



THE STATE
of **ALASKA**
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February 16, 2016

The Honorable Bill Stoltze
Chair, Senate State Affairs
State Capital Room 205
Juneau, AK 99801

During the Senate State Affairs Committee hearing on February 11th, I was asked to provide the answers to several questions. Please find my responses to the questions as stated below.

Is credit used to assess individual health insurance policies? Should it be used?

No, credit scoring is not used as a factor in underwriting individual health insurance. The Affordable Care Act does not allow credit scores as a factor when underwriting a healthcare plan. AS 21.36.460 further supports this by limiting the use of credit scores to be used only when underwriting personal lines insurance (i.e. auto, homeowners, umbrellas, etc.). Credit scoring for health insurance policies is not allowed under the Affordable Care Act (ACA), nor was it used prior to the ACA.

Which types of insurance used credit and which do not?

Credit scoring in one form or another is generally used in underwriting property and casualty insurance which would include personal lines as mentioned before. In commercial insurance (i.e. property, casualty, bonds and workers compensation) clients are often asked to submit their financials or their Dun and Bradstreet report as a part of their underwriting package.

In representing the most diverse high schools in the state, what is the impact to my constituents particularly African Americans and Hispanics who may have lower credit scores?

In 2007, the Federal Trade Commission (FTC) report found that individuals categorized as low income did tend to have lower insurance scores than individuals categorized as high income, though the correlation was weaker than in the case of race or ethnicity. Because of its inability to analyze individual data on income, however, the FTC was hesitant to reach any firm conclusions regarding the relationship between insurance scores and income.


There have been many studies regarding the impact of the use of credit scores and their impact on low income individuals. These studies further looked at the impact of race when credit scores were applied. While some studies, including a draft paper by the National Association of Insurance Commissioners in 2008 indicate that if race or income is predictive of credit-based insurance scores, then insurers could use the legally-allowed credit-based insurance scores to avoid writing policies to people of a specified income level or race. The same paper cited the Commonwealth of Virginia whose report concluded that nothing in the analysis led them "to the conclusion that income or race alone is a reliable predictor of credit scores, thus making the use of credit scoring an ineffective tool

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for redlining." Such a practice would not be allowed in Alaska, with or without credit scores, as we do not allow redlining.

I hope this answers your questions regarding this complex and controversial subject. Please let me know if I can provide further information.

Sincerely,



Lori Wing-Heier
Director