

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairman Melvin Neufeld at 9:00 a.m. on March 19, 2004 in Room 514-S of the Capitol.

All members were present.

Committee staff present:

J. G. Scott, Legislative Research
Amy VanHouse, Legislative Research
Michele Alishahi, Legislative Research
Melissa Calderwood, Legislative Research
Jim Wilson, Revisor of Statutes
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Administrative Analyst
Shirley Jepson, Committee Secretary

Conferees appearing before the committee:

Peggy Hanna, State Treasurer's Office

Others attending:

See Attached List.

- Attachment 1 Testimony on **SB 399** by Peggy Hanna, State Treasurer's Office

Hearing on SB 399 - Unclaimed property; demutualization of insurance companies.

Melissa Calderwood, Legislative Research Department, explained that **SB 399** concerns unclaimed property and amends the law requiring unclaimed property to be reported to the state in a specified period of time. The bill adds new language that requires property distributable in the course of a demutualization, rehabilitation, or related reorganization of an insurance company to be abandoned two years after the date of the demutualization, rehabilitation, or related reorganization. The bill was requested by the State Treasurer, who indicated that the passage of the bill would make the state eligible to receive from one insurance company, a one-time amount of about \$10 million this year. Under current law the report of the funds to the state would occur at the end of five years of abandonment of the distributable property.

Chairman Neufeld recognized Peggy Hanna, Deputy Assistant State Treasurer, who presented testimony in support of **SB 399** (Attachment 1). Ms. Hanna noted that the demutualization and reorganization of the mutual company caused the money belonging to policy holders to be directed to the State. Because the insurance company has lost track of many policyholders throughout the years, the State Treasurer's office will receive the funds and make attempts to locate the policyholders and return their property. Responding to Committee questions, Ms. Hanna state that the funds are deposited in the State General Fund (SGF) and become a part of the pool of moneys invested through the Kansas Public Employees Retirement System (KPERs) under the management of the Pooled Money Investment Board. The interest on these funds - unclaimed property, is also deposited in the SGF, earmarked at this time for the renovation of the Statehouse.

The Committee felt it would be beneficial to their constituents if the State Treasurer would provide each legislator with a list of unclaimed property owners, who reside in their districts, at the beginning of each legislative session. The Committee requested a list of insurance companies who have abandoned business in Kansas or are in the process of becoming part of a national company.

The Chair recognized Kathy Damron, who appeared on behalf of the Prudential Insurance Company, in support of **SB 399**.

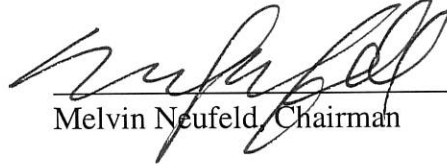
The Chair closed the hearing on **SB 399**.

CONTINUATION SHEET

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE at 9:00 a.m. on March 19, 2004 in Room 514-S of the Capitol.

Representative Sharp moved to recommend **SB 399** favorable for passage. The motion was seconded by Representative Osborne. Motion carried.

The meeting was adjourned at 9:35 a.m. The next meeting will be held at 9:00 a.m. on March 22, 2004.



Melvin Neufeld, Chairman



STATE OF KANSAS

Lynn Jenkins, CPA

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March 19, 2004

Testimony on Senate Bill 399

Representative Melvin Neufeld, Chairperson and Members
House Appropriations Committee

I am Peggy Hanna, Deputy Assistant State Treasurer. Thank you for allowing me to speak in favor of Senate Bill 399. The State Treasurer is the administrator of the Unclaimed Property Act. Every state has an unclaimed property act. Under the Kansas act, companies holding financial assets for other people are required to report and remit those assets to the State if the company has lost contact with the owner of the property and a certain dormancy period has lapsed. When the Treasurer's office receives the assets, the monetary amounts are deposited into the State General Fund to be held in perpetuity for the owner or the heirs of the owner. The State uses those dollars (currently over \$127 million) and retains the interest off those dollars. When an owner claims their asset, they receive only the face amount plus any dividends if the asset happens to be stock, but no accumulated interest.

This bill amends two statutes related to the administration of the unclaimed property act. The purpose of the changes is to accelerate the remittance of abandoned property that results from an insurance company changing its structure from a mutual company to one having a stock form of ownership.

As a matter of history, in the past, insurance company representatives would sell insurance policies to people, sometimes door-to-door. These were usually policies for small amounts of coverage. The policyholder would then make the premium payments to the insurance company for the life of the policy. There was usually no further contact between the policyholder and the company – other than the payment. After 40 or more years, the company may lose track of the policyholder's location. This is not a problem until there is a change in the relationship, as happens during a demutualization or rehabilitation or other types of restructuring.

When an insurance company changes its corporate structure from a mutual company, its policyholders become owners in the restructured company, while retaining any outstanding policies. The owners can either choose to receive cash or stock for their "ownership" in the company. The company is required to contact each policyholder to notify them of the change in structure and communicate their options regarding ownership. If the attempted contact is not successful, the financial assets resulting from the reorganization become unclaimed and must be reported to the state where the owner was last known to reside. According to current Kansas law, those assets would be turned over to the state five years after demutualization. The change we are requesting accelerates that reporting to two years after the demutualization. Over half the states have already passed similar laws.

It has been estimated by one of the insurance companies that the State of Kansas million sooner than current law requires. As a reminder, financial assets remit are deposited into the State General Fund.

HOUSE APPROPRIATIONS

DATE 3-19-2004
ATTACHMENT 1