CFA Consumer Federation of America

February 8, 2018

Rate Relief Necessitated by The Large Federal Corporate Tax Cut

Dear Commissioner:

On January 23, 2018 we sent you a letter asking for action to reduce insurance rates in the wake of the large tax cut that the nation's insurance companies received. A copy of the letter is available here for your convenience.

We would like to acknowledge Commissioner Dave Jones of California for promising action to reduce prices as a result of the tax change, and we appreciate those of you who communicated with us that you are considering what sort of action to take.

In recent days, we have learned that insurers and their trade groups have begun lobbying to prevent Departments of Insurance from taking actions that respond to excessive rates in the wake of the change in the federal corporate tax rate. While it is true that the impact, as insurers are quick to point out, will vary from company to company and line by line, it is also true that the variation is only in degree, not in direction. Except for insurers that were using inadequate rates in the past, rates under the new tax regime should be lower across the industry. Whether it is 1% or 10% is a detail that companies have an obligation to determine and you have the expertise to verify. But there is no argument that rates should not be coming down, and we, again, urge you to take action to ensure consumers see the rate reductions that should come with the tax cuts.

The lobbying letters from the insurance industry trade groups make these points:

- The consumer group calculations are "speculative" since the tax law impact is not yet fully understood nor has Treasury/IRS guidance come out
- The impact on rates will vary from insurer to insurer, by state and line of insurance
- The issue is complex
- The competitive market will take care of it

In response, we note:

1. If the tax law change had been in the other direction (an increase in federal tax from 21% to 35%) you would have already been deluged with rate increase filings. The calculations of needed increases would have closely mirrored the calculation suggested in our earlier letter to you. The impact varies but is not

“speculative” at all. We know the impact with great precision as our earlier letter details.

2. The issue is hardly complex. At its heart, the issue is very straightforward. All things equal, a reduction in tax rates translates into a lower profit provision in the rates and lower indicated rate. If insurers argue that all things are not equal, then, again, it is straightforward for an insurer to demonstrate what has changed in the rate filing created to lower rates for the tax cut.
3. We agree that the impacts will vary by insurer, line and state, but that is easily resolved by simply requiring insurers to submit rate filings to include the tax law impacts.

As your department considers how to address the excessive rates that result from the implementation of tax cuts, I offer this suggestion from my experience with a similar situation. When I was Texas Insurance Commissioner I faced a major change in conditions necessitating a rate reduction. Instead of ordering rate filings to reflect that changed condition, I set a public hearing for about six weeks later calling on the top 10 writers in the line of insurance needing correction to come in and show cause why their rates should not be significantly lowered. Prior to the hearing nine of the 10 insurers filed for lower rates. The tenth testified that a rate filing lowering rates was in the works.

However you deal with this important development, you can be sure that, if you do not act, your citizens will be paying excessive prices for their required insurance coverages.

Please let us know how you will be addressing this and, of course, do not hesitate to contact me if you would like to discuss your Department’s approach.

Sincerely,

J. Robert Hunter, FCAS, MAAA
Director of Insurance