



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

April 19, 2005

Joint Committee on Finance

Paper #700

Unclaimed Property Program - Increased Funding for Recovery Fees (State Treasurer)

[LFB 2005-07 Budget Summary: Page 456, #2]

CURRENT LAW

No funds are included in the agency's adjusted base for this purpose.

GOVERNOR

Provide \$7,500,000 PR in 2005-06 and \$3,750,000 PR in 2006-07 for anticipated additional recovery fees that will be required to be paid to audit recovery firms. The Treasurer's Office contracts with these firms for the locating of unclaimed property in other states that is due to be reported to this state as unclaimed property. These properties relate to abandoned mutual insurance company demutualization securities projected to be reported to the state by these firms in 2005-07.

DISCUSSION POINTS

1. Recovery fees totaling \$7,021,900 PR were paid in 2003-04 for the recovery of \$56.2 million in insurance company demutualization securities due to audit recovery firms' efforts in other states that identified such unclaimed properties as ones that were required to be reported to the State of Wisconsin as unclaimed property. This funding was provided to the State Treasurer's Office in 2003-04 under two supplemental funding actions of the Committee under s. 16.515.

2. Under the unclaimed property program, intangible property owed to a person in the ordinary course of a business's operation and that has been unclaimed by the owner for more than five years after it became payable or distributable is presumed abandoned. Such property is to be

reported by the holder of the property to the state as unclaimed property. There is a requirement for holders of such property to annually report to the State Treasurer's Office any such property in its possession and, after due diligence efforts by the property holder to find the owner, to deliver the property to state as unclaimed property. Under the state unclaimed property act, intangible property includes money, checks, drafts, deposits, interest and dividends. It also includes stocks and other intangible ownership interests in businesses, monies deposited to redeem stocks, bonds, coupons and other securities or to make distributions, monies distributable from certain kinds of trusts or custodial trusts such as health, welfare and pension trusts, and amounts due and payable under the terms of insurance policies.

3. These reporting provisions also apply to businesses and financial institutions in other states that hold such properties for which the last reported owner had a Wisconsin residence. However, the State Treasurer's Office does not actively monitor reporting compliance in other states. The Office does, however, contract with three national auditing firms that, for a fee, will report to the state property unclaimed in other states that is reportable to Wisconsin as unclaimed property. Any such property that is returned to the state as unclaimed property is "presented" to the state upon the state paying the firm a recovery fee of 12 to 12.5% of the value of the recovered property.

4. A number of mutual insurance companies headquartered in other states have acted in the last few years to convert to stock companies. These actions, termed demutualizations, typically result in the mutual company distributing its net worth at that time to the mutual "stockholders" -- the policyholders -- in the form of stock, cash or policy credits. For policyholders who have paid-up policies, the mutual company may not have had active contact with the policyholder for some time and as a consequence was not able to contact the policyholder when the demutualization occurred. If stock or cash is due a policyholder who cannot be located, that intangible property will become unclaimed property.

5. A one-time speeded up recovery process for demutualization proceeds was instituted as a part of the last biennial budget. Future recovery of such unclaimed property, however, will now take place under the normal annual reporting and delivery process specified under the state unclaimed property law.

6. At the time of the preparation of its 2005-07 budget request last fall, the Treasurer's Office had indications that additional demutualization property holdings in other states that would be reportable to Wisconsin and likely be presented in the next two reporting periods could total an additional \$60 million in 2005-06 and an additional \$30 million in 2006-07. Based on these potential presentments, the Office anticipated that it could be faced with one-time recovery fee payments of up to \$7,500,000 PR in 2005-06 and \$3,750,000 PR in 2006-07.

7. Now, based on updated information, the Office anticipates that the likely level of demutualization presentments for holdings outside of Wisconsin will be approximately \$30 million in 2005-06 and that no new presentments are likely in 2006-07. This means that instead of the proposed level of funding in the Governor's budget for recovery fees of \$7,500,000 PR in 2005-06

and \$3,750,000 PR in 2006-07, the updated projections of the funding required would be only \$3,750,000 PR in 2005-06. The Committee could provide that level of funding in lieu of the Governor's recommended level of funding for recovery fees.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Provide funding for recovery fees of \$3,750,000 PR in 2005-06.

Alternative 2	PR
2005-07 FUNDING (Change to Bill)	- \$7,500,000

Prepared by: Terry Rhodes