

SESSION OF 2007

SUPPLEMENTAL NOTE ON SENATE BILL NO. 255

As Amended by Senate Committee on
Financial Institutions and Insurance

Brief*

SB 255 would amend the Standard Valuation Law to provide for the use of lapse rates in the calculation of reserves for Universal Life Insurance contracts issued after December 31, 2006. The allowance of lapse rates for calculation would apply to contracts that provide death benefits that are guaranteed to remain in effect, if the specified conditions in the contract are met by the contract owner. The lapse rates applied in the calculation of the value of the guarantee would not be permitted to exceed 2.0 percent per year.

Background

SB 255 was requested by the Insurance Commissioner whose representative indicated that the bill would apply only to a specific type of life insurance contract (Universal Life) that offers a specific guarantee (often referred to as a secondary guarantee) that keeps the insurance contract in force, and the use of lapse rates in the reserve calculation will generally lower the level of reserve of the insurance company. The end result, according to the Chief Actuary for the Insurance Department, will be a reserve that more accurately reflects the risks inherent in Universal Life Insurance contracts with secondary guarantees. A representative of the American Council of Life Insurers spoke in support of the bill at the Senate Committee hearing.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

The Senate Committee on Financial Institutions and Insurance amendment makes a technical change to the title of the bill.

The fiscal note prepared by the Division of the Budget indicates that passage of the bill would require the Kansas Insurance Department, as the agency currently responsible for determining whether companies are in compliance with the Standard Valuation Law, to review the reserve calculations for Universal Life Insurance contracts issued after December 31, 2006, which contain guaranteed death benefit provisions. The Department indicates that the bill could be implemented within existing budget and staffing resources.