HB15-1048

Colorado Legislative Council Staff Fiscal Note

STATE CONDITIONAL FISCAL IMPACT

Drafting Number:	LLS 15-0245	**Date:**	January 20, 2015
Prime Sponsor(s):	Rep. Williams	**Bill Status:**	House Health, Insurance, and Environment
		Fiscal Analyst:	Erin Reynolds (303-866-4146)

BILL TOPIC: LIFE INSURANCE PRINCIPLE-BASED RESERVE REQUIREMENT

Fiscal Impact Summary*	FY 2015-2016	FY 2020-2021
State Revenue		$0
State Diversions		$0
General Fund		($6,100)
Cash Funds		$6,100
State Expenditures		**$6,100**
Cash Funds		$6,100
FTE Position Change		0.1 FTE
Appropriation Required: None.		

** This summary shows changes from current law under the bill for each fiscal year. Diversions result in no net change to state revenue. Parentheses indicate a decrease in funds.*

Summary of Legislation

The bill enacts National Association of Insurance Commissioners (NAIC) model legislation that requires the Commissioner of Insurance (commissioner) in the Division of Insurance (DOI) in the Department of Regulatory Agencies (DORA) to adopt the NAIC Standard Valuation Manual, which uses principle-based reserving (PBR) requirements to modernize the method by which life insurance reserve requirements are calculated. The bill requires the commissioner to promulgate rules regarding actuarial opinions of reserves, minimum standards applicable to the valuation of life insurance plans, and enforcement. The bill also allows the commissioner to employ qualified actuaries to review a life insurance company's PBR assumptions at the expense of the company. Life insurance companies doing business only in Colorado are exempt from the bill.

Under the bill, at least 42 NAIC members (states) or three-fourths of voting members, whichever is greater, representing greater than 75 percent of gross premiums must adopt similar legislation before the bill can go into effect. PBR becomes effective on January 1 of the first calendar year following the first July 1 when the thresholds described have been met. Pursuant to the NAIC Standard Valuation Manual, insurance companies domiciled in Colorado have an additional three years following this effective date to implement PBR for new policies issued after the effective date.

Background

Insurance regulation is under the purview of each state. The NAIC is an advisory body and service provider for state insurance departments, comprised of the chief insurance regulatory officials for all 50 states. Committees of regulators develop model laws and regulations that states can adopt or modify based on the state's specific regulatory needs.

Reserves are funds set aside by insurers to pay insurance claims when they are due. In Colorado, reserve calculations are based on a static formula originally approved by rule in 1961. Because insurance products have grown in complexity, the NAIC adopted a Standard Valuation Law and an accompanying manual that uses principles rather than a specific formula to calculate reserve requirements. Reserve calculations may include company experience factors such as mortality, policyholder behavior, and expenses.

State Transfers and Diversions

This bill diverts **$6,100** from the General Fund in FY 2020-21. This revenue diversion occurs because the bill increases costs in the Department of Regulatory Agencies, Division of Insurance, which is funded with premium tax revenue that would otherwise be credited to the General Fund.

State Expenditures

This bill increases costs in DORA by **$6,100 in FY 2020-21**. The major cost components of the bill are summarized in Table 1 and discussed below.

Table 1. Expenditures Under HB 15-1046

Cost Components	FY 2015-16	FY 2020-21
Personal Services		$6,100
FTE		0.1 FTE
TOTAL		**$6,100**

Assumptions. As of January 2015, 20 states have implemented PBR requirements, which represents 36 percent of gross premiums. An additional 22 states will have to pass similar legislation to achieve 75 percent of gross premiums. The fiscal note assumes that the threshold will be met by July 1, 2016, resulting in a January 1, 2017, effective date for the bill. However, an additional three years implementation time is granted by the NAIC Standard Valuation Manual that the state adopts through the bill, resulting in a January 1, 2020, implementation date for the bill. It is further assumed that eight companies will be affected by the bill.

Division of Insurance — DORA. The DOI in DORA will have a cost of **$6,100 and 0.1 FTE in FY 2020-21** to create the Request for Proposal (RFP) for contract actuaries and to promulgate new rules on PBR requirements and enforcement provisions.

RFP process. Because the bill allows the commissioner to employ contract actuaries to review PBR requirement reports at the expense of the estimated eight life insurance companies who will adopt PBRs in the state, two actuaries, an actuary I and an actuary IV, will each be required to for 32 hours to create eight RFPs for contract actuaries.

Rulemaking. Because the bill provides for the adoption of the NAIC Standard Valuation Manual and the new enforcement provisions to be accomplished by rule, one actuary IV will be required for 80 hours to promulgate rules. In the DOI, rulemaking includes stakeholder involvement, outreach, meeting time, research, drafting and revising proposed rules, and the consideration of input.

Department of Law. The Department of Law will be required to assist in rule promulgation. It is assumed that rule promulgation will be one time in nature to implement this legislation, and can be absorbed within the existing legal services appropriation.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed. See State Expenditures section for additional details on effective date.

State and Local Government Contacts

Law	Regulatory Agencies