, however, be estimated (really a guess) to run from \$25 to \$300 on companies which have a unique series of products or a revolutionary rating system. Thus, approximately \$600 would be the maximum costs involved in the admission of an insurer that does not present an unusual or complicated problem.

It should, however, also be noted that by actual count an average of 27 out of 101 companies have withdrawn from the admission process during each of the past 4 years. Needless to say this withdrawal almost always takes place after most of the review has been completed and represents about one-fourth of the applications.

I trust the above comments and the attached information will be responsive to your needs. If, however, there are further questions, I will be happy to try to answer them.

ESTIMATION OF EXPENSES INCURRED IN THE ADMISSION PROCESS

	<u>Hours</u>	<u>Expenses</u>
<u>Admissions Coordinator (Pat Mulvihill)</u>		
Review of:		
Annual statement of applicant	1.5	\$ 18.00
Financial statements of parent and/or subsidiary	.5	6.00
Examination report	1.0	12.00
IRIS results	.5	6.00
Interrogatories	.25	3.00
Forms:	.1	1.20
Application for Certificate of Authority		
Certificate of Deposit		
Certificate of Authority		
Letter of Attorney		
Official List		
Miscellaneous documents	.5	6.00
Preparation of letters, memorandums, correspondence by telephone, and review of additional information submitted	10.65	127.80
<u>Director of Research and Planning (Jerry Banaka)</u>		
Review of miscellaneous information	2.0	36.00
<u>Secretary (Linda Roberts)</u>		
Filing and typing	2.0	16.00
<u>Supervisors and Department Officials</u>		
Review of Memorandums of Recommendation	1.5	27.00
<u>Legal</u>		
Review of articles of incorporation by a law clerk	1.0	8.00
<u>Communications Division</u>		
Typing of letters and memorandums	6.0	48.00
TOTAL	27.5	\$315.00

Assumptions:

Salaries are estimated as follows:

Secretary	\$ 8/hr.
Communications Division	\$ 8/hr.
Law Clerk	\$ 8/hr.
Admissions Coordinator	\$12/hr.
Director of Research and Planning, Supervisors and Department Officials	\$18/hr.

Note:

1. The expense involved in processing some applications may be much larger or smaller than the above estimates.
2. An average of 76 applications have been approved and 25 applications withdrawn each year for the past four years (1980-1983).

Attachment 3

PROPOSED AMENDMENTS TO S.B. NO. 704

1. On page 22, in line 796, by inserting before "conversion" the following: "continuation and"; in line 797, by striking "privilege" and inserting "privileges";

2. On page 15, in line 532, by inserting after "receiving" the following: "reasonable"; in line 533, by inserting after "insurer" the following: "in accordance with rules and regulations adopted by the commissioner of insurance"; similar changes on page 4 in lines 140 and 141, on page 7, in lines 261 and 262 and on page 11 in line 387;

On page 23, ~~in line 834, by inserting after "shall" the following: "make a good faith effort to";~~ in line 835, by inserting after "dependents" the following: "reasonable"; in line 837, after "period" by inserting the following: "in accordance with rules and regulations adopted by the commissioner of insurance";

3. On page 23, in line 841, preceding "its" by inserting "January 1, 1985, and";

4. On page 4, in line 150, by inserting after "(2)" the following: "(3), (4),"; same change in line 270 on page 8 and line 396 on page 11;

5. On page 4, in line 143, after "days" by inserting "; or (C) the employee or member is or could be covered by any other insured or noninsured arrangement which provides expense incurred hospital, surgical or medical coverage and benefits for individuals in a group under which the person was not covered prior to such termination. In the event the group policy is terminated and not replaced the employee or member, at the option of the employee or member or at the option of the insurer, may be issued a conversion policy or certificate which otherwise meets these provisions in lieu of the right to continue group coverage required herein"; same change in line 263 on page 7 and line 389 on page 11;

6. On page 15, in line 555, by striking "the"; in line 556, by striking "group policyholder or";

Atch. 3