Individual State Agency Fiscal Note

Bill Number: 5180 SB PL	**Title:** Life insurance reserve req's	**Agency:** 160-Office of Insurance Commissioner

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years	0.0	0.7	0.4	1.0	1.0
Account					
Insurance Commissioners Regulatory Account-State 138-1	0	150,146	150,146	459,820	456,320
Total $	0	150,146	150,146	459,820	456,320

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 03/10/2016
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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The revised Standard Valuation and Standard Nonforfeiture Law acts provide for new reserving requirements for life and disability companies that specialize in products to be based on principle based reserving methodologies according to a new NAIC valuation manual.

Sections 4, 6, 7, 9 and 12 through 20 of this bill adopt new provisions for NAIC Principles-Based Reserving (PBR) implementation for life insurers. These sections of the bill also incorporate the new Valuation Manual to determine reserving methodologies for certain life products. The existing life insurance policy reserves are currently calculated (or “valued”) using pre-set formulas. The principle-based reserving, or PBR, would use more advanced methodologies to better reflect and measure the risks of the new innovative insurance policies. Adoption of this bill will allow life and disability companies doing business in Washington to file these innovative insurance policies to the Commissioner for review. The sophistication of these newly developed policies will require a subject matter expert with sufficient knowledge and experience to analyze these detailed formulas.

Section 6 requires every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts subject to regulation by the commissioner to submit, as part of their annual statement, the opinion of the appointed actuary as to whether the reserves and related actuarial items are computed appropriately and comply with applicable laws of this state. Section 6(4)(g) requires the Commissioner to adopt rules, using a ‘normal’ rulemaking process to define disciplinary action against the company or the appointed actuary.

Section 13(5) requires the Commissioner to adopt rules, using a ‘normal’ rulemaking process, prescribing minimum valuation standards in the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not in compliance with this chapter.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill adopts new provisions for NAIC Principles-Based Reserving implementation for life insurers. The revised Standard Valuation and Standard Nonforfeiture Law acts provide for new reserving requirements for life and disability companies that specialize in products to be based on principle based reserving methodologies according to a new NAIC valuation manual.

The existing life insurance policy reserves are currently calculated (or “valued”) using pre-set formulas. Principle-based reserving, or PBR (defined in Section 2 and complying with the requirements found in Section 14), would use more advanced methodologies to better reflect and measure the risks of the new innovative insurance policies. This bill allows life and disability companies doing business in Washington to file these innovative insurance policies to the Commissioner for review.

Currently, life insurance policy filings are table based with restrictions on the equations used in their calculation; the current RCW 48.74.030 (amended in Section 8 of this bill) and RCW 48.74.050 (amended in Section 18 of this bill) represents this more simple calculation style. Section 6 requires every company with outstanding life insurance contracts, accident and health insurance contracts, or deposit-type contracts subject to regulation by the commissioner to submit, as part of their annual statement, the opinion of the appointed actuary as to whether the reserves and related actuarial items are computed appropriately and comply with applicable laws of this state; review of these filings may require minor staffing (there are only two domestic Washington life insurers). The more major staffing requirement will be for an Actuary 3 to review the newly developed, more sophisticated life insurance plans allowed under this bill (in Sections 6, 13 and 14) which require a subject matter expert with knowledge to analyze and evaluate the more detailed formula.

These filing and actuarial analysis functions will require 1.0 FTE Actuary 3 beginning January 2017. This staffing level estimate is based on staffing level estimates generated by a survey of states by the National Association of Insurance Commissioners (NAIC); the survey indicates that the NAIC itself should add at least two actuaries and at least one computer modeling specialist to implement PBR and that state agencies are most likely to need actuarial staff increases to implement.

Timing for staffing: The model act has been adopted in 39 states as of March 10, 2016 with three more states expected to adopt by July 1, 2016 (WA, ID and UT). PBR will become effective only upon legislative adoption of the amended Standard Valuation Law (PBR) by a supermajority of jurisdictions (42) representing at least 75 percent of the primary US insurance premium in the US. If all three states considering adoption gain their governor's signature on pending legislation by July 1 and all 42 state adopted standard valuation legislation is confirmed as meeting NAIC model law validation standards, it is expected that the earliest probable operative date for the PBR's Valuation Manual is January 1, 2017.

The OIC will use a normal rulemaking process to adopt rules to set forth the filing and review of these new products with the OIC and to develop the rules to define disciplinary action against the company or the appointed actuary that Section 6(4)(g) requires the Commissioner to adopt. Section 13(5) also requires the Commissioner to adopt rules, using a 'normal' rulemaking process, prescribing minimum valuation standards in the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not in compliance with this chapter.

The OIC will require an appropriation in order to implement this bill.

Ongoing costs:
Salary, benefits and associated costs for 1.0 FTE Actuary 3 beginning January 2017.

One-time costs:
Equipment; Salary, benefits and associated costs for a 'normal' rule making process.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2016	FY 2017	2015-17	2017-19	2019-21
FTE Staff Years		0.7	0.4	1.0	1.0
A-Salaries and Wages		89,938	89,938	292,008	292,008
B-Employee Benefits		20,979	20,979	65,848	65,848
C-Professional Service Contracts					
E-Goods and Other Services		31,229	31,229	95,464	95,464
G-Travel		5,000	5,000	6,500	3,000
J-Capital Outlays		3,000	3,000		
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total:	$0	$150,146	$150,146	$459,820	$456,320

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2016	FY 2017	2015-17	2017-19	2019-21
Actuary 3	146,004		0.5	0.3	1.0	1.0
Functional Program Analyst 4	71,316		0.1	0.0		
Senior Policy Analyst	89,136		0.2	0.1		
Total FTE's	306,456		0.7	0.4	1.0	1.0

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Section 6(4)(g) requires the Commissioner to adopt rules, using a ‘normal’ rulemaking process to define disciplinary action against the company or the appointed actuary.

Section 13(5) requires the Commissioner to adopt rules, using a ‘normal’ rulemaking process, prescribing minimum valuation standards in the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not in compliance with this chapter.