

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

April 2, 2002

8:04 a.m.

MEMBERS PRESENT

Representative John Coghill, Chair
Representative Jeannette James
Representative Hugh Fate
Representative Gary Stevens
Representative Peggy Wilson
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Sharon Cissna

COMMITTEE CALENDAR

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 315

"An Act allowing employers that are small businesses, small nonprofit organizations, or small associations for insurance purposes to join state employee insurance coverage as a group; and providing for an effective date."

- MOVED CSSSHB 315(STA) OUT OF COMMITTEE

HOUSE BILL NO. 438

"An Act relating to motor vehicle registration plates for disabled veterans; and providing for an effective date."

- MOVED CSHB 438(STA) OUT OF COMMITTEE

HOUSE BILL NO. 487

"An Act relating to fireworks; and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 315

SHORT TITLE:GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

SPONSOR(S): REPRESENTATIVE(S)ROKEBERG

Jrn-Date	Jrn-Page		Action
01/14/02	1957	(H)	PREFILE RELEASED 1/11/02
01/14/02	1957	(H)	READ THE FIRST TIME - REFERRALS
01/14/02	1957	(H)	STA, L&C, FIN
02/15/02	2281	(H)	SPONSOR SUBSTITUTE INTRODUCED
02/15/02	2281	(H)	READ THE FIRST TIME -
02/15/02	2281	(H)	STA, L&C, FIN
03/21/02		(H)	STA AT 8:00 AM CAPITOL 102
03/21/02		(H)	Scheduled But Not Heard
03/26/02		(H)	STA AT 8:00 AM CAPITOL 102
03/26/02		(H)	Heard & Held
03/26/02		(H)	MINUTE(STA)
03/28/02		(H)	STA AT 8:00 AM CAPITOL 102
03/28/02		(H)	Heard & Held
03/28/02		(H)	MINUTE(STA)
04/02/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 438

SHORT TITLE:DISABLED VETERANS LICENSE PLATES

SPONSOR(S): REPRESENTATIVE(S)MCGUIRE

Jrn-Date	Jrn-Page		Action
02/15/02	2286	(H)	READ THE FIRST TIME - REFERRALS
02/15/02	2286	(H)	MLV, STA, FIN
02/26/02		(H)	MLV AT 3:00 PM CAPITOL 124
02/26/02		(H)	Moved CSHB 438(MLV) Out of Committee
02/27/02	2418	(H)	COSPONSOR(S): KOTT
03/06/02	2485	(H)	MLV RPT CS(MLV) 6DP
03/06/02	2485	(H)	DP: MASEK, KOTT, GREEN, MURKOWSKI,
03/06/02	2485	(H)	HAYES, CHENAULT
03/06/02	2486	(H)	FN1: (ADM)
03/28/02		(H)	STA AT 8:00 AM CAPITOL 102
03/28/02		(H)	Scheduled But Not Heard
04/02/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 487

SHORT TITLE:FIREWORKS REGULATION

SPONSOR(S): REPRESENTATIVE(S)KOHRING

Jrn-Date	Jrn-Page		Action
02/19/02	2319	(H)	READ THE FIRST TIME - REFERRALS
02/19/02	2319	(H)	STA, FIN
02/19/02	2319	(H)	REFERRED TO STATE AFFAIRS
04/02/02		(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

GUY BELL, Director
 Division of Retirement & Benefits
 Department of Administration
 PO Box 110203
 Juneau, Alaska 99811-0203
 POSITION STATEMENT: Testified on HB 315.

JUDY WARREN, Director
 Sterling Senior Center
 PO Box 154
 Sterling, Alaska 99672
 POSITION STATEMENT: Testified in support of HB 315.

LYNNE KORAL
 Alaska Information Radio Reading & Education Service (AIRRES)
 1102 West International Airport Road
 Anchorage, Alaska 99518
 POSITION STATEMENT: Testified in support of HB 315.

WILLIAM CRAIG
 613 Degroff Street
 Sitka, Alaska 99835
 POSITION STATEMENT: Testified in support of HB 315 and HB 438.

MARGIE BAUMAN
 (No address provided)
 POSITION STATEMENT: Testified on HB 315.

BOB LOHR, Director
 Division of Insurance
 Department of Community & Economic Development
 3601 C Street, Suite 1324
 Anchorage, Alaska 99503-5948
 POSITION STATEMENT: Testified in support of HB 315.

KATIE CAMPBELL, Actuary Life/Health
 Division of Insurance

Department of Community & Economic Development
PO Box 110805
Juneau, Alaska 99811-0805
POSITION STATEMENT: Answered questions on HB 315.

REPRESENTATIVE NORMAN ROKEBERG
Alaska State Legislature
Capitol Building, Room 118
Juneau, Alaska 99801
POSITION STATEMENT: Testified as sponsor of HB 315.

JIM POUND, Staff
to Representative Lesil McGuire
Alaska State Legislature
Capitol Building, Room 418
Juneau, Alaska 99801
POSITION STATEMENT: Presented HB 438 to the committee on behalf
of the sponsor.

CHARLES R. HOSACK, Deputy Director
Division of Motor Vehicles
3300B Fairbanks Street
Anchorage, Alaska 99503
POSITION STATEMENT: Testified on HB 438.

SHARRON O'DELL, Staff
to Representative Vic Kohring
Alaska State Legislature
Capitol Building, Room 24
Juneau, Alaska 99801
POSITION STATEMENT: Presented HB 487 on behalf of the sponsor.

GARY POWELL, Director/State Fire Marshal
Division of Fire Prevention
Department of Public Safety
5700 East Tudor Road
Anchorage, Alaska 9507-1225
POSITION STATEMENT: Testified in support of HB 487 and answered
questions.

ROBERT HALL, Owner
Gorilla Fireworks
PO Box 871906
Wasilla, Alaska 99687
POSITION STATEMENT: Testified in support of HB 487.

JOEL ELROD

North Star Fireworks
PO Box 696
Glennallen, Alaska 99588
POSITION STATEMENT: Testified on HB 487.

JEREMY BESHAW
PO Box 611
Glennallen, Alaska 99588
POSITION STATEMENT: Testified on HB 487.

ACTION NARRATIVE

TAPE 02-34, SIDE A
Number 0001

CHAIR JOHN COGHILL called the House State Affairs Standing Committee meeting to order at 8:04 a.m. Representatives Coghill, Fate, Stevens, Crawford, and Hayes were present at the call to order. Representatives James and Wilson arrived as the meeting was in progress.

HB 315-GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

CHAIR COGHILL announced that the first order of business was SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 315, "An Act allowing employers that are small businesses, small nonprofit organizations, or small associations for insurance purposes to join state employee insurance coverage as a group; and providing for an effective date." [Before the committee, adopted as a work draft on 3/28/02, was Version 0.]

Number 0210

GUY BELL, Director, Division of Retirement & Benefits, Department of Administration, explained that HB 315 would allow the Department of Administration to obtain policies of group insurance for businesses, nonprofit organizations, special services organizations, or small associations formed for the purpose of obtaining insurance. Eligible employees are defined on page 4, line 26, of the bill. Size limitation is defined on page 6. Basically, full-time and part-time employees are being included to participate; it wouldn't include volunteers.

MR. BELL explained what the department envisions as the process for acquiring the insurance policies. The department would first work with interested groups and a professional benefits consultant in designing an appropriate plan or plans. There are

many plan designs, each carrying different levels of cost, depending on the value of the benefits that are provided. Quite a bit of time will be spent up front designing a plan suitable for the interested organizations. After a request for proposals (RFP) was issued and insurance companies responded, then the best proposal would be selected using the evaluation committee.

MR. BELL referred to page 2, lines 15-23, which identifies the process for approval of employers. At that point employers would be approved based on their application for participation in the plan. From that point, the employers would purchase the insurance directly from the insurance company selected to provide the policy. The claims payment services and all associated services would be provided by the insurance company. At that time, the Department of Administration would be a conduit for enrolling employers, be involved in design changes, and be a liaison between the employers and insurance companies participating in the plan.

Number 0494

MR. BELL noted that there is no state subsidy identified so neither is there a state liability. It would be a completely separate plan from current state administered plans. The Division of Retirement and Benefits administers two major plans: one for retired public employees and teachers and the other for Select Benefits for certain groups of state employees. Those are fully self-insured and would be kept separate from this plan, which would be a fully insured product. That means there would be no liability for the state associated with the administration of this plan.

CHAIR COGHILL asked if the RFP was reflected in the fiscal note and if the first study and startup costs are being looked at.

MR. BELL replied yes. He indicated that a survey would be used along with some meetings teleconferenced and maybe some face-to-face meetings with interested associations. There is a benefits consultant under contract with the department, and those services would be paid for.

CHAIR COGHILL asked what the timeline would be.

Number 0640

MR. BELL stated that RFPs generally take about 90 days. Several months' lead time before that will be required to make sure

there is a plan design that makes sense. The critical issue is that organizations want affordable, quality insurance, and to design a plan with those relative measures requires quite a bit of input from different organizations about what they construe as affordable, quality insurance. As the bill is drafted now, it has an effective date of July 1, 2003, so that would be the deadline. The plan year would commence then.

REPRESENTATIVE STEVENS reiterated that the idea is to allow the insurance companies to save some costs with working with large numbers of groups. He asked what the savings would actually be for the insurance firms and how they could pass savings along to the companies. He also wondered how the state could avoid liability.

Number 0829

MR. BELL answered that it would have a design similar to another plan called a political subdivision, a small medical plan it administers that has only several hundred employees. That plan allows political subdivisions to purchase insurance from Aetna, the current plan provider, at established rates. The department issues the RFP, awards the contract, and from that point forward the political subdivisions who participate work directly with Aetna and pay premiums. They are rated as a group. It is a single group for rating purposes. Haines and Soldotna belong. Both employers on employees' behalf pay the same premium, so they are rated as a single group and that is the idea behind this approach. Anyone who joins would be part of a single group for premium setting purposes so each employer wouldn't have its own premium.

MR. BELL explained there is a theory of economy of scale when there is a larger group; there is savings in administrative costs per head. There may be some design plan flexibility with a larger group that a smaller employer wouldn't get. That may add some leverage. It is certainly not a panacea. Insurance is expensive and "you get what you pay for." Over that there's an administrative cost. He hopes that the administrative costs can be reduced through economy of scale, and then maybe through some plan design measures an affordable plan can be developed.

MR. BELL said the question on liability would best be answered by an attorney, because he is not an expert, but through the contractual process the department would need to ensure that the insurance company providing the insurance has the liability. The department has full responsibility for approving and denying

procedures, and that would protect the state. Obviously, someone could try to sue the state ultimately for some kind of breach, but part of the contract design is to be sure that the state is protected through the attorney general.

Number 1047

REPRESENTATIVE STEVENS asked if there would be the opportunity to shape insurance coverage that each individual organization wants or whether it would be stuck with some sort of package.

MR. BELL replied that obviously there can't be an unlimited number of plans because that would be very expensive to administer. He envisions several options. Under the political subdivision plan there are three options: high, medium, and low. Not knowing what the design will be in this case, he said he assumes there will be several options that the groups can choose from.

Number 1100

REPRESENTATIVE JAMES asked if the current plan for state employees is self-insured.

MR. BELL replied that the political subdivision plan that he mentioned is not part of the other plans. It is a third plan altogether, and it is fully insured by Aetna. The retiree medical and Select Benefits plan administered by the state are completely separate and are self-insured.

REPRESENTATIVE JAMES asked if the contract the state has with Aetna is a "forever contract," or if there is a period during which it has to be renegotiated, or if the state has to put out for other bids.

MR. BELL answered that the state is required by law to issue an RFP every five years.

REPRESENTATIVE JAMES asked what happens to Aetna if the state doesn't have Aetna anymore.

MR. BELL explained that if one firm is awarded the bid and after five years the contract is awarded to another company, the liability associated with the claims preceding the date of the transition falls to the prior insurance company and then the liability for claims from the new contract forward falls to the new insurance company. There is a transition from one company

to another if a new company is awarded the bid. The liability stays with the insurance that is in effect at the time.

Number 1300

REPRESENTATIVE JAMES wondered about the savings that could be accrued just simply by the administration. She asked how many employees the organizations would have to have.

MR. BELL explained that the range is from 2 to 50 employees. Potentially, that covers quite a large universe in Alaska because many of the small businesses and nonprofits have fewer than 50 employees. If a nonprofit had more than 50, it would be precluded from participating in this as the legislation is written.

REPRESENTATIVE JAMES asked what happens if no one bids on an RFP, and whether that would be a "stand-alone." Why would they want to bid as opposed to being a "stand-alone?"

MR. BELL said there are some issues about accessibility of insurance, too, but the state wants to have an accessible, affordable quality plan. He explained that an RFP would be issued for an insurance company to provide this product. Under the legislation, the commissioner of administration has to certify that the company or nonprofit meets certain criteria. At that point, the company or nonprofit can purchase the insurance from the insurance company. There is not a new RFP for this company to join; the company just joins and participates in the plan. An RFP is issued and a contract is awarded in anticipation of nonprofits' and businesses' participating. It is up to those nonprofits and businesses to participate, but this makes this product available with certain premiums and certain policies in effect. There is not an RFP every time someone joins.

Number 1490

REPRESENTATIVE JAMES wondered if the communication between the drafter and sponsor of the legislation has been researched with insurance companies. She said it seems to her that if this were available, the amount of work that might be done to salve the situation would not necessarily get it there. She said she is concerned and remembered what a terrible experience it was for the public employees changing to another company from NYLCare (New York Life) to Aetna; she is concerned about putting "little folks" out there who want to get affordable insurance and

expecting them to jump through those issues every time providers are changed.

Number 1592

REPRESENTATIVE CRAWFORD asked about the real benefit of this bill:

Say that you had two nonprofits, United Way with 40 employees and the Center for Drug Problems with eight employees; if they come into this plan, it puts them in a much larger group, so it spreads the experience out to potentially thousands rather than the eight employees at the Center for Drug Problems. It may not be all that much cheaper, but it would be safer in that it would spread the experience.

MR. BELL agreed that with a larger group, the risk of high claims, for instance, is spread among a larger group. A plan that doesn't involve catastrophic [insurance] could also be designed that involves what is called the "first dollar coverage" up to a certain maximum per person, if that is desired. There are multiple options, but this would at least allow a design that would be somewhat monolithic, to hopefully make this kind of insurance available.

CHAIR COGHILL asked if there is anything in law now that would preclude a group of people coming together without the state's involvement at all.

MR. BELL said he didn't know the answer to that question. It has been researched. This bill includes associations for the purposes of providing insurance so groups could form an association and then join. He said he isn't sure how it would work and that it may be best answered by someone with legal and ERISA [Employee Retirement and Income Security Act of 1974] expertise.

CHAIR COGHILL noted that one of the questions to be answered is, "Why should the state do it, and if the state's going to do it, could it be done any other way?"

Number 1762

REPRESENTATIVE WILSON commented that HB 315 would help daycare workers get into a pool of affordable insurance.

REPRESENTATIVE STEVENS said it seems clear there is no obligation for an insurance company to respond to an RFP. He wondered how the insurance companies would know the numbers they are expected to deal with, and doesn't that determine what the rates will be whether they're dealing with 100 or 10,000 people? It seems as though it is pretty vague for the insurance companies to decide what kind of rates to offer.

MR. BELL responded that that was one of the reasons to do a survey. Part of the survey will be assessing interest and perhaps types of coverage, coverage options, and premium ranges that the groups would be willing to participate in. Then an RFP that matched would need to be developed, and with the hope of getting a satisfactory proposal back that meets those certain criteria. There is a possibility that no company will bid or that several companies might bid. He has no idea, he told members. The design aspect is critical in making sure there is "buy in" at the design level.

Number 1960

CHAIR COGHILL acknowledged that the question of affordability cannot really be answered at this point.

MR. BELL agreed.

CHAIR COGHILL said making the case that this is going to make insurance more affordable carries a big question mark over it, but the stability of a pool probably would be the better selling point.

MR. BELL agreed an affordable policy can be created, but it may have limitations. For example, he said,

You can design down to a premium level where you will cover 100 percent up to a certain amount but not have catastrophic coverage, with the idea that there may be other insurance available in the event of a catastrophe. That would bring premiums down. An affordable plan can be designed; the question is what is being provided at that affordable level.

REPRESENTATIVE WILSON asked if this would put any requirements on the nonprofits or other businesses to provide insurance.

MR. BELL answered that there is no requirement that anyone provide insurance. This just indicates that they may join and defines who eligible employees would be.

Number 2064

REPRESENTATIVE JAMES expressed concern for people who wouldn't be able to pay for their insurance premiums. She suggested that the idea of a medical savings account for a catastrophic illness might be a better benefit for people. She said she doesn't see that the administration of the setting up of this would be a benefit at all unless almost all of those non-insured companies playing in. The first step is to find out what the parameters are: what is the maximum someone wants to pay, and what coverage is needed. She said she is interested in providing the ability for people to get insurance but agreed that drug coverage will probably not be a part of it because that is where the rising costs of medical care is. She commented that the goal is before the plan. She expressed concern about the state's being in the middle of the whole process.

Number 2298

CHAIR COGHILL asked Mr. Bell to go over the survey point again.

MR. BELL agreed that the design is critical and doing the advance legwork to make sure the plan is something realistic and reasonable up front. There is some money in the fiscal note to develop a plan. There is a professional benefits consultant with Alaskan experience who knows generally what reasonable premium ranges might be. He indicated that there will be a good idea through the development of this before the issuance of the RFP as to what kind of premium to expect for the type of plan being designed. He said he doesn't believe there will be a surprise at the other end. He thinks the premium ranges to expect given the levels of coverage will be known up front. The question will be, "What level of coverage can you get that's affordable?" It may be a first dollar option. It may be just up to \$25,000 of expenses, at which point there would have to be other coverage that a person would need to rely on, whether it's Medicaid or some other.

CHAIR COGHILL said the federal law is allowing medical savings accounts that would go for some catastrophic [situations].

REPRESENTATIVE JAMES commented that she knows of employers who cannot afford insurance because of the rising costs. She said

she thinks that the nonprofits are the most vulnerable because they get into something but then cannot continue because there is no guarantee that as the costs rise; the premium isn't going to rise.

Number 2450

JUDY WARREN, Director, Sterling Senior Center, testified via teleconference. She informed the committee that a group of ten senior center directors meet quarterly on the Kenai Peninsula. They have been researching for affordable insurance for the past four years and are very much in support of something that will help them.

Number 2485

LYNNE KORAL, Alaska Information Radio Reading & Education Service (AIRRES), testified via teleconference. She said AIRRES supports that something be done. It's not the whole or only solution. When people are not paid what they are worth in a nonprofit, what they do have is an extra perk that is a health insurance policy, and that helps defray the sting of working for a place that can't afford to pay what they are worth. She pointed out that people with disabilities can't work for most places because people think they're going to be more of a risk management problem and a risk to employers so people work for lower pay. She supports "something," she said, and this at least seems somewhat of a workable solution to have a larger pool that will mitigate the damage in terms of insurance costs that go up.

Number 2595

WILLIAM CRAIG testified via teleconference. He expressed support for HB 315, which he said might not necessarily provide cheaper insurance but it would provide a stable, larger pool. Insurance would be one of the perks that nonprofits might be able to provide to draw people to work for them.

Number 2630

MARGIE BAUMAN testified via teleconference. She expressed concern that HB 315 is for small businesses that have to have at least two employees. She is self-employed, she noted, but has no other employees and would not be covered under HB 315. She is one of a number of self-employed people who have a terrible time getting health insurance, not because of their present

health condition but because they may have a medical history such that their physician, being conscientious, wants them to get periodic tests. When they tell a potential insurance carrier that the physician recommended a certain test, the insurance carrier automatically declines insurance. She would like to see the legislation allow for participation in such a plan by business employers that have only themselves to cover.

Number 2696

BOB LOHR, Director, Division of Insurance, Department of Community & Economic Development (DCED), testified via teleconference. He stated that the department strongly supports this legislation. House Bill 315 is an important step toward providing more affordable and more stable health insurance coverage to Alaskan nonprofit organizations. He spent the first half of his career working with nonprofit organizations in Alaska, he noted, and came to know how important the services are that they provide. In many cases, they are equivalent to a form of local government for communities outside organized boroughs and are providing vital services that in many other parts of the country would be provided by county or borough governments. These [services] are done at a substantial discount to the cost if it were done as a government service, and it is a very good value for services rendered.

MR. LOHR said health insurance ought to be available and affordable. It is an important step for the state to provide this "brokerage" service - that is, the packaging of a large group of small employers including small businesses - and to be able to offer that up as a service to potential insurance companies that would bid on this coverage. He said he thinks there will be substantially greater interest on the part of insurance companies if some of the homework has been done on their behalf by the state.

MR. LOHR said he believes [groups] could go out and do it on their own, but given the wide diverseness of Alaska, it would be fairly expensive administratively to do so. The state is in a very good position to be able to serve as a collection point for this information and then to offer it to insurance companies. This "small group insurance" market is characterized by a high concentration of market share. Ninety-five percent of the market for small group insurance is in the hands of the top three insurance companies that write in this market. There are a total of nine companies that write in the market. If the bill were adopted and the Department of Administration proceeded

along the lines that Mr. Bell has outlined, the insurance division would do everything it can to encourage full participation in the bidding process under the RFP.

MR. LOHR said he believes that the "bully pulpit" could be fairly effective in making the insurance companies aware of the opportunity to bid and encouraging them to do so. The law of large numbers, sort of the insurance equivalent of economies of scale, would have a very important influence. It has the potential to save significant sums, and it does spread the risk of catastrophic expense over a larger number of people. The Division of Insurance, DCED, does support this legislation and would like to see the committee move the bill.

Number 2889

CHAIR COGHILL asked, "What stops us from doing this outside of a state government brokerage?" Is there anybody else in the state that could create a pool such as this?

MR. LOHR answered that he is not aware of a prohibition against doing it, but the fact that it hasn't yet happened is one indicator. The United Way is working with a grant from the Rasmusson Foundation to try to figure out avenues toward more affordable coverage, but it is just getting started in that effort. He said he doesn't know if anyone else is as well positioned as the state as a major purchaser of health insurance already. That does provide some leverage just in terms of being a large purchaser of services from the insurance industry.

REPRESENTATIVE JAMES expressed some concerns and asked if the small businesses could band together to get the insurance without going through the state or whether the state is the only one who could do that.

TAPE 02-34, SIDE B
Number 2989

MR. LOHR answered that he doesn't know of a prohibition on that. In nonprofits, it is extremely difficult to take on even very important collateral purposes to the core purpose of the organization. Generally, folks are so jammed with trying to perform the basic function; taking on an ambitious effort like this would be a very difficult assignment. He doesn't know of a reason that it couldn't be done, he said, but he pointed out that to date it hasn't been done. If the state could jumpstart this effort and take this important first step, proper language

in the bill could minimize any liability to the state. "I'm not an attorney, by the way, " he added.

Number 2896

REPRESENTATIVE FATE asked if the cost of insurance would come down if the base and the amount of incidents were broadened. He referred to some written testimony that indicates it would certainly broaden the type and availability of benefits, but that it would not necessarily reduce the cost; then there has been testimony saying it would reduce the cost. He wondered how Mr. Lohr would [balance] those two diametrically opposed testimonies.

MR. LOHR replied that in general, when the base of coverage is broadened, the number of persons covered is increased; the coverage will be more affordable primarily by reducing the risk of expensive, catastrophic-type events. If, in broadening the base, people who are substantially sicker than average are brought in, that's a problem called "adverse selection." If a plan appeals only to those who are seriously ill, then the premiums are necessarily going to be much, much higher. He surmised that the consultants in the Department of Administration would design a plan that is not subject to adverse selection. Other than that qualifier, the general notion is "the bigger the better" in terms of a pool. If a large number of healthy people participate in the pool, as it would be if there were people across the age spectrum and all kinds of different family types, that's going to be a good thing for the health of the pool as a whole.

REPRESENTATIVE FATE commented that it's still not clear. He asked, "If you take 1,000 people and add another 1,000 people to the same category, the risk of incidents is the same with 1,000 people as it is with the other 1,000 people, is it not?"

Number 2746

MR. LOHR explained that there are two primary factors that drive health insurance. One is utilization - the rate at which services are used - and the other is severity - how serious is a given event? Large numbers tend to make that severity less a problem. If there is a group of three people and one has terminal cancer, then the expenses for that plan are going to be catastrophic for everyone involved. If there is one person with cancer in a much larger group, then the risks of that are more manageable because the volume of premiums is coming in.

Number 2693

KATIE CAMPBELL, Actuary Life/Health, Division of Insurance, Department of Community & Economic Development, referred to Representative Fate's question and agreed that adding 1,000 to 1,000 more people probably wouldn't get much benefit, but in the larger pool, the catastrophic illness will be spread over a larger base of people, which makes it more affordable. When one person in a five-person group is sick, that can be very expensive for everyone. If that is spread over a lot of people, it becomes more affordable. That's the concept of pooling.

REPRESENTATIVE FATE commented that it is based on the incidence of catastrophic illness rather than general incidents.

MS. CAMPBELL noted that the pooling aspect will help that part of it - or severity of the larger claims will be spread over a broader base. "To the extent that everybody is utilizing a lot of services, you're not going to gain as much in that area," she remarked.

REPRESENTATIVE JAMES asked if there is any evidence in the actuarial as to whether annual physical examinations are a benefit in the overall plan to reduce the cost of serving as an insurance company.

MS. CAMPBELL replied that she didn't know. Some insurance companies may have done some studies, but she hasn't seen anything where there is a direct correlation if people have their annual physical. Presumably, it helps a little bit because a lot of the employers will have wellness benefits; the goal is to keep catastrophic illnesses from occurring. She doesn't have any hard data to give.

CHAIR COGHILL said the way HB 315 is written and with the testimony of Mr. Bell, the actuarial could not begin its work until it knows who is in the pool. There are a lot of "what ifs."

Number 2533

REPRESENTATIVE STEVENS commented that the issue has a lot to do with reducing the costs of insurance but also availability and stability. He wondered if people in smaller organizations are having trouble even finding an insurance carrier.

MR. LOHR agreed that availability and stability are key concepts. Having a large purchaser involved in the purchasing process and the design of the coverage could assist in removing a lot of roadblocks. Just knowing that the coverage is available is an important step toward making this coverage more broadly available than it otherwise would be. It may not pay a given company to go out on speculation and simply "do outreach," whereas if there is an internal force organizing the group and shaping the coverage, it could be a very important step forward in making it available on a longer-term basis.

REPRESENTATIVE STEVENS asked if a single person in a firm would not be allowed into this pool.

MR. LOHR answered that the sponsor could better answer that, but said he doesn't believe he/she would [be allowed] under the current definition of 2-50 employees. There may be some problems from the point of view of converting this to simply individual insurance. That's a judgment call in terms of where the lines are drawn. Classically small group insurance is targeted toward those with between 2 and 50 employees.

Number 2735

REPRESENTATIVE NORMAN ROKEBERG, Alaska State Legislature, sponsor of HB 315, answered that the individual aspect of it is allowable under the special service organization provision adopted in the proposed committee substitute (CS) [Version 0] last meeting. Those practitioners with that definition would [qualify]. As a general rule, no. He offered to check with the designers or private sector underwriters about that. "Usually individual policies are structured actuarially different," he said, adding that he isn't sure if there are any policy reasons to create a barrier for an individual to join this particular group.

REPRESENTATIVE ROKEBERG pointed out the purpose of this legislation, and one thing he wants to work on, is the design of the actual policies that would be offered. The bill needs to be "tuned up" in regard to some of the quantitative design elements of the bill particularly as it relates to PPOs [preferred provider organizations] or special bargains for per diem rates at tertiary care hospitals, which would be a significant reduction in cost.

REPRESENTATIVE ROKEBERG explained that small businesses and individuals cannot buy a policy such as the State of Alaska has.

Usually one menu is offered for those types of groups, and HB 315 will allow more selection. There are the private insurers of the state, but there is a nonprofit association chapter in the health insurance laws that allow the formation of other nonprofit types of associations that could provide this type of insurance; however, the market doesn't demand it because Alaska is such a small market. Right now Blue Cross covers over 50 percent of the insured in the state. He said, "Basically what we need is some competition for Blue Cross. They have a limited number of insurance underwriters that are here. Hopefully, if we can get a big enough group as a result of this bill, that might be the germ of even exciting or drawing the interest of an underwriter that is not even in the state right now, and that would be a great thing."

Number 2151

REPRESENTATIVE ROKEBERG commented that he wants to work with the department and the director of insurance to be more specific in some of the design specifications and to request that they develop some kind of PPO with the major hospitals in the urban areas and focus on driving the costs down to the point they might even offer a stop-loss catastrophic policy with anywhere from a \$2,500 to \$5,000 or \$10,000 deductible, which is being done now. That could be part of a menu of a program like this.

REPRESENTATIVE ROKEBERG referred to Mr. Bell's testimony regarding the periodic requirement of putting out an RFP every five years. He said he thought that was something that could be adopted; he would have no objection to the committee's moving a conceptual amendment to that effect. In the last CS, the group went from 300 to 500 in terms of the size; he noted, but if the committee wants, however, it could stipulate that the profit-making small businesses would be limited to the 50, but that there could be a different number for the nonprofit organizations and it could be raised back up to 300. He didn't think it would cause any equal protection type issues, he told members. It would be a compelling state interest that it could be demonstrated that nonprofit organizations are somewhat different and have had serious problems with affordability and acquisition of health insurance. Therefore, a state policy such as that would be justifiable.

Number 1955

REPRESENTATIVE CRAWFORD asked if there is a reason to limit the employees of a nonprofit to 300. Could the limit of the nonprofit be left off?

REPRESENTATIVE ROKEBERG answered that was another option. There is a bit of "arbitrariness" in 300, although 300 is usually a breakpoint where it would be the size to be able to bargain and negotiate.

REPRESENTATIVE CRAWFORD commented that he didn't think that any of the nonprofits had more than 300 employees, but that there might be, and that he doesn't see a good reason to have that limit.

REPRESENTATIVE ROKEBERG indicated he wouldn't object to that. He'd just found out that Hope Cottage is at about 300 people, he noted, so it might be a nonprofit forced out of the pool if it had too many employees.

CHAIR COGHILL said he has struggled with how great a portion of the economy the nonprofits "play in" and the many times they compete against the for-profit world. He is always cautious about giving greater advantage [to the nonprofits], he added.

Number 1875

REPRESENTATIVE JAMES agreed with the issue of the size and scope of nonprofits in the state and nation in their competition with the private sector. She also acknowledged the good that the nonprofits do by providing services that no one else does, so it is a mixed bag. She doesn't want nonprofits to think she is not in favor of what they're doing because nonprofits use volunteers, she said; she is one of the biggest "hurrah" for all of the volunteers in the state. There is no dollar figure attached to what they do. It would be a big advantage if every nonprofit and every small business were covered with some insurance. She doesn't necessarily agree there should be a limit on the number of employees, she told members. In the survey with several options, she would like to see how much premium the employee would be able to pay and how much cost the employer can afford to pay, because if they can't get something in that [range], then there is not an alternative for them.

REPRESENTATIVE JAMES wondered if the nonprofits that already provide insurance would be interested in this because it might be a better, bigger pool. She surmised they are covered by other private insurance companies; she wondered if they would be

taking away from some of the private [sector] contracts and whether that would be a direct conflict between government and the private sector. "I think we should use the private sector whenever it is something that we can do, and not assume the government can do it better or cheaper, because I don't think that's been borne out over the years." she concluded.

Number 1675

REPRESENTATIVE ROKEBERG told Representative James that he shares her philosophical view. When he served as chair of the Labor and Commerce Committee for four years, his number-one goal was to provide an attractive environment for new health insurance underwriters to come into the state of Alaska and not indulge in certain insurance mandates and other legislative actions that push them out. Alaska is such a small market, so it is very difficult, he said. He'd introduced this bill because he'd reached a point of frustration, recognizing, however, that the private sector is not going to be able to provide affordable, quality health care insurance. He's been a victim of high insurance premiums, he offered. When he reached 50, his and his wife's premiums went up 20 percent. Eight years ago his premiums in the private sector were more than what he pays now to the State of Alaska, and it had no dental, vision, or anything else. He would love to see some competition for Blue Cross, he told members. He's trying to create something that would help these groups.

REPRESENTATIVE JAMES commented that she sees a real problem with the preferred provider in many cases. It makes a bigger gap between the "haves" and the "have-nots" in that issue. She is concerned about mandating that.

REPRESENTATIVE ROKEBERG said he couldn't agree with her more; that's why he was alarmed when the State of Alaska made a policy call to allow the bargaining units to disperse out from underneath the group plan a few years back and enter into other coalitions that could become more or less "800-pound gorillas" when bargaining for per diem rates with providers. The only kind of cost reduction mechanisms that are available to Alaskans are some type of PPO-type contracts, because there are no HMOs (health maintenance organization) in Alaska, he suggested. There is a statutory regime that rejects and discourages HMOs in the state of Alaska. So the only possibility for lowering health care costs is to try to contractually do that. In larger areas like Anchorage, which has the only major tertiary center in Alaska where there is a modicum of competition, it works.

There are other provisions for day surgeries and things like this that can be done on a PPO-type basis and provide some savings. If the particular design of a plan doesn't include some of those things, then the goal of HB 315 won't be accomplished, which is access to more affordable, quality, and stable care.

Number 1337

CHAIR COGHILL characterized this bill as the "template" for that discussion because the survey is going to tell what different tiers, if any, might look like. "We're way ahead of ourselves on that discussion I think," he noted.

REPRESENTATIVE STEVENS referred to page 3, line 11, and asked if this was the RFP issue [referring to putting out an RFP every five years].

MR. BELL answered that it is current law and there is no change to current law along those lines.

Number 1200

REPRESENTATIVE JAMES referred to the "harrowing" experience of changing administration of insurance carriers. She said she doesn't know if anyone can guarantee that won't happen again when the five years are up. She wouldn't want to have a replay of that issue.

REPRESENTATIVE JAMES told Representative Rokeberg that she would feel more comfortable if HB 315 were in two parts. She expressed concern about raising up people's expectations and disappointing them. She asked if there is a way to divide this into two processes.

REPRESENTATIVE ROKEBERG asked her if she thinks they should study it first and then implement it.

REPRESENTATIVE JAMES said there's a lot of information they don't have, like how many people there would be out there and how much they can afford to pay. It is how much they can afford to pay and what they're going to get that are the biggest stumbling blocks for her.

REPRESENTATIVE ROKEBERG said he would cosponsor with her a resolution to send to Congress to stop creating a phantom health

tax for this country by not paying proper reimbursements for Medicaid and Medicare. He stated:

The root of the problem is the accelerating health care costs in this country, which the percentage of GDP [gross domestic product] of which we're paying for health care is accelerating at an alarming rate and, it's the only inflation factor we have except oil prices are going up now. ... To survey what people can afford to pay is useless information. They can't afford to pay what the costs are now; that's the real issue. You can't design something to affordability because it just doesn't work. We're designing it for affordability in this plan to try to lower the costs to the lowest common denominator. This is kind of a Band Aid approach to deal with Alaska's circumstances."

Number 0939

REPRESENTATIVE JAMES said she would be happy to [draft] a letter with Representative Rokeberg to the leadership in Washington, D.C., particularly on the issue of not forcing Medicare to be the first provider when people are 65. "If we could let the insurance companies provide for people who have the options and wish to pay, we certainly could be able to give drug coverage to the people who are on Medicare," she commented. She suggested they draft a letter on that.

REPRESENTATIVE ROKEBERG acknowledged that the chance of HB 315 passing this year is slim. He said he will work hard on this legislation because he sees the need for it. He doesn't want people's expectations to be built up and for them to start making plans that this bill is going to pass this year. "I hope it does but beware of this process," he warned. "It is a very long, arduous, and difficult process."

Number 0799

REPRESENTATIVE WILSON agreed that this is a very delicate balance because everyone wants affordable insurance. What is affordable today isn't going to be affordable tomorrow because the costs keep rising, so even if a survey were done, by the time it was implemented the costs would be more, so it would be a moot point. It is a hard issue to deal with because it keeps changing.

REPRESENTATIVE CRAWFORD acknowledged that the problem is almost at crisis proportions, and that the sooner it's taken care of the better.

REPRESENTATIVE HAYES declared a conflict of interest because HB 315 could benefit him in his private-sector job.

REPRESENTATIVE WILSON asked why the self-employed people are being limited.

REPRESENTATIVE ROKEBERG answered that it is the way the health insurance statutes are right now.

REPRESENTATIVE CRAWFORD asked about limiting just one person from the group.

REPRESENTATIVE ROKEBERG replied that he'll be looking into that.

REPRESENTATIVE HAYES commented that the problem with one is that one is not a group.

Number 0533

REPRESENTATIVE HAYES moved to report CSSSHB 315 [version 22-251177\0, Craver, 3/27/02] out of committee with individual recommendations, the accompanying fiscal notes, and the new title. There being no objection, CSSSHB 315(STA) was reported from the House State Affairs Standing Committee.

HB 438-DISABLED VETERANS LICENSE PLATES

CHAIR COGHILL announced that the next order of business would be HOUSE BILL NO. 438, "An Act relating to motor vehicle registration plates for disabled veterans; and providing for an effective date."

Number 0463

CHAIR COGHILL moved to adopt CSHB 438, version 22-LS1503\J, Ford, 4/2/02, as the working document. There being no objection, Version J was before the committee.

Number 0420

JIM POUND, Staff to Representative Lesil McGuire, Alaska State Legislature, presented HB 438, on behalf of Representative McGuire, sponsor. He informed members that the bill is trying

to honor the veterans. Alaska certainly has one of the highest per capita veterans population of any state, he told the committee. Most noticeably, the veterans have been honored with special license plates. It started out with the various license plates for the four services, and there is one for Purple Heart recipients and a limited quantity of Medal of Honor winners. All of these plates are well deserved, and the opportunity should be taken to honor these veterans. However, not very much has really been done for the nearly 900 disabled veterans currently in Alaska. They have been given the standard gold and blue license plate with the flag and the handicapped logo in the middle of it and the letters "DAV." There is no great opportunity for disabled veterans to have a license on their vehicles that designates to people that they served their country. While they didn't give the supreme sacrifice, they gave a part of themselves to the country, he pointed out.

MR. POUND reported that the biggest concern of the Department [of Administration] was that it would end up with four different license plates because there would be the two blue and gold plates and then the two red, white, and blue plates. The department would like to go to just the red, white, and blue license plates because of the logistical nightmare of having to deal with four plates.

MR. POUND pointed out a correction in Version J. It should read: Page 1, line 13, following (C): "if the applicant is a veteran,".

Number 0040

CHAIR COGHILL moved the foregoing as Amendment 1. There being no objection, Amendment 1 was adopted.

CHUCK HOSACK, Deputy Director, Division of Motor Vehicles, Department of Administration, testified via teleconference. He informed the committee that the department supports HB 438 as amended. Mr. Pound and the sponsor have addressed all of the concerns, he said.

TAPE 02-35, SIDE A
Number 0001

MR. HOSACK said, "This will limit it down to two [license plates], so we actually get a little bit of benefit out of it, too, in that we can stop stocking the other plates and just

replace them with this. So it'll be pretty much a wash, and we'll be able to drop our fiscal note to zero."

Number 0087

WILLIAM CRAIG testified via teleconference and said it seemed like a good bill for honoring the handicapped veterans.

Number 0120

REPRESENTATIVE JAMES moved to report CSHB 438 [version 22-LS1503\J, Ford, 4/2/02], as amended, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHB 438(STA) was reported out of the House State Affairs Standing Committee.

HB 487-FIREWORKS REGULATION

CHAIR COGHILL announced that the final order of business would be HOUSE BILL NO. 487, "An Act relating to fireworks; and providing for an effective date."

Number 0165

SHARRON O'DELL, Staff to Representative Vic Kohring, Alaska State Legislature, presented Version L on behalf of Representative Kohring, sponsor, for the committee to adopt.

Number 0265

CHAIR COGHILL asked if there was any objection to adopting CSHB 487, version 22-LS1385\L, Bannister, 3/14/02, as the work draft. There being no objection, Version L was adopted.

Number 0297

MS. O'DELL explained that consumer fireworks are a great American tradition, and that the use of fireworks has grown exponentially with the increased availability in the last few years. However, state statutes that were written in 1969 have not kept pace with the changes in the fireworks industry. A few local Alaskan jurisdictions and the federal regulators have had success in developing effective and fair laws. The function of the state fire marshal under the Department of Public Safety is to foster, promote, regulate, and develop ways and means of protecting the public against fire for persons and property, and to encourage the adoption of fire prevention measures by means of education. In response to the concerns of increased fire

risk from the devastating damage caused by the spruce bark beetle, the state fire marshal has requested additional tools to protect the lives and property of citizens of the state of Alaska. The state fire marshal and representatives of the fireworks industry have worked closely to draft HB 487, which she believes will provide the state fire marshal with those tools. The modifications in HB 487 are based on the positive results in North Pole, Houston, and other jurisdictions inside and outside the state of Alaska, she explained.

Number 0420

MS. O'DELL reviewed HB 487 section by section. She explained that HB 487 is a proactive measure working with the department and within the industry that will make things better for the general public by giving the state fire marshal the regulating and enforcing authority he needs by statute. In addition to banning bottle rockets, it allows the state fire marshal to restrict or limit the sale and use of skyrockets and missiles between April 1 and September 30. Bottle rockets are very cheap and popular fireworks if used properly, she explained. There have been probably tens of millions sold in Alaska in the last ten years; however, they are the most single source of noise complaints and most likely to be misused. If misused, they potentially can cause injuries and pose a fire risk.

MS. O'DELL explained the danger of the self-propelled rockets and missiles. If misused, they can fly off course several hundred feet and start a fire that could grow into a wildfire before it's even detected. Even though the risk of fire created by fireworks is very small, 80-90 percent of the risk of potential fire is caused by the misuse of rockets and missiles. It is true people are going to have to give up something by this bill, she said, but it is a good compromise and will benefit everybody. It's a proactive, prophylactic measure that is in response to spruce bark beetle devastation. Bottle rockets, skyrockets, and missiles combine to represent about 20-30 percent of the current annual sales of fireworks vendors; they are the most popular [fireworks] sold. However, based on the experience of North Pole, she noted, those vendors have found that people will find other items to buy; the people there understand the restrictions that have been placed there.

MS. O'DELL noted that HB 487 will ensure that all vendors, including those in the unincorporated areas of Alaska, will operate by the same rules. It will ensure that fireworks regulations are up-to-date through the work of the advisory

committee. It gives the state fire marshal the ability to carry out the safety and education function of his office through the fire safety program that is created. It will ensure a safer celebration by those people who choose to celebrate with consumer fireworks.

Number 0852

GARY POWELL, Director State/Fire Marshall, Central Office, Division of Fire Prevention, Department of Public Safety, testified via teleconference. He stated that he worked with Representative Kohring's office and Mr. Hall [fireworks vendor] on HB 487 and that it is a good effort. It cleans up the language that has been redefined over the years by other standards. It allows a committee to sit down and involve all the user groups, rather than just having his office adopt regulations or regulate it on its own.

MR. POWELL reiterated that the bottle rockets and aerial rockets are the biggest concern out of the fireworks industry. There is a small amount of property loss, a lot of nuisance-noise complaints, and small injuries caused by the bottle rockets. He pointed out the other aerial rockets are certainly cause for concern because they can travel several hundred feet, land in undetected areas, smolder all night, and possibly start a fire several hours after the rocket was shot off. Overall, he said, HB 487 is a positive step, even though it might make more work for his office, but it's worth the effort if the bill comes together as it is now.

Number 0997

REPRESENTATIVE FATE asked Mr. Powell for some statistics on injuries sustained by people using bottle rockets or the other type of rockets, and how many fires have been set by them.

MR. POWELL replied that he doesn't keep injury records in his office but he does keep fire records. From 1997-2000, there was a total of 88 responses from fire companies to fires of some sort, with a total dollar loss of approximately \$10,000. That's not a large issue compared to other fires, he said, but it has a potential of being larger. There were 63 tree, brush, and grass fires, and that certainly has the potential of growing larger in certain areas of the state.

MR. POWELL pointed out that these figures do not include the responses of the Department of Natural Resources, Division of

Forestry. It keeps its own statistics. However, it would include those if a fire department responded first. He just collects fire department information, he noted.

MR. POWELL explained that he'd left 1996 out because there was the large Miller's Reach fire in 1996. There was some suspicion that fireworks caused that although that was not conclusively shown. If that fire was included, it would add another \$5 million item.

Number 1146

REPRESENTATIVE FATE asked if there were other laws or statutes governing manmade fires and the penalties attendant with those regulations.

MR. POWELL answered that the Department of Natural Resources does have regulations regarding man-caused fires.

REPRESENTATIVE JAMES asked if the intent of the legislation is to just prohibit the use of these kinds of fireworks or to also prohibit the ownership or purchase of them.

MR. POWELL said he believes it is to prevent the sale and use. The bottle rockets are prohibited year-round and would not be allowed to be sold. The aerial rockets would be permitted during the winter months.

Number 1345

ROBERT HALL, Owner, Gorilla Fireworks, expressed support for HB 487. He has worked with the fire marshal and thinks in the long term it will be the best for the fireworks industry, he told members. It is modeled on what has happened in North Pole, which prohibits bottle rockets year-round and prohibits the sale of rockets in the summer months. North Pole has had very good results, he said. This is a proactive thing. There is no emergency or crisis being faced, but the [Municipality] of Anchorage has expressed concern about the spruce bark beetle and the fire in the Hillside area. This would bring all the vendors under the same rules. It will give some stability to the industry. If this bill doesn't make it, he said he will work on a cooperative arrangement until a bill gets through.

Number 1463

JOEL ELROD, North Star Fireworks, Glennallen, testified via teleconference. He stated that the vendors can do a lot to prevent the misuse of fireworks. There is a law now that restricts people under the age of 18 in Alaska from purchasing fireworks. He will not market fireworks to anyone underage without parental consent, he said, and that helps. In 1996 he was in Nenana marketing fireworks and there was a ban, and it worked because it reduced the sales. When there is extreme fire danger, public announcements will effectively help prevent fires.

MR. ELROD wondered if HB 487 passes, whether it would cause some people to be unemployed during the summer. If certain fireworks are restricted, the sales would be so low that the fireworks stands would not be able to be open during the summer and he would be out of a job. It could be a \$1 million business in Alaska, he suggested, although he had no statistics to back that up. People may be unemployed because of the bill.

MR. ELROD commented that consumer education can help a lot, and consideration ought to be given to the problem of alcohol abuse and the misuse of fireworks. He tries not to market his fireworks to someone who is intoxicated, he stated.

Number 1632

JEREMY BESHAW testified via teleconference. He referred to the spruce bark beetle and stated that any firefighter knows that if the fuel is removed, there won't be a fire. He suggested that the deadwood trees be eliminated. A firebreak was put through in Glennallen, he noted, but it has not been maintained. He agreed with Mr. Elrod that HB 487 would put the small guy out of business.

Number 1700

CHAIR COGHILL announced HB 487 will be held over until the next meeting.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at approximately 10:00 a.m.