

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0344-03
Bill No.: HCS for SB 164
Subject: Credit and Bankruptcy; Property, Real and Personal; Civil Procedure; Insurance - Life; Funerals and Funeral Directors
Type: Original
Date: April 28, 2015

Bill Summary: This proposal changes the laws regarding financial transactions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Insurance Dedicated	\$0	\$0	\$0	(\$363,729)
Insurance Examination	\$0	\$0	\$0	(\$86,324)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	(\$450,053)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Insurance Dedicated				2.4
Insurance Examination				0.6
Total Estimated Net Effect on FTE	0 FTE	0 FTE	0 FTE	3 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** state that the proposal will not become effective until at least 42 of the 55 National Association of Insurance Commissioners (NAIC) jurisdictions representing at least 75% of total U.S. direct premiums written have enacted similar legislation. Prior to the 2014 legislative session, seven states had adopted similar legislation. It is not anticipated that the legislation will achieve the required level of adoption until 2016 at the earliest. Additionally, the Valuation Manual allows for companies to phase in the required reserve changes over a three-year period after the effective date.

Because of the above circumstances, it is not anticipated that this legislation will have any fiscal impact to DIFP in the next three years. When the legislation becomes operational, the department will require additional FTE. A preliminary estimation for FY2019 would be that the department would need three new FTEs:

- 1 Insurance Financial Examiner at \$75,000 annually, ongoing.
- 1 Actuarial Analyst at \$75,000 annually, ongoing.
- 1 Actuary with ASA designation at \$100,000 annually, ongoing.

These individuals would all be reviewing the new models established by the insurance companies to try to verify the correct reserves are being established when the companies move to Principal Based Reserve (PBR) valuation. Currently, reserves are set using a standard formula. PBR allows the company to use its own models in determining the proper reserves needed for many complex products that have various elements such as interest earned on the product based on a standard interest index from the marketplace or certain guarantees for varying lengths of time for which the current formula does not adequately adjust.

The expenses of these 3 FTE will be divided between the Insurance Dedicated Fund and the Insurance Examination Fund.

In response to a previous version of this proposal, officials from the **Attorney General's Office** assumed that any potential costs arising from the proposal could be absorbed with existing resources.

Officials from the **Office of the State Courts Administrator** assume the current proposal would not fiscally impact their agency.

<u>FISCAL IMPACT - State</u> <u>Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented (FY 2019)
INSURANCE DEDICATED FUND				
<u>Costs - DIFP</u>				
Salaries	\$0	\$0	\$0	(\$220,342)
Fringe Benefits	\$0	\$0	\$0	(\$112,385)
Equipment and Expense	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$31,002)</u>
<u>Total Costs - DIFP</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$363,729)</u>
FTE Change - DIFP	0 FTE	0 FTE	0 FTE	2.4 FTE
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$363,729)</u>
Estimated Net FTE Change on the Insurance Dedicated Fund	0 FTE	0 FTE	0 FTE	2.4 FTE
INSURANCE EXAMINATION FUND				
<u>Costs - DIFP</u>				
Salaries	\$0	\$0	\$0	(\$55,085)
Fringe Benefits	\$0	\$0	\$0	(\$28,096)
Equipment and Expense	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$3,143)</u>
<u>Total Costs - DIFP</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$86,324)</u>
FTE Change - DIFP	0 FTE	0 FTE	0 FTE	.6 FTE
ESTIMATED NET EFFECT ON INSURANCE EXAMINATION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$86,324)</u>
Estimated Net FTE Change on the Insurance Examination Fund	0 FTE	0 FTE	0 FTE	.6 FTE
<u>FISCAL IMPACT - Local</u> <u>Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented (FY 2019)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

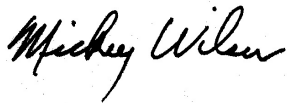
FISCAL DESCRIPTION

This proposal specifies that when a debtor is the beneficiary of a matured life insurance policy, the debtor may exempt from bankruptcy up to \$15,000 of the policy proceeds to be used for actual funeral or burial expenses when the deceased is the parent, child, or spouse of the debtor.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration



Mickey Wilson, CPA
Director
April 28, 2015

Ross Strobe
Assistant Director
April 28, 2015