

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

April 4, 2012

3:22 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Craig Johnson, Vice Chair
Representative Dan Saddler
Representative Steve Thompson
Representative Lindsey Holmes
Representative Bob Miller

MEMBERS ABSENT

Representative Mike Chenault

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 122(L&C)

"An Act relating to research on and examination of titles; relating to residency requirements for title insurance limited producers; relating to real estate transfer fees; and providing for an effective date."

- HEARD & HELD

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 104(JUD)

"An Act relating to manufactured homes, including manufactured homes permanently affixed to land, to the conversion of manufactured homes to real property, to the severance of manufactured homes from real property, to the titling, conveyance, and encumbrance of manufactured homes, and to manufacturers' certificates of origin for vehicles; and providing for an effective date."

- MOVED CSSB 104(JUD) OUT OF COMMITTEE

HOUSE BILL NO. 326

"An Act requiring health care insurers to offer a child-only policy; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 122

SHORT TITLE: REAL ESTATE TRANSFER FEES/TITLE INSURANCE

SPONSOR(s): LABOR & COMMERCE

04/08/11 (S) READ THE FIRST TIME - REFERRALS
04/08/11 (S) CRA, L&C
01/24/12 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
01/24/12 (S) Heard & Held
01/24/12 (S) MINUTE(CRA)
01/31/12 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
01/31/12 (S) Moved CSSB 122(CRA) Out of Committee
01/31/12 (S) MINUTE(CRA)
02/01/12 (S) CRA RPT CS 4DP NEW TITLE
02/01/12 (S) DP: OLSON, KOOKESH, MENARD, WAGONER
02/02/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/02/12 (S) Heard & Held
02/02/12 (S) MINUTE(L&C)
02/21/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/21/12 (S) -- MEETING CANCELED --
02/23/12 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/23/12 (S) Moved CSSB 122(L&C) Out of Committee
02/23/12 (S) MINUTE(L&C)
02/24/12 (S) L&C RPT CS 5DP NEW TITLE
02/24/12 (S) DP: EGAN, GIESSEL, DAVIS, PASKVAN,
MENARD
03/14/12 (S) TRANSMITTED TO (H)
03/14/12 (S) VERSION: CSSB 122(L&C)
03/15/12 (H) READ THE FIRST TIME - REFERRALS
03/15/12 (H) L&C, JUD
04/04/12 (H) L&C AT 3:15 PM BARNES 124

BILL: SB 104

SHORT TITLE: MANUFACTURED HOMES AS REAL PROPERTY

SPONSOR(s): FRENCH

03/16/11 (S) READ THE FIRST TIME - REFERRALS
03/16/11 (S) STA, JUD
03/29/11 (S) STA AT 9:00 AM BUTROVICH 205
03/29/11 (S) Heard & Held
03/29/11 (S) MINUTE(STA)
03/31/11 (S) STA AT 9:00 AM BUTROVICH 205
03/31/11 (S) Moved SB 104 Out of Committee
03/31/11 (S) MINUTE(STA)
04/01/11 (S) STA RPT 2DP 3NR
04/01/11 (S) DP: KOOKESH, MEYER
04/01/11 (S) NR: WIELECHOWSKI, PASKVAN, GIESSEL
04/06/11 (S) JUD AT 1:30 PM BELTZ 105 (TSBldg)

04/06/11 (S) Heard & Held
04/06/11 (S) MINUTE(JUD)
04/15/11 (S) JUD AT 1:30 PM BUTROVICH 205
04/15/11 (S) Heard & Held
04/15/11 (S) MINUTE(JUD)
01/18/12 (S) JUD AT 1:30 PM BELTZ 105 (TSBldg)
01/18/12 (S) Moved CSSB 104(JUD) Out of Committee
01/18/12 (S) MINUTE(JUD)
01/20/12 (S) JUD RPT CS 4DP SAME TITLE
01/20/12 (S) DP: FRENCH, COGHILL, WIELECHOWSKI,
PASKVAN
01/27/12 (S) TRANSMITTED TO (H)
01/27/12 (S) VERSION: CSSB 104(JUD)
01/30/12 (H) READ THE FIRST TIME - REFERRALS
01/30/12 (H) L&C, STA
04/04/12 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 326

SHORT TITLE: CHILD-ONLY HEALTH CARE COVERAGE

SPONSOR(s): GUTTENBERG

02/17/12 (H) READ THE FIRST TIME - REFERRALS
02/17/12 (H) L&C, FIN
04/04/12 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

DANA OWEN, Staff
Senate Labor & Commerce Committee
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 122 on behalf of the Senate Labor & Commerce Committee, of which Senator Dennis Egan is the chair.

SENATOR HOLLIS FRENCH
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SB 104 as sponsor of the bill.

GEORGE GINSBERG, Attorney
McGlinchey Stafford PLLC, Legal Counsel to Wells Fargo
Des Moines, Iowa

POSITION STATEMENT: Testified during the discussion of SB 104.

SHELLY MELLOTT, Deputy Director
Director's Office

Division of Motor Vehicles (DMV)
Department of Administration (DOA)
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of SB 104.

REPRESENTATIVE DAVID GUTTENBERG
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 326 as prime sponsor.

LINDA HALL, Director
Division of Insurance, Anchorage Office
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the discussion of
HB 326.

MARIE DARLIN, Coordinator
AARP Capital City Task Force
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 326.

ADAM WOOL
Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 326.

ACTION NARRATIVE

[3:22:53 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:22 p.m. Representatives Thompson, Holmes, Miller, Saddler and Olson were present at the call to order. Representative Johnson arrived as the meeting was in progress.

SB 122-REAL ESTATE TRANSFER FEES/TITLE INSURANCE

[3:23:11 PM](#)

CHAIR OLSON announced that the first order of business would be CS FOR SENATE BILL NO. 122(L&C), "An Act relating to research on and examination of titles; relating to residency requirements for title insurance limited producers; relating to real estate transfer fees; and providing for an effective date."

[3:23:17 PM](#)

DANA OWEN, Staff, Senate Labor & Commerce Committee, Alaska State Legislature, of which Senator Dennis Egan is the chair, referred to CSSB 122(L&C), Version I, which passed the Senate. He explained the bill's purpose is first, to ensure that the real property titles researched and issued in Alaska have an Alaska perspective. He explained that many businesses want to perform work outside the U.S. and regularly solicit business in Alaska. The title insurance industry has expressed concern that allowing companies outside the state to perform title searches could result in imperfect real property titles in Alaska. This bill would ensure that at least some company located in Alaska has reviewed the title. Second, SB 122 would eliminate a practice - also eliminated in approximately 40 other states - related to transfer fee covenants. He offered that transfer fee covenants allow the original seller of real property to gain a fee in perpetuity each time the real estate transfers ownership. He noted this practice was first outlawed in 1857 in New York, when the New York courts ruled it to be a "vestige of feudalism." It has not become a significant issue in the state, but this bill would eliminate that possibility.

[3:26:13 PM](#)

MR. OWEN reviewed the changes made to SB 122 in the Senate. He referred to page 1, lines 7-9, of SB 122, which requires title insurance be issued by a title insurance limited producer. He offered that the Division of Insurance's director, Linda Hall, could provide more detail; however, this provision would require that in order to acquire a title insurance for a limited producer's license the business must be located in the state and be open to the public. He acknowledged that this provision will not guarantee that an Alaskan will run the title insurance business, but it is probably as close as the state can get to ensure an Alaskan will be involved. He referred to Section 2, which states that the title insurance limited producer cannot obtain a license unless the producer is a resident of the state. He acknowledged that this provision is controversial. He referred to members' packets to a memorandum from the bill drafter who expressed doubt as to whether this provision would pass constitutional muster. Still, the sponsor chose to leave the provision in the bill. He referred to Section 3 to the title transfer fee covenants, which remains unchanged; however, he understood a proposed committee substitute (CS) - which the committee may take up today - does change this provision.

[3:28:17 PM](#)

REPRESENTATIVE MILLER referred to page 2, line 8. He said he assumed the use of "state" refers to the State of Alaska, although the language does not specify which state.

MR. OWEN answered that this is an issue that did not arise previously. He also assumed that since the provision falls within Alaska's statutes that it refers to the State of Alaska. He had no objection if the committee wished to clarify that point.

[3:29:28 PM](#)

REPRESENTATIVE MILLER made a motion to adopt Conceptual Amendment 1, on page 2, line 8, at the end of the sentence to read, "... a resident of the State of Alaska."

REPRESENTATIVE THOMPSON objected for the purpose of discussion.

REPRESENTATIVE HOLMES pointed out that she has no objection since Conceptual Amendment 1 is a conceptual amendment; however, she offered her belief that the term "state" is frequently used and the term is not generally specified as the State of Alaska.

REPRESENTATIVE MILLER agreed if the use of "state" without specifying "Alaska" is the current convention and it is understood as meaning "State of Alaska," that further clarification would not be necessary in the bill.

CHAIR OLSON wondered if "state" would be capitalized in State of Alaska.

MR. OWEN understood that the bill drafters tend to minimize using capital letters.

REPRESENTATIVE HOLMES clarified the intention of Conceptual Amendment 1 is to make sure that the provision means the State of Alaska and if Conceptual Amendment 1 is not necessary, that the drafter should follow the normal drafting procedures in this provision of SB 122.

REPRESENTATIVE THOMPSON withdrew his objection.

There being no further objection, Conceptual Amendment 1 was adopted.

[3:31:31 PM](#)

REPRESENTATIVE SADDLER asked how many people will be "aced out" of the title insurance business by limiting it to companies that meet the definition.

MR. OWEN answered that he was uncertain. He commented he has heard assertions that some people may not be able to go into business; however, the sponsor crafted the language to minimize any impediments to market entry. He elaborated that some proposals in the original bill would have substantially extended the time and requirements to maintain title plant records, but these provisions are no longer in the bill. He concluded that the sponsor hopes that the bill has eliminated some impediments, but in direct answer to how many businesses would be affected he said he could not estimate.

[3:33:22 PM](#)

REPRESENTATIVE JOHNSON asked how many title insurance companies currently operate in the state.

MR. OWEN answered eight or nine title insurance companies operate in Alaska. He suggested Director Hall may be able to answer more accurately the number.

CHAIR OLSON noted Director Hall is indicating by shaking her head that she does not know for certain either.

[3:33:41 PM](#)

REPRESENTATIVE JOHNSON asked whether competition would be limited and also whether the cost to obtain title insurance information will rise if the competition is being eliminated since a limited number of companies currently issue title insurance.

MR. OWEN responded that he did not believe that would be the outcome. He suggested it may have been the result in the original bill, but changes to SB 122 have carefully been crafted so that will not be the case.

CHAIR OLSON remarked that his office has been contacted by only two title insurance companies.

MR. OWEN remarked that the sponsor has heard from several more companies than that. In further response to Chair Olson, he thought the title companies were happy with the bill.

[3:34:47 PM](#)

REPRESENTATIVE JOHNSON made a motion to adopt the proposed committee substitute (CS) for SB 122, labeled 27-LS0789\D, Bailey, 3/19/12, as a working document.

CHAIR OLSON objected for the purpose of discussion.

[3:35:29 PM](#)

MR. OWEN explained the changes in Version D. He referred to page 2, lines 15-16 of Version D, which read, "(1) payable on a one-time basis only on the next transfer of the interest in real property;" and explained the intent of this provision is to eliminate transfer fee covenants. He acknowledged that he has reviewed paragraph (1) several times and mistakenly interpreted it to mean that the first time the property was sold the fee could be charged. He now interpreted this provision to mean when real property is sold and the transfer fee is collected that each time the property is sold another transfer fee can be collected. However, he related that is not the sponsor's intent. He offered the sponsor's support for the changes in the proposed CS, Version D.

[3:36:26 PM](#)

CHAIR OLSON removed his objection, and therefore Version D was before the committee. He then announced that public testimony on SB 122 will be kept open.

[3:36:45 PM](#)

[SB 122 was held over.]

SB 104-MANUFACTURED HOMES AS REAL PROPERTY

[3:36:57 PM](#)

CHAIR OLSON announced that the next order of business would be CS FOR SENATE BILL NO. 104(JUD), "An Act relating to manufactured homes, including manufactured homes permanently affixed to land, to the conversion of manufactured homes to real property, to the severance of manufactured homes from real property, to the titling, conveyance, and encumbrance of

manufactured homes, and to manufacturers' certificates of origin for vehicles; and providing for an effective date."

3:37:16 PM

SENATOR HOLLIS FRENCH, Alaska State Legislature, summarized that SB 104 is designed to allow individual Alaskans who own their manufactured or mobile home and the land upon which the mobile home sits the ability to title their mobile home as real property. He explained that it takes many, many pages to get there. He pointed out that Alaska statutes relating to mobile homes consist of a series of statutes that treat mobile homes as vehicles and these statutes need to be moved to the real estate provisions in statute and to do so results in the lengthy bill currently before the committee.

3:38:53 PM

SENATOR FRENCH explained that SB 104 establishes a formal method to eliminate the certificate of title for a manufactured home - a mobile home - and converts the home to real property when the home is or will be permanently affixed to real property. He further explained that the bill helps manufactured homeowners - who own a manufactured home on a permanent foundation and also own the land beneath it - gain access to title the mobile home as real property. He clarified that this conversion is purely voluntary since nothing in SB 104 compels mobile homeowners to do so; however, this bill would allow mobile homeowners to gain access to better interest rates on borrowing and selling. He reiterated that there is not any compulsion to convert a mobile home to real property since it is all voluntary. He stated that Alaska, unlike the vast majority of other states, has no formal statutory procedure for converting a manufactured home to real property. The bill would also bring state definitions of manufactured homes in accordance with the U.S. Department of Housing and Urban Development (HUD) definitions for property conversion. He stated that the bill is intended to meet eligibility requirements for a bank or other lender to sell a mortgage or manufactured home to Federal National Mortgage Association (Fannie Mae) or Federal Home Loan Mortgage Corporation (Freddie Mac). The bill would create a means for titling manufactured homes which were fixed real property if the title has been misplaced or lost. He stated that the bill has considerable support, including support of the Alaska Land Title Association, First American Title, Wells Fargo, and the Alaska Bankers Association (ABA). He listed the ABA's members as the Alaska Pacific Bank, Denali State Bank, KeyBank, First Bank of

Ketchikan, First National Bank of Alaska, Mt. McKinley Bank, Northrim Bank, and Wells Fargo. The letter from the ABA is signed by Joe Beedle. He recapped that this list indicates deep support for SB 104 within the business community in the state. He concluded by acknowledging this subject area is not an area in which he is an expert. He indicated the Senate spent considerable time reviewing SB 104 and there is not any known opposition to the bill.

[3:42:29 PM](#)

REPRESENTATIVE SADDLER asked for any revenue implications for an owner of a manufactured home and the associated land. He clarified he is interested in any fees, tax consequences, and mortgage implications for converting manufactured homes to real property under the bill.

SENATOR FRENCH deferred the fee portion to the state's witnesses. He answered, with respect to the financial implications for the individual, by relating a scenario in which a party holds a loan on the mobile home with "used car rates", titled by Division of Motor Vehicles, (DMV), with an interest rate of approximately 10-12 percent. He estimated using this scenario the party could reduce his/her rates dramatically since real estate loan interest rates are much lower. He pointed out it would depend on the size of the loan, but some manufactured homes are very nice, ranging from \$50,000 to \$100,000, plus the land value. He recapped that it is hard to quantify, but the savings is potentially substantial.

[3:43:48 PM](#)

REPRESENTATIVE SADDLER remarked that he has friends engaged in the real estate business and his family has been involved in that business, too. He offered his belief that there is always a way to recover costs from any transaction. He expressed interest in having any associated costs identified for the record.

SENATOR FRENCH deferred to the experts.

[3:44:14 PM](#)

REPRESENTATIVE SADDLER asked whether there would be any implications for property taxes on conversions.

SENATOR FRENCH pointed out that question has not been raised before, but he, too, is interested in the answer.

[3:44:41 PM](#)

CHAIR OLSON asked whether the property would qualify for the Alaska Housing Energy Program.

SENATOR FRENCH answered yes. He commented he moved to Anchorage in 1978 and bought a trailer on Piper Street, a 12 by 65-foot Astro Home that he winterized himself. He has since sold it, but he says he was quite attached to it as many homeowners are about their first homes.

[3:45:39 PM](#)

REPRESENTATIVE SADDLER asked Mr. Ginsberg what would be changed in financing terms to convert the mobile home to real property.

[3:46:26 PM](#)

GEORGE GINSBERG, Attorney, McGlinchey Stafford, PLLC, Legal Counsel to Wells Fargo asked for clarification on the question.

REPRESENTATIVE SADDLER asked whether there would be any underlying requirements if a person were to convert his/her property from a vehicle to real property. He recognized the party would not have a home mortgage.

[3:47:12 PM](#)

MR. GINSBERG answered that part of the problem is the situation can occur, in which an Alaskan owns a mobile home without the certificate and title, but the mobile home is already permanently affixed to land. He characterized the aforementioned situation as the worst case scenario since legally the mobile home may be neither personal or real property since currently the Alaska DMV will not issue a certificate of title to a manufactured home that is permanently affixed. He emphasized the party does not have any way to finance or sell the home, yet, legally it is not clear that the property is real property. This bill would create a procedure to make the manufactured home either personal property or real property. It is advantageous for the most part for a homeowner to have the mobile home and associated land treated as real property to allow for financing. He agreed with Senator French's comments that financing a mobile home as real property would likely allow

the owner to obtain lower interest rates, especially given that there is not a clear loan market on manufactured homes.

3:49:13 PM

MR. GINSBERG related that certainly the loan could not be sold to Fannie Mae or Freddie Mac unless clear procedures exist in state law to identify the mobile home and associated land as real estate. He turned to costs. He suggested that first, the owner would be subject to filing fees to file an application with the department to cancel the title or certificate of origin, or to apply for a confirmation of conversion if neither record exists. Second, the owner would need to file recording fees with the recorder's office. He stated that nothing in statutes pertains to taxes, but once the procedure set forth in statute has been completed, the manufactured home is considered real estate for all purposes. He said he assumes the property would be considered real estate for tax purposes and be re-assessed. He emphasized, as Senator French indicated earlier, this procedure is entirely optional. He highlighted that for those who do want to take advantage of converting their mobile home and associated land to real property that this bill provides a means and a public record for the lender or buyer to research the real estate records.

3:51:46 PM

REPRESENTATIVE SADDLER asked which department the provision refers to in the bill.

MR. GINSBERG answered the [Division] of Motor Vehicles would be the entity. He emphasized unless the manufactured home is converted that it is considered a vehicle covered by a certificate of title. He pointed out the vehicle doesn't move since it is already affixed to land.

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3:52:22 PM

REPRESENTATIVE SADDLER asked whether the municipality would automatically be notified of the conversion.

MR. GINSBERG answered that the statute does not address this. He indicated that the recorded affidavit of affixation that identifies the home is permanently affixed to real property. He was unsure of the communication between the recorder's office and tax office.

3:53:08 PM

REPRESENTATIVE SADDLER related his understanding that the assessor's office would likely contact the owner.

3:53:19 PM

REPRESENTATIVE JOHNSON asked for a definition of permanently affixed and if that mean wheels off or on blocks.

MR. GINSBERG answered no. He said the statute addresses this. He referred to page 20, lines 3-21, read: is permanently affixed when it is (1), (2), or (3).

3:55:13 PM

SENATOR FRENCH referred to page 20, lines 3-11. He read:

Sec. 34.85.150. Permanently affixed. A manufactured home is permanently affixed when it is
(1) anchored to real property by attachment to a permanent foundation;
(2) constructed in accordance with applicable state and local building codes and manufacturer's specifications as provided in ... the federal Department of Housing and Urban Development (24 C.F.R. 3285): and (3) connected to a residential utility, including water, gas, electricity, sewer, or septic service.

3:55:27 PM

SHELLY MELLOTT, Deputy Director, Director's Office, Division of Motor Vehicles (DMV), introduced herself.

3:56:20 PM

REPRESENTATIVE SADDLER how many motor homes are titled under DMV's laws.

MS. MELLOTT answered 8,200 mobile homes are registered. In further response to a question, she restated 8,200.

REPRESENTATIVE SADDLER asked for any estimation on the number of anticipated conversions to real property.

MS. MELLOTT answered she could not say.

[3:57:07 PM](#)

REPRESENTATIVE THOMPSON asked whether 8,200 referred to the number of titles.

MS. MELLOTT answered yes, current the DMV has 8,287 mobile homes titled in its system.

[3:57:29 PM](#)

REPRESENTATIVE SADDLER asked how many mobile homes are permanently affixed.

MS. MELLOTT answered that she did not know.

[3:58:03 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on SB 104.

[3:58:16 PM](#)

REPRESENTATIVE THOMPSON remarked that the bill is 21 pages long.

[3:58:30 PM](#)

REPRESENTATIVE HOLMES remarked that she has not had many comments, but the ones she has received are positive as some mobile homeowners would like to sell but cannot currently do so.

[3:59:00 PM](#)

CHAIR OLSON commented that he has not received any negative comments on the bill.

[3:59:06 PM](#)

REPRESENTATIVE JOHNSON moved to report CSSB 104(JUD) out of committee with individual recommendations and the accompanying fiscal notes. There being no further objection, the CSSB 104(JUD) was reported from the House Labor and Commerce Standing Committee.

HB 326-CHILD-ONLY HEALTH CARE COVERAGE

[4:00:13 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 326, "An Act requiring health care insurers to offer a child-only policy; and providing for an effective date."

[4:00:18 PM](#)

REPRESENTATIVE DAVID GUTTENBERG, Alaska State Legislature, stated that a constituent contacted his office to inform him there is not any child-only health care offered in the state. He explained that if a person has a healthy child who is not eligible for Denali Kid Care, and does not have a condition that would put the child into a high-risk pool, that no insurer offers health care for the child. He related grandparents who become the custodial parents have no place to go for coverage. This bill, HB 326, would ask the insurance industry to offer plans to cover at-risk children due to an insurability gap. This would ensure that every competent is eligible. He expressed dismay that there is not any child-only health care in the state. He pointed out that the bill has a termination date that repeals AS 21.42.420 on January 1, 2014 since if health care continues forward that the health care would be offered, regardless; however, right now there is not any health care available.

[4:02:59 PM](#)

REPRESENTATIVE JOHNSON said he thought it was a good concept and he likes it. He asked in light of the pending U.S. Supreme Court case if he wanted to repeal this provision on January 1, 2014.

REPRESENTATIVE GUTTENBERG left it up to the committee to decide.

[4:03:16 PM](#)

REPRESENTATIVE JOHNSON suggested that if it is a good idea that there wasn't any reason not to extend it.

[4:03:38 PM](#)

REPRESENTATIVE SADDLER asked how big the universe of children whose families too rich to qualify for Denali Kid Care, but do not have enough means to afford private insurance.

REPRESENTATIVE GUTTENBERG answered that the AARP indicates that 11,000 grandparents have custody of their grandchildren.

4:04:26 PM

REPRESENTATIVE SADDLER inquired as to whether children are defined as being under 18 years of age.

REPRESENTATIVE GUTTENBERG answered yes; under 18 years of age.

4:04:37 PM

REPRESENTATIVE SADDLER referred to some good analysis of costs. He inquired as to whether an estimate of cost for the policies for children-only is available.

REPRESENTATIVE GUTTENBERG answered no, that the actuarial will come up with those figures. He clarified that the bill does not ask for discounts or waivers. The insurance companies would market it as a normal product.

REPRESENTATIVE SADDLER asked whether the policies would be purchased by an adult for a child.

REPRESENTATIVE GUTTENBERG agreed.

4:05:22 PM

LINDA HALL, Director, Division of Insurance, Anchorage Office, Department of Commerce, Community & Economic Development (DCCED), stated that she is available for questions.

4:06:01 PM

CHAIR OLSON asked if the children in question would have access to the Alaska Comprehensive Health Association (ACHIA) high-risk insurance.

MS. HALL answered that healthy children would not be eligible since ACHIA is established for people with conditions that make them uninsurable.

4:06:32 PM

CHAIR OLSON inquired as to whether this could be done on an administrative basis.

MS. HALL answered no; the division has explored that option. The division does not have any statutory authority to allow the

division to promulgate regulations although some states can do so.

CHAIR OLSON related his understanding that the division cannot roll out new products.

MS. HALL answered no.

[4:06:57 PM](#)

REPRESENTATIVE JOHNSON asked whether this is a unique problem to Alaska or if other states have addressed this issue.

MS. HALL recalled that 17 states had the same condition as Alaska. She noted that some states were able to administratively require an open enrollment period. The terms vary, some range for 30 days. She recalled two states have two separate 30-day periods and other states offer longer periods of time.

[4:07:47 PM](#)

MS. HALL stated that the open enrollment period is longer in this bill than most she has seen. She related that under the federal health care reform some provisions went into effect in September 2010. One provision pertained to the underwriting of children under ages of 19, she said.

[4:08:39 PM](#)

MS. HALL related that the prohibition of any underwriting that would have amounted to a guarantee issue of January 1, 2014. Many insurers did not want to take the risk of having adverse selection, such that an individual only purchase insurance when the person really needs it. She explained that most insurance is based on the theory of large numbers plus large numbers of people contributing, but not all of them actually using the funds. She pointed out that is one of the problems the division has encountered with the high-risk pool - which is subsidized at \$5 million per year. Thus taking risks without being able to underwrite creates a bigger risk of using the resources than some insurers were willing to take so two insurers have pulled out of Alaska. She said that throughout the country this is not unusual.

[4:10:14 PM](#)

REPRESENTATIVE JOHNSON asked if Alaska mandates this by passing the bill, whether the state is likely to see other insurance companies pull out.

MS. HALL said she can't answer that question. She has not heard anyone threaten to do so, but she is unsure she would hear. She explained that she has had some indication that if the playing field was a level playing field and everyone has to provide the insurance it may not be so onerous. She explained that if one company offers coverage and they get all the unhealthy kids to cover is more onerous than if all the companies have to insure the children and the unhealthy children are spread among them.

[4:11:25 PM](#)

REPRESENTATIVE SADDLER asked whether the shadow of health care mandates darken the prospects for any change in health insurance. He inquired as to whether there is any chilling effect during the wait for the U.S. Supreme Court to issue the ACAPPA decision.

MS. HALL said she did not know. She related that the health insurance industry is under some stress of the unknown. She related that the division receives new regulations almost weekly and or receives interpretations of certain pieces of the federal health care law.

[4:12:39 PM](#)

MS. HALL stated the division may be impacted three months from now with more changes and unknown obligations that are as chilling as anything. She pointed out that the enactment of pieces of the federal health care law continues.

[4:13:24 PM](#)

REPRESENTATIVE SADDLER asked if the division has sufficient data to estimate costs of child-only insurance.

MS. HALL answered no; the division has a rate approval effective date of January 1, but the rates will need to be filed with the Division of Insurance and justified actuarially. So while she cannot predict the costs she can say that health care in Alaska is extremely expensive. She said health insurance rates are considerably higher in the state than most places so she would not expect child-only health care coverage to be inexpensive.

[4:14:34 PM](#)

REPRESENTATIVE MILLER stated he reviewed some of the provisions of the bill. He referred to page 2, lines 8-17 to the definition of late enrollee. He pointed out if a child had never been covered by insurance that the language seems to exclude them from the bill.

MS. HALL agreed. She suggested that the late enrollee allows people to enroll outside the open enrollment period which is defined in paragraph 2. She agreed the provisions he mentions does not appear to allow a child who has never been covered. She related that if the circumstance arises in which a child who has never been covered needs insurance the adult custodian might risk some adverse selection. She recalled the invincible "20 somethings" who are sure they don't need insurance because nothing will happen. She said when a parent has a healthy child who doesn't need insurance who is later diagnosed with something and the parent then buys insurance represents the worst-case scenario in the insurance world. She pointed out that illustrates the purpose of the open enrollment period since that is the point at which insurance is offered for healthy children. She explained that adding the option to one of exceptions in the provisions on page 2, lines 8-17 would make it an open-ended ability to enroll.

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REPRESENTATIVE MILLER related his understanding that if a child has never been covered the child would not be covered in this bill.

MS. HALL pointed out the child would be during eligible under paragraph (2) during the enrollment period from January 1 - March 31 of each year. She explained that helps put some parameters on when people can go out and buy insurance.

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MS. HALL explained that ACHIA is insurance that people with serious health conditions can purchase and the premiums are fairly high. The ACHIA has a public meeting each year. She heard public testimony in which a person testified that they purchased ACHIA in December of the prior year, had a full hip replacement for about \$100,000, then dropped coverage in February. She offered this as an example of adverse selection. The person paid for two months of premiums for a few thousand

dollars, but incurred surgery costs of \$100,000 and then dropped the insurance. She indicated that the open enrollment period tries to balance this out. She reiterated that people have the option to obtain coverage while they are healthy during the open enrollment period.

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MARIE DARLIN, Coordinator, AARP Capital City Task Force, stated that there is no sense repeating the testimony. She stated that this bill is needed and important. She referred to the AARP's letter of support, and noted that currently no insurance companies in Alaska offer children-only insurance. She pointed out that many grandparents are raising their grandchildren. She related statistics that at estimated 5,000 grandparents are raising 8,000 grandchildren in Alaska. She pointed out that Medicare covers the grandparent, but coverage does not extend to family members. She stated that grandparents take on this responsibility but health care is an issue. The coverage is not inexpensive. She stated that the 2010 Census and the Alaska Department of Labor and Workforce Development estimates 11,778 grandchildren under the age of 18 are in a household led by a grandparent. She indicated that these grandparents desire to furnish health care if they can afford to do so. She stated that the AARP speaks in support of the bill since it is one more way for grandparents to take care of their grandchildren.

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ADAM WOOL stated he is a parent of two children. He and his wife buy their insurance through ACHIA. He explained that they each have pre-existing conditions although neither is seriously ill, but cannot be covered by other insurance. He reported that their first child was born about five years ago and has her own policy through Blue Cross/Blue Shield. Their second child was born two years ago and the law or insurance policy has since changed and they cannot buy insurance. He pointed out that their second child is basically in a "black hole" of not being eligible for any insurance coverage. He said right now there is not a way to buy insurance for both children.

CHAIR OLSON hoped that some remedy would be forthcoming.

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REPRESENTATIVE SADDLER asked if he could buy insurance through ACHIA.

MR. WOOL answered no; that the child would need to have had a pre-existing medical condition.

REPRESENTATIVE SADDLER asked for the insurance cost to his family.

MR. WOOL answered that the family has three individual insurance plans. Their oldest daughter has a Blue Cross/Blue Shield plan with a \$5,000 deductible. He and his wife each have individual plans with ACHIA, each with a \$5,000 deductible. He summarized that the three of them have \$15,000 deductible for their insurance policies, but they cannot buy insurance for the youngest, healthy child. He said he spoke to the ACHIA representative several times. He learned that in some other states a family plan is allowed so healthy children of parents on ACHIA can be incorporated into the plan; however that is not the case in Alaska.

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REPRESENTATIVE SADDLER asked for the amount of the premiums.

MR. WOOL answered that combined premiums for ACHIA cost approximately \$1400 and the oldest daughter's insurance premiums cost about \$200 per month. He pointed out the oldest child is a healthy child who was covered before the rule changed and her premiums cost approximately \$200 per month.

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[HB 326 was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:30 p.m.