

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 755 is the Standard Valuation Act. The bill provides for the use of a valuation manual prescribed by the Director of the Department of Insurance (DOI) to value the reserves of companies issuing life insurance contracts, annuity and pure endowment contracts, accident and health contracts and deposit-type contracts. The valuation manual is currently being developed by the National Association of Insurance Commissioners. The manual is to be prescribed no later than July 1, 2017.

The bill provides that the director of the DOI may employ or contract with an actuary at the expense of an insurance company to perform an examination of a company and determine the appropriateness of a reserve assumption or method used by a company to value reserves or to determine a company's compliance with a requirement in the act. The director may require a company to make changes pursuant to a review or may take disciplinary action if appropriate.

DOI estimates the need for 2.0 FTE actuaries beginning in FY2016-17 to implement the provisions of the act. The new valuation standards will provide some flexibility to insurers in determining reserves which will require additional regulation on an annual basis by the department. The estimated fiscal impact for two actuaries and related expenses is \$329,000 of cash funds in FY17. The department projects salary costs of \$133,000 for each actuary and benefit expenses of \$29,000 for each position. One-time operating costs of \$2,500 per position will also be incurred in the initial year. On-going costs will be about \$324,000 per year. The costs to retain the actuaries will be reimbursed by the companies being examined, so the department will experience a like increase in cash fund revenue.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 755	AM:	AGENCY/POLT. SUB: Dept. of Insurance	
REVIEWED BY: Gary Bush		DATE: January 17, 2014	PHONE: 471-4161
COMMENTS: Agree with the estimate of impact.			

Please complete ALL (5) blanks in the first three lines.

2014

LB⁽¹⁾ 755

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Department of Insurance

Prepared by: ⁽³⁾

Krystle Ledvina Garcia

Date Prepared: ⁽⁴⁾

1/14/2013

Phone: ⁽⁵⁾

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ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2014-15</u>		<u>FY 2015-16</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Explanation of Estimate:

LB 755 amends statutes governing the establishment of reserves by life and health insurers by adopting the National Association of Insurance Commissioners Standard Valuation Act. It will require increased actuarial resources to be devoted to the Department of Insurance including two additional Actuary FTEs and an increase in the amount of contracted actuarial services.

With regard to the cost of increased contracted actuarial services, the need for these services varies significantly by year and by the type and number of companies under examination each year. Again, because insurance companies are responsible for the cost of the examination, the contracted actuarial services will result in an equal amount of increased revenue to and expenditures from the Insurance Cash Fund. The National Association of Insurance Commissioners has committed itself to the future establishment of a central actuarial office which will coordinate these reviews and bill directly for the service.

Section 8 of the bill requires the director to adopt the Valuation Manual no later than July 1, 2017, which will require additional actuaries for the Department. While the timing of the adoption of the manual is uncertain, the Department estimates adoption of the manual in July 2016. In anticipation of the additional actuarial work, the Department will likely hire actuaries in July 2016. Beginning in FY 2016-17, the expenditures would be approximately \$334,000 from the Insurance Cash Fund for two actuaries. The salary for each actuary is estimated to be \$133,000 per year. The cost per year for benefits for each employee is estimated to be \$29,000. In the first year of employment, there will be a one time operating cost of \$2,500 per employee. The salary and benefit costs are future costs that are not expected to commence until the Department hires the additional full time employees in 2016. Costs associated with the actuaries will be reimbursed by insurers in the form of billing for specific examination services and will also result in increased revenue into the Insurance Cash Fund.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2014-15</u> <u>EXPENDITURES</u>	<u>2015-16</u> <u>EXPENDITURES</u>
	<u>14-15</u>	<u>15-16</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				0