

Department of Planning and Budget

2015 Fiscal Impact Statement

1. Bill Number: SB1305

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Reeves

3. Committee: General Laws and Technology

4. Title: Unclaimed property; death master file.

5. Summary: Unclaimed property; death master file. Requires insurance companies to perform a semiannual comparison of their in-force policies, annuities, and retained asset accounts issued in the Commonwealth after January 1, 2016, against the U.S. Social Security Administration death master file or its equivalent to identify potential death master file matches. If a match between information contained in the death master file and an in-force policy, annuity, or account is found, the measure requires the insurance company, within 90 days of obtaining such information, to complete a good faith effort to verify the death of the individual through other available records and information. If the individual's death is confirmed and a beneficiary or authorized representative has not communicated with the insurance company within the 90-day period, it shall take reasonable steps to locate and contact the beneficiary or beneficiaries or authorized representative. If the beneficiaries or owners cannot be found, the benefits are presumed abandoned and the insurance company is required to report and remit the benefits to the State Treasurer under the Uniform Disposition of Unclaimed Property Act. The requirements do not apply to any life or endowment insurance policy, annuity, or retained asset account for which the insurance company is receiving premiums outside of the policy account value by check, bank draft, payroll deduction, or any other similar method of active premium payment within the 18 months immediately preceding death master file comparison. The State Treasurer, in consultation with the Commissioner of Insurance, may adopt rules and regulations that (i) limit the insurance company's comparison to the death master file to its electronic searchable files; (ii) approve a plan and timeline for converting the insurance company's files to electronic searchable files; (iii) exempt an insurance company from the death master file comparison requirements or permit such comparisons to be conducted less frequently if compliance would impose a financial hardship; or (iv) establish a plan and timeline that phases in compliance with these requirements. The measure also includes provisions allowing an insurance company to report and remit the proceeds to the State Treasurer on an early reporting basis, without further notice to or consent by the State Treasurer, after attempting to contact the beneficiary.

6. Budget Amendment Necessary: Yes, Revenues

7. Fiscal Impact Estimates: Preliminary, see Item 8.

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2015	\$0	-
2016	(\$12,000,000)	Unclaimed Property
	to	
	(\$15,000,000)	
2017	(8,000,000)	Unclaimed Property
	to	
	(10,000,000)	
2018	(8,000,000)	Unclaimed Property
	to	
	(10,000,000)	
2019	(8,000,000)	Unclaimed Property
	to	
	(10,000,000)	
2020	(8,000,000)	Unclaimed Property
	to	
	(10,000,000)	
2021	(8,000,000)	Unclaimed Property
	to	
	(10,000,000)	

- 8. Fiscal Implications:** This legislation establishes several provisions on the procedures insurance companies are to use when comparing their life insurance policy holder information to the U.S. Social Security Administration's death master file (DMF) to ascertain if a policy holder is deceased and therefore if the assets of the policy are due to a beneficiary. If a beneficiary cannot be located, the property must be remitted to the state's unclaimed property program. The bill also includes provisions on how the State Treasurer should address these assets in the context of the Commonwealth's unclaimed property program.

The Department of the Treasury notes that nationwide audits of life insurance companies have been ongoing since approximately 2010, due in part to several national Insurance Commissioners Task Force exams that found that while many insurance companies were checking the DMF to find deceased policyholders to stop payments to annuity holders, they were not checking to find deceased policyholders and then paying owed life insurance proceeds to policyholder beneficiaries. The audits are examining outstanding policies in force from 1992 to the present and have found that insurance companies owed approximately \$1 billion in insurance benefits to beneficiaries.

Virginia is participating in national audits of ten insurance groups. Treasury notes that due to these audits, approximately 4,800 accounts, valued at \$11.4 million have been returned to Virginia citizens to date during the due diligence phase. Insurers have remitted approximately 75,000 accounts, valued at \$56 million, to Virginia's unclaimed property program over the last four years.

The bill requires insurance companies to compare life insurance policies to the DMF or similar comprehensive death match file, but only on those policies issued after January 1,

2016. Treasury indicates that this legislation will supersede existing Regulatory Settlement Agreements (RSAs) and Global Resolution Agreements (GRAs) that Virginia has with insurance companies. These agreements require the insurance companies to use the DMF data on policies currently in-force. Consequently, Treasury believes that those companies currently complying with the requirements of the agreements will cease complying. According to data provided the State Corporation Commission, there are 4.2 million policies in force in Virginia with a total coverage value of \$881 billion. These policies will not be required to be matched against the DMF. The bill does not prohibit auditors from conducting comparisons to the DMF, but Treasury believes the inclusion of the January 1, 2016 date could be interpreted to be a prospective requirement and that insurance companies will not recognize audit requests for policies issued prior to that date.

The bill also provides that if the owner or beneficiary of the property cannot be found, then the property is to be assumed abandoned and remitted to the Treasurer. The bill states that the interest payable on the asset is not to be considered abandoned and remitted. Treasury indicates that under the GRAs that states have with the insurance companies under audit, the interest is remitted to the states with the policy benefits.

Treasury indicates that it is unknown how much remaining unclaimed property related to these life insurance policies is yet to be found through the audit process. Based on trends of the last four years, the department assumed between \$12 million to \$15 million in remittances from life insurance policy DMF comparisons as part of the fiscal year 2016 unclaimed property revenue forecast. Treasury anticipates an additional \$8 to \$10 million per year in remittances over the next several years. Under the provisions of this legislation, Treasury believes those revenues will not materialize and would therefore reduce deposits to the Literary Fund. A percentage of unclaimed property remittances are transferred to the Literary Fund, which is used to finance school construction and provide support for the state's share of teacher retirement contributions required by the Standards of Quality.

9. Specific Agency or Political Subdivisions Affected: Department of the Treasury,
Department of Education

10. Technical Amendment Necessary: No.

11. Other Comments: None.

C: Secretary of Finance

Date: February 1, 2015

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