

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 26, 2015

1:30 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Cathy Giessel, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Johnny Ellis

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 15

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

- HEARD AND HELD

SENATE BILL NO. 47

"An Act relating to exemptions for cash surrender values, accrued dividends, and loan values of life insurance and annuity contracts."

- HEARD AND HELD

SENATE BILL NO. 39

"An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

- HEARD AND HELD

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)

BILL: SB 47

SHORT TITLE: LIFE INSURANCE/ANNUITY EXEMPTIONS

SPONSOR(s): SENATOR(s) COGHILL

02/11/15 (S) READ THE FIRST TIME - REFERRALS
02/11/15 (S) L&C, JUD
02/26/15 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 39

SHORT TITLE: REPEAL FILM PRODUCTION TAX CREDIT

SPONSOR(s): SENATOR(s) STOLTZE

02/04/15 (S) READ THE FIRST TIME - REFERRALS
02/04/15 (S) L&C, FIN
02/19/15 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/19/15 (S) Heard & Held
02/19/15 (S) MINUTE(L&C)
02/24/15 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/24/15 (S) Heard & Held
02/24/15 (S) MINUTE(L&C)

WITNESS REGISTER

SENATOR JOHN COGHILL
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 15 and SB 47.

GERMAN BAQUERO, Intern
Senator John Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 15 and SB 47 on behalf of the sponsor.

LORI WING-HEIER, Director
Division of Insurance
Department of Commerce, Community and Economic Development
Juneau, Alaska

POSITION STATEMENT: Provided information and explained the fiscal notes on SB 15 and SB 41.

MATHEW BLATTMACHR, Vice President and
Trust Officer
Alaska Trust Company
Anchorage, Alaska

POSITION STATEMENT: Provided supporting testimony on SB 15 and SB 47.

LINDA HULBERT, representing herself
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of SB 15 and SB 47.

SHARON HAWN, representing herself
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

JACY PETERSEN, representing herself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

TESS WEAVER, representing herself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

MICHAEL COLLIER, Random Acronym
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

LEVI TAYLOR, Crooked Pictures
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

MARY WASCHE, representing herself
Eagle River, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

DEBORAH SCHILDT, President
Alaska Film Group
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

BOB CROCKETT, General Manager
Piksik
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

MAYA SALGANEK, UAF Film Program
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

NATALIA LAMONT, representing herself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

IRENE BEDARD, President
Sleeping Lady Films Waking Giant Productions

POSITION STATEMENT: Testified in opposition to SB 39.

KEN LANDFIELD, representing himself
Homer, Alaska

POSITION STATEMENT: Testified in opposition to SB 39.

JAMES WALKER, Walking West Entertainment
Los Angeles, California

POSITION STATEMENT: Testified in opposition to SB 39.

ACTION NARRATIVE

[1:30:35 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:30 p.m. Present at the call to order were Senators Ellis, Meyer, Giessel, Stevens and Chair Costello.

SB 15-LIFE INSURANCE POLICY PREMIUM TAX

[1:31:53 PM](#)

CHAIR COSTELLO announced the consideration of SB 15. "An Act relating to the tax on policy year premiums for life insurance policies."

SENATOR JOHN COGHILL, sponsor, SB 15, stated that this legislation is designed to keep Alaska competitive in the field of trusts. He deferred further introduction to his intern.

[1:33:19 PM](#)

GERMAN BAQUERO, Intern, Senator John Coghill, introduced SB 15 speaking to the following sponsor statement: [Original punctuation provided.]

SB 15 requires that taxes for single or group life insurance policies shall be set at 0.08 percent exceeding \$100,000.

In 2014, taxes on insurance premiums constituted 8.6 percent of non-petroleum unrestricted revenues, approximately 55 million dollars. In 2015 the forecast for life insurance revenue is projected to rise to 9.5 percent, approximately 57 million dollars, and in 2016 it is expected to remain at the same level but rise to approximately 59 million dollars.

Back in 1998 because of virtually no collection of taxes on policies of over \$100,000 the Commissioner of Insurance dropped taxes from 2.7 percent to 0.1 percent over \$100,000 for insurance premiums. Yet already by 2006 the state of South Dakota had matched the state of Alaska and then some, dropping down to 0.08% over \$100,000, thereby undercutting revenue for Alaska. This has resulted in a sizable reduction of the number of life insurance policies over \$100,000 sold in this state.

In order to remain competitive Alaska then must match South Dakota now, and a cut in the premium from 0.1 percent to 0.08 percent is the appropriate response to South Dakota's success and good solution for Alaska.

[1:37:32 PM](#)

SENATOR STEVENS asked if this legislation puts Alaska on par with South Dakota and if other states would still be more advantageous.

MR. BAQUERO confirmed that this legislation will put Alaska on par with South Dakota. He couldn't speak to the rates in other states.

SENATOR COGHILL added that Alaska has been on the competitive edge for estate planning since 1998, which has attracted a lot of investment cash. This legislation attempts to bring Alaska policy in line with leading states such as New Jersey and South Dakota.

CHAIR COSTELLO expressed appreciation for the legislation and offered her belief that it will benefit Alaska.

SENATOR GIESSEL asked if the bill has a fiscal note.

MR. BAQUERO deferred to the director of the Division of Insurance to explain the fiscal impact.

SENATOR MEYER asked how many times the interest rate has been changed since 1998.

MR. BAQUERO offered his understanding that it hasn't changed since 1998.

[1:41:45 PM](#)

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), stated that the division submitted an indeterminate fiscal note because it seems that the industry could make up any difference by attracting more business with the reduced rate. She noted that in the last year, the difference between collecting 0.10 percent versus 0.08 percent would have resulted in \$15,961 less to state coffers. Looking back to 2011, the largest difference, based on 105 policies, was \$89,000.

SENATOR MEYER asked if the legislation pertains to a particular type of life insurance policy.

MS. WING-HEIER replied it could be any type of policy but she believes most would be whole life because those policies are used for estate planning.

[1:44:13 PM](#)

SENATOR STEVENS asked to what extent Alaskans will benefit from this legislation.

MS. WING-HEIER replied Alaskans as a consumer will benefit because they'll pay 0.02 percent lower on their premium; Alaskans as a whole will benefit from the anticipated increase in volume in premium tax, which will result in a larger contribution to the state coffers.

CHAIR COSTELLO asked Mr. Blattmachr to discuss how this legislation fits in with Alaska's role in the insurance industry.

MATHEW BLATTMACHR, Vice President and Trust Officer, Alaska Trust Company, explained that in 1998 Alaska adopted new age trust planning rules. Since then the legislature has added to those in an effort to stay at the forefront of trust planning. Fifteen states have passed laws similar to Alaska's and 11

others have some form of what Alaska has on the books. SB 15 seeks to keep Alaska on the competitive edge and levels the playing field with South Dakota. That state currently has the lowest tax rate on insurance policies, whereas Alaska is second.

SENATOR MEYER asked if the legislation pertains to a particular type of life insurance policy.

MR. BLATTMACHER replied it could apply to all policies with premiums greater than \$100,000 per year, but it's likely to be used more for permanent types of insurance rather than term.

[1:47:15 PM](#)

LINDA HULBERT, representing herself, said she's worked in the insurance industry for 25 years and has enjoyed watching it grow since the inception of the Alaska Trust Act. When the legislation first passed there were very few policies that had premiums that exceeded \$100,000. Since then many people, Alaskans included, have been attracted to Alaska to do their estate planning. Changing the premium tax rapidly increased the amount of money that's come into the state for use in the general treasury. She said she supports the reduction in the tax rate to make Alaska competitive with South Dakota. She described the legislation as good public policy, which will attract additional revenue.

[1:49:52 PM](#)

CHAIR COSTELLO announced she would hold SB 15 in committee for further consideration.

SB 47-LIFE INSURANCE/ANNUITY EXEMPTIONS

[1:50:11 PM](#)

CHAIR COSTELLO announced the consideration of SB 47. "An Act relating to exemptions for cash surrender values, accrued dividends, and loan values of life insurance and annuity contracts."

[1:50:41 PM](#)

GERMAN BAQUERO, Intern, Senator John Coghill, introduced SB 47 on behalf of the sponsor. He spoke to the following sponsor statement: [Original punctuation provided.]

Under the Alaska Exemptions Act under Chapter 38 of Title 9 in the Code of Civil Protections there are currently six exemptions that exist from attachment, garnishment, or execution by a creditor in civil

actions. One of these exemptions under AS 09.38.025(a) is an exemption of up to \$500,000 on un-matured life insurance. SB 47 goes in and repeals the \$500,000 limit in AS 09.38.025(a).

In effect SB 47 brings AS 09.38.025(a) in line with other exemptions found in the Alaska Exemption Act, such as: burial plots, longevity bonuses, tuition credits, the permanent fund dividend, medical benefits, liquor licenses, payments found under the Senior Benefits Payment Program, compensation of benefits exempt under federal law, and retirement plan interests and payments.

While the law currently provides protection of non-estate assets up to \$500,000, having a limit in the first place clearly does not assist in the protection of assets or pre-bankruptcy planning. While states like South Carolina, Wisconsin, and New York expressly define cash surrender values from life insurance as exempt, still many states ultimately rely on judicial interpretation of a debtor's intent. This bill will provide people with a better security and planning for their families after they have passed on.

This bill encourages personal responsibility and protects the future of Alaskan families.

[1:54:17 PM](#)

SENATOR JOHN COGHILL, Sponsor of SB 47, described the legislation as an estate planning tool that extends the exemption to someone who is investing his/her own money. He noted that the bill provides fraud protections.

SENATOR STEVENS asked who the bill benefits and who it harms.

SENATOR COGHILL replied it helps people who are building an estate through industry-based planning.

MR. BAQUERO added that it will provide security to those who seek insurance as part of their estate management and it will help the beneficiaries of these insurance policies while the policies are unmaturred. Once the policy is matured and the assets have been transferred to the beneficiaries, they are subject to restitution or garnishment.

CHAIR COSTELLO asked Lori Wing-Heier to discuss the fiscal note.

[1:59:38 PM](#)

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), stated that the bill amends Title 9 and doesn't directly impact the insurance statutes in Title 21. The division submitted a zero fiscal note in the belief that it will not impact what the division collects on premium taxes.

CHAIR COSTELLO asked if the administration has a position on the bill.

MS. WING-HEIER replied she hasn't heard that the administration had taken a position.

CHAIR COSTELLO asked Mr. Blattmachr to provide his perspective of the bill.

[2:01:08 PM](#)

MATHEW BLATTMACHR, Vice President and Trust Officer, Alaska Trust Company, stated that SB 47 helps keep Alaska in the top tier of states for estate planning and financial planning in general.

CHAIR COSTELLO asked him to discuss the fraud protections provided by the four-year look-back at the state level and ten-year look-back at the federal level for bankruptcy proceedings.

MR. BLATTMACHR clarified that the legislation wouldn't change the fact that these policies are assignable as collateral, and could be attached if assigned. He also pointed out that Alaska's estate planning laws protect individuals who engage in estate and financial planning, but only to the extent that they do not willfully defraud a creditor. He opined that the four-year state look-back to review bankruptcy proceedings and the ten-year federal look-back are ample procedures to prevent that type of malicious activity.

CHAIR COSTELLO asked if he had information about other states' policies regarding creditors.

MR. BLATTMACHR recounted that South Dakota and Nevada have a two-year look-back, Ohio is 18 months, Delaware is three years, and Alaska matches a number of other states with a four-year look-back.

[2:04:32 PM](#)

LINDA HULBERT, representing herself, said she's worked in the insurance industry for 25 years and she supports SB 47. It will help people to legitimately plan for their future and help Alaska come on par for planning purposes with states such as New York, Florida, Texas, and Arizona. She recounted that many Alaskans who have businesses put any extra money back into their business in the early years rather than putting it away for retirement. SB 47 provides a means for these people to save for their retirement when they can by putting money into life insurance. She opined that the bill could raise revenue for the state by encouraging people to save, because for every \$100,000 the state would receive \$2,700.

[2:07:48 PM](#)

CHAIR COSTELLO announced she would hold SB 47 in committee for further consideration.

[2:08:20 PM](#)

At ease

SB 39-REPEAL FILM PRODUCTION TAX CREDIT

[2:11:22 PM](#)

CHAIR COSTELLO reconvened the meeting and announced the consideration of SB 39. "An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

[2:12:15 PM](#)

SHARON HAWN, representing herself, Wasilla, Alaska, testified in opposition to SB 39. She reviewed the history of film production in the state including her involvement, and offered her belief that the bill intends to eliminate the program altogether.

[2:19:19 PM](#)

JACY PETERSEN, representing herself, Anchorage, Alaska, testified in opposition to SB 39. She explained that she is a CPA who conducts audits for the film tax verification and she has seen that the tax credit program brings business to the state and jobs for Alaskans.

[2:21:58 PM](#)

TESS WEAVER, representing herself, Anchorage, Alaska, testified in opposition to SB 39. She talked about her personal experience and professional training in film production and said she doesn't want to leave Alaska to continue to pursue her career.

The money she receives is recycled through local businesses. She asked the committee not to take away what she and others have worked so hard to create.

[2:23:33 PM](#)

MICHAEL COLLIER, Random Acronym, Anchorage, Alaska, testified in opposition to SB 39. He spoke of the all-Alaskan project he is undertaking and said that without the tax incentive all the money has to be returned to investors and the 70 jobs will disappear. He said that films could be a billion dollar industry for Alaska and would provide security in the current fiscal crisis. He cautioned against killing an industry that could help to diversify the economy.

[2:26:10 PM](#)

LEVI TAYLOR, Crooked Pictures, Anchorage, Alaska, testified in opposition to SB 39. He spoke of wanting to be an inspiring filmmaker since middle school. His first successful film won major awards in Hollywood and he was offered opportunities to stay there and continue to work. However, because of the film incentives he was able to return to Alaska. What he noticed is that the industry has grown impressively in a short time. He urged the committee not to kill a rising industry that offers diversity.

[2:27:27 PM](#)

LAURA LIMKINS, Epicenter Productions, Eagle River, Alaska, testified in opposition to SB 39. She reviewed her 25 year history with the industry in Alaska that includes developing an educational series about perpetuating Alaska languages and culture. She pointed out that eliminating the film tax credit won't do away with the reality shows, but it will do away with the large productions that come to the state. She urged the committee to think about how the film tax program diversifies the economy and strengthens its foundation.

[2:29:19 PM](#)

MARY WASCHE, representing herself, Eagle River, Alaska, testified in opposition to SB 39. She recounted her story as a senior citizen who is trying to become a fiction writer. She was at the signing stage when this legislation stopped the project. She pointed out that keeping the film incentive program will allow creative writers to present the state as it really is, not as it's being depicted by reality shows. She said the numbers show that this program is a tiny portion of Alaska's serious budget deficit, and keeping the program could bring growth and dollars to the state.

[2:31:57 PM](#)

DEBORAH SCHILDT, President, Alaska Film Group, Anchorage, Alaska, testified in opposition to SB 39. She said she has worked in the industry for 30 years and the state's current fiscal crisis is brought on in part by its lack of economic diversity. It didn't happen overnight. She cited data from the 2013 Feature Film Production Report to refute the prior testimony from the Manhattan Institute claiming that Alaska's film program didn't pencil out. The figures show that substantial numbers of jobs and revenue come to states that have a film incentive program in place. She emphasized that the key is to have a program that is in place and that is where Alaska has to stay if it wants to compete. Breathtaking scenery is no longer enough; locations are trumped by economic realities. She urged the committee not to shut the door on diversity the state needs today and in the future.

CHAIR COSTELLO asked Ms. Schildt to send a copy of the 2013 Feature Film Production Report and she would distribute it to the committee.

[2:35:07 PM](#)

BOB CROCKETT, General Manager, Piksik, Anchorage, Alaska, testified in opposition to SB 39. He talked about recently being in the field with a crew of 20 Alaskans filming in Talkeetna and outside Whittier. He said Piksik invested millions in the film industry because they had a commitment from the state for 10 years. Last session the time to realize a return on those investments was reduced from 10 years to 4 years. With the introduction of SB 39 they're looking at a sunset on July 1, 2015, which is a daunting challenge for any business. He opined that the answer to the state's current fiscal crisis is diversification and the film industry is on the right track to provide that. Governor Walker's actions suspended the program, but if SB 39 passes it will be permanently closed.

[2:37:59 PM](#)

MAYA SALGANNEK, UAF Film Program, Fairbanks, Alaska, testified in opposition to SB 39. She refuted the testimony from the Manhattan Institute and talked about the number of her students who are actively employed in the film industry. She pointed out that film makers prefer to hire local, trained talent and the UA Regents consider the UA film program to be of high importance. She said if we want Alaskans to take the lead in developing 21st Century high tech jobs in media communication, then maintaining the tax incentive program is the first step.

[2:41:56 PM](#)

NATALIA LAMONT, representing herself, Anchorage, Alaska, testified in opposition to SB 39. She related her experience writing scripts and working on a set, and expressed hope that she would see a film produced in the Yupik language with Native actors in her lifetime. She asked the committee to keep the film incentive program alive.

[2:45:10 PM](#)

IRENE BEDARD, President, Sleeping Lady Films Waking Giant Productions, testified in opposition to SB 39. She emphasized that keeping the film credit is an affirmative move for the state. She described films that highlight Native life and culture and opined that it would be a shame to export that to Canada.

[2:49:41 PM](#)

KEN LANDFIELD, representing himself, Homer, Alaska, testified in opposition to SB 39. He questioned how eliminating the tax credit program will help the state treasury to any substantial amount. The Governor already suspended the program and eliminating it will do nothing but harm. He urged the committee not to kill the program.

[2:52:02 PM](#)

JAMES WALKER, Walking West Entertainment, Los Angeles, California, testified in opposition to SB 39. He talked about traveling the state in the last two years to explore the economic and commercial climate to better understand how to work hand-in-hand with Alaska entrepreneurs, educators, and artists to utilize the tax incentive program to generate a viable and profitable motion picture industry that can help incubate other technology driven industries. He said Alaska can be more than just a film destination by establishing jobs in the post-production phase of the motion picture and television process. These high skill jobs can last up to two years and include film editing, visual effects, animation, music scoring, data management, software development, engineering, and programming.

MR. WALKER said that contrary to testimony from the Manhattan Institute, post-production companies are training local Alaskans in permanent jobs that will ensure not only their economic vitality but that of their families, communities, and the state.

[2:57:26 PM](#)

CHAIR COSTELLO requested that individuals contact her office before calling from offnet locations to testify on SB 39 on Tuesday 3/3/15.

[SB 39 was held in committee.]

[2:57:52 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 2:57 p.m.