

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

April 20, 2018

3:32 p.m.

**MEMBERS PRESENT**

Senator Mia Costello, Chair  
Senator Gary Stevens  
Senator Berta Gardner  
Senator Peter Micciche

**MEMBERS ABSENT**

Senator Kevin Meyer, Vice Chair

**COMMITTEE CALENDAR**

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 401(L&C)

"An Act relating to insurance; relating to credit for reinsurance; relating to insurance standard valuation; and providing for an effective date."

- MOVED CSHB 401(L&C) OUT OF COMMITTEE

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 403(L&C)

"An Act relating to the Alaska Life and Health Insurance Guaranty Association; and providing for an effective date."

- MOVED CSHB 403(L&C) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 401

SHORT TITLE: INSURANCE; REINSURANCE; VALUATION; CREDITS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

03/05/18	(H)	READ THE FIRST TIME - REFERRALS
03/05/18	(H)	L&C
03/14/18	(H)	L&C AT 3:15 PM BARNES 124
03/14/18	(H)	Heard & Held
03/14/18	(H)	MINUTE(L&C)
03/19/18	(H)	L&C AT 3:15 PM BARNES 124
03/19/18	(H)	<Bill Hearing Canceled>
03/28/18	(H)	L&C AT 3:15 PM BARNES 124

03/28/18 (H) Scheduled but Not Heard  
03/31/18 (H) L&C AT 1:00 PM BARNES 124  
03/31/18 (H) Moved CSHB 401(L&C) Out of Committee  
03/31/18 (H) MINUTE(L&C)  
04/02/18 (H) L&C RPT CS(L&C) NT 1DP 3NR  
04/02/18 (H) DP: KITO  
04/02/18 (H) NR: WOOL, JOSEPHSON, EDGMON  
04/04/18 (H) L&C AT 3:15 PM BARNES 124  
04/04/18 (H) <Bill Hearing Canceled>  
04/12/18 (H) NOT TAKEN UP 4/12 - ON 4/13 CALENDAR  
04/13/18 (H) TRANSMITTED TO (S)  
04/13/18 (H) VERSION: CSHB 401(L&C)  
04/14/18 (S) READ THE FIRST TIME - REFERRALS  
04/14/18 (S) L&C  
04/20/18 (S) L&C AT 3:30 PM BELTZ 105 (TSBldg)

**BILL: HB 403**

SHORT TITLE: LIFE & HEALTH INSURANCE GUARANTY ASSN.  
SPONSOR(S): LABOR & COMMERCE

03/05/18 (H) READ THE FIRST TIME - REFERRALS  
03/05/18 (H) L&C  
03/14/18 (H) L&C AT 3:15 PM BARNES 124  
03/14/18 (H) Heard & Held  
03/14/18 (H) MINUTE(L&C)  
03/19/18 (H) L&C AT 3:15 PM BARNES 124  
03/19/18 (H) Moved CSHB 403(L&C) Out of Committee  
03/19/18 (H) MINUTE(L&C)  
03/20/18 (H) L&C RPT CS(L&C) 2DP 4NR  
03/20/18 (H) DP: WOOL, KITO  
03/20/18 (H) NR: SULLIVAN-LEONARD, JOSEPHSON, BIRCH,  
KNOPP  
04/16/18 (H) TRANSMITTED TO (S)  
04/16/18 (H) VERSION: CSHB 403(L&C)  
04/17/18 (S) READ THE FIRST TIME - REFERRALS  
04/17/18 (S) L&C  
04/20/18 (S) L&C AT 3:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

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

**POSITION STATEMENT:** Introduced HB 401 and answered questions related to HB 403.

CAITLYN ELLIS, Staff  
Representative Sam Kito III  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided supporting information related to HB 401.

JANA-LEE PRUITT, Regional Vice President  
American Council of Life Insurers

**POSITION STATEMENT:** Testified in strong support of HB 401 and HB 403.

DONALD THOMAS, Administrator and Counsel  
Alaska Life and Health Insurance Guarantee Association

**POSITION STATEMENT:** Testified in support of HB 403.

#### **ACTION NARRATIVE**

[3:32:21 PM](#)

**CHAIR MIA COSTELLO** called the Senate Labor and Commerce Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Gardner, Micciche, and Chair Costello. Senator Stevens arrived soon thereafter.

#### **HB 401-INSURANCE; REINSURANCE; VALUATION; CREDITS**

[3:32:58 PM](#)

**CHAIR COSTELLO** announced the consideration of HB 401. [CSHB 401(L&C) was before the committee.]

[3:33:29 PM](#)

**LORI WING-HEIER**, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), Anchorage, Alaska, explained that HB 401 would ensure that the Division of Insurance retains accreditation. This is the reciprocal agreement among states that all insurance companies will adhere to the same solvency standards. Sections 1-5 relate to an accreditation standard as of January 1, 2019 and the remainder of the sections relate to an accreditation standard as of January 1, 2020.

Sections 1-5 address credit for reinsurance. They allow the Division of Insurance to more closely examine the reinsurance a domiciled insurer is buying from a reinsurer that may or may not be outside the U.S. The division will have more insight into

what those insurance companies have in terms of financial assets and their solvency. With greater knowledge of solvency, it may not be necessary for an insurer to put up dollar-for-dollar for their expected loss exposure

The second part of the bill addresses principle-based reserving (PBR). That is updating standards on how reserves are calculated for life insurance. The methodology has not been updated for a number of years and the products have changed considerably.

[3:36:57 PM](#)

CHAIR COSTELLO welcomed Senator Stevens and noted who was available to answer questions.

[3:37:25 PM](#)

SENATOR GARDNER asked if anyone opposed the bill.

MS. WING-HEIER said no; the bill is National Association of Insurance Commissioners (NAIC) model legislation that has been thoroughly vetted by the insurance industry, consumers, and regulators.

SENATOR MICCICHE questioned why large issues like this weren't federally regulated.

MS. WING-HEIER explained that insurance had been regulated at the state level for more than a hundred years. Also, if they were asked, regulators nationwide would say the big reason they support state regulation is because they don't want to lose the premium taxes. Secondarily they would point out that different states have different risks.

SENATOR MICCICHE opined that there should be a separation of premium taxes and having a standard across the states.

MS. WING-HEIER said she didn't disagree in some respects because the division spends a lot of time updating legislators, legislation, and regulators at a state level for conformity.

[3:39:13 PM](#)

CAITLYN ELLIS, Staff, Representative Sam Kito III, Alaska State Legislature, Juneau, Alaska, advised that the National Association of Insurance Commissioners (NAIC) developed the model legislation upon which HB 401 is based, but enforcement is left to the state.

MS. WING-HEIER added that the only federal involvement she was aware of was that the federal office of insurance, which was established under President Obama, looks at some products and where they are going.

[3:40:03 PM](#)

CHAIR COSTELLO opened public testimony on HB 401.

[3:40:17 PM](#)

JANA-LEE PRUITT, Regional Vice President, American Council of Life Insurers, testified in strong support of HB 401. She said HB 401 would repeal and reenact portions of Alaska statutes governing credit for reinsurance. This makes them consistent with the current NAIC credit for reinsurance model law that was updated in 2011 and 2016 to modernize reinsurance regulations in the U.S.

HB 401 would also amend Alaska's valuation law to be consistent with the NAIC standard valuation law. It changes how life insurers calculate reserves to pay future expected claims from a one-size-fits-all approach to one called principle-based reserves (PBR). The latter ensures that the reserves match the actual risk being assumed by the insurer.

[3:42:07 PM](#)

CHAIR COSTELLO found no further comments and closed public testimony on HB 401. She looked to the will of the committee.

[3:42:14 PM](#)

SENATOR MICCICHE moved to report HB 401, version D, from committee with individual recommendations and attached fiscal note(s).

CHAIR COSTELLO found no objection and CSHB 401(L&C) moved from the Senate Labor and Commerce Standing Committee.

[3:42:41 PM](#)

At ease

**HB 403-LIFE & HEALTH INSURANCE GUARANTY ASSN.**

[3:44:15 PM](#)

CHAIR COSTELLO announced the consideration of HB 403. [CSHB 403(L&C) was before the committee.]

[3:44:41 PM](#)

REPRESENTATIVE SAM KITO III introduced HB 403 speaking to the following sponsor statement:

House Bill 403 updates the Alaska Life and Health Insurance Guaranty Act to conform to the National Association of Insurance Commissioners Life and Health Guaranty Model Act. These changes update the Act and improve uniformity nationwide in the administration of life and health guarantee associations.

House Bill 403 incorporates changes made by the National Association of Insurance Commissioners to the Life & Health Insurance Guarantee Association Model Act (MDL 520) in December 2017, after House Bill 157 had been introduced. These changes added health maintenance organizations (HMOs) as members of the association, providing HMO coverage, and addressing long-term care insolvencies. With the substantial number of changes made, HB 403 was introduced to help explain these changes, though few are substantive.

Throughout, numerous conforming changes are made to AS 21.79 consistent with the model law, most of which do not substantively change the bill.

The Alaska Life and Health Insurance Guarantee Association (Association) is composed of insurers who transact life insurance, health insurance, or annuities in Alaska. The purpose of the Association is to guarantee that residents and certain nonresidents will continue to receive benefits in the event one of the members becomes impaired or insolvent. In order to accomplish this, the Act directs the insurers to form a board and collect assessments from members to pay for the operations of the Association and obligations of insolvent or impaired members.

House Bill 403 amends terms for consistency with the model act, raises payment limits, adds language clarifying what products are included and excluded from the protections under the Act, and adds language clarifying that medical and hospital service corporations and their products are subject to the provisions of the Act. House Bill 403 amends the powers and duties section for the Association to follow the model act, authorizes the board to increase assessments, grants the Association the ability to

develop procedures to remove an Association governor for cause, and adds new definitions.

CHAIR COSTELLO noted that members had copies of the sectional.

[3:47:35 PM](#)

SENATOR MICCICHE asked Ms. Wing-Heier her perspective of the bill.

[3:48:02 PM](#)

LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), Anchorage, Alaska, explained that HB 403 is a remake of HB 157 that was introduced last year to update the statutes for the Alaska Life and Health Insurance Guarantee Association. She reminded the committee that Sheila Talman testified last year to express Premera's concern that it would be unfairly assessed, particularly for long-term care.

MS. WING-HEIER said there was one insolvency last year in Alaska. The Guarantee Association will pay the \$2 million loss for consumers, but the division knew that it didn't have the capacity for larger assessments. The solution that was agreeable to both sides was that the assessments for long-term care would be split 50:50 between health insurers and life insurers.

The bill also brings Premera, Alaska's largest health insurer, in as a member of the Guarantee Association. Further, HB 403 changes a few limits to what would be paid out under various products and it gives some authority to the board on how it would deal with insolvencies.

[3:50:22 PM](#)

SENATOR MICCICHE asked for an explanation of the increases on page 8, lines 12 and 16.

MS. WING-HEIER said those provisions increase the payout on an annuity contract claim (regardless of the value of the annuity) from \$100,000 to \$250,000. She noted that the bill also increased several other limits none or which had been updated for about 20 years.

SENATOR MICCICHE asked if this was like an FDIC minimum.

MS. WING-HEIER said yes.

[3:51:51 PM](#)

CHAIR COSTELLO opened public testimony on HB 403.

[3:52:04 PM](#)

DONALD THOMAS, Administrator and Counsel, Alaska Life and Health Insurance Guarantee Association, stated that the Board of Governors of the Guarantee Association unanimously supports passage of HB 403. He submitted that it was incumbent on the legislature to keep the governing law of the Guarantee Association current because it was created by the legislature. The purpose was to protect Alaska policyholders, subject to certain limitations set out in the Act. Passage of HB 403 fulfills that responsibility.

[3:53:15 PM](#)

JANA-LEE PRUITT, Regional Vice President, American Council of Life Insurers (ACLI), testified in support of HB 403. She pointed out that the NAIC model is updated every few years to reflect decisions about how to best protect policyholders and to address any issues that might have arisen among the states in the interpretation of the Act. There is a Life and Health Guarantee Association statute in effect in each state. It's important that state statutes are updated to reflect the current NAIC Model Act so that if an insolvency occurs, it can be handled as efficiently as possible and policyholders claims will be handled similarly regardless of their state of residence. She urged support for the bill.

[3:54:35 PM](#)

CHAIR COSTELLO closed public testimony on HB 403.

[3:54:51 PM](#)

SENATOR MICCICHE moved to report HB 403, 30-LS1401\J, from committee with individual recommendations and attached fiscal note(s).

CHAIR COSTELLO found no objection and CSHB 403(L&C) moved from the Senate Labor and Commerce Standing Committee.

[3:55:42 PM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:55 p.m.