KEVIN PETERSEN
STATE REPRESENTATIVE • SPEAKER PRO TEMPORE

Testimony on Assembly Bills 699 and 700
Protecting Long-Term Care Insurance Policy Holders in Wisconsin

Good morning Chairwoman Dittrich and members of the Assembly Committee on Insurance. Thank you for allowing me to testify today on Assembly Bills 699 and 700.

Nearly two-thirds of people who reach the age of 65 will require some type of long-term care in their lifetime. For this reason, many people have turned to long-term care insurance (LTCI) to help cover the expenses that traditional health insurance and Medicare typically do not cover.

When people purchase these and other insurance policies, states have set up a guaranty association to ensure policyholders are protected from future company failures and insolvencies. In Wisconsin, this association is known as the Insurance Security Fund (WISF). This fund is a non-profit entity that currently covers life, annuity, accident, and health insurance policies. If a company becomes insolvent, the WISF assesses insurers writing that line of business in Wisconsin to pay these claims. Insurers paying an assessment that cannot raise premiums are allowed to offset the assessment through future state tax liabilities.

Based on model legislation from the National Association of Insurance Commissioners, these bills simply protect LTCI policies for customers by including them in the WISF. Similar legislation has passed in 43 other U.S. jurisdictions and in nearly all Midwest states.

Furthermore, the legislation equally distributes future WISF assessments related to LTCI policies. Currently, when an LTCI insurer goes insolvent, health plans pay most of the assessment because LTCI is categorized as "health" insurance, even though life insurers also write LTCI policies. The bill splits any future assessment 50/50 between the life and health industries.

Additionally, because some insurers can be nonprofits and not subject to state taxes, these bills allow insurers to either take a tax offset or recoup the amount assessed through a refundable tax credit. The fiscal effect on the general fund is the same. It just

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impacts how it is administered. Any offsets or credits are also smoothed over a five-year period, reducing the fiscal impact on the state and helping avoid health insurance premium increases due to the insolvency of an unrelated entity.

By passing these bills, we can provide certainty for policyholders in Wisconsin while also fairly distributing any future assessments across the industry and preventing health insurance premium increases resulting from such a failure.

Thank you again for this opportunity to testify before you, and I look forward to any questions that you may have.

ROB STAFSHOLT

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DATE: **December 4, 2025**
RE: **Testimony on Assembly Bill 699**
TO: **Members of the Committee on Insurance**
FROM: **Senator Rob Stafsholt**

Thank you, Chairwoman Dittrich and members of the Assembly Committee on Insurance for hearing Assembly Bill 699 relating to a long-term care insurance assessment and a long-term care insurance assessment tax credit.

Long-term care insurance (LTCI) has become so important to many Wisconsinites to provide financial protection and flexibility in patient care. Once an insolvency of an LTCI provider occurred in 2017, many jurisdictions have passed legislation to guarantee coverage for any future insolvencies.

Currently, when a LTCI plan goes insolvent, health plans pay most of the assessment because LTCI is categorized as "health" insurance, even though life insurers write the majority of LTCI premium. Because of the unique nature of LTCI policies, this bill broadens the LTCI assessment base to include both life and health insurers, with HMOs newly included in the assessment. The bill then splits any future assessment 50/50 between the life and health industries. In addition, because disability insurers can be nonprofits and not subject to states taxes, the bill allows insurers to either take a tax offset or recoup the amount assessed through a refundable tax credit. Any offsets or credits are smoothed over a five-year period, reducing the effect to the state and thereby helping avoid health insurance premium increases due to the insolvency of an unrelated entity.

The bill will provide important consumer protections for Wisconsinites. It is supported by the industry, including the Alliance of Health Insurers, the Wisconsin Association of Health Plans, and the Wisconsin Council of Life Insurers.

I thank you for taking the time to consider this bill and I hope you will support it. Please reach out with any questions or concerns.

Wisconsin Insurance Security Fund

Wisconsin Insurance Security Fund

Appearing for Information

Assembly Bill 699 and Assembly Bill 700

Chairperson Dittrich and members of the Assembly Insurance Committee. My name is Allan Patek, the Executive Director of the Wisconsin Insurance Security Fund. The Security Fund was the first comprehensive guaranty association in the country enacted in 1969 to provide protection for Wisconsin claimants and policyholders of covered insurance lines when an insurer is liquidated. The enabling law charges the Security Fund to maintain public confidence in the promises of insurers by providing a mechanism for protecting insureds in this state from excessive delay or loss in the event of liquidation of insurers and by assessing the cost of such protection among insurers. The Security Fund is a statutory non-profit organization that provides the protections enacted by the Legislature in Chapter 646 of the Wisconsin statutes. The Security Fund is governed by a 14-person board including the Insurance Commissioner, Attorney General, State Treasurer and eleven insurer representatives appointed by the Insurance Commissioner. I appear today for information and as a resource since the Security Fund does not lobby or take positions on legislation. The Security Fund Board and staff were actively involved in crafting the language in these bills and we believe it can be efficiently administered, aligns with the NAIC Model Act's treatment of long-term care insurance and is consistent with the charge and structure of Chapter 646.

Chapter 646 requires the Security Fund to continue insurance policies and contracts that are guaranteed renewable or non-cancellable up to our coverage limit. These obligations are funded by four basic income sources: premiums we collect, assets from the liquidation estate that are allocated to our policyholders claims, investment returns on funds held and assessments on insurers based on the insolvency account. Under current law, long-term care policies are a disability product that must be continued. Coverage of long-term care policies comes under our Disability Account. The overwhelming majority of assessable premiums in the Disability Account comes from comprehensive and supplemental health insurance products. HMOs that participate in the HMO Account based on their organizational structure are not included in the Disability Account assessment base.

The long-term care insurance market and its participating insurers have been struggling financially in recent years. The Security Fund has provided coverage in three recent insurer liquidations involving long-term care insurance products: National States, Penn Treaty and Time Insurance. Fortunately, the Wisconsin receiver obtained a court order that moved Time's long-term care insurance liabilities to the reinsurer that had assumed the business eliminating the need for the Security Fund to provide coverage. In the other two liquidations, National States and Penn Treaty, the Security Fund has paid over $20.1 million to provide coverage and projects it will incur an additional $10.1 million in future costs to complete coverage of these policies. Since neither of these liquidations had substantial assets to distribute, the Security Fund has levied three assessments totaling $19.5 million on insurers writing disability product premium to meet these long-term care insurance obligations.

Assembly Bill 699 modifies Chapter 646 to align its treatment of the long-term care policy coverage with the most recently adopted NAIC Model Act by doing the following:

1. Creating a fifth insolvency account by moving long-term care insurance coverage from the disability account to new long-term care account.
2. Broadening the assessment base for the long-term care account to include all disability (including health and HMOs), life and annuity premium.
3. Creating a two-tier long-term care assessment formula.
    a. First, classifying each insurer with assessable premium based on whether its writes more disability or life and annuity premium.
    b. Second, applying 50 percent of the total assessment to each of the two classifications (Disability and Life Insurers) assessable premium.
4. Retaining the assessment limit of 2 percent of assessable premium in any year.

This bill also creates a tax credit for insurers that cannot take tax offsets for assessments made by the Security Fund for long-term care losses. The Security Fund will work with the Office of the Commissioner of Insurance and the Department of Revenue to document eligibility for the credit. Assembly Bill 700 provides a sum sufficient appropriation to fund the new credits.

These changes will positively impact on the Security Fund's ability to serve long-term care policyholders in the event of an insolvency by expanding the assessment base and lightening the financial impact on all the insurers that are assessed and the insurance markets they serve. This change also provides additional capacity to support coverage

of long-term care insolvencies without increasing the annual limit on insurer assessments.

Adopting Assembly Bill 699 and Assembly Bill 700 will bring the Security Fund into functional alignment with the current NAIC Life and Health Guaranty Association Model Act consistent with the network of state life and health guaranty associations. The Security Fund believes it will positively affect its ability to provide coverage to insolvencies with long-term care insurance exposure.

Contact: Allan Patek, Executive Director
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December 2, 2025

Dear Honorable Members of the Legislature,

On behalf of the Alliance of Health Insurers, the Wisconsin Association of Health Plans, and the Wisconsin Council of Life Insurers, we respectfully request that you support Assembly Bill 699 and Assembly Bill 700 to modernize the Wisconsin Insurance Security Fund to protect all insurance consumers in the case of a long-term care insurer insolvency.

Protection for insurance consumers: The Wisconsin Insurance Security Fund (WISF) is part of a national network of guaranty associations created to protect policyholders in the event of an insurance company insolvency. WISF continues coverage while paying claims and other policy benefits, up to the legal limit, for covered policies of an insolvent insurer. Claims are paid through a combination of the insolvent company's remaining assets and assessments on other insurers. The ability to assess other insurers provides quick and efficient access to capital to provide coverage for policyholders.

Long term care insurance: In 2017, the National Association of Insurance Commissioners (NAIC) revised model legislation to address issues and concerns with guaranty fund coverage and assessments for any future long-term care (LTC) insurance insolvencies. The model revisions provide a broader base for funding LTC insurer insolvencies and split the assessment to provide that half is paid by life insurers and half by health insurers, including HMOs. See attached description. To date, 43 states have adopted these revisions.

Support for these changes: The Alliance of Health Insurers, the Wisconsin Association of Health Plans, and the Wisconsin Council of Life Insurers support AB 699 and AB 700, legislation adopting the NAIC model amendments. The Office of the Commissioner of Insurance and the Wisconsin Insurance Security Fund collaborated on the drafting of this legislation.

Fiscal Impact: Most states allow insurers to offset guaranty fund assessments against state taxes over a multiple year period. This approach ensures the guaranty fund has quick access to the necessary funds to pay claims while allowing insurers to recoup the assessment over time. Currently, Wisconsin only allows an offset for insurers who are unable to raise premiums to cover the cost of an assessment. In order to provide consistent treatment for all insurers assessed for such an insolvency, the proposal allows all entities subject to an LTC insurance assessment to recoup the funds over a five-year period rather than raise premiums on their policyholders. Because several health plans are

The NAIC Life and Health Insurance Guaranty Association Model Act

- *The guaranty association system ensures that consumers can purchase insurance products with the knowledge that their coverage will be protected in the event of a future company failure or insolvency.*
- *To ensure policyholders are adequately protected from such failures, in December 2017, the NAIC adopted revisions to the NAIC Life and Health Insurance Guaranty Association Model Act to address issues and concerns with guaranty fund coverage and assessments for any future long-term care insurance insolvencies.*
- *The amendments reflect regulators' continued commitment to supporting a healthy state-based guaranty association system that protects policyholders from loss due to insolvency.*
- *Industry groups supported these revisions and worked cooperatively with regulators on them.*

Background

According to the U.S. Department of Health and Human Services (HHS), about 12 million of America's senior citizens will require long-term care by 2020. Although the long-term care insurance (LTCI) market has evolved over the years, it has undergone significant contraction, both in terms of sales as well as insurer market participation, following more than two decades of rapid growth. The primary challenges for insurers and state insurance regulators in LTCI markets relate to several uncertainties, particularly regarding policyholder longevity and the costs of health care in America. The actuarial assumptions made several decades ago about longevity and persistency of LTCI blocks of business are proving to be inaccurate and have placed strain on the financial condition of LTC writers. While the NAIC is working to address historical problems encountered in the LTC marketplace and encourage innovation for the protection of consumers in the future, concerns remain that the financial strain on these blocks of business could lead to insolvencies of certain LTC writers.

In December 2017, the NAIC adopted changes to the NAIC *Life and Health Guaranty Association Model Act* (#520) to address concerns stemming from insolvencies of insurers writing LTCI. The Penn Treaty insolvency resulted in the health industry bearing the majority of the guaranty fund assessment obligations because LTCI is categorized as health insurance, while life insurers predominately write the majority of LTCI premium. The model revisions broaden the assessment base for LTCI insolvencies to include both life and health insurers and splits the assessment 50%/50% between the life and health insurance industries. The amendments also provide for the inclusion of HMOs as members of the life and health insurance guaranty association, which might necessitate changes in other statutes to ensure consistency in state laws. To avoid conflicts between a state's guaranty association act and other laws, states that seek to adopt the revised Model #520 should review: (1) the law governing insurer receiverships and (2) laws and regulations related to HMOs. It may be necessary to enact changes to these laws to comport with Model #520.

Implementation

- ✓ As of this update, the 2017 revisions to #520 have been implemented in **43 jurisdictions**: AK, AZ, AR, CO, CT, DE, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, ME, MD, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, PA, SC, SD, TN, TX, UT, VT, VA, WA, WV, and WY.

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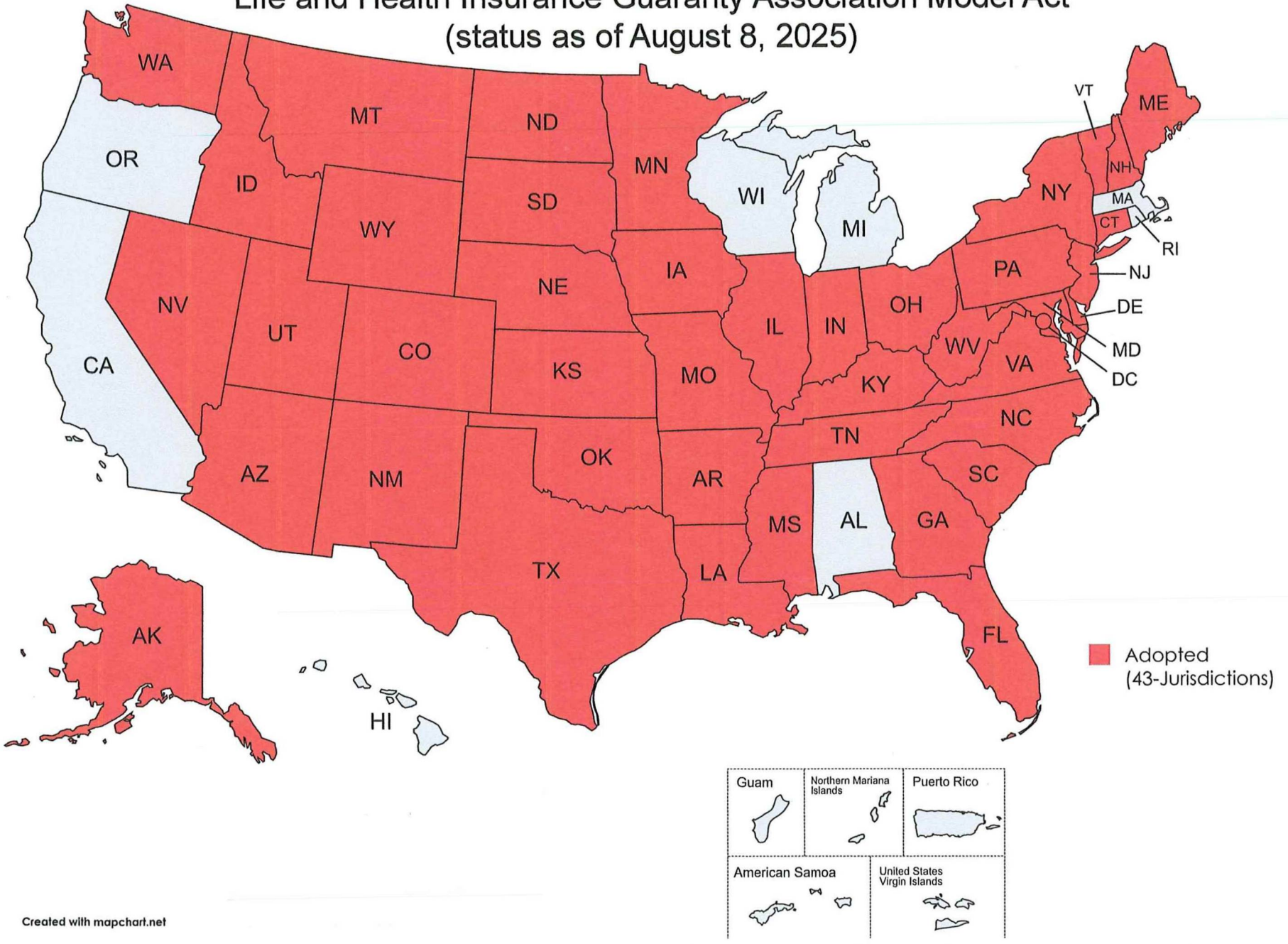
Implementation of 2017 Revisions to Model #520
Life and Health Insurance Guaranty Association Model Act
(status as of August 8, 2025)



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This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.