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# MEMORANDUM

# State of Alaska

TO: Kenneth C. Moore  
Director, Division of Insurance

DATE: May 26, 1983

FILE NO:

TELEPHONE NO:

FROM: Jim Jordan  
Insurance Market Analyst

SUBJECT: HB 426 - comments

In the most part, the bill as introduced is substantially the same as my original draft. Some re-ordering was done but does not change the substance. However, I would recommend that four changes be made. Two of the changes, if not made, would make no difference in the meaning but are suggested to add more clarity. However, the other two suggested changes need to be made.

### Suggested Amendments

1. p. 1., line 10; immediately following the word "A" add the word "group". (Not critical but would add more clarity.)

2. p. 1., line 14; following the word "unions" add the following words ", or by one or more employers and labor unions".

(This is a necessary change to recognize the combination of employers and labor unions which represent the employees of that employer(s).)

3. p. 1., line 18; between the words "insurability" and "imposed" insert the words "as may be".

(This is not critical but it adds more clarity. Without the amendment, it might appear that an insurer must apply evidence of insurability standards. Many group life contracts are issued without any requirements that evidence of insurability or good health be provided for each group member. It is a basic tenet of group insurance that with a large enough group of insureds a sufficient spread of risk is realized, thus obviating the necessity of individually, medically underwriting each person. I don't believe we want to impose this on the public or insurers when it is an actuarially sound principal.)

4. p. 1., line 28; change the cite "AS 21.48.070" to the correct cite "AS 21.48.170".

(This is a necessary change. The citation in HB 426 is incorrect.)

HB 426 leaves in the specific criteria for debtor groups (AS 21.48.060) and for credit union groups (AS 21.48.070). The original draft did the same thing. This was done because of the unique nature of these types of groups and their specific relationship to AS 21.57. This is particularly the case for debtor groups.

I am attaching a marked up copy of HB 426, which includes the suggested amendments, as well as copies of my memoranda of November 26, 1982 to you and of May 18, 1983 to Jeff Day, and of my original draft.

1 IN THE HOUSE

BY HAYES

2 HOUSE BILL NO. 426

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to group life insurance; and provid-  
7 ing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 21.48.010(a) is amended to read:

10 (a) <sup>group</sup> A ~~A~~ [NO] life insurance policy may not be delivered in this  
11 state insuring the lives of more than one individual unless

12 (1) the policyholder was formed for purposes other than  
13 obtaining insurance, or is a trust established by one or more  
14 employers or labor unions; *or by one or more employers and labor unions*

15 (2) the policy covers at least two individuals at the date  
16 of issue;

17 (3) an individual eligible for coverage is subject to  
18 uniformly applied standards of insurability; *as may be* imposed by the insurer;

19 (4) amounts of group life insurance are determined based on  
20 some plan that will preclude individual selection; and

21 (5) the group life insurance contract is in compliance with  
22 the other applicable provisions of this chapter [DELIVERED TO ONE OF  
23 THE GROUPS AS PROVIDED FOR IN SECS. 20 - 60 OF THIS CHAPTER, AND  
24 UNLESS IN COMPLIANCE WITH THE OTHER APPLICABLE PROVISIONS OF THIS  
25 CHAPTER].

26 \* Sec. 2. AS 21.48.010 is amended by adding new subsections to read:

27 (c) Insurance under a group life insurance policy may be  
28 extended to insure dependents. Notwithstanding AS 21.48.070<sup>170</sup>, only one  
29 certificate need be issued for delivery to an insured person if a

1 statement concerning a dependent's coverage is included in the certif-  
2 icate.

3 (d) In this section, "dependents" means the spouse and dependent  
4 children of an employee or member of the group.

5 \* Sec. 3. AS 21.48.020 - 21.48.050 and AS 21.48.090 are repealed.

6 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-  
7 10.070(c).

# MEMORANDUM

State of Alaska

TO: Kenneth C. Moore, Director

DATE: November 26, 1982

FILE NO:

TELEPHONE NO:

FROM: Jim Jordan 

SUBJECT: Group Life Insurance  
Proposed Legislated Changes

Attached, please find the draft of the Act which amends AS 21.48, Group Life Insurance.

The proposed amendments to AS 21.48 accomplish the following:

- 1) The definition regarding who constitutes a duly formed group for the purposes of group life insurance is liberalized;
- 2) The ceiling on amounts of group life insurance for dependents is removed;
- 3) The group definitions applicable to group disability insurance contracts are indirectly liberalized pursuant to AS 21.54.060(4);
- 4) The provisions requiring some premium contribution by an employer/policyholder are eliminated; and
- 5) AS 21.48.060, debtor groups, and AS 21.48.070, credit union groups, remain intact and unchanged due to their unique character and relationship to credit life and credit disability (AS 21.57).

Of course, the underlying intent of the proposal is to provide for expanded availability of group life insurance. Conceivably, a broader based portion of our population will have expanded means of acquiring life insurance coverage on an economical basis.

In my opinion, this proposal will not require increased appropriations for administration. In fact it may result in increased premium tax revenue. Master group contracts heretofore delivered in other states, covering Alaskan residents, in order to circumvent unfavorable provisions in our law, may, in the future, be issued in this state. By so doing, taxable, Alaska premiums could increase.

It should be noted that some unfavorable federal income tax implications could arise in the area of dependent group life. For amounts of dependent group life insurance provided by an employer in excess of \$2,000, the premiums paid by the employer for such coverage would be taxed as income to the employee.

Opposition, if any, to this proposal would most likely come from the life insurance agent specializing in the sale of individual life insurance products. This opposition would be primarily "protectionist" in nature and easily countered.

Let me know if you would like to discuss this proposal in greater detail.



ages 5 years and older. These amounts were established by law in 1966 and certainly inflationary pressures alone would dictate the maximum amounts of coverage be increased. The proposed language would remove all maximums. Group insurance is primarily an employee benefit and may be subject to collective bargaining. It was felt that the insurance laws should not impose any artificial barriers in the negotiation or determination of employee benefits. Again, an employer may provide amounts of dependents group life insurance greater than that allowed by Alaska law by joining a multiple employer trust located in state allowing higher amounts. (We know this has been done.) Many states exist which have no such maximum for dependents group life insurance. One of the reasons for limiting the amount of dependent group life to \$2,000 is due to federal income tax implications. In the situation where an employer pays the entire premium for dependents group life insurance, the IRS has ruled that so long as the coverage amount is incidental, no additional taxable income is incurred by the employee. The amount determined by the IRS as being incidental is up to a maximum of \$2,000. (The same holds true for the amounts of group life insurance provided to employees except that no federal income tax liability accrues until the amounts of coverage exceeds \$50,000.)

In general, AS 21.48 requires that the premium can not be entirely paid by employee contributions. The proposed language removes this requirement. This change was included for several reasons. First, an employer can in effect make this meaningless by contributing only 1¢ toward the premium cost for each employee. Second, some employee benefit programs contain a basic amount of group life insurance paid for entirely by the employer and an optional amount paid for entirely the employee. Current construction of AS 21.48 forces such coverages to be underwritten by one insurer in one master group contract. This may impede competition to a certain degree, particularly for larger employers. An example of this could be the State of Alaska plan for its employees where the various segments of the benefit package go out to competitive bid. One insurer may submit the lowest bid for the optional group life but may not be the lowest bidder on the basic group life. Therefore, the state could not award the contract for the optional group life to that insurer who is the lowest bidder and award a separate contract to another insurer who was the lowest bidder on the basic group life. Third, again,, an employer may circumvent this situation by joining an association or multiple employer trust situated in another state. Last, AS 21.54 imposes no such requirement for group accident and health coverages.

It is felt that the proposed changes would help facilitate the extension of life insurance protection to a broader section of our population with no material loss in regulatory protection. Typically, group insurance is less costly than individual insurance contracts due to the administrative economies realized. Therefore, this proposal should help to provide a broader base of coverage at a cost more beneficial to the Alaskan resident.

Also, for your information, the proposed language is patterned after Colorado's group life law.

Please let me know if I may be of any further assistance.

Sincerely,

James J. Jordan  
Insurance Market Analyst

JJJ/gw