

**ALASKA STATE LEGISLATURE  
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 18, 2015

9:11 a.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Shelley Hughes, Vice Chair  
Representative Gabrielle LeDoux  
Representative Cathy Tilton  
Representative Andy Josephson  
Representative Sam Kito  
Representative Jim Colver

**MEMBERS ABSENT**

Representative Mike Chenault (alternate)

**COMMITTEE CALENDAR**

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 15

"An Act relating to the tax on policy year premiums for life insurance policies."

- MOVED SSSB 15 OUT OF COMMITTEE

SENATE BILL NO. 107

"An Act relating to insurance; relating to risk based capital for domestic insurers and fraternal benefit societies, including provisions related to insurers subject to risk based capital and action level event requirements; relating to review by the director of insurance of an insurer's risk based capital plan; relating to confidentiality and sharing of certain information submitted to the director of insurance; relating to evaluating an insurance holding company and the acquisition of control of or merger with a domestic insurer; relating to risk based capital, risk management, and own risk and solvency assessments of insurers; clarifying provisions related to risk based capital plans; relating to exemptions by the director of insurance for certain domestic and casualty insurers from risk based capital requirements; relating to insurance holding companies, including filing requirements, divestiture, content of statements, notifications, and hearings; relating to registration requirements of insurers; relating to transactions within an insurance holding company system or transactions involving a domestic insurer; relating to management and examination of

domestic insurers that are part of an insurance holding company system; adding provisions relating to participation by the director of insurance in a supervisory college; relating to civil and criminal penalties for violations by insurers and individuals; relating to provisions for risk management and own risk and solvency assessments by insurers; relating to operating requirements for controlling insurance producers; relating to producer-controlled insurers; adding and amending definitions related to insurers; and providing for an effective date."

- MOVED SB 107 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 15

SHORT TITLE: LIFE INSURANCE POLICY PREMIUM TAX

SPONSOR(s): SENATOR(s) COGHILL

01/21/15	(S)	PREFILE RELEASED 1/16/15
01/21/15	(S)	READ THE FIRST TIME - REFERRALS
01/21/15	(S)	L&C, FIN
02/04/15	(S)	SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
02/04/15	(S)	L&C, FIN
02/26/15	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/26/15	(S)	Heard & Held
02/26/15	(S)	MINUTE(L&C)
03/03/15	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
03/03/15	(S)	Moved SSSB 15 Out of Committee
03/03/15	(S)	MINUTE(L&C)
03/04/15	(S)	L&C RPT 3DP
03/04/15	(S)	DP: GIESSEL, MEYER, STEVENS
03/23/15	(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/23/15	(S)	Heard & Held
03/23/15	(S)	MINUTE(FIN)
04/08/15	(S)	FIN AT 1:30 PM SENATE FINANCE 532
04/08/15	(S)	Moved SSSB 15 Out of Committee
04/08/15	(S)	MINUTE(FIN)
04/09/15	(S)	FIN RPT 3DP 2NR
04/09/15	(S)	DP: BISHOP, DUNLEAVY, HOFFMAN
04/09/15	(S)	NR: MACKINNON, OLSON
04/15/15	(S)	TRANSMITTED TO (H)
04/15/15	(S)	VERSION: SSSB 15
04/15/15	(H)	READ THE FIRST TIME - REFERRALS
04/15/15	(H)	L&C
04/18/15	(H)	L&C AT 9:00 AM BARNES 124

BILL: SB 107

SHORT TITLE: INSURANCE; RISK MG'T; HOLDING COMPANIES  
SPONSOR(s): LABOR & COMMERCE

04/11/15 (S) READ THE FIRST TIME - REFERRALS  
04/11/15 (S) L&C  
04/11/15 (S) L&C AT 11:00 AM BELTZ 105 (TSBldg)  
04/11/15 (S) Heard & Held  
04/11/15 (S) MINUTE(L&C)  
04/14/15 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/14/15 (S) Scheduled but Not Heard  
04/16/15 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)  
04/16/15 (S) Moved SB 107 Out of Committee  
04/16/15 (S) MINUTE(L&C)  
04/17/15 (S) L&C RPT 3DP 1NR  
04/17/15 (S) DP: COSTELLO, GIESSEL, MEYER  
04/17/15 (S) NR: STEVENS  
04/18/15 (H) L&C AT 9:00 AM BARNES 124

**WITNESS REGISTER**

SENATOR JOHN COGHILL  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified as the prime sponsor of SB 15.

LORI WING-HEIER, Director  
Division of Insurance  
Department of Commerce, Community, & Economic Development (DCCED)  
Anchorage, Alaska, Alaska

**POSITION STATEMENT:** Testified and answered questions during the discussion of SB 15.

WESTON EILER, Staff  
Senator Mia Costello  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified on behalf of the prime sponsor of SB 107, the Senate Labor & Commerce Committee, Senator Mia Costello, Chair.

LORI WING-HEIER, Director  
Division of Insurance  
Department of Commerce, Community, & Economic Development (DCCED)  
Anchorage, Alaska, Alaska

**POSITION STATEMENT:** Testified and answered questions during the discussion of SB 107.

## **ACTION NARRATIVE**

[9:11:45 AM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 9:11 a.m. Representatives Kito, Josephson, Tilton, Hughes, and Olson were present at the call to order. Representatives LeDoux and Colver arrived as the meeting was in progress.

### **SB 15-LIFE INSURANCE POLICY PREMIUM TAX**

[9:12:09 AM](#)

CHAIR OLSON announced that the first order of business would be SPONSOR SUBSTITUTE FOR SENATE BILL NO. 15, "An Act relating to the tax on policy year premiums for life insurance policies."

[9:12:16 AM](#)

SENATOR JOHN COGHILL, Alaska State Legislature, characterized the bill as simple in concept, but one with complexities. He said that SB 15 would reduce the premium taxes for single or group life insurance polies from 0.1 percent to 0.08. In 1997, one of his predecessors introduced the trust administration law that created trusts in Alaska, which was unique. Previously, the insurance director mentioned offshore investment issues, and the concept was to attract to the United States that type of investment. In 2010, Alaska had \$208 million in investment for single or group life insurance as a result of its favorable trust law, noting other states enacted similar laws, including South Dakota, which has had the effect of reducing the investment in Alaska to \$79 million. This bill was introduced to attract additional investment in Alaska.

[9:14:09 AM](#)

SENATOR COGHILL pointed out that one concern expressed was that this is a "race to the bottom," which he acknowledged was a legitimate concern; however, he hoped to increase the investment in Alaska, which will improve the workforce, attract investment to Alaska, and would bring a premium tax benefit. Although the state may lose volume and lose the tax value, if the volume was increased, it will also increase the tax value to Alaska. He hoped this would bring the policy year premium for policies exceeding \$100,000 to a rate competitive to other states, in

particular, South Dakota. He explained that this would bring Alaska's basic premium tax rate even with South Dakota's rate. He offered his belief that Alaska's trust administration law was attractive, but this will entice investors in Alaska. This bill was brought to the sponsor by the trust administrators in Alaska.

[9:16:19 AM](#)

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community, & Economic Development (DCCED), stated that SSSB 15 would reduce the premium tax from 0.10 to 0.08 on life insurance policies exceeding \$100,000. She referred to a spreadsheet in members' packets entitled "Prepared by the Division of Insurance at the request of Senator John Coghill for SB 15." The amount of tax collected starts at \$104 thousand and if it was reduced to .08 it would be \$84,000, which makes a difference of about \$20,000 on about 112 policies. She said the table goes through 2012 to highlight the number of policies and the difference in the tax that would be collected at the 0.08 rate. She said South Dakota reported that when it reduced their tax to 0.08 percent, in 2010 that 29 companies wrote policies over \$100 million with \$97 million in premium taxes and in 2014, South Dakota collected \$120 million in premium collected from 32 companies. She recapped that South Dakota did enjoy an increase in volume from the insurance industry.

[9:18:20 AM](#)

MS. WING-HEIER said this was submitted with an indeterminate fiscal note since it was not possible to determine the overall effect of the revenue collected; however, she reported that in 2011, the difference was \$88,000. She suggested that the amount was fairly small in terms of the overall revenue for the division.

[9:19:11 AM](#)

REPRESENTATIVE KITO referred to the aforementioned table to 2011, to \$443,280 for 105 policies, dropping to \$112,535 and 105 polies. He asked for further clarification on the shift in revenue since it seemed like the division taxed the same number of policies.

MS. WING-HEIER answered that 2011 was an anomaly since the state had two large policies over \$300 million. In fact, these are the types of policies the insurance companies hope to attract. She

referred to the total life premium written in 2011 for \$687,043,543 which dropped in 2012 to \$352,786,601.

[9:21:10 AM](#)

CHAIR OLSON related his understanding the Division of Insurance supported the bill.

MS. WING-HEIER answered yes; that the division does support the bill.

[9:21:28 AM](#)

REPRESENTATIVE LEDOUX wondered whether the policies in question were a finite number of potential policies since the language referred to policies over \$100,000 in premium. She asked the reason that people would move their policies to Alaska.

MS. WING-HEIER answered that there was not a finite number, but that life insurance is one tool in retirement planning. She said that the division has seen an increase in this tool being used in financial planning, especially by young people who are starting to look at their financial future. She offered her belief that young people are buying bigger policies. Further, she advised that people do not need to live in Alaska to take advantage of this tax structure. The insurance brokers or producers in the state could sell to people in the Lower 48, but the state will collect the tax.

[9:23:41 AM](#)

REPRESENTATIVE LEDOUX asked whether these policies are used when someone dies or if the [policies] are cash values since people use them for retirement planning.

MS. WING-HEIER answered these policies can be used as a beneficiary for life estate planning purposes or they could have a cash value that people could draw on, but it would just depend on how it was structured with the broker.

[9:24:09 AM](#)

CHAIR OLSON commented that these policies are also used to cover taxes after death on large estates.

MS. WING-HEIER agreed that was correct.

[9:24:20 AM](#)

REPRESENTATIVE HUGHES asked Ms. Wing-Heier to predict the additional potential revenue the state might collect.

MS. WING-HEIER said she did not have an answer at this time, although the committee requested it. Unfortunately her financial staff was currently on leave so she wasn't able to access and compile data to predict the overall effect of the bill; however, the insurance agents and brokers believe this change will be beneficial.

[9:26:31 AM](#)

REPRESENTATIVE HUGHES asked whether she was confident this change will increase revenue.

MS. WING-HEIER answered that she was optimistic. She said she has spent time with the sponsor and agents, who are confident it will.

[9:26:56 AM](#)

CHAIR OLSON, after first determining no one wished to testify, closed public testimony on SSSB 15.

[9:27:12 AM](#)

REPRESENTATIVE HUGHES moved to report SSSB 15 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, SSSB 15 was reported from the House Labor and Commerce Standing Committee.

[9:27:35 AM](#)

The committee took a brief at ease.

CHAIR OLSON recessed to a call of the Chair.

[1:19:41 PM](#)

CHAIR OLSON reconvened the committee at 1:19 p.m. Representatives Tilton, Colver, Hughes, Josephson, LeDoux, and Olson were present when the meeting reconvened. Representative Kito arrived as the meeting was in progress.

**SB 107-INSURANCE; RISK MG'T; HOLDING COMPANIES**

[1:19:51 PM](#)

CHAIR OLSON announced that the next order of business would be SENATE BILL NO. 107, "An Act relating to insurance; relating to risk based capital for domestic insurers and fraternal benefit societies, including provisions related to insurers subject to risk based capital and action level event requirements; relating to review by the director of insurance of an insurer's risk based capital plan; relating to confidentiality and sharing of certain information submitted to the director of insurance; relating to evaluating an insurance holding company and the acquisition of control of or merger with a domestic insurer; relating to risk based capital, risk management, and own risk and solvency assessments of insurers; clarifying provisions related to risk based capital plans; relating to exemptions by the director of insurance for certain domestic and casualty insurers from risk based capital requirements; relating to insurance holding companies, including filing requirements, divestiture, content of statements, notifications, and hearings; relating to registration requirements of insurers; relating to transactions within an insurance holding company system or transactions involving a domestic insurer; relating to management and examination of domestic insurers that are part of an insurance holding company system; adding provisions relating to participation by the director of insurance in a supervisory college; relating to civil and criminal penalties for violations by insurers and individuals; relating to provisions for risk management and own risk and solvency assessments by insurers; relating to operating requirements for controlling insurance producers; relating to producer-controlled insurers; adding and amending definitions related to insurers; and providing for an effective date."

[1:20:14 PM](#)

WESTON EILER, Staff, Senator Mia Costello, Alaska State Legislature, on behalf of the Senate Labor & Commerce Committee, Senator Mia Costello, Chair, explained that SB 107 would update Alaska's insurance statutes to comply with national standards and maintain the accreditation of the Division of Insurance, Department of Commerce, Community & Economic Development (DCCED). The provisions in the bill would bring Alaska's insurance laws in line with federal law and national industry best practices. The provisions in the bill have been thoroughly vetted by the department, stakeholders, industry, and this committee [passed out the companion bill, HB 164 on 3/25/15].

He deferred to the Division of Insurance to answer technical questions and the importance to the division.

1:21:23 PM

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community, & Economic Development (DCCED), provided a brief section-by-section analysis of SB 107. She stated that Section 1 pertained to risk-based capital and would adopt the model law 315 and amendments to model law 312 [adopted by the National Association of Insurance Commissioners (NAIC)]. She stated that risk-based capital considers the solvency of the insurance company, taking into account what they are doing for underwriting, investments, and measuring against the ratio. She directed attention to the first six pages of the bill related to AS 21.14, which references risk-based capital plan and the regulatory control events to measure whether the company is solvent or not, and if not, the Division of Insurance will step in for liquidation. She directed attention to Section 2, beginning on page 8, to Section 20, which relates to the insurance holding companies. This would make amendments to model law 440 [passed by the National Association of Insurance Commissioners (NAIC)], in particular, as the state considers holding companies as an "umbrella" would allow the division to identify other companies within the umbrella. She explained that currently the division can see the insurance company that is domiciled in Alaska, but with these changes, the division will be able to identify the other entities within the holding companies to determine whether the companies are subsidizing one another or what the interactions are, including their financials and identify any problems that may impact the insurer doing business in Alaska.

1:24:01 PM

MS. WING-HEIER remarked that the insurance holding company was the biggest part of this bill, through Section 46. She directed attention to Section 46, related to ORSA [Own Risk and Solvency Assessment]. She said this provision would be new to the state, which places the onus on insurers to file a risk management report or an ORSA to identify relevant risks, not previously identified for the division outside of a normal financial examination.

CHAIR OLSON added that this bill would incorporate the National Association of Insurance Commissioners (NAIC) model law to ensure that all states are in line.

1:25:09 PM

MS. WING-HEIER acknowledged that everything in this bill was based on the NAIC model law, with a small portion of the bill consisting of technical drafting changes made to comport to the legislature's drafting style. She said the last section of the bill, Section 47 would amend provisions related to insurance producer agents, administration, and brokers. She directed attention to page 29, which would remove the requirement to send certified mail, and adds insurance producers instead of licensees, since the division would not have licensees. In response to Representative Hughes, she directed attention to page 23, Section 46, AS 21.23.030, which was a new provision related to Own Risk and Solvency Assessment (ORSA) Summary Report based on the National Association of Insurance Commissioners (NAIC) model law.

MS. WING-HEIER reiterated that Section 47 would provide an update to producer agents since the state did away with licensees who are now insurance producers, to be in compliance with NAIC model. She directed attention to page 32, Sections 49 and 50, which would update the definition of "controlled insurer" to be in compliance with NAIC model law. Finally, Section 51 made technical changes, she said.

1:27:11 PM

REPRESENTATIVE JOSEPHSON recalled that parts of the bill that members had concerns with in the House companion bill [HB 164] were relative to discovery and confidentiality. He asked whether those provisions were stripped from SB 107.

MS. WING-HEIER answered yes; that the word "privileged" was removed from SB 107. She referred to a memo from the Department of Law in members' packets [from Daniel Wilkerson dated April 15, 2015] explaining what privileges are still left in AS 21.06 that would extend to insurers as to confidential provisions.

1:28:08 PM

REPRESENTATIVE JOSEPHSON asked whether anything in the bill would alter current law. He appreciated knowing that the memo was in members' packets. He asked whether that was the best source to answer his question.

MS. WING-HEIER offered her belief that it will. She related her understanding that the concern did not relate to the confidentiality, but with the word, "privilege." The word "privilege" has been removed from the bill.

[1:28:40 PM](#)

CHAIR OLSON directed attention to the memo from Daniel Dickinson to Lori Wing-Heir, Director of the Division of Insurance, dated April 15, 2015.

[The committee did not take an at-ease but took a moment to review the document.]

[1:30:26 PM](#)

MR. EILER, in response to Chair Olson, stated that comments mentioned by Representative Josephson and other members of the legislature were addressed in SB 107.

[1:30:45 PM](#)

REPRESENTATIVE LEDOUX asked for a page reference for AS 21.06.060.

MS. WING-HEIER answered that AS 21.06.060 relates to confidentiality. She was not certain if that provision was in the bill, but the foregoing statute describes the protections granted to information and records designated as confidential or not available for public inspection by the director, [which also extends to electronic data], or basically the documents the division holds confidential related to documents collected for examination of certificates for the transaction of insurance in Alaska.

CHAIR OLSON suggested that copies of AS 21.06.060 were being distributed to members.

[1:31:31 PM](#)

REPRESENTATIVE LEDOUX asked for a moment to review a document.

[1:32:01 PM](#)

REPRESENTATIVE LEDOUX directed attention to AS 21.06.060(g), which read, as follows:

(g) The director may withhold information or records from public inspection for as long as the director finds the withholding is

- (1) necessary to protect a person against unwarranted injury; or
- (2) in the public interest.

REPRESENTATIVE LEDOUX asked for examples of the types of information that wouldn't be considered confidential under any of the aforementioned provisions, but would be considered confidential under this "catch all" language.

[1:32:45 PM](#)

MS. WING-HEIER replied that in the new "ORSA" [Own Risk and Solvency Assessment], Chapter 23, insurers will be asked to provide information on any mergers and acquisitions. However, in the normal course of business [insurers] will not want their competitors to have access to any merger or acquisition information the companies are considering. The insurers would ask the division to keep that information confidential until the mergers or acquisitions were made public, she said. Thus, this would be information withheld from the public, but would be declared in the reporting to the division.

[1:33:36 PM](#)

CHAIR OLSON asked whether that was a result of the American International Group [AIG].

MS. WING-HEIER answered yes.

[1:33:50 PM](#)

REPRESENTATIVE JOSEPHSON referred to paragraph (2) of the aforementioned April 15, 2015, memo from the Department of Law to the Division of Insurance, which suggests there would be a presumption of confidentiality that could be overcome; however, he acknowledged that this is complicated. He asked for a prediction of when this might reach the House floor for a vote.

CHAIR OLSON suggested that it would likely be today or tomorrow. He offered to set up an appointment for Ms. Wing-Heier to meet with members.

MS. WING-HEIER advised the aforementioned provision [paragraph (2)] in AS 21.06.060 is existing law and SB 107 does not make

any changes to those provisions. She stated this language merely clarifies what remains in statute since the provision related to "privilege" was not added to SB 107.

[1:36:12 PM](#)

CHAIR OLSON, after first determining no one wished to testify, closed public testimony on SB 107.

[1:36:26 PM](#)

REPRESENTATIVE HUGHES moved to report SB 107 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, SB 107 was reported from the House Labor and Commerce Standing Committee.

[1:36:46 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 1:36 p.m.