

HOUSE BILL REPORT

SSB 5334

As Reported By House Committee On:
Finance

Title: An act relating to credit against the premium tax for guaranty association assessments paid by insurers.

Brief Description: Crediting certain insurance premium taxes.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Winsley, Heavey, Finkbeiner, Benton, Rasmussen, Hale and West).

Brief History:

Committee Activity:

Finance: 2/25/97, 4/7/97 [DPA].

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended. Signed by 9 members: Representatives B. Thomas, Chairman; Carrell, Vice Chairman; Mulliken, Vice Chairman; Boldt; Morris; Pennington; Schoesler; Thompson and Van Luven.

Minority Report: Do not pass. Signed by 6 members: Representatives Dunshee, Ranking Minority Member; Dickerson, Assistant Ranking Minority Member; Butler; Conway; Kastama and Mason.

Staff: Linda Brooks (786-7153).

Background: Insurance guaranty associations are statutorily created organizations comprised of all insurance companies authorized to write a type of insurance in a particular state. The associations typically are governed by a board of directors made up of representatives of the insurance industry, the state insurance regulator, and sometimes the general public. The associations are statutorily required to protect policyholders when an insurance company becomes insolvent or a court orders liquidation of the company. Generally, there are statutory limits on the amount of protection provided by insurance guaranty associations. Insurance guaranty associations assess member insurance companies after an insolvency occurs in order to raise funds to protect policyholders who are adversely affected by the insolvency. The assessment in any one year is limited by statute, usually to 2 percent of premiums.

Washington has two insurance guaranty associations. The Washington Insurance Guaranty Association protects property and casualty policyholders. The Washington Life and Disability Insurance Guaranty Association protects life and disability insurance policyholders. When an insolvency or liquidation occurs, the member insurance companies of the affected guaranty association are assessed based on their percentage of Washington premiums. The assessment cannot exceed 2 percent of a member company's Washington premiums. An insurance company is exempt from paying assessments, if the assessments would make the company insolvent.

Insurance companies are exempt from the state's business and occupation tax. Instead insurance companies pay a 2 percent insurance premium tax. Until 1993, insurance companies were allowed to take amounts paid as assessments to the guaranty associations as credits against their insurance premium tax obligations. The tax credit for any one assessment was taken over a five-year period.

Summary of Amended Bill: Both property and casualty and life and disability insurance companies may again credit assessments paid to the guaranty associations against their insurance premium tax obligations. However, credits for life and disability assessments may be taken only if the assessments are for life and disability companies that become insolvent after the effective date of this act. The credits are to be taken over a five-year period.

Amended Bill Compared to Substitute Bill: The substitute bill allowed credits to be taken for *any* assessments after the effective date of this act. The amended bill restricts credits for life and disability assessments to only those made for life and disability companies that become insolvent after the effective date of this act. There is no restriction on credits taken for property and casualty assessments. The substitute bill provided a 10-year period for credits.

Appropriation: None.

Fiscal Note: Available. A fiscal note on the bill as amended by the House Finance Committee requested on April 7, 1997.

Effective Date of Amended Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill rolls back tax rates to their pre-1993 levels. The Legislature's repeal of the credit in 1993 essentially acted as a tax increase. Given the retaliatory feature of insurance premium taxes, the repeal of the credit especially affects insurance companies headquartered in Washington. Under retaliatory provisions, a domestic Washington insurance company doing business in a foreign state must pay premium tax to the foreign state at the higher of two rates: Washington's premium tax rate or the foreign state's premium tax rate.

Testimony Against: The Office of the Insurance Commissioner opposes the bill, because the commissioner believes that it's appropriate for the insurance industry to pay for the cost of insurance companies' insolvencies. The guaranty fund programs have worked well, but the question is whether the ratepayers or the insurance companies should pay for the programs.

Testified: (pro) Daniel Wolfe, SAFECO; Basil Badley, American Insurance Association, Health Insurance Association of America, and American Council of Life Insurance; and (con) John Woodall, Office of the Insurance Commissioner.