

REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Regulation: 806 KAR 15:060

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(1) Provide a brief summary of:

(a) What this administrative regulation does: This administrative regulation supplements existing regulations on life insurance policies to accommodate the development and issuance of universal life insurance policies, to provide for the valuation of policy benefits, to require annual written status reports, and to require actuarial certification that the insurance and investment cash flows are financially sound.

(b) The necessity of this administrative regulation: This administrative regulation is necessary to ensure that universal life policies are developed in a financially sound manner and include annual disclosures to the policyowner.

(c) How this administrative regulation conforms to the content of the authorizing statutes: KRS 304.2-110 authorizes the commissioner to make reasonable rules and regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code. This administrative regulation will create financial standards for developing universal life products, and require annual baseline status disclosure to the policy owner.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation will create actuarial and contract provision standards for universal life policies, which should make those products stronger from a solvency perspective. It also provides for consumer protection disclosures about policy benefits which should help the consumer understand what the product does and does not include.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation: The amendments to this administrative regulation are changes required by Chapter 13A.

(b) The necessity of the amendment to this administrative regulation: The necessity of these amendments are established in the Chapter 13A.222, in which the drafting requirements are set forth. These requirements ensure the administrative regulation language to be uniform and simple for those needing to reference.

(c) How the amendment conforms to the content of the authorizing statutes: Chapter 13A gives a very detailed explanation of the formatting rules as well as prohibited words and phrases, so these amendments remove old language and replace with acceptable unambiguous language.

(d) How the amendment will assist in the effective administration of the statutes: The amendments made to this administrative regulation meet Chapter 13A guidelines, which means the administrative regulation meets standards that are more effective. With clearer language 304.1-010 is more effective and thus, allowing the Department to regulate more effectively.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This regulation will affect the approximately 520 insurers and, 43,000 agents that are licensed to offer life products in Kentucky.

(4) Provide an analysis of how the entities identified in the previous question will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions each of the regulated entities have to take to comply with this regulation or amendment: Regulated entities will be required to calculate life insurance values and reserves in accordance with standardized actuarial procedures, and, in some instances, to certify compliance with the regulation annually, using their existing actuarial resources.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the entities: We requested that the industry provide us with information on the cost impact of this regulation. The Department of Insurance has not received a response to its request. Therefore, the Department assumes that because this is a national standard that insurers may already be complying with in other states, the cost impact is minimal.

(c) As a result of compliance, what benefits will accrue to the entities: This regulation is part of a package that standardizes life insurance regulation across the various states and should reduce the overall cost of doing business for regulated entities.

(5) Provide an estimate of how much it will cost the administrative body to implement this administrative regulation:

(a) Initially: Implementation of this amendment is not anticipated to have an initial cost on the Department of Insurance.

(b) On a continuing basis: Implementation of this amendment is not anticipated to have an on-going cost on the Department of Insurance.

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: The Department will use funds from its current operational budget to perform the tasks necessary.

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: An increase of fees will not be necessary because additional personnel is likely unnecessary.

(8) State whether or not this administrative regulation established any fees or directly or indirectly increased any fees: This administrative regulation does not establish any fees.

(9) TIERING: Is tiering applied? Explain why or why not. Tiering is not applied because this regulation applies equally to all insurance companies offering life insurance in Kentucky.

FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

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(1) What units, parts or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? The Department as the implementer.

(2) Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 304.2-110.

(3) Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect. If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? This regulation should be essentially revenue neutral.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? This regulation should be essentially revenue neutral

(c) How much will it cost to administer this program for the first year? There is no expected cost to administer this administrative regulation.

(d) How much will it cost to administer this program for subsequent years? There is no expected cost to administer this administrative regulation.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

(4) Revenues (+/-): Neutral

(5) Expenditures (+/-): Neutral

(6) Other Explanation: