

**HB**

**490**

**HFIN**

**FILE**

# Alaska State Legislature House of Representatives

### Committees

Rules Committee, Chair  
Legislative Council  
International Trade & Tourism  
Military & Veterans Affairs  
World Trade & State/Federal Relations



Interim:  
10928 Eagle River Rd. Suite 141  
Eagle River, AK 99577

Session:  
Alaska State Capitol  
Juneau, AK 99801

### SPONSOR STATEMENT HOUSE BILL 490

This amendment exempts premiums paid by employers who participate in the Public Employees' Retirement System of Alaska or in the Teachers' Retirement System of Alaska and premiums paid under contracts purchased under AS 39.30 (Insurance and Supplemental Employee Benefits) from the tax levied on insurers in AS. 21.09.210.

This amendment will encourage participation in the systems added and will strengthen those programs as well as assist the individual employees in those systems.

I urge your support for this legislation

*To become from Jim Homaday*

Representative Pete Kott

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Eagle River Office (907) 694-8944 Fax (907) 694-8945 E-Mail: representative\_pete\_kott@legis.state.ak.us



# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 2, 1998

FURTHER REFERRALS:

Date of Committee Action: 5/5/98

The FINANCE Committee considered:

HB 490

HOUSE BILL NO. 490

INSURANCE PREMIUM TAX

"An Act relating to insurance premium taxes."

recommends it be replaced with the following committee substitute CS HB 490 (Fin)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_

APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_

fiscal note(s) DIST

fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Therriault</i>	Therriault	X			
<i>Eden Mulder</i>	Mulder	X			
<i>Terry Martin</i>	Martin	X			
<i>Jim Kohring</i>	Kohring	X			
<i>John Davies</i>	DAVIES			X	
<i>Bob Grossendorf</i>	Grossendorf			X	
<i>John Moses</i>	Moses			X	
<i>John Kelly</i>	Kelly			X	

CHAIR'S SIGNATURE

*Gene Therriault*

# FISCAL NOTE

**STATE OF ALASKA**  
**1998 LEGISLATIVE SESSION**

**BILL NO. HB 490** | \_\_\_\_\_

Revision Date ( 5/6/98 ) \_\_\_\_\_ Dept. Affected Commerce & Economic Development  
 Title An Act relating to Insurance premium taxes BRU Insurance  
 Component Insurance  
 Sponsor (H) Rules by Request  
 Requester (H) FIN Component Serial No. 354

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>(701.0)</b>	<b>(727.0)</b>	<b>(752.0)</b>	<b>(779.0)</b>	<b>(806.0)</b>	<b>(835.0)</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

If only health insurers it would be \$610,000.00, and this amount would increase by 3.58% per year.

Prepared by Marianne K. Burke, Director *Marianne K. Burke* Phone 465-2515  
 Division Insurance Date 5/6/98  
 Approved by Commissioner Deborah B. Sedwick *Deborah B. Sedwick* Date 5/6/98  
 Agency Commerce & Economic Development

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CS FOR HOUSE BILL NO. 490(L&C)  
 IN THE LEGISLATURE OF THE STATE OF ALASKA  
 TWENTIETH LEGISLATURE - SECOND SESSION

BY THE HOUSE LABOR AND COMMERCE COMMITTEE

Offered: 5/2/98

Referred: Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to insurance premium taxes; and providing for an effective  
 2 date."

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

4 \* Section 1. AS 21.09.210(b) is amended to read:

5 (b) Each insurer, and each formerly authorized insurer with respect to  
 6 premiums received while an authorized insurer in this state, shall pay a tax on the total  
 7 direct premium income received during the year ending on the preceding December  
 8 31 and paid for the insurance of property or risks resident or located in the state, other  
 9 than wet marine and transportation insurance, after deducting from the total direct  
 10 premium income the applicable cancellations, returned premiums, the unabsorbed  
 11 portion of any deposit premium, all policy dividends, unabsorbed premiums refunded  
 12 to policyholders, refunds, savings, savings coupons, and other similar returns paid or  
 13 credited to policyholders with respect to their policies. Deductions [NO  
 14 DEDUCTIONS] may not be made of cash surrender value of policies. Considerations

1 received on annuity contracts are not included in the direct premium income and are  
2 not subject to tax. The tax shall be paid to the director at least annually but not more  
3 often than once each quarter or the dates specified by the director. The method of  
4 payment must be by the electronic or other payment method specified by the director.  
5 Except as provided under (n) of this section, the [THE] tax is computed at the rate  
6 of

7 (1) for domestic and foreign insurers, except hospital and medical  
8 service corporations, 2.7 percent;

9 (2) for hospital and medical service corporations, six percent of their  
10 gross premiums less claims paid.

11 \* ~~Sec. 2. AS 21.09.210(i) is amended to read:~~

12 (i) Premiums paid by the state or a political subdivision of the state,  
13 premiums paid by employers who participate in the Public Employees' Retirement  
14 System of Alaska or in the Teacher's Retirement System of Alaska, [FOR  
15 INSURANCE POLICIES] and premiums paid under contracts purchased under the  
16 provisions of AS 39.30 are exempt from taxation under this chapter [SECTION]. An  
17 insurer may not include the tax imposed under this section in a premium charged on  
18 an insurance policy or contract purchased by the state under the provisions of  
19 AS 39.30. An insurer may claim the exemption on forms provided by the division of  
20 insurance.

Delete

21 \* Sec. 3. AS 21.09.210 is amended by adding a new subsection to read:

22 (n) The tax imposed under this section shall be computed at the rate of

23 (1) one-tenth of a percent for a policy of life insurance with a policy  
24 year premium that equals or exceeds \$100,000; and

25 (2) 2.7 percent for a policy of life insurance with a policy year  
26 premium below \$100,000.

27 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Add new section to Repeal  
AS 21.09.270

THE ARRIVAL

Premium and Retaliatory Taxes Paid by Government Entities  
Purchasing Coverage through Blue Cross Blue Shield of Alaska\*

<b>School Districts</b>		<b>\$311,203</b>
Kodiak	6	
Tanana SD	1,503	
Juneau	32,716	
Achorage	183,897	
Klawock	3,734	
Galena	4,047	
Bristol Bay	9,537	
St. Mary's	1,293	
Alaska Gateway	9,160	
Annette Isl	5,292	
Cordova	6,482	
Wrangell	7,294	
Sitka	16,257	
South East Island	5,158	
Chatham	2,755	
Hoonah	4,411	
Pelican	815	
Skagway	2,584	
Yakutat	3,733	
Delta Greely	10,529	

<b>Public Safety Employees Association</b>		<b>48,196</b>
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<b>Cities</b>		<b>87,996</b>
Ketchikan	21,465	
Saint Paul	3,997	
Cordova	4,346	
Fort Yukon	482	
Galena	2,813	
Saint George	1,094	
Barrow	2,200	
Juneau	190	
Sitka	13	
Bristol Bay	9,157	
Kotzebue	3,707	
Wasilla	6,325	
Yakutat	1,295	
Craig	4,286	
Dillingham	4,475	
Hoonah	1,002	
Klawock	1,666	
Pelican	305	
Skagway	2,447	
Wrangell	16,731	

<b>Hospitals</b>		<b>19,576</b>
Wrangell General	418	
Petersburg General	5,059	
Cordova Hospital	5,033	
Sitka Community	9,066	

<b>TOTAL TAXES PAID</b>		<b>\$466,971</b>
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\*Based on 1997 estimates

**Sec. 21.09.270. Retaliation.** (a) If, under the laws of another state or foreign country, taxes, licenses, and other fees, in the aggregate, and fines, penalties, deposit requirements, or other material obligations, prohibitions, or restrictions are or would be imposed upon Alaska insurers, or upon their agents or representatives, that are in excess of the taxes, licenses, and other fees, in the aggregate, or that are in excess of the fines, penalties, deposit requirements, or other obligations, prohibitions, or restrictions directly imposed upon similar insurers, or upon their agents or representatives, of another state or country under the statutes of this state, as long as the laws of the other state or country continue in force or are applied, the same taxes, licenses, and other fees, in the aggregate, or fines, penalties, or deposit requirements or other material obligations, prohibitions, or restrictions of whatever kinds shall be imposed by the director upon the insurers, or upon their agents or representatives, of the other state or country doing business or seeking to do business in this state. A tax, license or other fee or other obligation imposed by a city, county, or other political subdivision or agency of another state or country on Alaska insurers or their agents or representatives shall be considered to be imposed by the state or country within the meaning of this section.

(b) This section does not apply to personal income taxes, or to ad valorem taxes on real or personal property or to special purpose obligations or assessments imposed by another state in connection with particular kinds of insurance other than property insurance; except that deductions from premium taxes or other taxes otherwise payable allowed on accounts of real estate or personal property taxes paid shall be taken into consideration by the director in determining the propriety and extent of retaliatory action under this section.

(c) For the purposes of this section the domicile of an alien insurer, other than insurers formed under the laws of Canada or a province of Canada, shall be that state designated by the insurer in writing filed with the director at the time of admission to this state or within six months after July 1, 1966, whichever date is the later, and may be any one of the following states:

- (1) that in which the insurer was first authorized to transact insurance;
- (2) that in which is located the insurer's principal place of business in the United States;
- (3) that in which is held the larger deposit of trustee assets of the insurer for the protection of its policyholders and creditors in the United States.

(d) If the insurer makes no designation, its domicile shall be considered to be that state in which its principal place of business in the United States is located.

(e) If an insurer is formed under the laws of Canada or a province of Canada, its domicile is the province in which its head office is located. (§ 1 ch 120 SLA 1966)

#1 w/D  
THERIAULT

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 490(L&C)

Page 2, Line 16,

After the word "under," delete the words: "this chapter." and

Insert: "AS 21.09.270."

# Alaska State Legislature House of Representatives

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Interim:  
10928 Eagle River Rd. Suite 141  
Eagle River, AK 99577

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Juneau, AK 99801

## SPONSOR STATEMENT HOUSE BILL 490

Current Alaska law (AS 21.09.210(I)) prohibits taxes of any kind from being imposed on insurance premiums paid by the State. However, buried in Alaska's voluminous insurance laws is a provision which could be interpreted to require the Director of Insurance to levy a unique type of premium tax on certain health insurance policies issued to the University of Alaska, municipalities and school districts.

HB 490 leaves in place this seldom used tax but clarifies that the tax does not apply to health insurance premiums written to the University of Alaska, municipalities and school districts.

The public policy issue which HB 490 clarifies is that the State of Alaska will not impose a tax on health insurance sold to the University of Alaska, municipalities and school districts. To impose a "back door" health insurance tax on the University and the State's political subdivisions makes no sense from either a policy or fiscal perspective.

I urge your support of the legislation.

## Representative Pete Kott

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Eagle River Office (907) 694-8944 Fax (907) 694-8945 E-Mail: [representative\\_pete\\_kott@legis.state.ak.us](mailto:representative_pete_kott@legis.state.ak.us)



## **The Alaska Retaliatory Tax: An unnecessary increase in health care costs**

### **What is the Retaliatory Tax?**

The retaliatory tax applies to out-of-state insurance companies selling insurance in Alaska. It is the difference between the higher tax burden of the out-of-state company's own state's tax laws and the lower taxes imposed by Alaska.

Example (for illustration purposes only): Tax on a \$100 premium calculated under Alaska law is \$1.20. Tax on the same amount under Washington state law is \$2. Because of Alaska retaliatory tax, a Washington insurer doing business in Alaska must pay \$2 on the \$100 premium sold in Alaska. The retaliatory tax is \$0.80 (\$2 Washington state tax premium minus \$1.20 Alaska premium tax).

### **Do the people of Alaska benefit from the tax?**

No. The intent of the tax is to protect local businesses by equalizing the tax rate between states. However, in the case of health insurance companies, there are no local insurance businesses in Alaska to protect. The only purpose that the tax fulfills is to increase tax revenue by increasing costs to the health care consumer, which is not a legitimate purpose of the retaliatory tax.

### **Why does the retaliatory tax increase health care costs?**

Like medical claims costs and other costs of offering insurance coverage, the retaliatory tax becomes part of the rate paid by consumers.

### **How long have Alaskans been paying this increased cost?**

Prior to 1994, the retaliatory tax did not contribute to increases in health care costs. Companies in both Washington and Alaska were allowed to deduct claims from premiums for tax purposes. Therefore, no differences existed between the two states in the amount of premium subject to tax, and Alaska did not require an extra retaliatory fee. In 1994 Washington state law regarding premium tax changed as part of an extensive health care reform package. Because of the 1994 change in law, Washington insurers now have to pay taxes on their claims, not just on their administrative costs. Since the Washington state tax burden is greater, Washington-based insurers are now subject to retaliatory tax in Alaska and must factor this additional cost into their Alaska premiums.

### **What is the Solution?**

The best solution to the current problem is to revise the law to eliminate the tax on premiums paid by government entities. By eliminating the tax on premiums, these entities would automatically be spared the added cost of the retaliatory tax. The change would benefit over 50 local government entities that currently receive insurance through Washington-based insurance companies. These entities include cities, hospitals, schools, fire departments and many other essential community centers. The legislation will alter the law to fit the current health care business environment in Alaska. If, at some point in the future, an in-state insurance company begins to operate, the retaliatory tax would have a legitimate purpose and could be re-imposed. This bill provides Alaska with a win-win situation. It allows for protection should a domestic Alaska health insurance company be formed, yet allows relief to Alaska citizens by eliminating the cost of an unnecessary retaliatory tax.

**Premium and Retaliatory Taxes Paid by Government Entities  
Purchasing Coverage through Blue Cross Blue Shield of Alaska\***

<b>School Districts</b>		<b>\$311,203</b>
Kodiak	6	
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 <b>Hospitals</b>		 <b>19,576</b>
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Petersburg General	5,059	
Cordova Hospital	5,033	
Sitka Community	9,066	
 <b>TOTAL TAXES PAID</b>		 <b>\$466,971</b>

\*Based on 1997 estimates

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
PARTICIPATING EMPLOYERS**

Akutan, City of  
Alaska, State of  
Alaska Gateway School District  
Alaska Housing Finance Corporation  
Alaska Municipal League  
Alaska, University of  
Alaska Geophysical Institute, University of  
Aleutian Housing Authority  
Aleutian Region School District  
Aleutians East Borough  
Aleutians East Borough School District  
Aleutians West Coastal Resource Service Area  
Allakaket, City of  
Anchorage, Municipality of  
Anchorage Parking Authority  
Anchorage School District  
Anchorage Telephone Utility  
Annette Island School District  
Anaktuvuk Pass, City of  
Atka, City of

Barrow, City of  
Bartlett Memorial Hospital  
Bering Straits Coastal Resource Service Area  
Bering Straits Regional Housing Authority  
Bering Strait School District  
Bethel, City of  
Bristol Bay Borough  
Bristol Bay Borough School District  
Bristol Bay Coastal Resource Service Area  
Bristol Bay Housing Authority

Cenaliurrit CRSA  
Chatham School District  
Chugach Regional School District  
Cook Inlet Housing Authority  
Copper River Basin Regional Housing Authority  
Copper River School District  
Cordova, City of  
Cordova Community Hospital  
Cordova Public Schools  
Craig, City of  
Craig School District

Delta/Greely School District  
Denali Borough  
Denali Borough School District  
Dillingham, City of  
Dillingham City School District  
  
Egegik, City of  
Elim, City of  
  
Fairbanks, City of  
Fairbanks Municipal Utility System  
Fairbanks North Star Borough  
Fairbanks North Star Borough School District  
Fort Yukon, City of

Galena, City of  
Galena City Schools

Haines Borough  
Haines Borough School District  
Haines, City of  
Homer, City of  
Hoonah, City of  
Hoonah City Schools  
Huslia, City of  
Hydaburg City Schools

Iditarod Area School District  
Interior Regional Housing Authority

Juneau Borough School District  
Juneau, City and Borough of

Kachemak, City of  
Kake City School District  
Kaltag, City of  
Kashunamuit School District  
Kenai, City of  
Kenai Peninsula Borough  
Kenai Peninsula Borough School District  
Ketchikan, City of  
Ketchikan Gateway Borough  
Ketchikan Gateway Borough School District  
King Cove, City of  
Kivalina, City of

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
PARTICIPATING EMPLOYERS**

Klawock, City of  
Klawock City School District  
Kodiak, City of  
Kodiak Island Borough  
Kodiak Island Borough School District  
Kotzebue, City of  
Kuspuk School District

Lake and Peninsula Borough  
Lake and Peninsula School District  
Lower Kalskag, City of  
Lower Kuskokwim School District  
Lower Yukon School District

Marshall, City of  
Matanuska-Susitna Borough  
Matanuska-Susitna Borough School District  
Mekoryuk, City of

Nenana, City of  
Nenana City Public Schools  
Nome, City of  
Nome Public Utilities  
Nome City Public Schools  
Noorvik, City of  
North Pacific Fisheries Management Council  
North Pole, City of  
North Slope Borough  
North Slope Borough School District  
Northwest Arctic Borough  
Northwest Arctic Borough School District

Old Harbor, City of

Palmer, City of  
Pelican, City of  
Pelican Schools  
Petersburg, City of  
Petersburg General Hospital  
Petersburg Public Schools  
Point Hope, City of  
Pribilof Regional School District

Quinhagak, City of

Ruby, City of

Saint George, City of  
Saint Mary's, City of  
Saint Mary's School District  
Saint Paul, City of  
Sand Point, City of  
Saxman, City of  
Selawik City Council  
Seward, City of  
Seward General Hospital  
Sitka, City and Borough of  
Sitka Community Hospital  
Sitka Borough School District  
Skagway, City of  
Skagway City School District  
Soldotna, City of  
Southeast Islands School District  
Southeast Regional Resource Center  
Southwest Region Schools  
Special Education Service Agency

Tanana, City of  
Tanana City School District  
Thorne Bay, City of

Unalakleet, City of  
Unalaska, City of  
Unalaska City School District

Valdez, City of  
Valdez City Schools

Wasilla, City of  
Whittier, City of  
Wrangell, City of  
Wrangell City Schools

Yakutat, City and Borough of  
Yakutat City School District  
Yukon Flats School District  
Yukon-Koyukuk School District

## Teachers' Retirement System Participating Employers

Adak Region School District	Klawock City School District
Alaska Department of Education	Kodiak Island Borough School District
Alaska Gateway School District	Kuspuk School District
Alaska, University of	
Alaska Geophysical Institute, University of	Lake and Peninsula School District
Alaska State Legislature	Lower Kuskokwim School District
Aleutian Region School District	Lower Yukon School District
Aleutians East Borough School District	
Anchorage School District	Matanuska-Susitna Borough School District
Annette Island School District	
	National Education Association - Alaska
Bering Strait School District	Nenana Public Schools
Bristol Bay Borough School District	Nome Public School
	North Slope Borough School District
Chatham School District	Northwest Arctic Borough School District
Chugach School District	
Copper River School District	Pelican School District
Cordova Public Schools	Petersburg Public Schools
Craig City School District	Pribilof School District
Delta-Greely School District	Saint Mary's School District
Derrali Borough School District	Sitka School District
Dillingham City School District	Skagway City School District
	Southeast Island School District
Fairbanks North Star Borough School District	Southeast Regional Resource Center
	Southwest Region Schools
	Special Education Service Agency
Galena City School District	
	Tanana City School District
Haines Borough School District	
Hoonah City School District	Unalaska School District
Hydaburg School District	
	Valdez City Schools
Iditarod Area School District	
	Wrangell Public Schools
Juneau School District, City and Borough of	
	Yakutat City School District
Kake City School District	Yukon Flats School District
Kashunamuit School District	Yukon-Koyukuk School District
Kenai Peninsula Borough School District	Yupik School District
Ketchikan Gateway Borough School District	

(taxing these businesses twice, since insurers are subject to a premium tax imposed by this section. North- ern Adjusters, Inc. v. Department of Revenue, 627 P.2d 206 (Alaska 1981).

*Secs. 21.09.220 — 21.09.240. Resident agent's counter signature; exception; affidavit requirement. [Repealed, § 2 ch 41 SLA 1984.]*

**Sec. 21.09.250. Prohibited acts.** An insurer doing business in this state may not make, write, place, or cause to be made, written, or placed in this state a policy, duplicate policy, or contract of insurance of any kind or character, or general or floating policy upon persons or property resident, situated, or located in this state, from or through a person required to be licensed who has not secured a license in this state. An insurer may not pay a commission or any form of remuneration to a person, firm, or organization for the writing or placing of insurance coverage in this state unless that person, firm, or organization holds a license issued by the director. (§ 1 ch 120 SLA 1966; am § 2 ch 29 SLA 1987; am § 16 ch 62 SLA 1995)

**Effect of amendments.** — The 1995 amendment, effective July 1, 1995, substituted "a person required to be licensed" for "a broker, agent, general agent, surplus line broker, or person" in the first sentence.

**Sec. 21.09.260. Penalties.** An insurer that the director determines, following an appropriate hearing as provided in AS 21.06.170 — 21.06.230, has violated the provisions of AS 21.09.250 is subject to a civil penalty of not more than \$2,500 for each violation. The director may suspend or revoke the license of the insurer for a violation of AS 21.09.250, but violation does not invalidate the insurance contract. (§ 1 ch 120 SLA 1966; am § 1 ch 41 SLA 1984; am § 2 ch 149 SLA 1984)

**Sec. 21.09.270. Retaliation.** (a) If, under the laws of another state or foreign country, taxes, licenses, and other fees, in the aggregate, and fines, penalties, deposit requirements, or other material obligations, prohibitions, or restrictions are or would be imposed upon Alaska insurers, or upon their agents or representatives, that are in excess of the taxes, licenses, and other fees, in the aggregate, or that are in excess of the fines, penalties, deposit requirements, or other obligations, prohibitions, or restrictions directly imposed upon similar insurers, or upon their agents or representatives, of another state or country under the statutes of this state, as long as the laws of the other state or country continue in force or are applied, the same taxes, licenses, and other fees, in the aggregate, or fines, penalties, or deposit requirements or other material obligations, prohibitions, or restrictions of whatever kinds shall be imposed by the director upon the insurers, or upon their agents or representatives, of the other state or country doing business or seeking to do business in this state. A tax, license or other fee or other obligation imposed by a city, county, or other political subdivision or agency of another state or country on Alaska insurers or their agents or representatives shall be considered to be imposed by the state or country within the meaning of this section.

(b) This section does not apply to personal income taxes, or to ad valorem taxes on real or personal property or to special purpose obligations or assessments imposed by another state in connection with particular kinds of insurance other than property insurance; except that deductions from premium taxes or other taxes otherwise payable allowed on accounts of real estate or personal property taxes paid shall be taken into consideration by the director in determining the propriety and extent of retaliatory action under this section.

(c) For the purposes of this section the domicile of an alien insurer, other than insurers formed under the laws of Canada or a province of Canada, shall be that state designated by the insurer in writing filed with the director at the time of admission to this state or within six months after July 1, 1966, whichever date is the later, and may be any one of the following states:



## **Anchorage Labor Relations/Benefits School District**

4600 DeBarr Road  
P.O. Box 196614  
Anchorage Alaska 99519-6614  
Phone: (907) 333-9561

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May 1, 1998

Rep. Petr Kott  
Alaska State Legislature

**Re: Health Insurance - Premium/Retaliatory Tax - School District Employees  
House Bill 490**

Dear Rep. Kott:

I appreciate the opportunity to be able to provide some input relative to House Bill 490 related to health insurance and premium tax issues. I want to make it clear that what I have stated below is stated in behalf of the Anchorage School District and its employees who are being negatively impacted by this tax. We are not supporting any particular insurance company, even though Blue Cross of Washington and Alaska is our current health insurance provider as a result of competitive bidding.

During contract negotiations for health care benefits with Blue Cross of Washington and Alaska a year ago, the Anchorage School District was advised that part of the rate increase was related to the imposition of a 2% premium tax on top of the health care premium.

This tax is apparently the result of an interpretation that school districts are not "state entities" in the same way as the Alaska Railroad, the University of Alaska, and the State of Alaska, who do not pay this extra 2% burden. We believe that it is clear that major responsibility for school districts is vested in the State, including the responsibility for funding. The State of Alaska provides approximately seventy per cent of the funding for the District; such a tax seems as though the state provides money to the District "with one hand and takes it away with the other hand."

The Anchorage School District health insurance program is self-funded; the insurance company provides for the administration of the program under a minimum premium arrangement.

Since employees co-pay a portion of the health insurance premium, this tax is passed along directly to them. In effect, it is not the insurance company that is taxed, it is the employee. It represents a cost to each employee of over \$100 each year. We believe that it is not appropriate to tax employees whose salaries are dependent upon state funding. Again, the employee receives compensation through revenues provided by the state and then has that compensation reduced.

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House Bill 490 re:  
Health Insurance Premium Tax

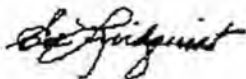
With the goal of obtaining the best possible health care benefits at the lowest cost, it seems inequitable for the State of Alaska to charge some public entities 2% more for their health insurance. This 2% is paid by the employee "taxpayers" to Blue Cross and then Blue Cross pays its tax liability to the state of Alaska. In the District's view, this is inequitable and only increases costs for administration; it also passes along additional costs to the employee "taxpayer" with no additional return in improved health care.

We request that you support House Bill 490 so that the School District differently than other state entities. Secondly, we urge that you consider the effect of the current tax law which applies only to public entities at a time when public funds are becoming increasingly scarce. We feel that this increase could be better used in reducing health care costs or increasing health care coverage.

The employee groups and unions representing District employees are willing to come forward and support what has been stated above, but they have had little time to consider this bill, since it is relatively new. I will be happy to provide additional information if necessary and will attempt to testify on the bill from the Legislative Affairs Office in Anchorage this afternoon. Again, please be aware that this is not an issue of supporting Blue Cross in whatever efforts they may be undertaking; we believe that the principle involved would be the same no matter which insurance company provides service to the District.

Again, we endorse this bill and hope for support from you and other legislators.

Sincerely,



J. Edward Lindquist  
Director, Contract Administration

cc: Bob Christal, Superintendent, Anchorage School District  
School Board Members