

SENATE BILL REPORT

SB 5334

As Reported By Senate Committee On:
Ways & Means, February 11, 1997

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

Brief Description: Providing a credit against the premium tax for guaranty association assessments paid by insurers.

Sponsors: Senators Winsley, Heavey, Finkbeiner, Benton, Rasmussen, Hale and West.

Brief History:

Committee Activity: Ways & Means: 2/6/97, 2/11/97 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5334 be substituted therefor, and the substitute bill do pass.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Hochstatter, Long, Loveland, Roach, Rossi, Schow, Sheldon, Snyder, Thibaudeau and Winsley.

Staff: Terry Wilson (786-7433)

Background: Insurance guaranty associations are statutorily created organizations comprised of all insurance companies authorized to write a particular type of insurance in that 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 to raise funds to protect policyholders adversely affected by the insolvency. The assessment in any one year is limited by statute, usually 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 is limited to 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 premiums are exempt from the state business and occupation tax and are subject to an insurance premiums tax instead. In 1993, a credit against this tax for assessments paid to guaranty associations by member insurance companies was removed. The credit was taken over a five-year period.

Summary of Substitute Bill: Insurance companies that pay an assessment to the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association receive a tax credit against premium taxes owed for 100 percent of the assessment. The tax credit must be taken over ten years. The tax credit applies to assessments that occur after the effective date of this act.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Washington was the first state to provide a mechanism to pay claims against insolvent insurers. Washington is now the only state that does not provide a mechanism for insurance companies to recoup guaranty association assessments. Retaliatory tax provisions of other states provide that insurance companies pay tax at the higher of the rate in the selling state or the rate of the insurance companies' home state. This has caused an increase in taxes on Washington insurance companies doing business in other states. The insurance companies should not have to pay for the mismanagement of other companies. Taxpayers have control of mismanaged companies through the Insurance Commissioner.

Testimony Against: The insurance industry should bear the risk of loss, not the taxpayers. Not all states ask the taxpayer to pay. Many allow the insurance companies to add a surcharge to their premiums to defray guaranty fund assessments.

Testified: PRO: Dan Wolfe, SAFECO; Jim Bosworth, WA Insurance Guaranty Assn; Basil Badley, ACLI, HIAA, AIA, TIAA CREF; CON: John Woodall, Insurance Commissioner's Office.