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**48**

# FISCAL NOT No. 1

**STATE OF ALASKA  
1999 LEGISLATIVE SESSION**

Bill Version: SR 48  
(S) Publish Date: 2-25-99

Revision Date/Time (Note if correction) \_\_\_\_\_ Dept. Affected Commerce & Economic Development  
 Title An Act relating to Health Insurance provided and BRU Insurance  
provisions relating to the Comprehensive Health Insurance Association Component Insurance  
 Sponsor Senator Mackle  
 Requester \_\_\_\_\_ Component Serial No. 354

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

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
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>						
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**FUND SOURCE (Thousands of Dollars)**

FUND SOURCE	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
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 (FY99) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This bill has no fiscal impact on this component.

Prepared by Marlann K. Burke, Director Phone 465-2215  
 Division Insurance Date/Time 2/18/99 3:13 PM  
 Approved by Commissioner Deborah B. Sedwick Date 2/19/99  
 Agency Commerce & Economic Development

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## SENATOR JERRY MACKIE

SENATE MAJORITY LEADER

### Sponsor Statement

#### SB 48, State Health Insurance

The Alaska Legislature created the Comprehensive Health Insurance Association (CHIA) in 1992 to provide a health insurance pool for an individual Alaskan whose health condition was considered uninsurable or who could not otherwise find adequate health coverage. The legislation mandated that all providers of health insurance in the state must participate in the pool. The association then makes health insurance available to Alaska residents who are high risks or are federally defined eligible individuals. These people typically suffer the most severe health conditions and face insurmountable costs of medical treatment and care.

In addition to operating the insurance pool, the board of directors of CHIA (which include two consumer advocates) is directed to periodically report on the effectiveness of the association in promoting rate stability, product availability, and affordability of coverage and to make recommendations on further legislative or administrative improvements. Senate Bill 48 is the direct result of this effort by the association to make the program work better and more efficiently. The legislation has the support of the Division of Insurance.

Senate Bill 48 amends AS 21.55 to

1. Allow the board greater flexibility to design more cost effective health insurance plans for individuals eligible for coverage under the CHIA plan.
2. Increase the number of potential administrators of the CHIA by eliminating the requirement that the administrator be an insurer.
3. Allow greater flexibility in evaluating an administrator and in setting the terms of the administrative contract.
4. Simplify administration by decreasing the number of declinations required for eligibility.
5. Make technical corrections relating to the determination of premium rates, terminology, premium payment modes, board member terms and voting at board meetings.

SPONSOR STATEMENT

6. Give the director of insurance a more effective and appropriate mechanism to enforce the requirement that members pay their share of the CHIA assessments on a timely basis.

The legislation will allow the board to manage the CHIA in a more cost effective and efficient manner. Also, the legislation is particularly important in light of the new federal requirements and the use of CHIA as the mechanism to guarantee portability of health insurance coverage to federally eligible individuals.

CS SB 48 (NES)

## Sectional Analysis

"An Act relating to the Comprehensive Health Insurance Association"

### Section. 1. AS 21.55.020

Amendments to this section clarify the voting methodology to be used in board and association meetings and establish reasonable terms for members of the board.

Current law defines the voting methodology to be used at association meetings as premium weighted. However, this methodology is not appropriate for board meetings, since the public members would not have a vote and the small insurers would essentially have no vote due to the fact that, Alaska's health insurance market is overwhelmingly dominated by only a few carriers. Therefore, amendments to this section clarify that each member receives only one vote at board meetings giving proper representation of the members of the board.

### Sec. 2. AS 21.55.100(a)

### Sec. 4. AS 21.55.100(d)

### Sec. 6. AS 21.55.120(a)

### Sec. 7. AS 21.55.120(c)

Amendments to these sections allow the board greater flexibility in developing cost-saving health benefit plans for high risk individuals by expanding the deductible, coinsurance and out-of-pocket maximum options and providing for more appropriate out-of-pocket limits in relation to the deductible. These changes will also allow for the development of a structure that encourages more cost-effective use of services.

### Sec. 3. AS 21.55.100(c)

Amendments to this section clarify that coverage under the CHIA plan is available to all persons eligible under the chapter which is consistent with AS 21.55.100(a) and (d).

### Sec. 9. AS 21.55.150

Amendments to this section eliminate the conflict between the requirement that the premium rates not be excessive or inadequate and the requirement that premium rates not be greater than 200% of standard premium rates. CHIA is essentially a pool for uninsurable health insurance risks, which means in general that the premium rates will not be adequate to cover the costs.

Also, the current requirements regarding the calculation of the premium rates are amended to allow additional flexibility in determining the premium rates. Current statute requires that the premium rates be based on standard rates of the top 5 insurers in the state. Since there are fewer than 5 significant individual comprehensive health insurers in the state, this basis for calculating the premium rates results in the use of rates that are not necessarily appropriate for the Alaska market.

### Sec. 10. AS 21.55.200

### Sec. 23. AS 21.55.500

The amendments to these sections allow greater flexibility in selecting an administrator and strengthen the criteria under which a plan administrator will be evaluated.

Since the inception of CHIA, only one insurer has offered to administer the plan. Amendments to these sections will increase the number of potential administrators by eliminating the requirement that the administrator be an insurer. This should result in reduced administrative costs by opening the door to many other entities that have an expertise in administration of individual health insurance type contracts. The greater number of bidders should result in better bargaining power for CHIA in negotiating administrative fees and services. CHIA's administrative expenses are currently the highest in the nation.

**Sec. 11. AS 21.55.210**

Amendments to this section will allow greater flexibility in evaluating an administrator and in setting the terms of the administrative contract.

**Sec. 14. AS 21.55.220(d)**

The first amendment to this subsection will give the director a more effective and appropriate mechanism to enforce the requirement that members pay their share of the CHIA assessments on a timely basis. This amendment establishes a monetary penalty for failure to pay within the established timeframe.

The second amendment will allow the board to excuse members from assessment, if the assessment amount is minimal. This will give the board the flexibility to determine the level of assessment at which it becomes cost prohibitive to assess a member.

**Sec. 17. AS 21.55.330**

The amendment to this section clarifies that monthly premium modes would be acceptable. Allowing a monthly premium mode is particularly important for the individuals in the CHIA plans, since premiums are relatively high.

**Sec. 20. AS 21.55.500(6)**

The amendment to this section corrects a minor error in the definition of a "federally defined eligible individual". The current law does not conform with federal law.

**Sec. 21. AS 21.55.500(18)**

The amendment to this section modifies the definition of "residents who are high risks" in order to simplify the eligibility requirements to allow an individual with only one declination to be eligible for coverage. Under current law individuals must wait to receive two formal declinations in order to prove eligibility under the plan. This often results in a long waiting period for the individual before they can be covered under the CHIA plan.

**Sec. 23. AS 21.55.500(22)**

This amendment defines the term "plan administrator".

**Sec. 24.**

This section repeals unnecessary provisions. AS 21.55.120(d) is no longer needed since reference to the consumer price index has been removed in AS 21.55.120(a) and (c). AS 21.55.120(e) is no longer needed since the provisions in AS 21.55.100(a) and (d) allow this flexibility. AS 21.55.500(21) is no longer needed since it is replaced with the more appropriate term "plan administrator".

**Sec 5.**

**Sec. 8.**

**Sec. 12.**

**Sec. 15.**

**Sec. 16.**

**Sec. 18.**

**Sec. 19.**

**Sec. 22.**

Amendments to these sections simply change the term "writing carrier" to "plan administrator" which is defined in AS 21.55.500(22). The term "writing carrier" is a misnomer as it implies that the administrator of the CHIA is insuring the plan when in fact the CHIA is the "insurer".



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February 2, 1999

The Honorable Jerry Mackie  
Alaska State Senate  
State Capitol Room 427  
Juneau, AK 99801-1182

Dear Senator Mackie:

I was very pleased to hear from your aide, Dave Gray, today regarding the legislation introduced in SB 48. In response to the discussion he and I had concerning this legislation, I would like to indicate in writing the reasons that the Board supports these changes to AS 21.55. In fact, this legislation was developed by the Comprehensive Health Insurance Association's Board of Directors. The Board is composed of five representatives from the top health insurers in Alaska and two consumer members. The Board has spent many hours of basically volunteer time managing this program. Several of us have been with the Board since it was formed in late 1992. We have a passion to make it work the best that it can for the citizens of Alaska.

It is for that reason that we have developed these proposed changes; to make the program work better and more efficiently. I can assure you that these changes will in no way reduce the options provided to the policyholders. In fact it should make it easier for citizens to prove that they qualify while giving the Board greater flexibility in managing the program and reducing the administrative costs.

Specifically, this legislation amends AS 21.55 to

1. Allow the Board greater flexibility to design more cost effective health insurance plans for individuals eligible for coverage under the CHIA plan.
2. Increase the number of potential administrators of the CHIA by eliminating the requirement that the administrator be an insurer.
3. Allow greater flexibility in evaluating an administrator and in setting the terms of the administrative contract.

4. Simplify administration by decreasing the number of declinations required for eligibility.
5. Make technical corrections relating to the determination of premium rates, terminology, premium payment modes, board member terms, definitions and voting at Board meetings.
6. Give the Director of Insurance a more effective and appropriate mechanism to enforce the requirement that members pay their share of the CHIA assessments on a timely basis.

I believe that Director Burke indicated that the Division of Insurance was also in support of this legislation. The Board is appreciative of the assistance that the Division gives it in administering the program.

Finally, it is necessary that I indicate that a few minor changes to the legislation as introduced last year and again this year, are desirable. These changes are described in an attachment. Also enclosed with this letter, please find a Sectional Analysis of the legislation.

The Board is enthused about the advancement of this legislation. We stand ready to aid in whatever way we can. If you would like to have one or more of us testify at any hearings, please let us know so that we can arrange schedules to comply. If you have need of any other information please let us know. My telephone number is (402) 351-2534. My fax is (402) 351-5944 and my e-mail is [cecil.bykerk@mutualofomaha.com](mailto:cecil.bykerk@mutualofomaha.com).

Sincerely,



Cecil D. Bykerk, FSA, MAAA  
Chair, Comprehensive Health Insurance Association

cc: Director Marianne Burke

Attachments

## REQUESTED CHANGES TO SB 48

Please note the items in blue on the attached marked copy of SB48.

In Sections 2, 3, 4 and 20, the indicated changes are of a technical nature so as to properly define or to make proper reference.

The change in the maximum out-of-pocket limit in Section 7 of the bill from \$2,500 to \$1,500 was originally requested by the consumer members of the Board. This change would ensure that at least one plan of insurance would be offered that had a maximum out-of-pocket limit of \$1,500.

The change in Section 14 would provide for more effective and appropriate enforcement of the requirement that members pay their share of the CHIA assessments on a timely basis.

These changes were unanimously endorsed by the Board and fully supported by the Division of Insurance.

We hope that these changes can be made with minimal disruption to the process. We apologize that the original legislation submitted in 1998 failed to incorporate these changes.

SLA 92

AN ACT

1 Relating to pooled health insurance for individuals who are uninsured or denied adequate coverage; and  
2 providing for an effective date.

3  
4 • Section 1. PURPOSE. It is the purpose of this Act to provide access to health insurance to all  
5 residents of the state who are presently denied adequate health insurance or who are considered  
6 uninsurable.

7 • Sec. 2. AS 21 is amended by adding a new chapter to read:

8 CHAPTER 55. STATE HEALTH INSURANCE.

9 ARTICLE 1. COMPREHENSIVE HEALTH INSURANCE ASSOCIATION.

10 Sec. 21.55.010. CREATION; MEMBERSHIP. There is established a nonprofit  
11 incorporated legal entity to be known as the Comprehensive Health Insurance Association.  
12 Membership consists of all licensed hospital or medical service corporations in the state that offer  
13 subscriber contracts for major medical coverage and all insurers licensed to transact health  
14 insurance in the state that offer policies for major medical coverage on an expense incurred basis.

**Cross references.** — For statement of legislative purpose in enacting this chapter, see § 1, ch. 126, SLA 1992 in the Temporary and Special Acts.

**Article 1. Comprehensive Health Insurance Association.**

**Section**

- 10. Creation; membership
- 20. Board of directors; organization
- 30. General powers

**Section**

- 40. Plan of operation
- 50. Administrative Procedure Act
- 60. Tax exemption

**Sec. 21.55.010. Creation; membership.** There is established a nonprofit incorporated legal entity to be known as the Comprehensive Health Insurance Association. Membership consists of all licensed hospital or medical service corporations in the state that offer subscriber contracts for major medical coverage, all health maintenance organizations or other managed care arrangements approved by the director, and all insurers licensed to transact health insurance in the state that offer policies for major medical coverage on an expense incurred basis. All members shall maintain membership in the association as a condition of doing health insurance business, or being able to offer subscriber contracts or enrollment in a health maintenance organization or managed care arrangement, in the state. (§ 2 ch 126 SLA 1992; am § 2 ch 125 SLA 1994)

**Effect of amendments.** — The 1994 amendment, effective July 1, 1994, inserted “, all health maintenance organizations or other managed care arrangements approved by the director,” in the second sen-

tence and inserted “or enrollment in a health maintenance organization or managed care arrangement” in the last sentence.

**Sec. 21.55.020. Board of directors; organization.** (a) The board of directors of the association shall be made up of seven individuals. Five board members shall be selected by participating members, subject to approval by the director of the division of insurance, and two board members shall be consumers selected by the director of the division of insurance. The director or the director’s designee shall serve as a nonvoting ex officio member of the board. In determining voting rights at members’ meetings, a member is entitled to vote in person or proxy. The vote shall be a weighted vote based upon the member’s premiums for health insurance for major medical coverage on an expense incurred basis, or the member’s subscriber fees, derived from or on behalf of state residents in the previous calendar year, as determined by the director. In approving members of the board, the director shall consider, among other things, whether all types of participating members are fairly represented. Members of the board may be reimbursed from the association for expenses incurred by them as members, but may not otherwise be compensated by the association for their services. The costs of conducting meetings of the association and its board of directors shall be borne by members of the association.

(b) The board shall study and prepare a report at least once every three years on the effectiveness of this chapter. The report must include an analysis of the effectiveness of this chapter in promoting rate stability, product availability, and affordability of coverage. The report may contain recommendations for legislative or other regulatory action. The board shall notify the legislature that the report is available. (§ 2 ch 126 SLA 1992; am § 42 ch 21 SLA 1995)

**Effect of amendments.** — The 1995 amendment, effective August 8, 1995, in subsection (b), substituted

“prepare a report” for “report to the legislature” in the first sentence and added the last sentence.

**Sec. 21.55.030. General powers.** The association may  
(1) exercise the powers granted to insurers under the laws of the state;

- (2) sue or be sued;
- (3) enter into contracts with other persons for the purpose of providing health insurance;
- (4) establish, administer, and maintain an association; and
- (5) receive funds from the state plan of health insurance (1992)

**Sec. 21.55.040. Plan of operation.** The plan of operation and equitable administrative provisions shall become effective upon the date the plan is submitted. If the association fails to submit a suitable plan after notice and hearing, adopt regulations, or provisions of this chapter, the director or superseded director.

- (b) All members of the association shall comply with the plan of operation.
- (c) The plan of operation shall:
  - (1) establish procedures for the administration of this chapter will be performed;
  - (2) establish procedures for the administration of this chapter;
  - (3) establish the amount of contributions under AS 21.55.020;
  - (4) establish regular meetings;
  - (5) establish procedures for the administration of the association, its agents, and its members;
  - (6) provide that a member of the association may appeal a decision of the association;
  - (7) establish procedures for the administration of the association to the director;
  - (8) contain additional powers and duties of the association.

**Sec. 21.55.050. Administrative Procedure Act.** (Administrative Procedure Act)

**Sec. 21.55.060. Tax and taxes levied by the state and personal property.** (§ 2 ch 126 SLA 1992)

**Article 2**

**Section**

- 100. Types of insurance plans
- 110. Minimum benefits of state plan
- 120. Deductibles and copayments

**Sec. 21.55.100. Type of health insurance plan for residents who are high risk.** The state plan of health insurance shall include deductibles as described in this section.

- (2) sue or be sued;
- (3) enter into contracts with insurers, similar associations in other states, or with other persons for the performance of administrative functions;
- (4) establish administrative and accounting procedures for the operation of the association; and
- (5) receive funds from sources other than members of the association. (§ 2 ch 126 SLA 1992)

**Sec. 21.55.040. Plan of operation.** (a) The association shall submit to the director a plan of operation and amendments necessary or suitable to assure the fair, reasonable, and equitable administration of the association. The plan of operation and amendments become effective upon approval in writing by the director. If the association fails to submit a suitable plan of operation by December 22, 1992, or if at subsequent time the association fails to submit suitable amendments to the plan, the director may, after notice and hearing, adopt reasonable regulations necessary or advisable to effectuate the provisions of this chapter. These regulations shall continue in force until modified by the director or superseded by a plan submitted by the association and approved by the director.

- (b) All members of the association shall comply with the plan of operation.
- (c) The plan of operation shall
  - (1) establish procedures whereby all the powers and duties of the association under this chapter will be performed;
  - (2) establish procedures for handling assets of the association;
  - (3) establish the amount and method of reimbursing members of the board of directors under AS 21.55.020;
  - (4) establish regular places and times for meetings of the board of directors;
  - (5) establish procedures for records to be kept of all financial transactions of the association, its agents, and the board of directors;
  - (6) provide that a member insurer aggrieved by a final action or decision of the association may appeal to the director within 30 days after the action or decision;
  - (7) establish procedures whereby selections for the board of directors will be submitted to the director;
  - (8) contain additional provisions necessary or proper for the execution of the powers and duties of the association. (§ 2 ch 126 SLA 1992)

**Sec. 21.55.050. Administrative Procedure Act.** The association is exempt from AS 4.62 (Administrative Procedure Act). (§ 2 ch 126 SLA 1992)

**Sec. 21.55.060. Tax exemption.** The association is exempt from the payment of fees and taxes levied by the state or any of its political subdivisions except taxes levied on real or personal property. (§ 2 ch 126 SLA 1992)

## Article 2. State Health Insurance Plans.

### Section

100. Types of insurance plans
110. Minimum benefits of state health insurance plan
120. Deductibles and copayments

### Section

130. Preexisting conditions
140. Persons, care, and services not covered
150. State plan premiums

**Sec. 21.55.100. Types of insurance plans.** (a) The association shall make available to residents who are high risks or to federally defined eligible individuals an individual health insurance plan of health insurance. The association shall offer three alternatives related to deductibles as described in AS 21.55.120 and may offer additional deductible alternatives.