Protecting Consumers by Ensuring Adequate Funding and Equity for Washington's Life and Disability Insurance Guaranty Association

Issue: Ensuring consumer protection from looming long-term care insolvencies and providing equitable assessments

Legislative proposal seeking consumer protection from long-term care insolvencies and providing equitable assessments

Insurance Commissioner Mike Kreidler is proposing legislation to expand the Washington State Life and Disability Guarantee Association (Association) membership and provide equitable distributions of assessments, in order to protect Washington state insurance policyholders. Long-term care insurance companies have impending insolvencies that threaten benefits due to policyholders in Washington. OIC’s proposal is a fair way to ensure that seniors and people living with disabilities who have purchased insurance and paid their premiums in good faith can rely on their benefits if their insurer fails or becomes insolvent.

The Association was established in 1974 to provide financial protection for policyholders and their beneficiaries by continuing coverage if an insurer fails or becomes insolvent. If an Association member becomes insolvent, then funds to continue coverage and pay claims are acquired through assessments of the Association’s other member insurers.

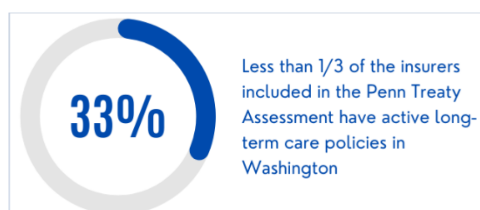
Under Chapter 48.32A RCW consumers in Washington are protected up to $500,000 on their benefits and coverage. While this is among the most robust Guaranty Fund protections in the country, current actuarial assumptions on insolvencies and national model authorities require additional insurer Association membership and a revised assessment methodology to achieve adequate future funding and equity.

The OIC proposes amending Chapter 48.32A RCW to include health care service contractors (HCSCs) and health maintenance organizations (HMOs) as members in the Washington Life and Disability Insurance Guaranty Association.

The inclusion of HCSCs and HMOs achieves adequate funding for the Association, ensures equitable assessments among Association members, and ensures that consumers who purchased long-term care insurance in good faith can still receive their benefits.

Adequate funding and equitable assessments among Association member insurers

Based on a model law developed by the National Association of Insurance Commissioners (NAIC), the OIC’s proposed legislation provides adequate funding and an equitable allocation of assessments for long term care insolvencies through a 50/50 split among all life, annuity and disability insurers, health care service contractors and HMOs that would participate as part of the Association. Currently 34* states have adopted the new revisions, with 30 states adopting the 50/50 assessment split between the life and health insurers.

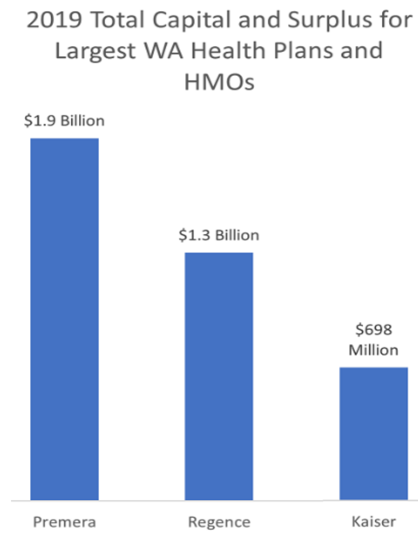


The OIC’s Legislation:

- Expands Association membership to include HCSCs and HMOs.
- Extends the assessment base for long-term care insolvencies.

Assessment recovery through annual premium tax credits

Assessments only occur in the event of an insurer's failure or insolvency, and any assessments to companies can be offset by premium tax credits from the OIC. RCW 48.32A.125 provides an annual premium tax credit of 20% over five years equal to the company's total assessments. This amortized offset allows companies to be made financially "whole" for the assessments they pay to the Association. These premium tax credits are allowed by law and have been in effect since the Association began in 1974.



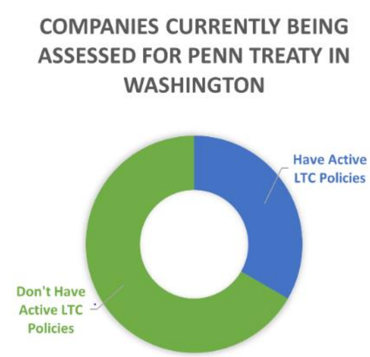
Compared to each company's revenue surplus, the annual assessment is minor and should not affect financial solvency. Generally, companies have surplus levels that can easily absorb the initial cost of an assessment, and the assessment is essentially refunded to them through premium tax credits of 20% distributed over the course of five years.

By the Numbers – Examples and Data

- In 2017, Penn Treaty of Pennsylvania became insolvent. It sold long-term care policies in every state, including approximately 2,400 in Washington between 1993 and 2011. Washington's assessments from this insolvency exceeded $200 million. This is now paid by assessing life and disability insurers a combined $10 million annually for the next 20 years.
- This insolvency has been determined to be manageable with no detrimental effects on policyholders. However, additional insolvencies could stress the ability of the Guaranty Fund to pay policyholders of companies that become insolvent in the future.

Assessment measured by market share

Each company's assessment is based on its market share. Each participating company would be proportionally assessed based on its percentage of premium revenue, as compared to other participating companies within the Association. Therefore, companies with the biggest share of insurance premium revenue in the market would pay more.



Commissioner Kreidler's legislative proposal ensures consumers with long-term care insurance policies in Washington state are protected from future failures or insolvencies and establishes equity among Association member assessments.