ACLI
Financial Security...for Life.

Testimony of the American Council of Life Insurers before the House
Health and Government Operations Committee
Support of House Bill 141
February 12, 2020

House Bill 141 – Enacting the Revised NAIC Life and Health Insurance Guaranty Association Model Act

Chairman Pendergrass and members of the Committee, the American Council of Life Insurers ("ACLI")[1] appreciates the opportunity to offer comments in support of **House Bill 141,** which updates Maryland's Life and Health Insurance Guaranty Corporation Act ("MLHIGCA") to conform with the National Association of Insurance Commissioners' ("NAIC") recently-revised Life and Health Insurance Guaranty Association ("LHIGA") Model Act. The legislation before you will help ensure that Maryland's life and health insurance guaranty association, which was created to protect consumers and act as a safety net, remains stable, fair and sustainable through sufficient assessment capacity.

Regulators, life insurers, health insurers, consumer representatives and experts in the insurance receivership community worked together over a year-long process to make critical changes to the LHIGA Model Act. These changes to the guaranty association system are designed to give consumers confidence when purchasing long-term care ("LTC") insurance products so they know their LTC benefits will be protected in the unlikely event of an insurer insolvency.

First, a brief explanation of the state life & health insurance guaranty association system:

Insurance companies are regulated and licensed in each state in which they do business. State insurance departments monitor insurers' financial stability and oversee the guaranty association safety net which protects residents if a life or health insurance company fails. Life and health insurers are required to be "members" of each state's life and health insurance guaranty association as a condition of doing business in the state.

If an insurance company becomes financially unstable, the insurance department in its home state takes control. This begins the "receivership process" whose goal is to "rehabilitate" the troubled insurer. If the company's financial difficulties are too great to overcome, the insurance department asks the court to declare the company insolvent, and the receivership process moves into "liquidation." The receiver works to maximize the insurer's assets to pay its creditors, primarily its policyholders, up to certain limits.

If the insolvent insurer's estate assets cannot cover financial obligations to its policyholders, each state guaranty association assesses its member insurers to pay remaining claims of resident policyholders, up to certain limits. The assessment is based on the premium amount each guaranty association member collects in that state on the kind of business for which benefits are required [e.g., life premiums for life insurance and health premiums for health products].

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[1] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

Needed changes to protect the life and health insurance guaranty association safety net:

Under Maryland's current guaranty association law, health insurers are assessed for long-term care insurance insolvencies and shoulder about 80% of long-term care insurance assessments. Life insurers that write health lines of business are responsible for about 20% of potential LTC insurance assessments. This approach is unsustainable because:

- It is inequitable for either life or health insurers to shoulder 80% of the guaranty association assessment liability for LTC insurance when most life and health insurers have never sold the product.
- There is insufficient assessment capacity in the guaranty association's health insurance account to absorb another significant LTC insurer insolvency like the one that occurred in 2017.
- The health coverage provided by health maintenance organizations ("HMOs") is not included in the assessment base since those entities are not currently members of MLHIGCA.

The legislation before you would add HMOs as members of MLHIGCA, thus expanding the assessment base in the guaranty association's health account. It would also provide guaranty association protection for HMOs that does not exist today. The significant differences between commercial health insurers and HMOs that led to HMOs being excluded from guaranty association statutes decades ago no longer exist. Those entities compete actively in the health coverage marketplace. In fact, most commercial health insurers now have HMO platforms. Consumers deserve the same coverage protections regardless of which health plan they or their employers choose.

The legislation would also split future assessments for long-term care insolvencies equally between the guaranty association's life and health insurance accounts. The 50/50 split of LTC insurance-related assessments is a critical element of this legislation. The vast majority of life and health insurers have never sold standalone LTC insurance. The number of life and health insurer groups that once sold standalone LTC insurance—approximately 100—has dwindled to fewer than 15 today. There has been a significant shift in LTC insurance sales from standalone products to hybrid products. Most LTC insurance today—24% of the current LTC insurance market and 85% of new sales—is written as a life or annuity hybrid product (e.g., a life insurance policy with a LTC rider). Based on this market transformation, it appears that LTC insurance assessments may already be migrating from the health account to the life account. Legacy blocks of standalone LTC insurance, however, continue to pose risks to the guaranty association system. To address those risks, the ACLI Board agreed to support revisions to the guaranty association system that would ask ALL life insurers (not just those selling LTC or other health insurance) to assume a greater share of the assessment burden of a failed carrier that writes long-term care insurance.

Why are life insurers stepping up to assume more of the burden? Our member companies recognize how critically important the stability of the state guaranty association system and its protections are to consumer confidence in our industry and to the future of the state-based system of insurance regulation. There simply is not enough capacity in the system to absorb another significant long-term care insolvency if the entire life and health insurance industry does not share the burden. The revisions to the LHIGA Model Act reflected in H. 141 will protect consumers who take on the responsibility of providing for their LTC needs and help prevent undue financial burdens on healthy insurance companies.

Thank you for your consideration of our comments. We hope you will **support House Bill 141.** I am happy to answer any questions you may have.

Sincerely,

Leah J. Walters

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Vice President & Deputy, State Relations

Life Insurers + Maryland

2019 ACLI STATE FACT SHEETS

The life insurance industry's mission is to help all Americans, regardless of where and how they work, their life stage, or their economic status, deal with life's financial challenges and achieve peace of mind. Here's how we help in your state:

DID YOU KNOW?

1/5 of Maryland residents are under age 18—typically financially dependent on a loved one or caregiver.

Maryland has **905,000** residents aged **65 or older**.

63%

63% of Maryland residents are of working age.

671,000 Maryland residents are dealing with a disability.

INVESTING IN THE ECONOMY

The life insurance industry generates approximately **33,500** jobs in Maryland.

Life insurance companies invest approximately **$122 BILLION** in Maryland's economy, helping to finance businesses, create jobs, and provide services in the state.

426 life insurers are licensed to do business in Maryland and **3** are domiciled in the state.

PROTECTING FAMILIES FROM THE LOSS OF A BREADWINNER

Maryland residents have **$701 BILLION** in total life insurance coverage—**93%** from ACLI member companies.

Maryland residents own **4 MILLION** individual life insurance policies, with coverage averaging **$116,000** per policyholder.

$2.2 BILLION was paid to Maryland life insurance beneficiaries in 2017.

Individual life insurance coverage purchased in Maryland in 2017 totaled **$33 BILLION**.

Group life insurance coverage in the state amounts to **$276 BILLION**.

PROVIDING GUARANTEED INCOME AND LONG-TERM CARE TO RETIREES

Annuity benefits paid in the state in 2017 totaled **$1.6 BILLION**.

Long-term care insurance paid in the state in 2017 totaled **$194 MILLION**.

EVERY DAY IN MARYLAND, LIFE INSURERS PAY OUT **$27.8 MILLION** IN LIFE INSURANCE AND ANNUITIES TO FAMILIES AND BUSINESSES **—93%** FROM ACLI MEMBER COMPANIES.

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