

SB

276

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: SB 276
(S) Publish Date: 1/23/04

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title AIGA Assessment RDU AIDEA (125)
Component AIDEA
Sponsor Rules
Requester By Request of the Governor Component No. 1234

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation authorizes Alaska Industrial Development and Export Authority (AIDEA) to guarantee loans to the Alaska Insurance Guaranty Association (AIGA) needed to make the association financially able to meet cash flow needs. AIDEA guarantees for association loans are limited to a maximum outstanding principal balance at any time of \$30 million on all loans. There is no financial impact on the operations of AIDEA.

Prepared by: Ron Miller, Executive Director Phone (907) 269-3000
Division: AIDEA/AEA Date/Time 12/24/03 9:00 AM
Approved by: Edgar Blatchford, Commissioner Date 12/24/2003
Agency: Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 5
Bill Version: SB 276
(S) Publish Date: 1/23/04

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
Title: "An Act relating to the RDU: Workers' Compensation
Alaska Insurance Guaranty Association..." Component: Workers' Compensation
Sponsor: Rules Committee
Requester: Governor Component Number: 344

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousand's of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: None
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated fiscal impact to the department as a result of this legislation.

Prepared by: Paul Grossl, Director Phone 465-2790
Division: Workers' Compensation Division Date/Time 12/31/03 9:17 AM
Approved by: Greg U'Claray, Commissioner Date 12/31/2003
Agency: Department of Labor and Workforce Development

FISCAL NOTE

STATE OF ALASKA
2004 Legislative Session

Fiscal Note Number: 6
Bill Version: CSSB 276(L&C)
(S) Publish Date: 2/18/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title AK Insurance Guaranty Assn. BRU AK Permanent Fund Corporation
Component Earnings Reserve
Sponsor Governor
Requester Senate Labor and Commerce Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	2005	2006	2007	2008	2009	2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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						
1041 PF Earnings	8,890.7					
TOTAL	8,890.7	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 5,828.5
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Jane Alberts Phone 465-3844
Division: Labor & Commerce Committee Staff Date/Time 2/18/04 11:23 AM
Approved by: Senator Con Bunde, L&C Chair Date 2/18/2004
Agency: Legislature

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 7
Bill Version: CSSB 276 (FIN)
(S) Publish Date: 3/26/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act relating to AK Insurance Guaranty Assoc. BRU Risk Management
Component Risk Management
Sponsor Senate Rules by request of the Governor
Requester _____ Component No. 71

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1007 I/A Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation no longer requires an assessment fee on self insured employers and therefore has no fiscal impact to Risk Management.

Prepared by: J. Brad Thompson, Director
Division Risk Management
Approved by: _____
Agency Administration

Phone _____
Date/Time 3/23/04 2:21 PM
Date 3/23/2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 8
Bill Version: CSSB 276(FIN)
(S) Publish Date: 3/26/04

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title AIGA Assessment RDU Alaska Railroad Corporation
Component _____
Sponsor Rules
Requester By Request of the Governor Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Alaska Railroad Corporation (ARRC) is a public corporation supported by revenues generated through its freight, passenger and real estate services. ARRC does not receive State subsidies for operations or capital improvements from the State.

This legislation has no fiscal impact on the operations of the ARRC.

Prepared by: Wendy Lindskoog, Director of External Affairs Phone 907.269.2498
Division: Alaska Railroad Corporation Date/Time 3/24/04 4:22 PM
Approved by: Edgar Blatchford, Commissioner Date 3/24/2004
Agency: Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 9
Bill Version: CSSB 276(FIN)
(S) Publish Date: 3/26/04

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title: AIGA Assessment RDU: Insurance (116)
Component: Insurance
Sponsor: Rules
Requester: By Request of the Governor Component No.: 354

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation increases the Alaska Insurance Guaranty Association's (AIGA) ability to pay Alaska claims of insurers who become insolvent. It raises the current assessment limit for insurance companies from two percent to four percent of the member insurers net direct written premiums for a calendar year (AS 21.80). Based on 2002 premium activity for workers compensation insurance, an increase to four percent could generate a maximum assessment of approximately \$8 million annually. The legislation also allows all other lines of business to be assessed up to a maximum of two percent and allows AIDEA to provide guarantees for loans to the AIGA up to a maximum of \$30 million.

This bill has no fiscal impact on the operations of the division.

Prepared by: Linda S. Hall, Director Phone: (907) 269-7900
Division: Insurance Date/Time: 3/24/04 2:43 PM
Approved by: Edgar Blatchford, Commissioner Date: 3/24/2004
Agency: Community & Economic Development



Division of Insurance

P.O. Box 110805, Juneau, AK 99811-0805

Telephone: (907) 465-2515 • Fax: (907) 455-3422 • Text Telephone: (907) 465-5437

Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us/insurance/

Workers Compensation

There has been a critical development in Alaska workers compensation. In July of 2003, the Alaska Insurance Guaranty Association learned that Fremont Indemnity Company was declared insolvent in Los Angeles Superior court and put into liquidation. The Insurance Commissioner of the State of California was made liquidator by the court to wind up the affairs of the insurance company.

Fremont was a significant writer of workers compensation insurance in the Alaska market for many years prior to the suspension of its authority to write insurance coverage by the Alaska Division of Insurance in early 2001. At its peak, Fremont handled approximately 27% of the Alaska workers compensation business. Fremont also handled claims for policies originally written by Industrial Indemnity Company of Alaska after a merger in 1999. While Fremont has not actively written policies for over two years, approximately \$60,000,000 in claims reserves remained outstanding in July.

The Alaska Insurance Guaranty Association (AIGA) is an association formed under statute and whose members are insurance companies with approval to write property and casualty insurance in Alaska. The purpose of the Association is to "minimize financial loss to claimants or policyholders because of the insolvency of an insurer". The association pays the claims of insurance companies that are put into liquidation by insurance regulators. The funds to make payments on claims come from periodic assessments to the members based on the amount of premium written in Alaska. Statute caps assessments at 2% of written premiums each year. At the current time, the assessment on the written workers compensation premium generates approximately \$4.2 million. There are currently claims of four insolvent insurers being handled by the AIGA. Attached is a cash flow projection chart.

The magnitude of the Fremont insolvency far surpasses any prior insolvency in the Alaska insurance industry and exceeds the resources of the association, thus creating a substantial cash deficit. One of the options authorized by statute when there are insufficient funds to make necessary payments is to prorate claims payments. In August of 2003, notice was received by the Director of the Division of Insurance from the AIGA that workers' compensation claims would need to be pro-rated. This would mean that workers compensation claims would be paid at a pro-rated amount based on the available funds in the AIGA, thus creating a financial burden on claimants. It would mean that injured workers would receive lower weekly wage checks and medical care expenses would not be paid in full. Fortunately, to date, this has not been necessary but the funds in the AIGA are running very low and there will not be sufficient monies to continue to pay claims in the very near future.

Employers would face the financial burden for these claims. Under Alaska statute, the workers compensation obligation is that of the employer, who generally satisfies this obligation with the purchase of a workers' compensation policy. When the insurance company becomes insolvent, the claims are transferred to the Alaska Insurance Guaranty Association. When there are no funds to continue to pay claims, the obligation for benefits to injured workers will fall back to the employer. Employers would now be faced with the costs of both lost wages and medical care benefits.

The dollar amounts of claims currently being handled by the AIGA are substantial. Following is a breakdown of the larger claims:

<u>Dollar Value of Claims</u>		<u>Number of Claims</u>
Over	\$5,000,000	1
Over	\$2,000,000	3
Over	\$1,000,000	3
Over	\$500,000	17
Over	\$100,000	133
Over	\$50,000	136

This additional, unanticipated cost could potentially force small businesses to close their doors or face bankruptcy themselves.

Over time the legislature in Alaska and in every other state in the country has adopted as public policy the creation of a guaranty fund whose goal is to protect policyholders and claimants in the event of an insurance company insolvency. The premise is that the cost of the safety net is spread through the insured population. The mechanism to provide this safety net is the assessment capability of the guaranty fund. The original proposed legislation would allow the current caps on the assessment to be increased and to assess all lines of business to help raise the necessary funds to continue to pay claims. It would also allow AIDEA to become a guarantor of a loan to the Alaska Insurance Guaranty Association.

The solutions originally proposed are painful but the provisions are not as painful as the consequences of no action - we leave 380 Alaskan employers facing a financial obligation that could destroy their business and 598 injured workers who would face at a minimum an interruption in their benefits during a transition period as the financial obligation is given back to the employer.

Alaska Insurance Guaranty Association

Workers Compensation Account
Cash Flow Projection as of 12/31/03

	<u>Cash Flow Based on Current 2% Assessment Rate</u>
Cash on Hand as of 1/1/04	6,615,301
2004 Assessment Income	4,394,181
2004 Expected Loss and Expense Payments	<u>16,837,942</u>
2004 Projected Shortfall	-5,828,460
2005 Projected Assessment Income	5,325,748
2005 Expected Loss and Expense Payments	<u>14,216,405</u>
2005 Projected Total Shortfall	-14,719,117
2006 Projected Assessment Income	5,592,035
2006 Expected Loss and Expense Payments	<u>9,417,226</u>
2006 Projected Total Shortfall	-18,544,308
2007 Projected Assessment Income	5,871,637
2007 Expected Loss and Expense Payments	<u>7,278,502</u>
2007 Projected Total Shortfall	-19,951,173
2008 Projected Assessment Income	6,165,218
2008 Expected Loss and Expense Payments	<u>6,429,216</u>
2008 Projected Total Shortfall	-20,215,171
2009 Projected Assessment Income	6,473,479
2009 Expected Loss and Expense Payments	<u>5,132,073</u>
2009 Project Total Shortfall	-18,873,765
2010 Projected Assessment Income	6,797,153
2010 Expected Loss and Expense Payments	<u>4,470,723</u>
2010 Projected Total Shortfall	-16,547,335

Alaska Insurance Guaranty Association

Workers' Compensation Account
Cash Flow Projection as of 12/31/2003

	Cash Flow Based on Current 2% Assessment to WC Fund Only	Funding Sources Based on Proposed Assessments in SB276							
		Cash Flow Based on Proposed SB276	Assessment from WC Fund	Actual WC Assessment (Maximum Rate)	Assessment from Auto Fund	Assessment from Other Fund	Actual Auto & Other Assessment (Maximum 2%)	Maximum 2% Assessment from Self- Insureds & JIAs	AIDEA Backed Loan
Cash on Hand as of 1/1/04	6,615,301	6,615,301							
2004 Expected Loss and Expense Payments	16,837,942	16,837,942							
2004 Assessment Income	4,394,181	10,222,641	8,788,362	4.00%	706,281	727,998	0.19%	0	0
2004 Cash Flow	-5,828,460	0							
2005 Expected Loss and Expense Payments	14,216,405	14,216,405							
2005 Projected Assessment Income	5,325,748	14,216,405	10,651,496	4.00%	1,755,465	1,809,444	0.47%	0	0
2005 Cash Flow	-14,719,117	0							
2006 Expected Loss and Expense Payments	9,417,226	9,417,226							
2006 Projected Assessment Income	5,592,035	9,417,226	9,417,226	3.37%	0	0		0	0
2006 Cash Flow	-18,544,308	0							
2007 Expected Loss and Expense Payments	7,278,502	7,278,502							
2007 Projected Assessment Income	5,871,637	7,278,502	7,278,502	2.48%	0	0		0	0
2007 Cash Flow	-19,951,173	0							
2008 Expected Loss and Expense Payments	6,429,216	6,429,216							
2008 Projected Assessment Income	6,165,218	6,429,216	6,429,216	2.09%	0	0		0	0
2008 Cash Flow	-20,215,171	0							

	Cash Flow Based on Current 2% Assessment to WC Fund Only	Funding Sources Based on Proposed Assessments in SB276						
		Cash Flow Based on Proposed SB276	Assessment from WC Fund	Actual WC Assessment (Maximum 4%)	Assessment from Auto Fund	Assessment from Other Fund	Actual Auto & Other Assessment (Maximum 2%)	Maximum 2% Assessment from Self- Insureds & JIAs
2009 Expected Loss and Expense Payments	5,132,073	5,132,073						
2009 Projected Assessment Income	<u>6,473,479</u>	<u>5,132,073</u>	5,132,073	1.59%	0	0	0	0
2009 Cash Flow	-18,873,765	0						
2010 Expected Loss and Expense Payments	4,470,723	4,470,723						
2010 Projected Assessment Income	<u>6,797,153</u>	<u>4,470,723</u>	4,470,723	1.32%	0	0	0	0
2010 Cash Flow	-16,547,335	0						

The Other Fund consists of insurance such as property, general liability, medical malpractice, homeowners, boatowners, boiler and machinery, earthquake, aircraft, and products liability.

THE
FOLLOWING
DOCUMENT(S)
ARE
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Re: SB 276 AK Insurance Guaranty Assoc.

Frank H. Murkowski, Governor



Division of Insurance

550 W. 7th Avenue, Suite 1560, Anchorage, AK 99501-3567

Telephone: (907) 269-7900 • Fax: (907) 269-7910 • Text Telephone: (907) 465-5437

Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us/insurance/

FAX Transmittal

TO: Shella Peterson

DATE: 3-19-04

FAX NUMBER: 465-4714

FROM:

Linda Hall

Total # of pages including cover 4

Attachment:

Attached please find:

1. Pages 5 & 6 from the AIGA plan of operation which details the calendar year for assessments to be applied to policies – I have underlined the relevant language.
2. The sample assessment letter sent to insurance companies which also should the 12 month period to surcharge new and renewing policies.

The Division of Insurance approves the plan of operation. It is also our position that the assessments may only be made on new policies or at renewal of existing policies. We would not approve an assessment being charges mid-term in a policy. Let me know if any questions.

Thanks

If this FAX does not transmit properly, please call the number listed immediately

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Provided by Gary Wilken

the board. The board may use the mailing address of a person, firm or corporation employed to perform administrative functions as the official office address of the Association.

Authority: AS 21.80.070

100. BANK ACCOUNTS. (a) The board may open one or more bank accounts for use in Association business. The funds of the Association shall only be invested with federally insured institutions through bank accounts, certificates of deposits, or treasury obligations.

(b) Reasonable delegation of deposit withdrawal authority to Association bank accounts may be made consistent with prudent fiscal policy.

(c) The board may borrow money from any person, organization, or from an appointed servicing facility as the board, in its judgment, deems advantageous for the Association and the public.

Authority: AS 21.80.040
AS 21.80.060
AS 21.80.070

110. ASSESSMENTS AND SURCHARGE PERCENTAGES [REFUNDS]. (a) The board shall determine and may levy assessments to cover the projected reasonable cost of claims and expenses to administer the Association, and shall determine surcharge percentages that may be applied by member insurers to insurance policies. In determining the need for an initial assessment, the board, on at least an annual basis and assisted by an independent actuary, will project the level of funding needed for each of the three accounts referenced in AS 21.80.040(a) during the following calendar year; the board and independent actuary will also project the aggregate net direct written premium of all member insurers and assigned risk pools for the following year on the kinds of insurance in each account. Such projections will take into account any estimated or actual differences between the aggregate assessment and the maximum allowable surcharge amounts from prior years. If funding is needed for any of the accounts, the board, based upon its projections, will determine uniform initial assessment percentages applicable to each account; the board will also determine the uniform surcharge percentages that may be applied by member insurers during the next calendar year to all policies related to an account, and will notify the Director and member insurers of each uniform surcharge percentage. After receipt of a notice of uniform surcharge percentage, member insurers or their rating organizations may apply to the Director for surcharge rates to be applicable to policies issued during the next calendar year.

(b) Initial and adjusted assessments shall be calculated from data provided by member insurers to the Alaska Division of Insurance on each member insurer's Annual Statement, "Exhibit of Premiums and Losses". The "Exhibit of Premiums and Losses" data should include only financial information respecting the transaction of insurance in Alaska. Member insurers who are also acting as servicing carriers for assigned risk pools shall be responsible for reporting to the Association the portion of their total net direct written premium that results from the assigned risk pool accounts serviced by them. If the data is not available for the year preceding the year of initial or adjusted assessment, the most recent data available from the Division will be used.

(c) During November of each year, the board will levy initial assessments, if any, against member insurers by means of written notices of assessment containing reasonable details of the projections made by the board in accordance with Section 110(a). An initial assessment may be made at any other time if the association determines earlier funding is necessary. For all initial assessments, the association shall determine and notify the Director and member insurers of the uniform surcharge percentage that may be applied by member insurers as a surcharge to all new and renewal policies related to the account. The association shall also provide notice of the commencement date of the 12-month period during which the surcharge is to apply. Payment of all levies of initial assessment shall be due within 45 days of the date of the written notice of assessment. Any unpaid levy amounts shall accrue interest after the applicable due date at the rate of 12% per annum, and the Association shall also be entitled to recover the costs of all collection efforts, including actual reasonable attorneys fees.

(d) Upon calculation of the adjusted assessment amounts allocated to each member insurer, the board will issue written notices of additional levy or credit, as appropriate, to member insurers. Additional levies against member insurers resulting from adjusted assessments shall be due and payable within 45 days of the date of the written notice of additional levy. Any unpaid additional levy amounts after the applicable 45-day due date shall accrue interest and be subject to recovery of collection costs and attorney fees, as provided in section 110(c). Credits due to member insurers from adjusted assessments will be paid by the Association within 45 days of the written notice of credit; provided, if a member insurer has any unpaid assessments at the time of payment of a credit, then the Association will offset the unpaid amounts, including any accrued interest and collection costs, against the credit; and provided further, that a member insurer may notify the Association to retain a credit to the member insurer's account to be offset against future assessments.

(e) For purposes of Association requirements, assigned risk pool business shall be accounted for separately from voluntary business by member insurers who are also acting as servicing carriers. Assigned risk pools and their policyholders are subject to initial and adjusted assessments, credits, surcharge rates, return of funds and other Association requirements to the same extent as member insurers and their policyholders. Each servicing carrier for an assigned risk pool, acting as a servicing conduit, shall be responsible for making timely payment of any initial or adjusted assessment levied against the assigned risk pool serviced by that carrier, pro rata to the amount of net direct written premium of the assigned risk pool serviced by that carrier in the applicable initial or adjusted assessment year. Any applicable credits will likewise be credited to servicing carriers on the same pro rata basis. To ensure assigned risk pool reimbursement to servicing carriers for amounts paid on behalf of an assigned risk pool, the plan administrator, rating organization and/or servicing carriers acting on behalf of an assigned risk pool may make any applicable surcharge rate filing to the Director on behalf of the subject assigned risk pool; and each such filing shall be applied uniformly by all carriers servicing that assigned risk pool.

(f) The board may waive the collection of levy or payment of credit from or to a member insurer when the amount produces a collection or payment of less than \$50.00.

(g) In the event any member insurer collects total surcharges from policyholders during a calendar year in excess of its applicable adjusted assessment, the member insurer shall pay such excess amount to the Association within 45 days of the date of the applicable written notice of levy or credit issued by the board.

July 15, 2003

ASSESSMENT NOTICE

ABC Company
123 First St
Anywhere, USA

NAIC # 12345

Attention: Corporate Tax or Regulations Department

The Alaska Insurance Guaranty Association (AIGA), under terms of Chapter 80 of the Alaska Insurance Code (Title 21 of Alaska Statutes), is responsible for administering the payment of covered claims for insurance carriers as to whom an Order of Liquidation with a finding of insolvency has been issued. The AIGA is also given the responsibility to assess its members for the funds needed to pay claims and administrative expenses and to notify the Alaska State Director of Insurance and member insurers of the surcharge percentage that may be applied by member insurers to all new and renewal policies related to each account.

The Division of Insurance has requested that the AIGA advise its member insurers of the need to make a filing with the Division if you intend to surcharge new and renewing policies. The surcharge for this assessment will be applicable to the 12-month period including September 1, 2003, through August 31, 2004. Questions regarding filing issues should be directed to the Alaska Division of Insurance (907-465-4613).

The Board has determined your initial 2003 assessment based on the uniform surcharge percentages by statute amount as indicated below. Your initial assessment is based on data you supplied the NAIC on your annual statement for the year ended 12/31/2002 and is limited to 2% of net direct written premium for that year. Any assessment under \$50.00 has been omitted. An adjusted assessment will be issued in 2005 following the reporting of each carrier's 2004 premiums.

	Total 2002 Assessable Premium	Alaska Surcharge Percentage	Your Assessable Premium	Your 2001 Assessment
Worker's Comp	212,279,281	2.00%	999,999,999	999,999
Auto	375,912,760	0.00%	999,999,999	999,999
Other	389,543,120	0.00%	999,999,999	999,999
Assessment Due				\$ 999,999

Please remit no later than August 31, 2003. A financial charge of 1% per month will be added to your assessment after 8/31/2003. Remit to:

ALASKA INSURANCE GUARANTY ASSOCIATION
c/o Northern Adjusters, Inc.
1401 Rudakof Circle, Ste 100
Anchorage, AK 99508



Alaska Chapter

March 1, 2004

Senator Con Bunde
State Capitol, Room 506
Juneau, AK 99801

Dear Senator Bunde:

ABC of Alaska's Legislative Review Task Force has reviewed HB 403 and trusts that your committee will address a significant concern about the impact of this legislation on the construction industry. While we have identified no reluctance on the part of the industry to support an increase in assessments to cover shortfall in the Alaska Insurance Guaranty Association pool, the timing of implementation on any assessment increase will be critical.

Contractors are now bidding their work for the prime construction season which will run from spring through the end of the year. Bids consider existing Worker's Compensation rates to be static until each employer's renewal. If rates increase in the midst of an insurance year, contractor margins, already slim, will be significantly impacted.

In the construction industry, Worker's Compensation costs can be averaged from 10% to 12% of payroll costs. Last year's construction payroll was \$881 million and the Alaska Department of Labor Research & Analysis Division estimates a 3-5% increase this year. If we estimate a 4% increase, we are looking at total construction payroll of \$916 million in 2004. At 10%, the total worker's compensation rate for the industry can be estimated at \$91.6 million for 2004. A two percent increase will be \$1.8 million for the year. If we assume that by June the balance of the season's work has been awarded and contracted, then the industry will absorb up to a \$900,000 dollar hit on projects already bid and contracted for the year. Where in a normal environment costs are shared with construction buyers, in this scenario, the full brunt of the cost increase will be born by the industry.

The simple way to avoid this impact is to ensure that the change to the Worker's Compensation fee structure is a "new and renewal change" rather than an "in force" change. If increases are incorporated in Worker's Compensation fees at renewal, the contractor is already looking ahead to increases or adjustments in that expense as he or she is bidding.

If you have any questions on this issue, or if I can be of assistance in any other way, please do not hesitate to contact me at 565-5600.

Sincerely,

Eden Larson
President & CEO

cc: Senate Labor & Commerce Committee, Senate Finance Committee



Alaska Municipal League Joint Insurance Association, Inc.

807 G Street, Suite 356 • Anchorage, Alaska 99501 • Phone (907) 258-2625 • Fax (907) 279-3615

February 28, 2004

The Honorable Gary Wilken and
The Honorable Lyda Green
Co-Chairs, Senate Finance Committee
State Capitol
Juneau, AK 99801-1182

RE: SB276

Dear Senators Wilken and Green:

The Alaska Municipal League Joint Insurance Association (AML/JIA) opposes SB276 as originally drafted. The bill imposes a "non-user fee" on local governments, school districts, and self-insureds, including the State of Alaska.

In addition to other, more lucrative provisions, the bill proposes a two percent assessment on all workers' compensation expenses paid out annually by a joint insurance arrangement or self-insured employer. Neither joint insurance arrangements like the AML/JIA nor self-insured employers like the State of Alaska are eligible to receive any benefit from the fund.

AS21.76 permits public entities to form joint insurance arrangements. If additional monies are needed to protect injured workers in the pool, school and municipal members of the joint insurance association would be tapped to replenish the pool's reserves much as the private sector members of the Alaska Guaranty Fund are assessed to replenish their fund.

Ultimately, workers' compensation is an obligation of the employer. This is an obligation the 140 municipal and school district members of the AML/JIA take very seriously. We have been working diligently to adequately fund our program. In the unlikely event of financial problems, the AML/JIA does not expect, nor are we entitled to, a bail-out from the Guaranty Fund.

HB403, an identical bill in the other body, was considered by the House Labor & Commerce Committee. In that committee, sections 1,3,5,6 and 8 were removed from the bill to eliminate the controversial assessment on self-insureds and joint insurance arrangements. At that time, the administration supported the removal of these entities.

The sections applying to self-insureds and joint insurance arrangements only represent approximately 1/24th of the total revenue contemplated by the bill. If these sections are removed and the bill passes, injured workers will still receive full payment of their claims. I ask you and the Senate Finance Committee to also consider dropping these sections from the bill, as they pose an unbudgeted burden largely shouldered by Alaska's schools, local governments and the State itself.

Thank you for your consideration.

Sincerely,

Kevin Smith
Executive Director

cc Senate Finance Committee

Subject: [Fwd: [Fwd:SB276]]

Date: Thu, 19 Feb 2004 17:20:41 -0900

From: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

Organization: Alaska State Legislature

To: Sheila Peterson <Sheila_Peterson@legis.state.ak.us>

Sheila-

Here is a letter on SB 276 AK Insurance Guaranty Fund that came to us too late. Perhaps you are interested in it for Finance meeting.

jane

Subject: [Fwd: *****SPAM***** SB276]

Date: Thu, 19 Feb 2004 11:34:22 -0900

From: Senator Con Bunde <senator_con_bunde@legis.state.ak.us>

To: Jane Alberts <Jane_Alberts@Legis.state.ak.us>

Subject: *****SPAM***** SB276

Date: Tue, 10 Feb 2004 20:40:36 -0800 (PST)

From: Roy Agloinga <roy_agloinga@yahoo.com>

To: Senator_Con_Bunde@legis.state.ak.us, Senator_Hollis_French@legis.state.ak.us,
Senator_Ralph_Seekins@legis.state.ak.us, Senator_Bettye_Davis@legis.state.ak.us,
Senator_Gary_Stevens@legis.state.ak.us

CC: wmcocity@starband.org, Senator_Donny_Olson@legis.state.ak.us

To: Senate Labor Commerce Committee Members

Regarding: SB276

I'm writing on behalf of the City of White Mountain. We are concerned about the implications of Senate Bill 276, a Governor's bill, proposing an assessment of 2% of all worker's compensation payments made by joint insurance associations and self-insureds. This amounts to approximately \$100,000 for the AML/JIA for this fiscal year.

As a pool member of AML/JIA, our City cannot afford higher workmen's compensation insurance payments. With Governor's Murkowski's budget cuts at the municipal level, we are already forced to find alternative funds for a position that coordinates critical services in our community. Forcing higher costs on us to replenish the Alaska Guaranty Fund will further damage our ability to keep services that we are working so hard to maintain.

The City of White Mountain cannot afford increased expenses or cuts in revenue from the State government. As a municipality, we have not access to the Guaranty Fund, and believe that this tax on municipalities, schools and self-insureds to subsidize the insurance industry at a time of fiscal crisis's for municipalities and schools will jeopardize already crippled services.

Sincerely yours,

Roy Agloinga

[Fwd: [Fwd:SB276]]

Mayor, City of White Mountain

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Jane Alberts, Senate Labor and Commerce Committee Aide <jane_alberts@legis.state.ak.us>

Legislative Position Papers on

HB289; Construction Contractor Bonding/Insurance

HB311/SB323; Employer Responsibility for Workers Compensation

HB403/SB276; Alaska Insurance Guaranty Association

HB450/SB311; Insurance & Worker's Compensation System

Prepared & Presented by

Alaska Independent Insurance Agents & Brokers, Inc.

**Lori Wing, President
Alice Federenko, Executive Director**

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(907) 349-2500 Phone
(907) 349-1300 Fax
Email:
Website: aiaab.org

House Bill 289

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies/brokers throughout Alaska is concerned with the extreme change in the bond limits proposed under this bill. We are especially concerned about the increase proposed for the specialty contractor's license. The financial requirements to obtain this bond limit would be out of reach for many small or start up businesses. We believe that an increase from \$10,000.00 to \$20,000.00 for general contractors, and \$5,000.00 to \$10,000.00 for specialty contractors would be appropriate.

The increase proposed for the liability limits has long been warranted. Currently limits of liability are offered in a combined form. Example: \$300,000.00 combined single limit of liability for bodily injury and property damage per occurrence and \$600,000.00 in policy term aggregate. We feel that this limit as a minimum would be appropriate.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 289 with our proposed revisions in bonding limits. We encourage the honored members of the Twenty-Third Legislature to quickly approve the legislation and allow them to be enacted.

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 311 and Senate Bill 323

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies & brokers throughout Alaska has reviewed the language of both House Bill 311 and Senate Bill 323. While we realize the intent of both bills, we believe that it will likely discriminate against general contractors and project owners respectively.

The Alaska Workers' Compensation Act requires that all employers meet the criteria within the act. The act requires that any employer either purchase a Workers' Compensation policy or become a qualified self-insured. Regardless of which way the employer elects to comply, or is eligible to comply, the intent of the legislation must be met.

The statutes, as currently written do not allow for contractors, as respects project owners, nor sub-contractors, as respects general contractors, to opt out of the Workers' Compensation Act.

We believe that there is not an exemption for class, contractors or sub-contractors in the original act. Therefore, the two proposed bills appear to be restating provisions of the original act and not necessary. The Workers' Compensation Act needs to be enforced, with all employers complying, eliminating the need for either House Bill 311 or Senate Bill 323.

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 403/Senate Bill 276

Alaska Independent Insurance Agents and Brokers, Inc., an association comprised of insurance agencies/brokers throughout Alaska is concerned with the financial solvency of the Alaska Insurance Guaranty Association (AIGA).

We are extremely concerned that the AIGA may soon become insolvent and be unable to pay the Workers' Compensation claims that were previously filed with various insurers now known to be insolvent.

Insurance brokers place a high degree of confidence in the financial condition of the various insurers with which we place business. We continually monitor their ratings through organizations such as A M Bests, Moody's, Standard & Poors. However, even with such scrutiny placed on financial ratings, an insurer will occasionally become insolvent. Such insolvencies result in the insurer being unable to pay the claims for which they have a contractual obligation. We then rely on the guaranty associations of the various states to assume these claims, making payments to the claimants as if the insurer were still meeting its contractual obligations.

Within the past few years, the AIGA, has been forced to assume an unusual amount of claims due to the insolvency of Reliance Insurance Group, Fremont Indemnity Company and others previously writing Workers' Compensation insurance policies in Alaska. The value of these claims far exceeds the funds of the Alaska Insurance Guaranty Association. According to Division of Insurance testimony, unless funding is shored up, the ability of the Guaranty Association to meet its cash flow obligations will end before mid-year 2004.

The claims would then revert to the employer as; per the various statutes regulating Workers' Compensation employers would be obligated. These claims would without a doubt place a financial burden on the employers, one they may be unable to meet or, by meeting, be forced into a debt from which they may never recover.

We have reviewed the context of House Bill 403 and its companion Senate Bill 276. While we recognize that a two-percent assessment may not be welcome, we concur with the language of the bill in that it will provide the most effective means of capitalizing the AIGA in least amount of time allowing them to continue to pay claims.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 403/Senate Bill 276 as proposed by the administration. We encourage the honored members of the Twenty-Third Legislature to quickly approve the bill(s) and allow them to be enacted. The result of not enacting this legislation would result in serious consequences that will not only impact claimants/employees and employers and others but also have a tremendous negative impact upon the business community in general.

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

House Bill 450/Senate Bill 311

Close to one-hundred years ago, various states enacted statutes that provided a means for injured employees to be compensated for both the cost of medical care and lost wages without proving negligence on the part of the employer. These statutes, having evolved over the years, are what we now know as the Workers' Compensation Acts of the fifty states. It was hoped that these acts would provide a defined benefit and eliminate the need for unnecessary litigation.

The Alaska Workers' Compensation Act governs the manner in which claims are filed, recorded, adjusted and ultimately settled. Within this process are various mechanisms that are continually being challenged often resulting in opinions that are thought to be outside the intent of the act. This has resulted in claims being frequently litigated, increasing the cost of such claims well beyond the actual cost of medical care, lost wages and other benefits of the act. Such litigation and unprecedented awards has had a dramatic impact on the cost of meeting the statute; on the cost of Workers' Compensation insurance policies. Such litigation and unprecedented awards defeats the intent for which the statutes were enacted a decade ago.

Any statute, regulation or ordinance that is left open to frequent interpretation, will have varying opinions on the intent of the original legislation. Within the Workers' Compensation Act, these varying opinions, often thought to be outside the actual intent of the act, have resulted in additional costs or increased costs to the employer and, consequently, their insurer. To cope with these costs, the loss costs, or rates, have been increased over the year. Some insurers, even with the increased loss costs, elected to not provide Workers' Compensation insurance policies in Alaska. Others, while trying to compete, became insolvent forcing the claims for which they are contractually obligated into the Alaska Insurance Guaranty Association.

The Workers' Compensation Act has the ability to meet the intent of the act in a means that is cost effective and equitable for both the employee and employer. But, in order to accomplish that objective changes, that do not impact the actual benefit to the employee, need to be made to the act. Such changes are the intent of House Bill 450/Senate Bill 311.

The Alaska Independent Insurance Agents and Brokers, Inc. has reviewed the context of House Bill 450 and its companion Senate Bill 311. We concur with the language of the bill and support its limited reform of the Workers' Compensation Act. Enacting this legislation will allow the employers to meet the terms of the act, indemnify their employees in a manner that is fair and equitable yet allow for claims to be challenged in a prudent fashion. It will also attract new insurers into the state providing for a competitive market.

The Alaska Independent Insurance Agents and Brokers, Inc. supports House Bill 450/Senate Bill 311. We encourage the honored members of the Twenty-Third Legislature to quickly approve the bill(s) and allow them to be enacted. By enacting this very important legislation, it is our hope that the faults in the Workers' Compensation Act will be eliminated while allowing the employers to meet the conditions of the act and the employees to receive the benefits.

This Is Respectfully Submitted,

The Alaska Independent Insurance Agents and Brokers, Inc.

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