

## TAX CREDIT ANALYSIS

<b>Program Name:</b> Missouri Life and Health Insurance Guaranty Association Credit	<b>Department:</b> Insurance, Financial Inst. & Professional Reg.	<b>Date:</b> 12/22/2009
<b>Program Category:</b> Domestic and Social	<b>Type:</b> Tax Credit <input checked="" type="checkbox"/> Other (specify) _____	
<b>Statutory Authority:</b> Section 376.745 RSMo.	<b>Applicable Taxes:</b> Missouri Insurance Premium Tax	

**Program Description and Eligibility Requirements:**  
 The Missouri Life and Health Insurance Guaranty Association is created in state statute and all insurers issuing life and health insurance in the state are members. The association pays Missouri policyholders for claims against insolvent L&H companies. The association then assesses all members in the state to pay claims of the insolvent insurer. Members are allowed to take these assessments as an offset against premium tax collected by the state.

**Explanation of How Award is Computed:** Entitlement  Discretionary \_\_\_\_\_  
 Credits are taken over a five-year period with 20% being taken each year beginning the year after the assessment. No carry forward. Credits are taken against General Revenue, County Foreign and County Stock Funds.

**Program Cap:** Cumulative \$ \_\_\_\_\_ (remainder of cumulative cap) \$ \_\_\_\_\_ Annual \$ \_\_\_\_\_ None   
**Explanation of cap:** n/a

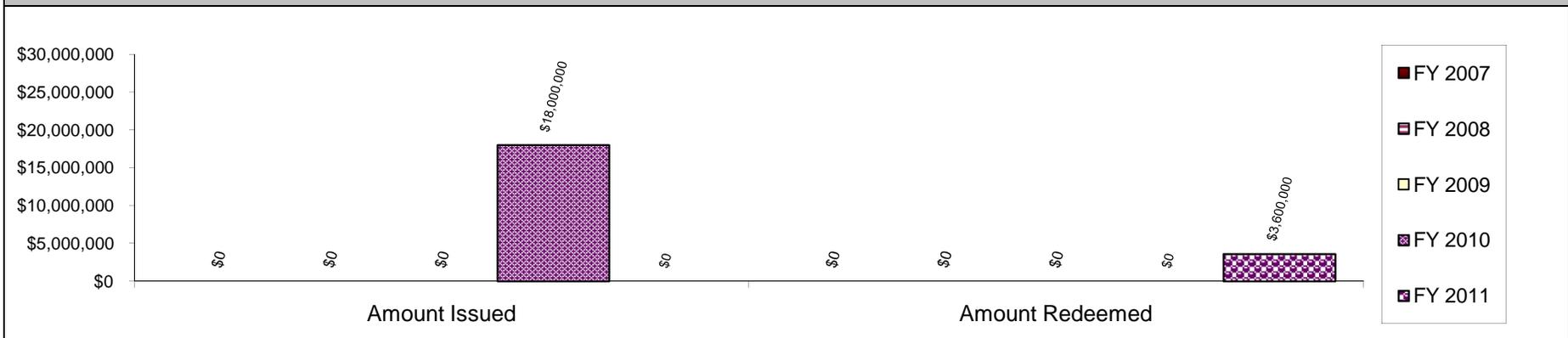
**Explanation of Expiration of Authority:** n/a

**Specific Provisions:** (if applicable)  
 Carry forward \_\_\_\_\_ years Carry Back \_\_\_\_\_ years Refundable \_\_\_\_\_ Sellable/Assignable \_\_\_\_\_ Additional Federal Deductions Available \_\_\_\_\_  
**Comments on Specific Provisions:** No carry forward.

	FY 2007 ACTUAL	FY 2008 ACTUAL	FY 2009 ACTUAL	FY 2010 (current year)	FY 2011 (budget year)
Certificates Issued (#)	n/a	n/a	n/a	n/a	n/a
Projects (#)	n/a	n/a	n/a	n/a	n/a
Amount Authorized	n/a	n/a	n/a	n/a	n/a
Amount Issued <sup>1</sup>	\$0	\$0	\$0	\$18,000,000	Unknown - see notes
Amount Redeemed <sup>2</sup>	\$0	\$0	\$0	\$0	\$3,600,000
EST. Amount Outstanding	N/A	N/A	\$0	N/A	N/A

<sup>1</sup>No assessments made 1998-2008. <sup>2</sup>Estimated redemption amount.

### HISTORICAL AND PROJECTED INFORMATION



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**Comments on Historical and Projected Information:** In 2008, National Prearranged Services (“NPS”) was placed in liquidation by the state of Texas. NPS is a Missouri domestic corporation and was formerly one of the largest sellers of preneed funeral contracts in the state of Missouri and nationally. Generally, under a preneed contract, the funeral director or preneed seller agrees to provide funeral services at a fixed or guaranteed price when the contract beneficiary passes away. Ideally, this may result in some savings to the purchaser who may be able to “lock-in” current prices even though the death may not occur for some significant time. Once the services are provided, the funeral director/provider is then reimbursed by the preneed seller for the funeral expenses. Historically, this reimbursement has included all or a portion of the interest that may have been earned on the contract.

Under Missouri law, NPS was required to place 80% of all funds paid by consumers into a trust account with a financial institution. Frequently, these funds are used to purchase insurance coverage to guarantee payment of the funeral costs. According to information gathered by state regulators, NPS’ trust funds were depleted because of improper policy loans, insurance investments and potentially the misappropriation of funds by company representatives/shareholders.

Although state regulators are still attempting to assess the full impact, the national financial impact has been estimated to exceed \$400,000,000. The department and the Missouri Attorney General’s Office are in the process of attempting to assess the specific impact on Missouri. However, the state’s initial review indicates that the affect on Missouri consumers and funeral directors will be substantial. To the extent insurance coverage on a particular NPS contract was in place, the various state insurance guaranty funds have agreed to cover the contract’s obligations. In turn, these guaranty funds will assess their member-insurers, who will in turn take as offsets against any state premium taxes due from the insurers. Based on current estimates, Missouri may see tax offsets of \$200 million over the next fifteen years because of the NPS liquidation. If there is an “upside” to this, it is that the potential financial hardship to the NPS contract holders will be minimized.

#### BENEFIT: COST ANALYSIS (includes only state revenue impacts)

	FY 2009 ACTUAL	Other Fiscal Period (indicated time period)	Derivation of Benefits:
<b>BENEFITS</b>			N/A
Direct Fiscal Benefits			
Indirect Fiscal Benefits			
<b>Total</b>			
<b>COSTS</b>			
Direct Fiscal Costs			
Indirect Fiscal Costs			
<b>Total</b>			
<b>BENEFIT: COST</b>			

**Other Benefits:**  
The business of insurance is primarily regulated by the states. Consequently, no federal mechanism exists to guaranty the payment of claims under insurance policies in the event an insurance company becomes insolvent. Instead, the states have taken on this role. Every state in the U.S. has enacted laws creating a life and health insurance guarantee association. In the event that a licensed insurance company becomes insolvent and cannot pay its claims, the various state guarantee associations step in and provide coverage for policy or claim up to prescribed limits. In Missouri, life and health policies are guaranteed up to \$100,000 for most types of coverage.

To get the money to pay claims for an insolvent company, the various guaranty associations are authorized by law to levy assessments against all of the other life and health insurance companies in the state. The insurance companies in Missouri are then allowed a tax credit against their premium tax liability for the amount of the assessment.

#### PERFORMANCE MEASURE(S)

N/A

**Comments on Performance Measure:**