



LOUISIANA DEPARTMENT OF INSURANCE

HCR 104 of the 2014 Regular Session

**DISCOUNT ON MOTOR VEHICLE LIABILITY
INSURANCE FOR RETIRED MILITARY**

**JAMES J. DONELON
COMMISSIONER OF INSURANCE**

Louisiana Department of Insurance

This public document was published at a total cost of \$ 1,382.06. Thirty-two copies of this public document were published in this first printing at a cost of \$ 41.64. The total cost of all printings of this document including reprints is \$ 1,382.06. This document was published by the Louisiana Department of Insurance to report on House Concurrent Resolution 104 of the 2014 Regular Legislative Session. This material was printed in accordance with standards for printing by state agencies established pursuant to R.S. 43:31.

HCR 104

Discount on Motor Vehicle Liability Insurance for Retired Military
Louisiana Department of Insurance
January 15, 2015

Scope of HCR 104

HCR 104 by Representatives Lorusso and Burford urged and requested the Louisiana Department of Insurance (LDI) to study the feasibility of requiring insurers to provide a discount on motor vehicle liability insurance premiums to retired members of the United States Armed Forces (USAF). In conjunction with the study, the Legislature requested the LDI perform the following tasks:

- 1) Conduct a legal analysis of the statutory provisions of other states for the purpose of determining if any other states mandate the implementation of a premium discount to their respective residents who are retired members of the USAF;
- 2.) Survey companies that are active in the Louisiana private passenger automobile insurance market relative to the effects that a mandated discount would have on:
 - a.) the premium charged to persons who are not retired members of the USAF; and
 - b.) the company's willingness to continue to write private passenger automobile policies in the state of Louisiana; and
- 3) Conducting a study to determine the impact that such a discount would have upon the state revenue.

History of the Issue

In 2005, the Legislature adopted the requirement that insurers discount automobile liability insurance premium by 25 percent to active military personnel. In 2008, the Legislature authorized a 10 percent discount to active military personnel on their homeowner's insurance policy purchased in Louisiana. Insurance industry response to mandated discounts is that the discounts result in cost shifting: Unless there is a public policy change associated with the discount that will effectively and predictably lower an insurer's loss costs or replace its lost income, the discount applied to one group means the loss costs in the line of business must be made up in premium increases to all insureds who do not qualify for the discount.

Perhaps because of this industry argument, the Legislature created a credit equal to the discounts awarded to its military auto liability insureds that could be applied to the premium tax owed to Louisiana by the insurer. In essence, the state is absorbing the cost of the mandated discount of 25 percent on all automobile liability insurance policies issued to active military personnel. The 2008 10-percent permitted (not mandated) discount on homeowner's insurance premium paid by active military personnel did not create a premium tax credit for insurers.

In 2014, HB 502 would have provided for a mandatory 20 percent discount on automobile liability insurance for all retired military or their surviving spouse. The proposal contained a premium tax rebate, similar to the premium tax credit contained in La. R.S. 22:1482, for insurers to recover its premium income lost as a result of the discount, thus passing the cost of the discount to the state budget rather than to other classes of insureds. The fiscal note on the legislation estimated the probable cost of measure to be a \$538,000 reduction in annual state revenues. The House Insurance Committee deferred the legislation.

Subsequently in 2014, the Legislature passed HCR 104 to get a better understanding of the feasibility of providing a discount on motor vehicle liability insurance premium to retired members of the armed forces of the United States who reside in Louisiana.

Other States

Because marketplace restrictions can affect insurers' appetite for choosing to do business in a state, the Legislature further requested that the LDI provide a review of other states' statutorily mandated discounts on motor vehicle liability insurance covering retired military. The LDI conducted a diligent review of other states' laws in this regard and offers the following information:

The LDI found that no other state has a premium discount mandate for retired members of the USAF. Furthermore, it was noted that, at present, Louisiana is the only state that mandates a discount for the liability portion of the automobile premium for active members of the USAF (See La. R.S. 22:1482). At most, other states, such as Montana and Kentucky, mandate a premium discount for USAF members who have completed a defensive driving course. This mandate is consistent with the provisions of La. R.S. 22:1457.

Survey of Insurers

Methodology

To fulfill the requirements of HCR 104, the LDI surveyed the top 12 insurers to obtain their insight on the feasibility of this required discount for retired military; eight of the top 12 insurers are in groups. These surveyed insurers comprised an 80 percent market share for the private passenger automobile liability insurance market in Louisiana at year end 2013. A copy of the survey letter sent on July 2, 2014, is included as Appendix B. The survey letter requested the insurance companies to advise the LDI of the effect a mandated premium discount for retired members of the USAF would have on both the premium that would be paid by the other non-retired USAF policyholders as well as the companies' continued willingness to write private passenger automobile liability insurance in Louisiana. Insurers included in the survey were: Allstate Insurance Company (group of 2), State Farm Insurance Company (group of 2), Farm Bureau Insurance Companies, GEICO Insurance Companies (group of 2), Progressive Insurance Group (group of 2), Affirmative Insurance Company, USAA Insurance Group, and Liberty Mutual Insurance Companies.

Results

All but two of the surveyed companies/groups responded.

All but one insurer responded that there would be an increase in rates for all policyholders who are not members of the group to be discounted. The increase is to offset the cost of offering the discount while maintaining adequate rates to cover losses. One insurer indicated that there would be no material impact on premium based on its current book of business. Only two companies estimated the increase that other non-retired military would expect to receive, with the cost ranging from 0.1 percent to 3.4 percent increase in the automobile liability premium of non-members of the discounted group. The lower estimate was from a company with a larger market share whose estimate was based on general population data, not information known about its policyholders; the higher estimate was from a company whose customer base is largely military, indicating that the discount to retired military would be made up largely by imposing higher rates on active military. Some insurers indicated that there was insufficient data held by the company on their current policyholders to provide an estimate of the increase to policyholders who are not members of the discounted group. Some insurers noted that if the value of the discount were to be recaptured by the insurer through a premium tax credit or rebate as contemplated by HB 502 of the 2014 Regular Legislative Session, the cost of the discount would not be passed on to other policyholders.

No insurer indicated that a mandated discount would impact its willingness to do business in Louisiana, especially if implemented with a premium tax credit or rebate to offset the loss of premium. However, one insurer indicated that, in the event no premium tax credit or rebate was included in the implementation of the discount, the company would need to obtain approval for a base rate increase to maintain adequate rates and that it will take some time to determine the actual impact of the discount.

Other comments or questions raised by the insurers were the following:

- Is “retired military” limited to those with at least 20 years of service?
- What records can the insurance company use to verify the applicant qualifies for the discount?
- Must the discount be applied to all vehicles in the household?
- Does the spouse of a retired military person continue to receive the discount after the qualifying military person is deceased?
- It will take some time for company to determine how best to implement this discount into current systems.

Impact on State Revenue

The LDI accepts the revenue explanation provided by the [Legislative Fiscal Office on HB 502](#) in the event the discount is offset with a premium tax rebate. Please note that the legislation applied a 20 percent discount, but HCR 104 does not specify a percentage discount. Analyst Alan M. Boxberger stated:

While a precise estimate of the state revenue loss that will result from the bill is difficult to determine, some idea of the additional exposure can be obtained. The average discount provided for policies issued to active duty members of the military was \$67.21 in the tax year of 2012, at a 25% discount rate. By extending the military reduction on automobile insurance to retired members of the armed forces or their surviving spouses, and providing as rebate from premium taxes to insurers to reimburse for the premium reductions, the state will realize a state general fund (SGF) revenue reduction equal to the rebate on a per-member basis multiplied by the number of member premium discounts. Insurers providing the premium discounts will be entitled to a rebate payment from premium taxes paid in an amount equal to the 20% discount

provided, or roughly \$53.77 per member (\$67.21 X 0.8, a new 20% discount is 80% of the existing 25% discount).

The U.S. Census reported the number of retired armed forces members residing in Louisiana as of 2010 at 25,694. Information regarding the additional number of surviving spouses is not readily available. Based on the average rebate amount received by existing active duty recipients of this benefit, and adjusting for a 20% discount instead of a 25% one, for every 1,000 such members that carry automobile insurance, the potential exposure to the SGF will be a loss of revenues totaling approximately \$53,768. For illustrative purposes, if the number of retirees and surviving spouses purchasing automobile insurance in Louisiana equaled 10,000 (less than 40% of just the known retiree population), the exposure would be approximately \$538,000. It is uncertain how many of the target population carry automobile liability insurance in the state, although liability insurance is required by the state. To the degree that the number of beneficiaries taking the automobile discount would be greater or lesser than 10,000, the loss of revenue would change incrementally.

The Legislative Fiscal Office further stated that in 2012 the discount required by La. R.S. 22:1482 for active military resulted in the loss of revenue to the state in the amount of \$1.6 million.

Summary

The LDI finds that no other state mandates discounts on automobile liability insurance premium for retired military personnel.

The LDI further finds that if the state bears the burden for the cost of the discount in the form of a premium tax credit or rebate to the discounting insurer, the impact on rates for non-retired military personnel will be minimal.

The LDI further finds that the Legislative Fiscal Office has created a reliable estimate of the impact such a discount would have upon state revenue.

The LDI further finds that insurers who need an increase in their base rate in order to provide this discount to eligible insureds will need to make rate filings through the prior approval rate regulation procedures of the LDI.

The LDI further finds that insurers writing motor vehicle liability insurance would continue to be willing to do business in Louisiana, especially if the discount is offset with a premium tax credit or rebate.

Appendices

- Appendix A. Copy of HCR 104
- Appendix B. Copy of survey letter to insurers
- Appendix C. Copy of Fiscal Note for HB 502 of the 2014 Regular Legislative Session
- Appendix D. Additional Resources

ENROLLED

Regular Session, 2014

HOUSE CONCURRENT RESOLUTION NO. 104

BY REPRESENTATIVES LORUSSO AND BURFORD

A CONCURRENT RESOLUTION

To urge and request the Louisiana Department of Insurance to study the feasibility of providing a discount on motor vehicle liability insurance premiums to retired members of the armed forces and to report its findings to the legislative committees on insurance.

WHEREAS, R.S. 32:861 provides that every self-propelled motor vehicle registered in Louisiana shall be covered by an automobile liability policy with liability limits as defined by R.S. 32:900(B)(2); and

WHEREAS, R.S. 32:863.1 provides that no owner or lessee of a self-propelled motor vehicle registered in Louisiana shall operate or allow the operation of said motor vehicle without evidence that the motor vehicle is in compliance with R.S. 32:861 relative to compulsory motor vehicle liability security; and

WHEREAS, R.S. 32:900 provides that every motor vehicle liability policy issued in Louisiana shall provide minimum bodily injury liability insurance in the amount of \$15,000 per person and \$30,000 per accident, and property damage liability insurance in the amount of \$25,000 per accident; and

WHEREAS, R.S. 22:1482 provides that every motor vehicle insurer authorized to transact business in Louisiana shall provide to active duty military personnel based in this state a discount of twenty-five percent of the premium on any automobile liability insurance policy purchased in this state; and

WHEREAS, R.S. 22:1482.1 provides that every homeowner's insurer authorized to transact business in Louisiana may provide to active military personnel based in this state a discount of ten percent of the premium on any homeowner's insurance policy purchased in this state; and

WHEREAS, Louisiana is home to a number of military installations, including Fort Polk, Barksdale Air Force Base, Naval Air Station Joint Reserve Base New Orleans, Naval Support Activity New Orleans, and numerous United States Coast Guard stations; and

WHEREAS, Louisiana has a long and proud history of supporting the armed forces of the United States; and

WHEREAS, Louisiana is home to numerous retired members of the armed forces of the United States, many of whom originally moved to Louisiana when stationed at one of the state's current or former military installations.

THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby urge and request the Department of Insurance to conduct a study on the feasibility of providing a discount on motor vehicle liability insurance premiums to retired members of the armed forces of the United States who reside in Louisiana.

BE IT FURTHER RESOLVED that the Department of Insurance shall submit its findings from the study in the form of a report to the House Committee on Insurance and the Senate Committee on Insurance on or before January 15, 2015.

BE IT FURTHER RESOLVED that such a study include a review of other states to determine if any other state statutorily mandates a discount on motor vehicle liability insurance premiums to retired members of the armed forces of the United States and the amount of the discount, if any.

BE IT FURTHER RESOLVED that such a study shall determine the impact that such discount would have upon the motor vehicle liability insurance premiums charged to non-retired members of the armed forces of the United States.

BE IT FURTHER RESOLVED that such a study shall determine the impact that such a discount would have upon state revenue.

BE IT FURTHER RESOLVED that such a study shall determine the impact that such a discount would have upon the willingness of insurers to continue writing motor vehicle liability insurance policies in this state.

BE IT FURTHER RESOLVED that a copy of this Resolution be transmitted to the commissioner of insurance.

SPEAKER OF THE HOUSE OF REPRESENTATIVES

PRESIDENT OF THE SENATE



LOUISIANA DEPARTMENT OF INSURANCE

JAMES J. DONELON
COMMISSIONER

July 2, 2014

<Company Representative>
<Title>
<Company Name>
<Address>
<City, State, Zip Code>

**Re: House Concurrent Resolution 104
Private Passenger Automobile Premium Discount for Louisiana's Retired Members of the
United States Armed Forces**

Dear <Prefix>. <Name>:

During the 2014 Regular Session of the Louisiana Legislature, Representatives Nick Lorusso and Richard Burford authored, proposed and enacted House Concurrent Resolution 104 (HCR 104), which sets forth a request to the Louisiana Department of Insurance (LDI) to "study the feasibility of [mandating that private passenger automobile insurance carriers provide] a discount on motor vehicle liability insurance premiums to retired members of the armed forces] who reside in the state of Louisiana. A copy of HCR 104 has been attached for your convenience.

In conjunction with the directive issued to the LDI via HCR 104, a request has been made of the LDI to issue a report of its findings to the Louisiana House and Louisiana Senate Insurance Committees relative to the proposed imposition of such discount. In acknowledging that (Company) serves as an active participant in the Louisiana private passenger automobile insurance market, the LDI seeks your company's input regarding the creation of a premium discount for Louisiana citizens who are retired from any branch of the United States Armed Forces. More specifically, the LDI would request that you or a representative of (Company) provide a response to the following:

- 1) If such discount was mandated by law, what impact would the discount have upon the premium charged to your company's Louisiana policyholders who are not retired members of the United States Armed Forces?
- 2) If such discount was mandated by law, what impact would the discount have upon your company's willingness to continue to write/offer/sell motor vehicle liability insurance policies in the state of Louisiana?

In an effort to comply with the January 15, 2015 deadline set as per HCR 104, the LDI would ask that your response to the aforementioned questions be returned to my attention on or before **Friday, August 29, 2014**. If you have any questions, please feel free to contact me. Thank you, in advance, for your assistance.

Sincerely,

Charles B. Hansberry, III, Esq.
Assistant Deputy Commissioner
Office of Property and Casualty
Louisiana Department of Insurance
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LEGISLATIVE FISCAL OFFICE
Fiscal Note

Appendix C

Fiscal Note On: HB 502 HLS 14RS 1073
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: March 18, 2014 10:36 AM
Author: BURFORD
Dept./Agy.: Louisiana Department of Insurance / Revenue
Analyst: Alan M. Boxberger
Subject: Premium Tax Rebate For Discounts To Retired Armed Forces

INSURANCE/AUTOMOBILE OR DECREASE GF RV See Note Page 1 of 1
Provides for a twenty percent discount on automobile insurance for retired members of the armed forces.

Present law requires an insurer to provide a 25% reduction in automobile liability insurance rates to active duty military personnel.
Present law provides a premium tax credit to insurers equal to the discount provided to active military personnel.

Proposed law additionally provides retired members of the armed forces, or their surviving spouses, residing in Louisiana a 20% premium reduction in their automobile liability rates. Proposed law provides a rebate out of premium taxes paid by insurers equal to the amount of premium reduction provided to retired members of the armed forces or their surviving spouses. Proposed law is effective beginning on July 1, 2015.

Table with 7 columns: EXPENDITURES, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Louisiana Department of Insurance currently analyzes premium tax filings of insurers writing policies in Louisiana to determine the total value of the military rebate on automobile insurance.

REVENUE EXPLANATION

While a precise estimate of the state revenue loss that will result from the bill is difficult to determine, some idea of the additional exposure can be obtained. The average discount provided for policies issued to active duty members of the military was \$67.21 in the tax year of 2012, at a 25% discount rate.

The U.S. Census reported the number of retired armed forces members residing in Louisiana as of 2010 at 25,694. Information regarding the additional number of surviving spouses is not readily available. Based on the average rebate amount received by existing active duty recipients of this benefit, and adjusting for a 20% discount instead of a 25% one, for every 1,000 such members that carry automobile insurance, the potential exposure to the SGF will be a loss of revenues totaling approximately \$53,768.

Note: The bill provides for the rebate payments to be made by the Department of Revenue, with no provision for appropriation, although the premium tax is administered and collected by the Department of Insurance.

The current program for active duty military members resulted in \$1.6 million of premium tax credit in FY13.

Senate Dual Referral Rules House
[X] 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
[] 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
[] 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}
[] 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}
[] 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}
Signature: Gregory V. Albrecht, Chief Economist

HCR 104 Additional Resources

<http://www.military.com/money/insurance>

Basic information page with links to insurance related information directed toward all military personnel, active and retired.

<http://www.military.com/money/insurance/auto-insurance/military-personnel-saving-on-car-insurance.html?comp=1199429681742&rank=4>

Article advising military personnel how to save money on auto insurance and how to select an insurer to do business with.

<http://www.military.com/money/insurance/auto-insurance/buying-auto-insurance.html?comp=700001492205&rank=4>

Buying auto insurance guide for active military, with links to Consumer Action and NAIC.

http://www.consumer-action.org/english/articles/questions_and_answers_about_auto_insurance

Updated general buying guide for automobile insurance (not directed to military discounts).