

## Alaska Life & Health Insurance Guaranty Association

### Background

The Alaska Life & Health Insurance Guaranty Association (ALHIGA) is a statutory nonprofit legal entity that was created in 1990 when the Alaska legislature passed the Alaska Guaranty Association Act (AS 21.79). It was based on the National Association of Insurance Commissioners (NAIC) Life and Health Insurance Guaranty Association Model Act (MDL 520).

The purpose of the statute is to protect consumers against failure of performance of contractual obligations under life and health insurance policies and annuity contracts because of the impairment or insolvency of a guaranty association member insurer that issued the policies or contracts. The Act protects policy owners, insureds, beneficiaries, annuitants, payees and assignees against losses (both in terms of paying claims and continuing coverage) which might otherwise occur due to the impairment or insolvency of an insurer. Unlike the property and liability lines of business, life and annuity contracts in particular are long-term arrangements for security. The ability to offer continued coverage is an important aspect of the protections available through the Guaranty Association in these lines of business, as an insured may have impaired health or be at an advanced age and unable to obtain new or similar coverage from other insurers.

Membership in the association is mandatory for every insurer authorized in this state to sell insurance covered by the Act. The members are assessed to provide funds for the administrative and legal costs of the association. In the event a member is found to be an impaired or insolvent insurer, the association is authorized to further assess the members as necessary to meet the duties of the association with regard to the impaired or insolvent insurer.

The Alaska Life & Health Insurance Guaranty Association Act was last substantively updated during the 2000 legislative session with the enactment of HB 398. The 2000 update brought Alaska's statute up to date with amendments to the NAIC Model Act which had been adopted since 1996. The NAIC substantively revised the Life and Health Insurance Guaranty Association Model Act in in 2009 and adopted amendments relating to structured settlement factoring transactions in 2016. This legislation would bring Alaska's statute current with these revisions.

### The proposed bill

- Updates AS 21.79 (the Alaska Life and Health Insurance Guaranty Association Act) to adopt and remain consistent (with one exception) the latest national standards set forth in the National Association of Insurance Commissioners (NAIC) Life and Health Insurance Guaranty Association Model Act (MDL 520).
- Requires hospital and medical service corporations to become members of the association. The NAIC model specifically excludes these corporations from the definition of "member insurer". Currently, 20 states require for-profit and non-profit hospital and medical service corporations to be members of their state's guaranty association and another six states and one territory require for-profit hospital and medical service corporations to be members of their association.
- Increases the benefits for which the association may become liable, in the aggregate, to increase the coverage limit for net cash surrender and net cash withdrawal values of annuities. from \$100,000 to \$250,000 with respect to an individual participating in a governmental retirement benefit plan established under 26 U.S.C. 401, 26 U.S.C. 403(b) or 26 U.S.C. 457 and covered by an unallocated annuity contract, or to a beneficiary of the individual if the individual is deceased.

- Increases the benefits for which the association may become liable, in the aggregate, for net cash surrender and net cash withdrawal values, if any, from \$100,000 to \$250,000 with respect to each payee of a structured settlement annuity, or beneficiary of the payee if the payee is deceased.
- Provides authority for the association to provide loans to assure payment of the contractual obligations of the impaired insurer until those obligations are guaranteed, reinsured, or assumed.
- Provides authority for the association to impose a permanent policy or contract lien under a guarantee, assumption, or reinsurance agreement if the policy or contract lien is approved by a court and the association finds that the amount that may be assessed under AS 21.79 is less than the amount needed to assure full and prompt performance of the association's duties under the chapter.
- Increases the amount of a non pro rata assessment of members by the association board from \$250 per calendar year to \$500 per calendar year.
- Requires the association board to adopt policies and procedures for addressing conflicts of interest, removing board members for cause, and removing board members who become impaired or insolvent
- Removes the requirement that records of meetings of the association may only be made public after an insurer is no longer impaired or insolvent.
- Extends the immunity protections under AS 21.79.140 to organizations of one or more state guaranty associations of similar purposes and to the organizations' agents and employees.
- Clarifies limitations of coverage on unallocated annuity contracts by either one contract owner or one plan sponsor whose plan owns one or more unallocated annuity contracts to \$5,000,000 in benefits regardless of the number of policies and contracts held by the owner.
- Includes changes with regard to the guaranty association's rights to succeed to a ceding member insurer's rights and obligations under reinsurance contracts and provides guidance in the mechanics of the succession.