



[SF 549](#) – Captive Insurance (LSB1871SZ.1)
Staff Contact: Xavier Leonard (515.725.0509) xavier.leonard@legis.iowa.gov
Fiscal Note Version – As amended by House amendment [S-3127](#)

Description

[Senate File 549](#) as amended relates to captive insurance and does the following:

- Allows for the formation of captive insurance companies.
- Establishes tax rates for captive insurance premiums.
- Decreases the applicable percent tax rate for insurance companies' tax in Iowa Code chapter [432](#).
- Establishes requirements for the operation of captive insurance companies, including reporting and examination requirements.
- Permits the Commissioner of Insurance to suspend or revoke certificates to conduct business.
- Creates a Captive Insurance Regulatory and Supervision Fund, into which all revenue sources under new Iowa Code chapter 521J will be deposited.
- Permits the formation of protected cell captive companies and provides guidelines for their operation.
- Requires the Iowa Insurance Division (IID) of the Department of Commerce to create rules to administer the provisions of the Bill.

Background

Captive insurance companies are a form of self-insurance where the insurance provider is owned entirely by the insurance holder. Currently, captive insurance companies are not allowed to operate or sell insurance in the State. There are captive insurance companies headquartered in Iowa that must do business outside of the State. Captive insurance companies often work with traditional companies and may be an option for businesses to manage risks by underwriting their own insurance rather than paying premiums to a third-party insurer.

All insurance companies and associations of any kind, not including fraternal beneficiary associations or nonprofit hospital and medical service corporations, must, as required by law, pay an applicable percent of the gross amount of premiums received during the preceding calendar year on contracts of insurance covering risks resident in Iowa during the preceding year, including contracts for group insurance and annuities and without including or deducting any amounts received or paid for reinsurance. The applicable percent is currently 1.0%.

Assumptions

- The regulation of a newly introduced insurance market to the State will require the IID to hire 3.0 additional full-time equivalent (FTE) positions to carry out the provisions of this Bill.
 - The IID will hire a Captive Insurance Bureau Chief at an annual cost between approximately \$166,000 and \$243,000, an Examiner Specialist at an annual cost between approximately \$111,000 and \$166,000, and an Examiner at an annual cost between approximately \$96,000 and \$142,000.
 - The IID will need additional office space and supplies for these positions.
 - Each of these positions will begin at the start of FY 2024.

- The State will see a new revenue source as a result of the Bill as amended; however, the total revenue impact cannot be determined at this time.
- Net taxable premiums will be \$15.000 billion in CY 2023.
- Net taxable premiums will increase 6.0% annually.
- Calculations on a fiscal-year basis assume net taxable premium are evenly distributed across a calendar year.

Fiscal Impact

The introduction of captive insurance companies to the State and the tax on premiums of captive insurance will increase General Fund revenue; however, the amount cannot be determined.

The Bill as amended also reduces the applicable percent for the net taxable premiums, which would reduce General Fund revenue by the amounts estimated in **Figure 1** below.

Figure 1 — 6.0% Annual Growth in Net Taxable Premiums, Dollars in Millions

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Net Taxable Premium	\$ 15,000.0	\$ 15,900.0	\$ 16,854.0	\$ 17,865.2	\$ 18,937.2	\$ 20,073.4	\$ 21,277.8
Applicable Percent, Current	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%
Applicable Percent, Proposed	1.000%	0.975%	0.950%	0.925%	0.900%	0.900%	0.900%
Tax Collection, Current	\$ 150.0	\$ 159.0	\$ 168.5	\$ 178.7	\$ 189.4	\$ 200.7	\$ 212.8
Tax Collection, Proposed	150.0	155.0	160.1	165.3	170.4	180.7	191.5
Tax Collection, CY Difference	\$ 0.0	\$ -4.0	\$ -8.4	\$ -13.4	\$ -18.9	\$ -20.1	\$ -21.3
Tax Collection, FY Difference	0.0	-3.9	-8.2	-13.0	-18.4	-19.5	-20.7

The annual cost of SF 549 as amended to the Insurance Division includes the hiring of 3.00 FTE positions, the promotion of the captive insurance industry, and the reduction in General Fund revenue due to a reduction in the applicable percent for the net taxable premiums. The annual cost of hiring the FTE positions and promoting the captive insurance industry is estimated to be between \$403,000 and \$681,000 and will be funded by the General Fund until the revenues from the captive insurance premiums collected pursuant to the provisions of this Bill can cover the cost. The total cost of the Captive Insurance Bureau Chief, Examiner Specialist, and Examiner is between \$373,000 and \$551,000. Additional office space and supplies will cost approximately \$29,000 annually. The promotion of the captive insurance industry will cost \$100,000 in travel, marketing, and promotion annually.

Sources

Iowa Insurance Division, Department of Commerce
Legislative Services Agency

/s/ Jennifer Acton

April 24, 2023

Doc ID 1372004

The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.