CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 13, 2013

S. 534
National Association of Registered Agents and Brokers Reform Act of 2013

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 6, 2013

SUMMARY

S. 534 would establish the National Association of Registered Agents and Brokers (NARAB) and authorize it to license producers of insurance (mostly agents and brokers) to operate in multiple states. Under current law, each state establishes requirements for licensing insurance producers within that state; producers must comply with the requirements of each state where they are licensed to operate. Under the bill, insurance producers that join the NARAB would be able to obtain a license to act as a producer in any state other than their home state by meeting the NARAB's eligibility requirements and paying certain fees.

CBO estimates that enacting S. 534 would increase revenues by $490 million and increase direct spending by $483 million; taken together, those effects would reduce the deficit by $7 million over the 2014-2023 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. Implementing S. 534 would not have a significant net effect on discretionary spending.

S. 534 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the costs to state, local, and tribal governments of complying with the mandates would be less than $1 million in 2016 and each year thereafter. Those costs would not exceed the annual threshold for intergovernmental mandates established in UMRA ($75 million in 2013, adjusted annually for inflation). S. 534 contains no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 534 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	1	2	53	56	57	59	61	64	67	70	169	490
Estimated Outlays	1	2	47	55	57	59	61	64	67	70	162	483
CHANGES IN REVENUES												
Estimated Revenues	0	0	56	56	57	59	61	64	67	70	169	490
NET DECREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS												
Impact on Deficit	1	2	-9	-1	0	0	0	0	0	0	-7	-7

Note: CBO estimates that implementing S. 534 would not have a significant net effect on discretionary spending.

BASIS OF ESTIMATE

CBO expects that cash flows related to the NARAB would be recorded in the budget as revenues and direct spending because the association's authority would exist only through a preemption of states' power to regulate the licensing of insurance producers. This preemption would stem from an exercise of the sovereign power of the federal government.

Under the current regime for licensing insurance producers, a producer who wishes to operate in more than one state must meet the licensing requirements in each of those states and pay the appropriate licensing fees. The National Insurance Producer Registry (NIPR), an affiliate of the National Association of Insurance Commissioners (NAIC), facilitates that multi-state licensing process by providing a single portal to submit applications and pay licensing fees. Under S. 534, an insurance producer who meets the eligibility requirements established by the NARAB and becomes a member would be eligible to sell insurance in any state where the member pays the appropriate state licensing fee. In 2012, approximately 2.4 million active insurance producers used the services of the NIPR; about 1.7 million of those producers were licensed in only one state. CBO expects that the NARAB's membership base would be made up of some, but not all, of the remaining active producers (approximately 730,000) because we expect that some producers operating in multiple states would find it cost-effective to forgo membership in the NARAB and follow each state's licensing procedures.

For this estimate, CBO assumes that S. 534 will be enacted near the start of fiscal year 2014.

Direct Spending

Under S. 534, the NARAB would be responsible for establishing eligibility requirements for membership in the association, evaluating applicants' eligibility for membership, and managing licensing requirements for members. S. 534 would direct the NARAB to establish separate classes of membership for businesses and individuals and require members to meet certain continuing education requirements.

The bill would authorize the NARAB to establish a system that simplifies the process of notifying a state of a producer's intent to operate there and paying the required fees. Similarly, S. 534 would authorize the NARAB to create a database to centralize information about regulatory actions taken by states against insurance producers. Currently, the NIPR offers services that streamline the process to apply for a nonresident license. Similarly, the NAIC maintains a database of state regulatory actions. The bill would allow the NARAB to establish those capabilities or make use of the systems already in place.

The bill would provide at least two years from the date of enactment for the association to set up operations. During that time, the NARAB would be authorized to borrow funds from the public to cover start-up costs, which would be repaid from membership fees.

Based on information about the cost to operate similar professional organizations, CBO estimates that enacting S. 534 would increase direct spending by $483 million over the 2014-2023 period to cover start-up, staffing, and operating costs of the association.

Revenues

S. 534 would authorize the NARAB to charge members fees to cover the cost of operating the organization. CBO assumes that the NARAB would use its authority to borrow funds to organize and begin its operations before membership fees could be collected. CBO estimates that collecting those fees would increase revenues by $490 million over the 2014-2023 period.

Spending Subject to Appropriation

Under S. 534, membership in the NARAB would be available to insurance producers who have undergone a background check conducted by the Attorney General. Applicants that have undergone a similar background check within two years of submitting an application to the NARAB would be exempt from this requirement. Otherwise, the NARAB would be authorized to request such background checks as part of its review of an applicant's eligibility.

The bill would direct the Attorney General to establish regulations to implement this new requirement and to collect fees to carry out background checks. We expect that those fees would be classified as offsetting collections and would be credited to the salaries and expenses appropriation of the Federal Bureau of Investigation (FBI). This is the same budgetary treatment accorded to fees currently collected by the FBI for similar purposes. CBO estimates that the collections and spending of those fees would have no significant effect on net discretionary spending in any year.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 534 as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 6, 2013

	By Fiscal Year, in Millions of Dollars												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2018	2013-2023
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	1	2	-9	-1	0	0	0	0	0	0	-7	-7
Memorandum:													
Changes in Outlays	0	1	2	47	55	57	59	61	64	67	70	162	483
Changes in Revenues	0	0	0	56	56	57	59	61	64	67	70	169	490

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 534 contains intergovernmental mandates as defined in UMRA because it would preempt state laws and impose a notification requirement on state insurance regulators. CBO estimates that the aggregate cost of intergovernmental mandates in the bill would be less than $1 million in 2016 and each year thereafter. Those costs would not exceed the annual threshold for intergovernmental mandates established in UMRA ($75 million in 2013, adjusted annually for inflation).

Registration with Secretaries of State

Under current law, about 10 states require nonresident insurance producers to register with their respective secretaries of state, and to pay fees. The bill would prohibit states from imposing this requirement and from collecting those fees. Based on the number of producers that are currently registered in states that impose this requirement, CBO estimates that the states would lose less than $1 million in fee revenue in 2016 and each year thereafter.

Licensing Requirements

Most states collect a fee from nonresident insurance producers when they obtain a license. Under the bill, the NARAB would collect those fees from their members and remit them to the states. Although states might receive those fees with some delay, CBO estimates that the cost to states of the mandate would be minimal.

Notification Requirement

The bill would require state insurance regulators to notify the NARAB of the results of complaint investigations. CBO estimates that the cost to states of that notification requirement would be minimal.

Education and Bonding Requirements

Finally, the bill would prohibit states from requiring nonresident producers to be bonded and to complete education requirements. States do not collect revenue in connection with their education or bonding requirements; therefore, states would not incur a cost to comply with this mandate.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 534 contains no new private-sector mandates as defined in UMRA.

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