SUBJECT: Eliminating fees and tax credit for valuing life insurance policies

COMMITTEE: Insurance — favorable, without amendment

VOTE: 7 ayes — Smithee, Taylor, Eiland, Hancock, Martinez, Vo, Woolley

0 nays

2 absent — T. Smith, Thompson

WITNESSES: For — Jay Thompson, Texas Association of Life and Health Insurers

Against — None

On — Kevin Brady, Texas Department of Insurance; Gary Johnson, Texas Comptroller's Office

BACKGROUND: Under Insurance Code, sec. 202.052(a), the Texas Department of Insurance (TDI) imposes a fee on companies based in Texas qualified to offer life insurance, accident insurance, and certain types of health insurance. The fee is used to evaluate life insurance policies and may not exceed $10 for each $1 million of insurance issued. This section also allows the department to collect a fee for filing the insurer's annual statement.

As provided in Insurance Code, ch. 222, the tax rate imposed on an insurer is 1.75 percent of the insurer's taxable gross premiums received during a calendar year, with certain modifications. An insurer is entitled to credit on such taxes for all examination and evaluation fees paid to the state.

DIGEST: HB 1849 would allow TDI to collect a fee of up to $500 from domestic companies qualified to offer life insurance, accident insurance, and certain forms of health insurance for the cost of filing the insurer's annual statement. It would remove the fee for valuing life insurance policies amounting to $10 for each $1 million of insurance in force.

Additionally, an insurer would not be entitled to a credit on the tax due under this chapter for fees paid in valuing life insurance policies.

The bill would take effect September 1, 2007, and would apply to insurer liability for payment of an evaluation fee on or after January 1, 2008.

SUPPORTERS SAY:

HB 1849 would eliminate an unnecessary fee while gaining revenue for the state. TDI's evaluation fee is used to conduct an actuarial study on each filed statement in order to determine whether each company has enough resources to offer insurance. TDI collects an estimated $8.8 million in evaluation fees annually. This regulatory function currently is conducted in a far less comprehensive manner than when the fee originally was imposed. Despite the sizable fee collected, the department only needs an estimated $600,000 to perform this regulatory function today. The bill would eliminate this fee without modifying the department's current duties. TDI has other sources of funding and currently does not use the majority of the funding received for evaluation fees to conduct actuarial evaluations.

Other than eliminating the mostly unnecessary fee, HB 1849 would result in a revenue gain to the state of $8.4 million in fiscal 2008-09, of which $2.1 million would fund public schools. Under the current system, the state allows insurers to take a credit on evaluation fees paid. The bill would eliminate the credit paid to insurers, leading to an increase general revenue-related funds.

OPPONENTS SAY:

Property insurers and casualty insurers will cover the cost of regulating the life insurance and accident insurance industry as a consequence of the bill. TDI is self-funded through maintenance taxes and fees collected. In order to make up for any revenue shortfall, the department's maintenance taxes must increase if fees collected decrease. The department requires $600,000 to regulate the life insurance and accident insurance industry, a function funded by the current evaluation fee.

Under CSHB 1849, the evaluation fee would be terminated, resulting in the need to increase maintenance taxes to make up for the funding shortfall. The maintenance tax imposed on property insurers and casualty insurers currently is not at its maximum level and can be increased to cover the funding shortfall. This bill would set a precedent in insurance policy, as the life insurance and accident insurance industry has historically paid for its own regulation.

NOTES: According to the Legislative Budget Board, the bill would result in an increase in general revenue-related funds of approximately $8.4 million in fiscal 2008-09.