STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
DOA-2049 (R03/2012)

DIVISION OF EXECUTIVE BUDGET AND FINANCE
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ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis

1. Type of Estimate and Analysis
☒ Original ☐ Updated ☐ Corrected

2. Administrative Rule Chapter, Title and Number
Ins 2.30 (2) (f) to (j), 2.30 (c) (3), 2.30 (cm), and 2.30 (3m)

3. Subject
2012 Individual Annuity Reserving Mortality Table

4. Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

5. Chapter 20, Stats. Appropriations Affected
None

6. Fiscal Effect of Implementing the Rule
☒ No Fiscal Effect
☐ Indeterminate
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☐ Increase Costs
☐ Could Absorb Within Agency's Budget
☐ Decrease Cost

7. The Rule Will Impact the Following (Check All That Apply)
☐ State's Economy
☐ Local Government Units
☒ Specific Businesses/Sectors
☐ Public Utility Rate Payers
☒ Small Businesses **(if checked, complete Attachment A)**

8. Would Implementation and Compliance Costs Be Greater Than $20 million?
☐ Yes ☒ No

9. Policy Problem Addressed by the Rule

Under the current rule governing the minimum standards of valuation for individual annuity and pure endowment contracts life insurers are required to use the Annuity 2000 Mortality Table, which has become outdated and risks leaving insurers with an insufficient level of reserves. The proposed rule would require life insurers to use the 2012 Individual Annuity Reserving Mortality Table (2012 IAR Table) when determining the minimum standard of valuation for individual annuity and pure endowment contracts, which provides insurers with a more accurate tool for calculating minimum reserves. The 2012 IAR Table not only incorporates updated data such as increasing life expectancies into the minimum reserve calculation, but it also has a built in mechanism, the projection scale, that allows it to adjust annually and project future mortality rates ensuring appropriate reserve levels and maximum efficiency in calculating reserves over a longer period of time.

10. Summary of the businesses, business sectors, associations representing business, local governmental units, and individuals that may be affected by the proposed rule that were contacted for comments.

OCI solicited comments generally through publication requesting comments from the public utilizing the OCI website. In addition, OCI solicited comments from the following businesses and associations:

Benefit Services Group;
Capitol Consultants;
Catholic Financial Life;
Hamilton Consulting;
Independent Insurance Agents of Wisconsin
Johnson Insurance;
Liberty Mutual Insurance;
Martin Schreiber Associates;
Ministry Health Care;

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National Association of Insurance and Financial Advisors;
National Federation of Indpendent Businesses;
Network Health;
Northwestern Mutual Insurance Professional Insurance Agents of Wisconsin;
Sentry Insurance;
Thrivent Financial;
WEA Trust;
Wisconsin Association of Health Underwriters;
Wisconsin Chiropractic Association;
Wisconsin Council of Life Insurers;
Wisconsin Counties Association;
Wisconsin Hospital Association;
Wisconsin Insurance Alliance;
Wisconsin Physicians Service Insurance Corporation; and
Wisconsin Primary Health Care Association

OCI received three comments all in support of the proposed rule. In general, the supporting comments recognized that the proposed rule adopting the 2012 IAR Table will help ensure the appropriate level of reserves for annuity and pure endowment contracts and prevent excess federal taxes from being assessed to insurers for maintaining a higher level of reserves that is appropriate for these contracts. In addition, the inclusion of a projection scale in the 2012 IAR Table, a mechanism that adjusts mortality rates annually, will keep the 2012 IAR Table current for a longer period of time; this will increase efficiency and help OCI and the insurers avoid various cost that might be associated with implementing new mortality tables (and administrative rules). Finally, the proposed rule will put domestic insurers in step with insurers in other states where the rule is already being adopted. These comments are reviewed in detail in Sections 12 and 13.

11. Identify the local governmental units that participated in the development of this EIA.
None

12. Summary of Rule's Economic and Fiscal Impact on Specific Businesses, Business Sectors, Public Utility Rate Payers, Local Governmental Units and the State's Economy as a Whole (Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule change will have no fiscal effect on the state or local governments, nor will it have a significant effect on the private sector. The rule would affect insurers offering individual annuity and pure endowment contracts, however any impact would not be significant.

Insurers may encounter minor implementation costs if they choose to upgrade information technology and/or actuarial services. However, this cost would be minimal since insurers already have the systems in place to perform the calucations, they mainly just need to substitute in the new equations and numbers. In addition, these minor cost will likely be offset in the long-term by the fact that mechanisms built into the new table will help it remain current for a longer period of time, which will reduce the frequency in which new mortality tables will need to be adopted and help avoid the various costs associated with their implementation. Further, the law requires insurers to maintain appropriate reserves and many insurers may be using the table already.

Based on the comments OCI received from the insurers, the propose rule would have two other economic effects. First, the Wisconsin Council of Life Insurers (WCLI) and Northwestern Mutual (NM) noted that the proposed rule will increase the level of reserves held by the insurers, however both also acknowledged that in their opinion the results provided by the 2012 IAR Table reflect the appropriate level of reserves for these products. Accordingly, in NM's case

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they have already implemented the 2012 IAR Table internally and have been holding a higher level of reserves.

OCI has taken these comments under consideration and does not believe that the increased level of reserves will have a signifcant impact on insurers. First, the impact is mitigated by the fact that the 2012 IAR Table only applies to new contracts issued on or after January 1, 2015. This means that insurers will have a chance minimize any burden relating to the increased reserve levels by adjusting their products accordingly. Moreover, as indicated in the comments the results from the 2012 IAR Table provide the most appropriate level of reserves. Insurers are highly adept at assessing their own financial obligations and stability, therefore it is likely that insurers have already implemented or are prepared to implement measures necessary to account for the higher reserves needed to cover the contracts they are issuing, as was the case with NM. Therefore, based on these factors and the responses received, OCI does not expect the increased level of reserves resulting from the proposed rule to have a significant economic impact on insurers.

OCI also received comments from WCLI and NM noting that the rule will help prevent insurers from being assessed an additional federal tax on appropriate reserves. Insurers holding reserves above the level provided for in the current federally recognized mortality table have to pay federal taxes on the addition reserves and in order for a table to be recognized for federal tax purposes it must be enacted by 26 states. Currently, the table recongized by the federal government is outdated and risks leaving insurers with inadequate reserves. The 2012 IAR Table reflects a more appropriate level of reserves, however, insurers who choose to implement the 2012 IAR Table and hold a higher reserve level that is appropriate are encountering an excess tax burden. OCI has taken this issue under consideration and does not believe that it will have a significant overall economic impact on insurers.

First, OCI is expecting the 2012 IAR Table to reach the 26 state threshold necessary to be recognized for federal tax purposes. OCI's research indicated that 27 states, including Wisconsin, have or are in the process of enacting the 2012 IAR Table. In addition, since the 2012 IAR Table is contained in a National Association of Insurance Commissioners (NAIC) model rule and is being promoted by the NAIC, OCI anticipates more states will continue to adopt the 2012 IAR Table over the next year. The comment from WCLI does acknowledge that if the 2012 IAR Table is not enacted by 26 states insurers holding appropriate reserves consistent with the new rule would have to pay federal taxes on the additional reserves. The extent to which the potential federal tax may impact individual insurers is difficult for OCI to determine because it will likely vary from insurer to insurer and depend on the amount of reserves being taxed and/or whether the insurer had previously decided to hold a higher level of reserves to ensure adequate reserves.

Although it is difficult for OCI to determine the exact impact the potential tax may have on individual insurers, OCI does not believe the overall impact will be significant. The comments OCI received were supportive of the proposed rule because in their view it will help prevent an excessive tax burden being place on appropriate reserves. In the case of NM, and any other insurers holding a higher level of reserves based on the 2012 IAR Table, they are already being assessed a tax for maintaining a higher reserve level, a level that is supported by the most recent data. Therefore, this rule would help them by reducing their tax liability. Alternatively, OCI has not receive any comments expressing concerns over the proposed rule's potential tax implications. Finally, OCI believes that if the 2012 IAR Table does not reach the 26 state threshold next year, there is a strong likelihood that it will meet the threshold the following year. As noted above OCI's review indicated that the 2012 IAR Table is already on the verge of meeting the threshold and should be recognized next year, however, if it does not, it will very likely reach the threshold the following year, especially since the 2012 IAR Table is contained in a NAIC model rule that is being promoted by the NAIC.

13. Benefits of Implementing the Rule and Alternative(s) to Implementing the Rule

The proposed rule would require insurers to use the 2012 IAR Table for contracts issued on or after January 1, 2015

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instead of the Annuity 2000 Mortality Table, which has become outdated and risks leaving insurers with an insufficient level of reserves. The change is beneficial to insurers and consumers for a number of reasons.

First, the 2012 IAR Table provides insurers with a more accurate tool for calculating minimum reserves. The 2012 IAR Table accounts for the fact that people purchasing annuities are living longer and enables insurers to maintain appropriate reserves by increasing the level of reserves held by insurers.

The addition of a projection scale to the 2012 IAR Table also allows the table to remain up-to-date over a longer period of time because it allows the table to adjust and consider the most accurate data during each valuation year. Not only does this addition ensure more accurate reserve levels by accounting for the most accurate data, but it also reduces the frequency in which new mortality tables (and rules) need to be adopted. Accordingly, this will increase efficiency and help OCI and insurers avoid various costs associated with implementing new administative rules.

Finally, the 2012 IAR Table has been recommended by the NAIC and is in the process of being adopted in other states. The proposed rule will help domestic insurers remain on equal footing with insurers from other states where the rule is already being adopted. In addition, since the proposed rule is based on a NAIC model rule being adopt in a majority of states, insurers operating in multiple states will benefit from the uniformity resulting from the proposed rule.

14. Long Range Implications of Implementing the Rule

None

15. Compare With Approaches Being Used by Federal Government

The OCI is not aware of any existing or proposed federal regulations intended to address the activities to be regulated by the proposed rule change.

16. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)

Illinois: 50 Ill. Adm. Code 935 was adopted on June 20, 2014 and becomes effective January 1, 2015. This rule closely resembles Wisconsin’s proposed rule by adopting the 2012 IAR Table in determining the minimum stardard of valuation of annuity and pure endowment contracts.

Iowa: 191 IAC 43.1 to 43.7 closely resembles Wisconsin’s proposed rule and incorporates the 2012 IAR Table for determining the minimum standard of valuation for annuity and pure endowment contracts.

Minnesota: ch. 2752 closely resembles Wisconsin's proposed rule and incorporates the 2012 IAR Table for determining the mininmum standard of valuation for annuity and pure endowment contracts.

17. Contact Name	18. Contact Phone Number
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This document can be made available in alternate formats to individuals with disabilities upon request.

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ATTACHMENT A

1. Summary of Rule's Economic and Fiscal Impact on Small Businesses (Separately for each Small Business Sector, Include Implementation and Compliance Costs Expected to be Incurred)

The proposed rule would have a similar economic impact on small business insurers as it would have on regular insurers. The proposed rule would have an impact on life insurers, however any impact would not be signifant because few life insurers, if any, meet the definition of a small business. In addition, many of the implementation and compliance costs are mitigated by other factors. First, small business insurers may encounter implementation cost if they wish to upgrade software or actuarial services, however this cost should be minimal since insurers already have the systems in place to perform the calculations, they primarily just need to substitute in new numbers and equations.

The proposed rule would also required small business insurers to maintain an increased level of reserves consistent with the 2012 IAR Table. However, this impact is mitigated by the fact that the 2012 IAR Table only applies to contracts issued on or after January 1, 2015. This provides insurers with an opportunity to minimize any burden associated with the increased reserves by adjusting their products accordingly to account for the higher reserve levels.

Finally, insurers holding reserves consistent with the appropriate level determined by the 2012 IAR Table would have to pay federal taxes on the reserves that exceed the level determined by the currently recognized mortality table if 26 states do not adopt the 2012 IAR Table. However, OCI expects the 2012 IAR Table to reach the 26 state threshold by next year. OCI's review showed that 27 states have either adopted or are in the process of adopting the 2012 IAR Table.

2. Summary of the data sources used to measure the Rule's impact on Small Businesses

Section 227.114, Wis. Stat., defines a "small business" as "a business entity, including its affiliates, which is independently owned and operated and not dominant in its field, and which employs 25 or fewer full-time employees or which has a gross annual sales of less than $5,000,000." OCI reviewed the revenue and ownership structure of domestic life insurers and based on either too much revenue or the ownership structure, it appears that none of Wisconsin's life insurers qualify as small businesses.

3. Did the agency consider the following methods to reduce the impact of the Rule on Small Businesses?

☐ Less Stringent Compliance or Reporting Requirements
☐ Less Stringent Schedules or Deadlines for Compliance or Reporting
☐ Consolidation or Simplification of Reporting Requirements
☐ Establishment of performance standards in lieu of Design or Operational Standards
☒ Exemption of Small Businesses from some or all requirements
☐ Other, describe:

All insurers must maintain compliance with the relevent reserves requirements and maintain adequate reserves to cover payouts from the contracts they have issued. No exceptions can be made for small business insurers. In addition, OCI does not believe that the rule's economic impact will be significant based on the mitigating factors described in Sections 1 and 4.

4. Describe the methods incorporated into the Rule that will reduce its impact on Small Businesses

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A key factor in reducing the economic impact this rule will have on small businesses is that the 2012 IAR Table, which will require increased reserves, will only apply to contract issued on or after January 1, 2015. This allows insurers to lessen any economic burden associated with the increased level of reserves by adjusting their products accordingly.

5. Describe the Rule's Enforcement Provisions

The proposed changes do not add any new requirements to be enforced. However, insurers are still subject to the current reserve requirements, failure to comply with those requirements may be enforced by the Commissioner pursuant to ss. 601.41(1) and 601.64, Wis. Stat.

6. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)

☐ Yes ☒ No