

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

3517 HLAB HB 620 - HB 657

393

Representative Marco Pignalberi
Page 3
February 19, 1986

Sec. 45.50.760 establishes a short title for section 2 of the bill.

Section 3 applies section 2 of the bill to dealerships entered into or renewed after the effective date of the Act.

Section 4 describes how the bill amends the court rule dealing with injunctions.

TL:mkr
M3:051



WHO'S WHO IN DIRECT SELLING

DIRECT SELLING ASSOCIATION • 1776 K ST. N.W. WASHINGTON, DC 20006 • 202/293-5760

ACTIVE MEMBER COMPANIES AS OF FEBRUARY 27, 1986

Act II Jewelry, Inc.

(1)
101 Leland Court
Bensenville, IL 60106
John E. Kiple
312-860-3323
Jewelry - fashion and fine

Alcas Cutlery Corporation- CUTCO

(2)
1116 East State Street
P.O. Box 810
Olean, NY 14760-0810
Erick J. Laine
716-372-3111
Cutlery/cookware/tableware

Alfa Metalcraft Corporation of America

(1)
7970 Bayberry Road
Suite 10
Jacksonville, FL 32216
Terrence Fredricks
904-731-8200
Cookware

America's Buyers, Inc.

(2)
339 East 16 Street
Holland, MI 49423
Jack Stewart
616-392-7141
Buyer's club

American Dream Interna- tional Inc.

(2)
9500 Doe Avenue
Pasadena, CA 93291
Donald L. Thompson
209-651-3700
Cosmetics - skin, hair
and health

Amway Corporation

(2)
7575 East Fulton Road
Ada, MI 49355
Jay Van Andel
616-676-6000
Household, personal/
homecare, nutrition,
catalog

Arbonne International, Inc.

(2)
22541 Aspen Drive
El Toro, CA 92630
Petter Morek
714-770-2610
Cosmetics, skin care

Avacare, Inc.

(1)
9200 Carpenter Freeway
Dallas, TX 75247
Clinton H. Howard
214-638-7686
Cosmetics - skin, hair
and health care products

Avon Products, Inc.

(2)
Nire West 57 Street
New York, NY 10019
Paul B. Markovits
212-546-6015
Cosmetics and jewelry

Basket People home Parties Ltd.

(1)
P.O. Box 238
Taftville, CT 06380
David L. Phipps
203-886-1404
Decorative accessories -
wicker products

BeautiControl Cosmetics, Inc.

(1)
3311-400 Boyington
P.O. Box 815189
Dallas, TX 75381-5189
Richard W. Heath
214-458-0601
Cosmetics

Brite Music Enterprises, Inc.

(1) (2)
Box 9191
Salt Lake City, UT 84109
W. Edward Brady
801-487-5891
Children's song books,
cassettes, records

Don-Shoe Company

73 Alum Creek Drive
Columbus, OH 43209
Robert J. Kaynes, Jr.
614-252-0967
Baby shoe bronzing

Cameo Coutures, Inc.

(1)
9004 Ambassador Row
Dallas, TX 75247
J. Stanley Fredrick
214-631-4860
Clothing - lingerie,
bras, loungewear

Cattani California

(1)
5448 Satsuma
North Hollywood, CA
91609
Ladan Cattani
818-509-0728
Clothing - lingerie and
loungewear

Ceres Cosmetics, Inc.

(1)
Division of Nutri-detics
International, Inc.
19501 East Walnut Drive
City of Industry, CA
91749
Beverly Walter
714-598-1831
Cosmetics - skin care
and glamour

Cernitin America, Inc.

(2)
125 Dayton Street
P.O. Box 740
Yellow Springs, OH
45387
David W. Allen
513-767-7281
Food supplements, skin
and personal care
products

Chambre' Cosmetic Corpora-
tion
(1)
1200 Network Boulevard
San Antonio, TX 78249
Royce Britt
512-694-0846
Cosmetics, food supplements

Chlon International, Inc.
(1)
19512 Livernois Avenue
Detroit, MI 48221
Arthur A. Attaway
313-862-5851
Perfume

Computerized Buying Net-
work, Inc.
(2)
P.O. Box C-32035
Richmond, VA 23261
William T. Hunt
804-784-3413
Buying club

Concept Now Cosmetics
(1)
14000 Anson Street
Santa Fe Springs, CA
90670
Warren B. Southworth
213-921-0534
Cosmetics

Consumer Express, Inc.
(1)
One Lakeshore Drive
Suite 1580
Lake Charles, LA 70629
David P. Bertrand
318-474-0505
Cosmetics, household and
health food products

Contempo Fashions
(1)
6100 Broadmore
Shawnee Mission, KS 66202
Audrey Deryn
913-262-7407
Jewelry and accessories

The Creative Circle
(1)
15777 South Broadway
Gardena, CA 90248
George H. Karlin
213-327-1931
Craft - needlecraft kits

Debbie Howell Cosmetics
(1) (2)
8650 South Lafayette
Chicago, IL 60620
Deborah Howell
312-874-5504
Cosmetics

Diamite Corporation
(1)
131-D Albright Way
Los Gatos, CA 95030
Rudy Revak
408-866-7100
Nutritional, personal care
and fashion jewelry

Discovery Toys, Inc.
(1)
400 Elinwood Way
Suite 300
Pleasant Hill, CA 94523
Lane Nemeth
415-680-8697
Toys - educational, books
and games

Doncaster
(1)
Box 1159
Rutherfordton, NC 28139
Michael S. Tanner
704-287-4205
Clothing - ladies dresses,
coats, outer/sportswear

Dudley Products Company
(2)
3704 Old Battleground Road
Greensboro, NC 27410
Joe Louis Dudley, Sr.
919-282-0570
Cosmetics

Elan de Marlow
(1)
3914 Sandshell
Ft. Worth, TX 76137
Penny Marlow
817-232-9612
Cosmetics

Electrolux Corporation
(2)
3003 Summer Street
Stamford, CT 06905
Steven D. Cooper
203-359-3600
Vacuum cleaners/floor
polishers and
attachments

Elys'ee Scientific
Cosmetics
(1)
6804 Seybold Road
Madison, WI 53719
Linda R. Marshall
608-271-3664
Cosmetics

Emma Page Jewelry, Ltd.
(1)
2201 Northland Drive
Austin, TX 78756
Alan Smith
512-451-0988
Jewelry

Encyclopaedia Britannica,
Inc.
(2)
Britannica Centre
310 South Michigan Avenue
Chicago, IL 60604
Peter B. Norton
312-347-7000
Educational publications,
films

Fashion Dynamics
(1) (2)
1155 Triton Drive
Suite D
Foster City, CA 94404
Janice A. Solis
415-571-7766
Health/body care,
cosmetics, jewelry,
toys/collectibles

Fashion Two Twenty, Inc.
(1)
1263 South Chillicothe
Road
Aurora, OH 44202
Barbara N. Hart
216-562-5111
Cosmetics

Freedom Marketing Corpora-
tion
(2)
825 North Cass Avenue
Suite 311
Westmont, IL 60559
Norman P. Wolff
312-325-0009
Food supplements and
weight loss products

The Fuller Brush Company
(2)
2800 Rock Creek Parkway
Suite 400
North Kansas City, MO
64117
L. D. Dunlap
816-474-1754
Household cleaners,
industrial cleaning
products

Gold and Silver Interna-
tional
(2)
10535 Foothill Boulevard
Suite 294
Rancho Cucamonga, CA
91730
Richard Holliday
714-865-6651
Gold and silver ingots

Golden Prie, Inc.
(2)
2628 Park Street
Lake Worth, FL 33460
Harry W. Hersey
305-586-7778
Health and beauty aids

Great American Health &
Nutrition, Inc.
(2)
P.O. Box 6710
Fullerton, CA 92631-6710
Edward D. Paul
714-441-0788
Food supplements, skin
care products

Grolier Incorporated
(2)
Sherman Turnpike
Danbury, CT 06816
Keith George
203-797-3500
Educational publications

The Hanover Shoe, Inc.
(2)
118 Carlisle Street
Hanover, PA 17331
Thomas W. Dempsey
717-637-6631
Shoes - men's and women's

Health-Mor Inc.
(2)
151 East 22 Street
Lombard, IL 60148
John M. Licht
312-953-9770
Vacuum cleaners/Filter
Queen

Herbalife International
(2)
9800 La Cienega Boulevard
P. O. Box 80210
Los Angeles, CA 90009
George E. Betts
213-410-9600
Weight control food
products

Highlights For Children,
Inc.
(2)
2300 West Fifth Avenue
P.O. Box 269
Columbus, OH 43216
Garry C. Myers III
614-486-0631
Educational publications -
magazines

Home Interiors & Gifts,
Inc.
(1)
4550 Spring Valley Road
Dallas, TX 75234
Mary C. Crowley
214-386-1000
Decorative accessories

Hostess Choice
(1)
3201 E. Pioneer Parkway
#19-21, P.O. Box 121284
Arlington, TX 76012
Gary J. McDonald
817-649-2505
Decorative accessories,
cleaners, food seasoners

House of Lloyd, Inc.
(1)
11901 Grandview Road
Grandview, MO 64030
Harry J. Lir, Jr.
816-763-7272
Toys, gifts, Christmas
decorations

Ideal Products, Inc.
(2)
1010 Southeast Everett
Mall Way
Suite 229
Everett, WA 98204
Steven G. Kocher
206-347-4744
Weight control/food
supplement

Jafra Cosmetics, Inc.
(1)
P.O. Box 5026
Westlake Village, CA
91359
Ronald B. Clark
805-496-1911
Cosmetic - skin care

The Kirby Company
(2)
1920 West 114 Street
Cleveland, OH 44102-2391
R. Scott Mahoney
216-228-2400
Vacuum cleaners

Kitchen Fair
(1)
1090 Redmond Road
P.O. Box 100
Jacksonville, AR 72076
Gary R. Stephen
501-982-7446
Cookware, kitchen acces-
sories and decorative
accessories

Lady Finelle Cosmetics
(1)
137 Marston Street
P.O. Box 5200
Lawrence, MA 01842-2808
Dorothy L. Feigenbaum
617-682-6112
Cosmetics and skin care
products

Lady Love Cosmetics, Inc.
(1)
2001 Walnut Hill Lane
P.O. Box 152015
Irving, TX 75015-2015
E. Don Lovelace
214-255-5444
Cosmetics and skin care
products

Laura Lynn Cosmetics, Inc.
(1)
5300 Beethoven Street
Los Angeles, CA 90066
Betty Jo Toccoli
213-306-4540
Cosmetics/skin care/color
by season consultation

Learner's World
(1)
6151 West Century
Boulevard
Suite 400
Los Angeles, CA 90045
Michael Hawker
213-641-9645
Toys

Learnex Ltd., Inc.
(1)
89 Saw Mill River Road
Elmsford, NY 10523
Anne McPherson
914-592-1770
Publications - children's
cassettes/books/ed.
toys

Lucky Heart Cosmetics,
Inc.
(2)
138 Huling Avenue
Memphis, TN 38103
Paul Shapiro
901-526-7658
Cosmetics and jewelry

Magik Maid
(2)
P.O. Box 1611
Flint, MI 48501
Dan'l N. Gage
313-239-7677
Personal care products

Mary Catherine, Inc.
(1)
601 East Biddison
Box 11401
Fort Worth, TX 76109
Mary L. Beadles
817-927-8408
Clothing, semi-precious
jewelry

Mary Kay Cosmetics, Inc.
(1)
8787 Stenmons Freeway
Dallas, TX 75247
Monty C. Barber
214-630-8787
Cosmetics

Mason Shoe Manufacturing
Company
(2)
1251 First Avenue
Chippewa Falls, WI 54729
William M. Scobie
715-723-1871
Shoes - men's and women's

McConnon & Company
(2)
McConnon Drive
Winona, MN 55987
Vilas W. Rogers
507-452-2910
Household products/animal/
health/insecticide

Mega-Trend, Inc.
(2)
309 East Maxwell
P.O. Box 1748
Lakeland, FL 33602
Roy Fisher
813-688-7423
Decorative and houseware
products

Miracle Maid
(1)
P.O. Box C-50
Redmond, WA 98052
Philip Lindquist
206-881-6171
Cookware

Neo-Life Company of America
(1) (2)
25000 Industrial Boulevard
P.O. Box 5015
Hayward, CA 94540
Gregory A. Pickett
415-786-3401
Household products/
vitamins/minerals/food/
water

Noevir, Inc.
(1)
1095 Southeast Main Street
Irvine, CA 92714
Wesley H. Miyahara
714-660-1111
Cosmetics

Nutri-Metics Interna-
tional, Inc.
(1) (2)
19501 East Walnut Drive
City of Industry, CA
91749
Mulford J. Nobbs
714-598-1831
Cosmetics, food suppl-
ements, bras

Oriflame Corporation
(1)
76 Treble Cove Road
North Billerica, MA 01862
Peter Nawrocki
617-663-2700
Cosmetics - European skin
care

Partylite Gifts
(1)
Building 16
Cordage Park
Plymouth, MA 02350
Ruben G. Deveau
617-775-2500
Decorative accessories/
giftware

Perfume Originals
(1)
Division of Karisma
Marketing, Inc.
45 West 34 Street
New York, NY 10001
Philip D. Forte
212-695-9474
Fragrances and related
products

Personal Resource System
Inc.
(2)
10010 Mesa Rim Road
San Diego, CA 92121-2912
Andre T. Papageorge
619-587-9595
Personal organization/time
management system

Pola U.S.A. Inc.
(1) (2)
250 East Victoria Avenue
Carson, CA 90746
Yoji Iwama
213-770-6000
Cosmetics

Princess House, Inc.
(1)
455 Somerset Avenue
North Dighton, MA 02764
Robert J. Haig
617-823-0713
Decorative accessories -
crystal

Queen's-Way to Fashion,
Inc.
(1)
2500 Crawford Avenue
Evanston, IL 60201
Robert W. Williams
312-492-1400
Clothing - women's

The W.T. Rawleigh Company
(1) (2)
223 East Main Street
Freeport, IL 61032
P. Douglas McMillan
815-232-4161
Household products-foods/
cleaning/medicine/pet

Regal Ware, Inc.
(2)
1675 Reigle Drive
Kewaskum, WI 53040
Gilbert D. Flocker
414-626-2121
Cookware

Rena-Ware Distributors,
Inc.
(2)
P.O. Box C-50
Redmond, WA 98052
Philip Lindquist
206-881-6171
Cookware

Rickshaw Imports
(1)
800 North Edgewood Avenue
Wood Dale, IL 60191
Madolyn J. Schwartz
312-860-5452
Decorative wicker
accessories

Rose Joyce Cosmetics
Corporation
(1)
1706 Hawkins Drive
South Hampton, PA 18966
Rose Joyce Zacharko
215-355-5888
Cosmetics

Royal American Food Company
(1) (2)
24307 East 4th Highway
P.O. Box 1000
Blue Springs, MO 64015
Hugh E. Clemons
816-229-1000
Food - whey-based/dehydrated

Royal Designs Inc.
(1)
1710 Firman Drive
Suite 100
Richardson, TX 75081
Keith Harding
214-480-0055
Jewelry

Saladmaster, Inc.
(2)
131 Howell Street
Dallas, TX 75207
Keith L. Peterson
214-742-2222
Cookware/tableware

SASCO Cosmetics, Inc.
(1)
2151 Hutton Drive
Carrollton, TX 75006
Jack W. Shuford
214-484-3950
Cosmetics - personal care
(primarily Aloe Vera)

Shaklee Corporation
(1) (2)
Shaklee Terraces
444 Market Street
San Francisco, CA 94111
Richard Perry
415-954-3000
Food supplements/foods/
personal care products

Society Corporation
(1)
1609 Kilgore Avenue
Muncie, IN 47304
Foster D. Adams
317-289-3318
Cookware, china, crystal

The Southwestern Company
(2)
P.O. Box 820
Nashville, TN 37202
Jerry Heffel
615-790-4000
Educational publications

Stankone Inc.
(1)
333 Western Avenue
Westfield, MA 01085
Bill Tower
413-562-3631
Household cleaning products and good grooming aids

STEP's Adventures with the 3R's
(2)
P.O. Box 887
Mukilteo, WA 98275
R. Donald Morgan
206-355-9830
Educational programs-reading/math/perceptual tasks

Sterling Health Services Corporation
(2)
3900 South Florida Avenue
P.O. Box 6500
Lakeland, FL 33807
Joseph Palmese
813-644-7581
Health appraisals-custom, food supplements

Sybil's
(1) (2)
9034 Natural Bridge Road
St. Louis, MO 63121
Fraeda Kopman
314-426-2100
Jewelry and fragrances

Tiara Exclusives
(1)
717 E Street
Dunkirk, IN 47336
Robert J. Staab
317-768-6789
Decorative accessories - glassware

Time-Life Books, Inc.
(2)
777 Duke Street
Alexandria, VA 22314
Terrence J. Furlong
703-838-7000
Educational publications

Tomorrow's Treasures, Inc.
(2)
111 North Glassboro Road
Woodbury Heights, NJ 03097
George W. Braun
609-468-5656
Photo albums, photography, cameras

Tri-Chem, Inc.
(1)
One Cape May Street
Harrison, NJ 07029
Walter Powers
201-482-5500
Craft products - liquid embroidery paint

U.S. Safety & Engineering Corporation
(2)
2365 El Camino Avenue
Sacramento, CA 95821
H. Wayne Boyd
916-482-8888
Security systems - fire/burglar

United Consumers Club, Inc.
(2)
8450 South Broadway
Merrillville, IN 46410
Fred A. Wittlinger
219-736-1100
Buyers service

United Laboratories of America, Inc.
(2)
1526 Fort Worth Avenue
P.O. Box 4499, Station A
Dallas, TX 75208
Bill Sparks
214-741-4461
Photo albums/Bibles/books, photo enlargements

Vita Craft Corporation
(2)
11100 West 58 Street
P.O. Box 3129
Shawnee, KS 66203
L. Dale Ashley
913-631-6265
Cookware/china/crystal/
tableware/cutlery

Vorwerk USA, Inc.
(1) (2)
528 South Northlake
Boulevard
Altamonte Springs, FL 32701
Hans J. Gerber
305-339-8321
Housewares - carpet and floor care equipment

Watkins Incorporated
(1) (2)
150 Liberty Street
Winona, MN 55987
Richard C. Wantock
507-457-3300
Household - food/health/
cleaning products

The West Bend Company
(2)
400 Washington Street
West Bend, WI 53095
Dale A. Hafeman
414-334-2311
Cookware and electrical
appliances

World Book, Inc.
(2)
510 Merchandise Mart
Plaza
Chicago, IL 60654
Harold M. Ross
312-245-3456
Educational publications

World Odyssey
(1)
2200 East Venango Street
Philadelphia, PA 19134
Richard Mandel
215-535-0111
Rattan, wicker, basketware
and floral arrangements

Yanbal Laboratories, Inc.
(1)
91-31 Queen's Boulevard
Suite 218
Elmhurst, NY 11373
Fernando Belmont
718-458-2221
Cosmetics and skin care
products

Younique Creations
(1)
6100 Broadmoor, Box 29147
Mission, KS 66202
Nicholas A. Santino
913-262-7400
Crafts - silk flower
arrangements

Zondervan Book of Life
(2)
P.O. Box 6130
Grand Rapids, MI 49506
Rex Jones
616-459-7295
Educational publications

MEMBERSHIP INFORMATION:

According to the bylaws of the Direct Selling Association, those eligible for active membership are persons or firms manufacturing or dealing in merchandise intended ultimately to reach the consumer through an in-person contact, as distinguished from sales contacts made by mail or in stores of the seller. An active member must also have a business location in the United States.

DISTRIBUTION METHOD CODE:

Following each company is a numerical code which indicates the primary method of direct selling used by the company. (1) represents party-plan sales, and (2) represents person-to-person sales.

EXECUTIVE CONTACT:

The person designated under each company listing is the EC (executive contact). This is the individual in the member company designated as the liaison to DSA.



DIRECT SELLING ASSOCIATION

1700 North West Street - Washington, D.C. 20001
(202) 462-1000



INTERNATIONAL FRANCHISE ASSOCIATION

April 11, 1986

Representative Mike Navarre
Alaska House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Navarre:

I am writing to you regarding House Bill No. 620, reference title "Dealership Protection Act," on behalf of the International Franchise Association, a trade association representing more than 600 franchisors ranging from Hilton Hotels to Century 21 Real Estate, to McDonald's, to H & R Block, to Western Auto Supply, to Roto Rooter. IFA has served as a spokesman for franchising since 1960. Our members have serious concerns with the current language of H.B. 620, which I understand will be heard by the Labor and Commerce Committee on April 16, 1986.

Although the thrust of H.B. 620 appears to be directed primarily at distributor-dealer relationships, commonly used to sell products such as gasoline and automobiles, the language used would also regulate business-format franchisors -- those businesses represented by the International Franchise Association.

Unlike the so-called "product distribution" franchises, where manufacturers and/or distributors sell products to dealers for resale, business-format franchisors do not sell products to their franchisees. Indeed, under state and federal antitrust law, it is generally considered an illegal "tie-in" for a franchisee to be required to purchase inventory from a franchisor. Business-format franchisors sell a system for marketing goods and services and license franchisees to use their trade and service marks. Franchisors' profit does not come from the sale of products, but from royalties based on franchisees' sales.

There are other significant differences between product distribution arrangements and business-format franchising. Product dealership agreements are generally of very short term -- far less than the 15 and 20 year duration typical of franchise agreements. Moreover, unlike automobile manufacturers and petroleum distributors, business-format franchisors are required under federal law to make extensive pre-sale disclosures to prospective franchisees. Pursuant to a Federal Trade Commission Rule, franchisors must disclose to the prospective franchisee through an offering circular and written contracts all material aspects of the arrangement, including termination, non-renewal, transfer, and litigation history before the relationship commences.



It is also important to note that there is no evidence of abuse by business-format franchisors which would justify this legislation. According to United States Department of Commerce figures for 1984, of the 357,335 franchisee-owned outlets nationwide, only 1.8 percent were terminated. A clear majority of those contracts terminated (63 percent) were at the franchisee's initiative or by mutual consent; of the 15,354 agreements up for renewal, 90 percent were renewed; of those not renewed, 60 percent were at the initiative of the franchisee or by mutual consent.

As it is currently written, H.B. 620 would be very harmful to business-format franchise systems now operating in Alaska. Franchisors able to expand by establishing vertically-integrated company-owned stores would be likely to do so in order to avoid the interference and inflexibility of H.B. 620. Franchisors not now doing business in Alaska would be deterred from offering new small business opportunities through franchising in the state.

I would urge you and the members of the House Labor and Commerce Committee to reject H.B. 620 when you consider it next week.

Yours truly,



Herbert A. Hedden
Assistant Director of
Government Relations

HAH/tt
Enclosures

April 11, 1986

Michael L. Lundeford, VICE PRESIDENT, PUBLIC AFFAIRS

The Honorable Mike Navarre
Chairman
Labor and Commerce Committee
P.O. Box V
Juneau, Alaska 99811

Dear Chairman Navarre:

On behalf of Mary Kay Cosmetics and the Mary Kay Beauty Consultants who sell its products in Alaska, I wish to register our concerns about H.B. 620. First, I wish to acquaint you with Mary Kay and its marketing plan.

Our Company manufactures skin care and glamour products and distributes them in interstate commerce. Our marketing concept is the "party plan" sales program. In this program, our cosmetics are sold by independent contractors, whom the Company calls "Beauty Consultants." A hostess, frequently a neighbor or friend of the Beauty Consultant, arranges for a "Beauty Show," to be held in her home which is attended by five or six of her invited guests. The Beauty Consultant attends by invitation of the hostess, demonstrates the products and may take orders from the persons in attendance.

As you can appreciate, these independent Mary Kay Beauty Consultants are the smallest of small business people, of whom the vast majority become involved in order to earn extra dollars to supplement the family income. Also, entry costs are next to nothing, in our case \$85.00 for a Beauty Case. No inventory is required. This low cost of entry fosters easy entry and easy exit as Beauty Consultants satisfy their short term financial goals. Typically, those goals are centered upon money for school clothes, vacations, and medical emergencies.

Such factors have fostered an industry wide turnover rate of 162 percent, according to a Lou Harris Poll.

The above information points out graphically that H.B. 620 should not include within its scope, Mary Kay Cosmetics and the Independent Beauty Consultants who sell its products and other direct selling companies.

The measure H.B. 620, proposed by Representative Marco Pignalberi, unless amended as requested by Joe Mariano, of the Direct Selling Association, in his letter of April 11, 1986 would create unnecessary problems for direct selling companies.

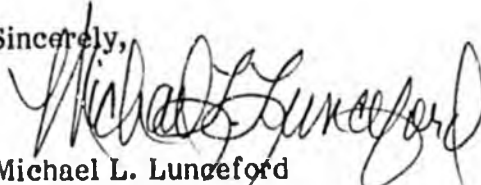
As Mr. Mariano pointed out in his letter, H.B. 620 seeks a laudable goal, the promotion of fair business relations between dealers and manufactures, where there is sizeable investment and disproportionate bargaining power. We are the antithesis of that scenario.

Mr. Chairman, again I urge the committee to adopt the amended language which would be consistent with the Federal Trade Commission Regulations which exempt the commercial relationship typified by direct selling.

The Honorable Mike Navarre
April 11, 1986
Page Two

Also, please distribute the copies enclosed to each member of the committee.
Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Luncford". The signature is written in a cursive style with a large, prominent "M" and "L".

Michael L. Luncford
Vice President, Public Affairs

MLL:rm

cc: Labor and Commerce Committee Members



RECORDS CERTIFICATION



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Alaska State Legislature

Representative Niilo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

POSITION PAPER--HB654

The intent of HB 654 is the creation and operation of a state automobile insurance program in the form of a quasi-public state corporation.

This is an effort to redress the current inequities and lack of surety in the insurance industry. By putting all automobile insurance coverage under the umbrella of the state substantial savings and increased service to drivers could be achieved. No Alaskan driver will be uninsured.

Under this plan insurance would be readily available even in remote areas of the state where private carriers are often reluctant to do business. Security for all motorists would be achieved. Innocent victims of accidents are assured compensation for their losses.

Forms of this legislation are currently in effect in the Canadian provinces of British Columbia, Manitoba, Saskatchewan, and Quebec.

**The
Manitoba
Auto Insurance
Plan**

Sherman Bernard

**CONFERENCE/Alternative State and
Local Public Policies**
INSTITUTE for POLICY STUDIES
1901 O St., N.W./Wash., D.C. 20009
1976

THE MANITOBA AUTOMOBILE INSURANCE PLAN

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THE MANITOBA AUTOMOBILE INSURANCE PLAN

PART I: HOW IT OPERATES

The Legislative Assembly of the Province of Manitoba, Canada passed legislation entitled "The Automobile Insurance Act" which was assented to by Her Majesty, Queen Elizabeth on August 17, 1970. This plan provided that all automobile insurance be written by a non-profit public corporation entitled the Manitoba Public Insurance Corporation.

The opposition to the plan was so fierce and vociferous that the government in power was in grave danger of being toppled by a vote of "no confidence". The plan was put into effect on November 1, 1971. Two and one-half years later, the plan is so well accepted, that even the opposition political parties are silent on the issue.

Why? The reason is obvious. The plan worked. It reduced automobile insurance rates drastically for at least 90% of the people. It introduced the no-fault concept to the Province. It provided for better service to the people. In short, the citizens of Manitoba feel they are now getting their money's worth out of their automobile insurance premiums.

How does it work? The Manitoba Public Insurance Corporation is run like any well organized business. The General Manager is the boss. He is responsible only to the Board of Directors. Like any business corporation, the directors are primarily interested in results. They do not

Interfere with the internal management of the corporation, including the hiring of personnel who are not under civil service. Once broad policy decisions are made, the General Manager is responsible for carrying them out. The broad general policy of the board is to provide policyholders with fast, fair and efficient service when they are faced with a loss.

The General Manager has organized the Company into four primary sections; Finance, Underwriting (which includes sales), Claims and Legal. Since claim payments accounted for 83% of the money available to the corporation during its first year of operation, the claims operations will be discussed first.

The claims operation is the key to the public acceptance of the plan. Here's how it works in Winnipeg, a city of 600,000 people. The company has three service centers in the city. The centers are primarily designed to handle collision and property damage claims. Since no-fault property damage is required, all damage to vehicles is inspected and appraised in the centers. If a car is drivable, the owner drives it in. If not, it is towed in at the company's expense. A typical drive-in case is in and out of the center within 30 minutes. Some are in and out in ten minutes. When they leave, they have in their possession an estimate that will be honored by any repair shop in the city. The garage repairs the car and the corporation pays the bill.

Under the plan, the driver who is not at fault pays no deductible. The driver at fault pays both deductibles, in effect. The minimum no-fault property damage coverage offered is \$200 deductible. If both parties are at

fault, each pay \$100. Therefore, the centers also have liability adjusters, in addition to the appraisers in order to determine the degree of fault. Arbitration is available to settle the differences and also appeal to the small claims court at the cost of three dollars.

While the policyholder is waiting for the appraisal to be completed, the liability adjuster is gathering information regarding the facts of the accident, particularly concerning injuries. He answers all of the questions the policyholder may have concerning how to proceed. A typical example is a policyholder whose car has been hit in the rear. The other party may have already had his car towed in and admitted that he was at fault. In this case, the adjuster will mark his file, "deductible waived", and the policyholder's mind is at rest.

Almost all property damage cases are settled to the satisfaction of both parties before the cars are repaired and the bills are presented to the corporation for payment. Additionally, over 70% of the policyholders buy the optional \$50 deductible and there is little to argue about.

Prompt and efficient handling of property damage claims apparently has the effect of reducing the number of bodily injury claims. Manitoba loss statistics are not yet in actuarial form, but Mr. J. O. Dutton, manager of the Manitoba plan is confident that the service center concept has drastically reduced bodily injury loss experience. He feels that prompt handling of the damages to automobiles involved in accidents reduces the tendency of victims of minor or insignificant injuries to press their claims.

Fair, fast and efficient handling of the dollars spent for claims is one key to public acceptance of the plan.

The underwriting and finance directors have an equally important function. It is their responsibility to hold down expenses so that the 83% of the premium dollar is available to be spent on claims.

The finance and underwriting directors of the plan have done the remarkable job of holding expenses to 17% during the formation of the company by the use of modern methods. They anticipate a 15% expense factor for 1973 and this includes loss adjustment expense. The annual statement for 1972 has not yet been presented to the government but the experience will be available shortly.

How do the people in Manitoba buy their insurance? This phase of the business is handled by the underwriting department because this department initiates the sales procedure. Under the Manitoba plan, the cost of insurance is borne by persons in two different categories. Owners pay for insurance on their cars. Drivers pay a portion based on their driving records.

The computer center of the company has the registration and drivers license records of all Manitobian citizens on instant computer availability, both visual and print-out. The computer bills all owners of motor vehicles for their insurance premiums on the vehicle at least thirty days prior to expiration. The owner then goes to his agent, pays the premium, in whole or in part, and receives a decal that is attached to his license plates as well as a document similar to the Louisiana pink slip. The agent validates the "pink slip" by stamp and signature and the policyholder has his insurance for another year.

On drivers license renewal, the same procedure is followed. All persons holding drivers licenses are billed in the month of their birth. While this discussion is designed to explain the operation of the Manitoba plan, it may be prudent to explain the underwriting of that share of the automobile premium that is charged to the operators of motor vehicles. Male drivers over 24 years of age pay 7 dollars a year and under 25, they pay 22 dollars a year. Female drivers over 24 years of age pay 3 dollars a year - under 25, they pay 7 dollars a year. In addition, penalty points resulting from traffic convictions can cost the bad driver up to \$300 per year. The underwriters computer center has access to traffic convictions and is able to bill the driver correctly when his drivers license is up for renewal. When a driver receives his bill, he goes to his agent and either pays the bill or contests the surcharges with ample safeguards for the policyholder if he protests the surcharge.

This system is almost entirely automated except for the customer's contact with his agent at least twice a year. Other than to transmit the funds to the corporation, the agent has little or no paperwork! The bulk of his automobile business is handled in 30 to 45 days. The commission for the agent is 5%. A member of the Manitoba assembly from the opposition party who is an insurance agent, advised the Louisiana Insurance Commissioner that he is pleased with the system. This member violently opposed the plan when it was under debate in the assembly.

The Director of Finance has the responsibility for the computer systems, operations and accounting. The head of this department must be a computer

systems expert because the success of the plan, from an efficiency standpoint, depends on automation. As the Manitoba plan is set-up, all management has instant access to all data involving drivers licenses, registration plates and traffic records as well as internal operational data. As a matter of fact, a number of "hit and run" cases have been solved by reference to the color of the car, approximate vintage, make and model. The computer will give the police the list of possibles, names and addresses, and they take it from there.

The Director of Finance also has the function of determining, on a day by day basis, what funds are available for investment. These funds are considerable. The actual investment of the funds are made by the government's Ministry of Finance under the Manitoba Investment of idle funds laws. These funds are under a special account and the funds and the earnings from them are credited to the corporation's account. None of the funds of the corporation can be used by the government. Neither is the corporation exempt from regular insurance company tax.

The legal department employs only attorneys who carry out the same functions of attorneys employed by private insurance companies. They do not handle trial defense work except in rare instances. They do supervise claims that are before the courts and handle legal matters directly involving the corporation.

This has been a brief discussion of the operation of the Automobile Insurance Act of the Province of Manitoba, Canada. The plan is based on

the premise that automobile insurance is a service that can no longer be regarded as just another product for sale. Everyone must have it. All drivers and owners of motor vehicles must bear the burden of the economic loss caused by the operation of such vehicles. The private sector of the economy is either unable or unwilling to furnish insurance that meets these requirements at a cost that the public can bear.

The Province of Manitoba now furnishes their people with insurance coverage that provides fast, fair and equitable claims service at the lowest possible price.

PART II: What It Costs

The cost of automobile insurance under the Manitoba, non-profit, public corporation plan is the most rewarding aspect of the concept. The cost of automobile insurance to 90% of the policyholders is reduced dramatically. The coverage to most policyholders is increased. Some very few policyholders with minimum coverage driving for pleasure only had slight increases but received substantially more coverage.

When the plan was first installed in Manitoba, the party in opposition to the government made long and loud complaints that many policyholders had actually received an increase in premiums. The Chairman of the Board of Directors, who is also the governments Minister of Municipal Affairs, challenged the opposition and the public to send their complaints of increased premiums to the corporation for examination. The underwriting manager of the corporation received only 75 complaints. Of these 75 complaints, only 3 had a slight increase in premiums.

Before discussing concrete comparisons of premiums, the minimum coverage required under the Manitoba plan should be shown. A single limit coverage of \$50,000 bodily injury and property damage is required as a minimum; \$2,000 medical pay and rehabilitation coverage; \$50 per week total disability income for the duration of the disability; \$500 funeral expenses; death benefits to \$10,000; \$25 partial disability benefits to 104 weeks; up to \$6,000 dis-

memberment and disfigurement benefits; all physical damages perils benefits with the equivalent to a \$100 deductible collision coverage. Except for liability coverage, all of these coverages are no-fault benefits and are compulsory for all owners and operators. The right to sue for general damages is retained but duplicate recovery cannot be made.

What does this impressive package of coverage cost the policyholder today in Winnipeg, Canada. Below is a display of rate comparison of autopac rates, pre-autopac Winnipeg rates and Baton Rouge rates:

Automobile: 1971 Chevrolet Impala
No Chargeable Accidents. Comparable Coverage

<u>Classification</u>	<u>Autopac 1973</u>	<u>Pre-Autopac 1971</u>	<u>Baton Rouge 1973</u>
Husband and wife-over 25 Pleasure Use Only	\$ 78.00	\$125.00	\$193.00
Husband and wife-over 25 Driving To and From Work	111.00	161.00	217.00
Husband and wife with Underaged Son & Daughter	140.00	375.00	422.00
Single Male - 20 Years Principal Operator	123.00	391.00	494.00

These comparisons are deliberately designed to minimize the rate comparisons between the two systems. Consider the fact that under Autopac one chargeable accident does not increase your rates while the other rates would be increased 40% for one chargeable accident! It is also well to note that the pre-Autopac rates were 1971 rates, the last bureau Winnipeg rates. Since

that time, the general rate levels have increased overall in Canada at the rate of 6% per year.

The premium comparisons with Louisiana premiums can be subject to the charge that this is like comparing apples to oranges. But, is it? The per capita income in Manitoba is about \$3200 compared to about \$3250 in Louisiana. The number of bodily injury and property damage claims per 100 insured cars in 1970 was 10.05 in Louisiana as compared to 10.9 in Manitoba. The trend of loss frequency is declining in Louisiana while it is increasing in Manitoba. The cost per claim in Louisiana was \$495.99 as compared to \$522 in Manitoba in 1970.* However, the cost per claim is increasing at a faster rate in Louisiana. The accident frequency and severity rate appear to be almost identical in Louisiana and Manitoba. The year 1970 was used because that was the last year figures were available for Manitoba under comparable systems.

The requirement of mandatory no-fault property damage results in an interesting savings. Under the present system all insureds are required to carry property damage liability. Collision is a separate coverage offered on an optional basis. Under the Manitoba plan, these coverages are merged into one coverage with the driver at fault bearing the \$200 deductible. This obviously has favorable effects on the rates, particularly for those persons who carry collision insurance under the present system.

The premiums for automobile insurance in Louisiana should therefore be

*Source: Insurance Bureau of Canada
Insurance Services Office

comparable under accepted underwriting and actuarial standards. The examples shown above clearly demonstrate that premiums are not even close to being comparable. The only explanation that can possibly account for this wide disparity in costs to the people is the saving inherent in the Manitoba plan. The plan offers insurance to the vast majority of the policyholders with additional coverages at a lower cost.

PART III: Social Considerations

Operation of a state automobile insurance plan by a quasi-public state corporation on a monopoly basis is not as revolutionary as the opponents to such plan would lead one to believe. Whenever the public sector is unable or unwilling to furnish a service that has become a public necessity, the federal government, the state or local governing authorities have stepped in to provide the service at a price the public is able to bear.

There can be little doubt that the automobile is no longer a luxury or even a convenience. The automobile is now an absolute necessity. Public transportation has deteriorated to such an extent that it is practically non-existent in Louisiana. Perhaps the eventual solution to the long range problem is a re-vitalization of public transportation but such a solution lies in the future. The outmoded automobile reparation system is a problem of the present.

Almost all of the studies of the present automobile reparations system demonstrate that a drastic change is needed for two reasons. First, the small part of the insurance dollar paid for losses is not going to the accident victim who needs it most. Secondly, the cost of insurance is becoming prohibitive. In Louisiana, our young drivers are being driven out of the market.

Most of the no-fault solutions are directed at making a more equitable distribution of the loss dollar. A favorite target in this effort is to attack the present tort law system and eliminate or restrict the traditional right of a citizen to seek redress for wrongs committed against him. The right to seek redress for wrongs is a fundamental civil right that has been one of the cornerstones of our free nation. Must we abandon this fundamental right to save the present automobile reparation system?

The proposal to reimburse victims of accidents for a substantial portion of their economic loss through no-fault is basically sound. However, it is generally conceded that such proposals are not meeting the challenge that automobile insurance be provided at a cost the public can bear. The industry suggests that this objective can be met by restricting the right to sue. The industry carefully avoids the subject of who gets the premium dollar. Studies show that the insurance companies keep over half of the premium dollars in one form or another. This is commonly called the expense factor. Unless this expense factor is substantially reduced, no substantial rate relief can be expected.

The only solution suggested to this date that can offer no-fault coverages, reduce the expense factor and still retain the tort system is a state plan similar to that used in Manitoba, Canada. While this plan may be considered a drastic solution by many, it is not nearly as revolutionary as abandoning the tort system. There is ample precedent for the state government to operate businesses that once were considered the sole domain of private industry.

Transportation systems, power systems, water systems, water districts and the like are now being operated by the public sector here in Louisiana. Attached to this Part is a representative list of Federal, state and local government operations that either replace or compete with private industry. Moving into areas where the private sector has failed to satisfy the needs of the public is nothing new. The question boils down to this: Are the people in Louisiana willing to let nearly half of their automobile premiums go down the drain to save the automobile insurance industry? Is it worth it?

No one would suggest a state plan if the automobile insurance industry would propose a solution that would guarantee a return of 80% of the premium dollar to its customers. The problem is that the industry can't do it. The first years results of the Manitoba plan proves that it can be done through the improved marketing and claim handling procedures inherent in the plan. In Manitoba, there has been no social upheaval resulting from its operation. In fact, Manitobians enthusiastically endorse the plan. It is therefore submitted that a state plan for Louisiana automobile insurance would cause little social upheaval in this state - far less than the abandonment of the fault system of law.

Representative List Of Government Operated Business

I. FEDERAL PROGRAMS

1. Federal Flood Insurance
2. Federal Crop Insurance
3. Medicare
4. Medicaid
5. Social Security
6. Federal Deposit Insurance Corporation (FDIC)
7. Federal Savings and Loan Insurance Corporation (FSLIC)
8. Federal National Mortgage Association (FNMA)
9. Federal Land Bank
10. U. S. Government Printing Office
11. Rural Electrification Administration (REA)

II. FEDERAL/ STATE PROGRAMS

1. Credit Unions
2. Unemployment Insurance
3. Electrical Cooperatives
4. Farm Cooperatives

III. STATE PROGRAMS

Division of Administration operates its own printing shop.

Highway Department has its own Materials & Testing Section in competition with private enterprise.

Governor Edwards has said Louisiana should build its own natural gas transmission system to take care of Louisiana's needs first.

Maryland Automobile Insurance Fund - State sells insurance directly to risks who are cancelled or have two companies refuse to write their business.

Workman's Compensation Insurance Fund

- a. Ohio operates Fund exclusive of private insurers.
- a. Following states operate funds not exclusive of private insurers.

Pennsylvania, Oklahoma, Oregon, Texas, California, Colorado, Idaho, Maryland, Montana, Nevada, New York, West Virginia, Wyoming.

IV. PARISH AND MUNICIPAL PROGRAMS

1. Transportations Systems
Buses, Public Belt Railroad
2. Utility Systems
Gas, Water and Electricity
3. New Orleans Dock Board

Note: The United States economy is obviously mixed, not a total free enterprise system.

PART IV: Economic Considerations

What effect would the adoption of a state plan have on the economics of Louisiana? The most direct effect of the plan would be to place all automobile insurance policies under the public corporation. This means private companies could write no business in Louisiana; however, Louisiana companies that are writing automobile liability insurance write less than 1/10 of 1% of the business. This business is written by companies that are domiciled primarily in the north and east. In short, Louisiana has no companies domiciled in the state that could furnish compulsory no-fault insurance that would be affected by a state plan.

Most of the average employees of the insurance companies in the state would necessarily be hired by the public corporation. All major cities would have regional offices of the public corporation. The key employees of the foreign companies are mostly imports from other states and are moved around the country with great frequency in any event. Then, too, only automobile insurance would be effected. The experience in Manitoba was that the dislocation of insurance company personnel was relatively slight. The general manager reports that about 200 employees were either transferred or released but that autopac had hired far more personnel than were released by the insurance companies. Their plan also provides for a special assistance program for those persons who suffer particular economic hardships. The expense of this program is borne by the public corporation.

The effect on insurance agents would appear to be the most drastic at first glance. The Manitoba plan is serviced by the agency system. The commission paid by the plan was 7% for the first year, 6% for the second year and will be 5% thereafter. Under the agency system, this commission appears to be inadequate. However, the effect on the agents net commission is minimized by the fact that he has no policy to write. All he has to do is collect the premium when his customer brings his billing to him for validation by stamp on the license application prepared by the corporation. On all transactions between policy periods that do not involve a premium commission, the agent receives \$3.00 except for change of address. The forms provided are simple and can be filled out by hand. The agents costs are minimal.

There are no underwriting restrictions under the plan except that the applicant must have a valid drivers license. This is a relief to the agent. When one of his good clients has a bad driving record, the agent does not have to search the entire market to place the business. This puts the small agent on a par with the large agency in writing hard-to-place risks. It also places all agents in the same competitive positions, whether they operate as direct writers, mail order agents or under the American agency system.

The advent of automobile mass marketing is gradually reducing the commissions for automobile insurance to a point where 7% will be competitive, long range commission even if the present system is continued.

Another favorable aspect to the agent is that the customer will come to the agents office at least twice a year - when he buys his license plates and

obtains his drivers license. This assures the agent personal contact with his clients which is helpful in regards to other lines of business. The competition for business under the Manitoba plan is brisk, with service being the only competitive aspect. Privately, the majority of agents in Manitoba are satisfied with the operation of the plan according to the general manager. The agents are still in business.

A most favorable aspect of a state plan is that the investment income available, which is considerable, is invested within the state. No longer are these funds channeled into the great financial centers of the east and north. Funds made available for investment by Louisiana policyholders remain in Louisiana for investment here. These invested funds are bound to generate favorable economic consequences for Louisiana. The long range economic consequences of a state plan for automobile insurance are not a deterrent to the adoption of such a plan for Louisiana.

MALE DRIVER UNDER 25 yrs. old

1 CHARGEABLE ACCIDENT

BI 10/20

PD 10

MED. PAY 1

U.M. 10/20

Coll - \$100.00

COMP - ACV

\$902.00

ISO ZONE I

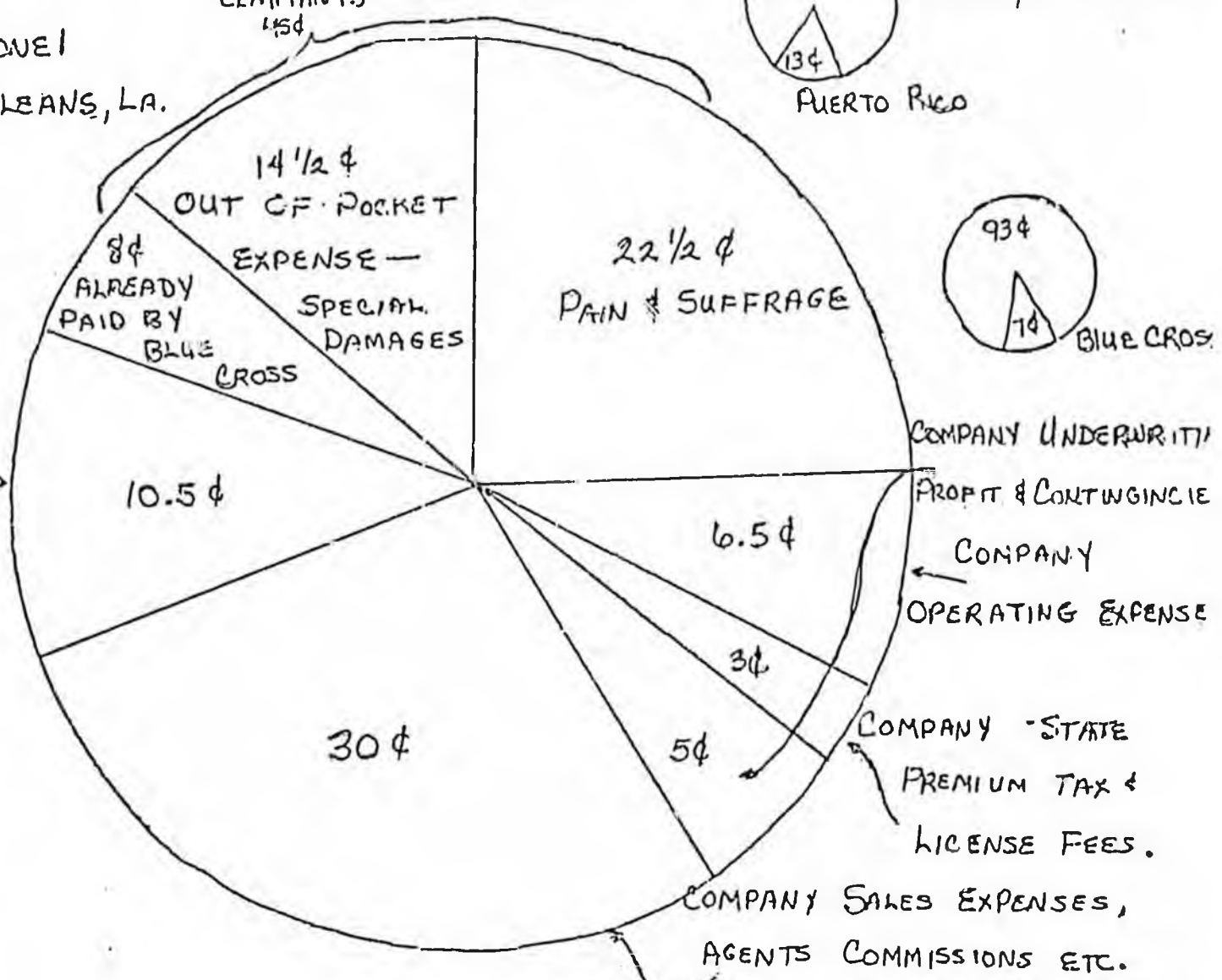
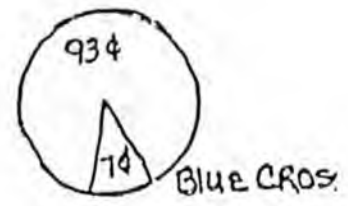
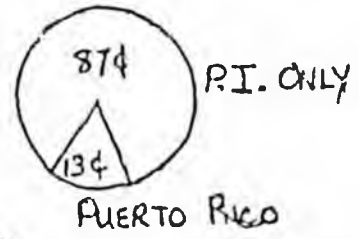
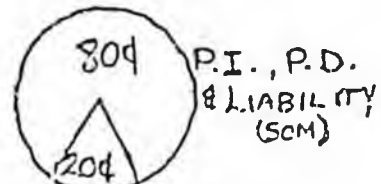
NEW ORLEANS, LA.

40% 5:1

22% 10:1

13% 5:1

25% N



(10)

DOT STUDY 1970.

500 threshold	78.9 %
1000 "	89.1 %
1500 "	93.1 %
2500 "	96.3 %
5000 "	98.5 %
10,000 "	99.6 %
25,000 "	99.9 %

source: testimony of H. S. Hearsberg
before U.S. Senate Commerce Committee

LOUISIANA AUTO UNDERWRITING RESULTS 1971

ALL
LINES

PREMIUM WRITTEN	PREMIUM EARNED	LOSSES	EXPENSES	LOSSES & EXPENSES
\$228,061,242	\$221,709,320	\$107,713,345	\$109,127,901	\$216,834,246

COMPARISON OF STATE PLAN

(21)
ALL
LINES

PREMIUM WRITTEN	PREMIUM EARNED	LOSSES	20% EXPENSES	LOSSES & EXPENSES
\$228,061,242	—	\$107,713,345	\$45,612,248	\$153,325,693

DIFFERENCE
STATE VS. COMPANIES

}	\$228,061,242
}	153,325,693
}	\$74,735,549

COMPANY PREMIUM TAKEN IN LA.
STATE-RUN PLAN - LOSSES & EXPENSES
SAVINGS TO LOUISIANA POLICYHOLDERS
UNDER STATE PLAN

OF: \$107,713,345

18,901,859 ← 45.4% BODILY INJURY

58,811,486 ← 54.6% PROPERTY DAMAGE & COLLISION

SOURCE - Annual Reports to Commission

PER CAPITA INCOME 1971

LOUISIANA = \$3250.00

MANITOBA = \$3200.00

FREQUENCY & SEVERITY BI & PD
LOUISIANA vs. MANITOBA

Year	FREQUENCY LOUISIANA	100 CARS MANITOBA	SEVERITY LOUISIANA	AVERAGE ONE CAR MANITOBA	PAY OUT	COST 100 CARS MANITOBA
1966	12.06	8.7	\$491.00	# N/A	—	—
1967	10.55	8.5	456.00	497.00	—	—
1968	10.38	9.2	470.00	522.00	—	—
1969	10.31	9.7	475.00	533.00	\$4752.00	\$5170.00
1970	10.05	10.9	496.00	532.00	4985.00	5799.00
1971	9.36	plan put in effect	547.00	N/A	—	—

Source { 1972 Insurance Bureau of Canada
1972 Province Service Office

LOUISIANA AUTO RATES ISO

B.I. = 10/20

COMP = ACV

P.D. = 10

Coll = \$100.00

Med. Pay. 2

U.M.

	ZONE 1	2	3	4	5	6	7
	N.O.	B. R.	SHRPT	MONROE	LAKE C.	LAFAY	ALEX
1972 FORD GALAXIE - DRIVEN TO AND FROM WORK 3-10 miles one way. No under age driver. Code (811210)	279 1.15 370 155	227 301	207 275	202 267	237 315	268 356	233 309
SAME FORD - 17 Y.O. MALE - No student discount, car used 3-10 mi. Parents, principal drivers. Code (852210)	637 2,70 729 3.15	515 590	469 537	456 521	540 618	611 699	530 605
SAME FORD - 17 Y.O. MALE IS PRINCIPAL DRIVER SAME Use Code (872210)	811 3.45 902 3.85	655 729	596 664	579 644	686 764	775 863	672 748
SAME FORD - 34 Y.O. uses in his business as Salesman Code (811810)	349 1.45 440 1.85	283 357	258 326	251 316	296 374	333 421	290 366
SAME FORD - 22 Y.O. uses in his business as Salesman, he is single Code (882210)	592 2.50 683 2.90	471 552	436 503	424 489	502 579	567 655	491 568
SAME FORD - No underage driver, used principally on the FARM Code (81910)	209 .85 302 1.25	171 245	157 225	152 219	179 256	200 289	175 252
SAME FORD - 19 Y.O. OCCASIONAL DRIVER FARM FAMILY Code (82310)	361 1.50 452 1.90	293 366	267 334	260 325	307 384	346 434	300 377
SAME FORD - 19 Y.O. single female, TO & FROM School. Good driver discount Code (828510)	313 1.30 406 1.70	255 329	233 300	266 292	267 345	301 390	261 339
SAME FORD - 19 Y.O. single male, TO & FROM school. Good driver discount. Code (878510)	544 2.30 637 2.70	441 515	402 469	390 456	462 540	522 611	452 530
SAME FORD - OVER 65 man & wife Pleasure use Code (802110)	232 .95 326 1.35	190 264	174 241	168 235	199 277	223 312	195 271

source: Insurance Service Office Rates 1972

MANITOBA RATING PROCEDURE

DEMERIT POINTS (ADD TO DRIVER'S CERTIFICATE)

NO CHARGE FOR FIRST 5 POINTS

- 6 — \$50
- 7 — 60
- 8 — 70
- 9 — 80
- 10 — 100
- 11 — 120
- 12 — 140
- 13 — 160
- 14 — 180
- 15 — 200
- 16 — 220
- 17 — 240
- 18 — 260
- 19 — 280
- 20 & OVER — \$300

DRIVER'S LICENSE

BASIC DRIVER'S CERTIFICATE

16 - 24	X	\$ 22.00	\$ 7.00
25 & older		\$ 7.00	\$ 3.00

MALE

FEMALE

RATE GROUP	YEAR 1	YEAR 2	YEAR 3
0 5 YR. OLD USED CAR	\$165.00	\$ 35.00	\$149.00
1 68-71	78.00	47.00	71.00
2 69-72	80.00	50.00	77.00
3 70-72	83.00	53.00	82.00
4 72 Chevelle	91.00	60.00	92.00
5 72 Galaxie 500	97.00	65.00	102.00
6 72 LTD or Caprice	104.00	70.00	112.00
7	113.00	77.00	129.00
8 69-72 Cadillac	122.00	85.00	142.00

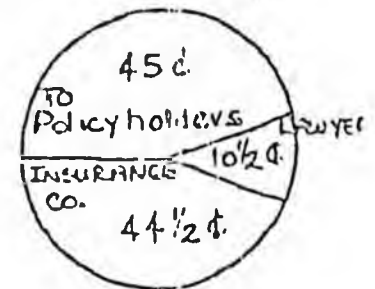
COVERAGES:

- I NO-FAULT PI
- II NO-FAULT PD
- III LIABILITY - \$50,000

INCREASE	\$100.00	\$ 3.00	\$ 3.00	\$ 3.00
LIABILITY,	200.00	6.00	4.00	5.00
TO	300.00	8.00	5.00	7.00

MALE DRIVER UNDER
AGE 24, 1 CHARGEABLE
ACCIDENT (NO CONSUMER
CERTIFICATE 22.00
72 CADILLAC 142.00
1 CHARGEABLE
ACCIDENT 0.00
\$164.00

PRESENT SYSTEM:



source: Rules and Regulations, Manitoba Auto. Ins. Plan 1973

The National Conference on Alternative State and Local Public Policies was founded in Madison, Wisconsin, June, 1975. It is a major meeting place and forum for elected and appointed officials, community organizations, political activists and technically trained experts interested in alternative politics and programs at the state and local level. Discussions and workshops within the National Conference include questions of political strategy. However, concentration is on the specific nuts and bolts of programmatic alternatives. Subjects considered include land use, tax reform, consumer protection, agricultural policy, minority employment, public power, community and state-owned enterprises, control of natural resources, women's issues, public employees, and many others.

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Conference on Alternative State and Local Public Policies
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Holta
3-18-83

1 IN THE HOUSE

BY KOPONEN

2 HOUSE CONCURRENT RESOLUTION NO. 30

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - FIRST SESSION

5 Relating to a study of single-pool auto-
6 mobile insurance.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS there is widespread dissatisfaction being expressed throughout
9 the state concerning the traditional multi-pooled automobile insurance
10 plans; and

11 WHEREAS the cost of insurance in the state is becoming prohibitive
12 with less than half the insurance dollar paid for losses going to the
13 accident victim; and

14 WHEREAS a significant number of Alaskan drivers do not have automobile
15 insurance; and

16 WHEREAS with inadequate public transportation the private automobile
17 is a necessity in many parts of the state; and

18 WHEREAS the single pool concept is utilized by some states for
19 workers' compensation insurance and by the Canadian provinces for automo-
20 bile insurance; and

21 WHEREAS single-pool insurance would provide more security when all
22 motorists are assured of compensation for their losses; and

23 WHEREAS administrative and premium costs of a single insurance pool
24 are usually significantly lower than for competing multi-pools; and

25 WHEREAS single-pool insurance funds would more likely be invested
26 within the state; and

27 WHEREAS there has not been a thorough study made in Alaska of the
28 advantages and disadvantages of the single versus multi-pool insurance
29 concept;

1 BE IT RESOLVED by the Alaska State Legislature that the Legislative
2 Council is directed to conduct an interim study of the various single-pool
3 insurance plans that have been proposed and enacted in the various states
4 and Canadian provinces; and be it

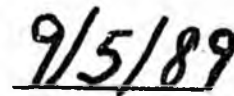
5 FURTHER RESOLVED that the Legislative Council make its report to the
6 Second Session of the Thirteenth Legislature, together with its recommenda-
7 tions for adoption or rejection of single-pool automobile insurance for
8 Alaska administered by either the public or the private sector, and includ-
9 ing recommended draft legislation for the legislature's consideration if a
10 change from the present law is considered desirable.
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RECORDS CERTIFICATION

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Signature of Camera Operator


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H B

6 5 7

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HB 657
 Title : "An Act relating to
 Workers' Compensation, and
 providing for an effective date.
 Sponsor : KODONEN
 Requestor : Labor & Commerce
 Date of Request : 2/17/86

FISCAL DETAIL

Agency Affected : Labor
 BRU : Workers' Compensation
 Components : Workers' Compensation

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES		10,750.0	10,750.0	10,750.0	10,750.0	10,750.0
TRAVEL		450.0	468.0	437.0	506.0	526.0
CONTRACTUAL		5,505.0	5,725.2	5,954.2	6,192.4	6,440.0
SUPPLIES		530.0	551.2	573.2	596.1	619.9
EQUIPMENT		2,525.0	-	-	-	-
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		19,760.0	17,494.4	17,764.4	18,044.5	18,335.9

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		19,760.0	17,494.4	17,764.4	18,044.5	18,335.9
TOTAL		19,760.0	17,494.4	17,764.4	18,044.5	18,335.9

POSITIONS :

FULL-TIME		250	250	250	250	250
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See Attached

Prepared by Jacqueline McClintock, Director
 Division : 185 Workers' Compensation
 Approved by Commissioner : 110 Jim Robison
 Agency : Labor

Phone : 465-2790
 Date : 4/1/86
 Date : 4/1/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. HB 657

In order to administer the provisions of this bill the Department of Labor would require approximately 250 additional positions. These positions would adjust workers' compensation claims, classify occupations and industries and underwrite insurance. Funding for the positions would come from the newly established State Workers' Compensation Insurance Fund.

Our estimated costs are based on a review of a similar program in the State of Nevada. Their administrative costs were 15.2% of the paid premiums of \$138,000,000 in 1985. Alaska estimates \$130,000,000 paid premiums for 1985. Because of the similarity in size of premiums, we used the 15.2% figure in estimating our expenses.

Non-personal services costs would include the following:

Travel	\$ 450.0
Contractual	
Space Rent	880.0
Data Processing	1,000.0
Indirect	830.0
Misc.	2,795.0
Subtotal	<u>5,505.0</u>
Commodities	
Forms	150.0
Library Materials	150.0
Miscellaneous	230.0
Sub total	<u>530.0</u>
Equipment (One time)	
Furniture	625.0
Misc. Bldg. Furnishings	400.0
Mainframe computer	1,500.0
Sub total	<u>2,525.0</u>
Total NPS	\$9,010.0

Not included in the fiscal note are the costs associated with the in-house administration of vocational rehabilitation of injured workers. If included this would add approximately \$4,400,000 to the costs of the bill.


Assumptions:

1. Alaska's cost experience would be similar to the State of Nevada's.
2. Inflation of 4% on NPS items.

Bill No. HB No. 657

Date April 1, 1986

Title "An Act relating to workers' compensation;
and providing for an effective date."

Contact  Jacques McClintock
465-2790

The Department is not opposed to the concept of a state workers' compensation insurance fund; however, we have serious philosophical and practical concerns that we feel should be addressed.

Assuming the primary purpose behind this legislation is to reduce the high cost of workers' compensation insurance coverage, there has been no showing that substantial savings would, in fact, result from the establishment of a state fund. In the Summary and Conclusions section of the February 1977 Workers' Compensation Study, The Feasibility of Establishing a State Fund (State of Alaska, Legislative Affairs Agency), it states at page 87:

Under a competitive state fund system, employers would retain the option of insuring with a private company, but substantial savings for the system as a whole would not be realized, especially in the first few years of operation. If an exclusive fund were established, greater economies could be achieved at the expense of flexibility and the benefits of competition; companies now operating would be disfranchised and the burden of providing all coverage would immediately fall on the state with the attendant risks of failure. It is not clear whether the savings provided would be "substantial" in the minds of 65 percent of the employer survey respondents who indicated they would favor a state fund if it would "result in substantial savings." It is clear that an exclusive state fund would remove the advantage of the present system which survey respondents felt was second in importance: minimal governmental involvement.

Prior to considering legislation establishing a state fund, we recommend that an in-depth study be made to determine if substantial cost savings would result for Alaska employers. This was also the consensus of the Labor/Management Workers' Compensation Ad Hoc Committee during discussions on this topic last year.

Concerning the practical aspects, we oppose placing the administration of a state workers' compensation insurance fund under the Department of Labor. Under current law, the Commissioner of Labor acts as chairman and executive officer of the Alaska Workers' Compensation Board. The board, a quasi-judicial body, hears and decides disputed claims between injured workers and employers/insurers. Under this legislation, the board would decide disputes between the injured worker and a Department of Labor representative acting on behalf of an employer. Not only is there the appearance of conflict in a program being administered by the same department that ultimately adjudicates disputes between the parties, we question that an

POSITION PAPER/Department of Labor

employer would place much trust in representation of their interests by the Department of Labor, given the other enforcement functions of the department.

Of further concern is the broadening of the board's duties and powers over areas in which they have no experience or expertise and, again, charging the same entity responsible for the adjudication of claims with the administration of workers' compensation claims, underwriting and classification. An entirely separate Board of Directors would need to be established, with a general manager appointed by the board members, and the program administered by an entity other than the Department of Labor.

Without further study, it is impossible to project operating costs of a state workers' compensation insurance fund with any degree of accuracy. We have based our estimates on a review of the February 1977 Feasibility Study and of other state's insurance funds, in particular the State of Nevada. Because of the variation in services rendered by different state funds and in overhead costs, fund expenses appear to range from a low of 10 percent of premium to 17 percent. As far as initial capital, recommended estimates in the 1977 Feasibility Study range from 10 percent to 25 percent of premium which, for Alaska, would equal \$13,000,000 to \$32,500,000.

Finally, an effective date of January 1, 1987 to establish a state workers' compensation insurance fund would not be possible. At best, we estimate that it would take one year from enactment of the bill to establish a workable fund.

APPROVED:



Jim Robison
Commissioner

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 2, 1986

SUBJECT: Workers' Compensation Fund
(HB 657)

TO: Representative Niilo Koponen

FROM: Michael F. Ford *M.F.*
Legislative Counsel

The following is a sectional analysis of HB 657:

Section 1 - Requires the Department of Labor to administer the fund and to represent employers before the Workers' Compensation Board.

Section 2 - Allows the Department of Labor to adopt regulations to implement the insurance fund.

Section 3 - Establishes the state workers' compensation insurance fund. Requires that each employer be classified for payment of premiums. Requires employers to pay premiums into the fund.

Section 4 - Allows employers to self-insure if approved by the board.

Section 5 - Requires the board to establish a rating system for employers, establishes a penalty for failure to pay a premium.

Section 6 - Establishes certain required benefits for employees.

Section 7 - Requires employers to participate in the state insurance fund or qualify for self-insurance.

Section 8 - Provides that a contract may not be awarded by the state or a political subdivision of the state unless the contractor has state workers' compensation insurance or is self-insured.

Section 9 - Establishes that a self-insured employer is presumed to have elected to pay compensation directly to the employee.

Section 10 - Requires that notice of participation in the state insurance fund be posted at the work place.

Section 11 - Requires participation in the state workers' compensation insurance fund or qualification as a self-insurer, for each employer. Establishes a penalty for failure to participate or to self-insure.

Section 12 - Provides enforcement powers to the board for failure to insure.

Section 13 - Allows workers' compensation benefits for certain volunteer workers.

Section 14 - Requires that certain medical benefits be provided by either a self-insured employer, or the state workers' compensation insurance fund.

Section 15 - Establishes a claims procedure.

Section 16 - Establishes a procedure for controverting a claim for compensation.

Section 17 - Establishes when compensation first becomes due the employee.

Section 18 - Requires notification be given the board of a change in the payment of compensation benefits. Establishes a penalty for failure to provide notification.

Section 19 - Establishes a procedure to provide notice of controversion of a claim to compensation benefits.

Section 20 - Provides a penalty for failure to pay compensation within seven days after it becomes due.

Section 21 - Allows the board to investigate a change in compensation benefits.

Section 22 - Allows the board to require a self-insured employer to provide security for payment of compensation benefits.

Representative Niilo Koponen
Page 3
April 2, 1986

Section 23 - Establishes a procedure for handling overpayment of compensation benefits.

Section 24 - Requires self-insured employers to file a report concerning compensation benefits paid.

Section 25 - Establishes a default procedure for self-insured employers who fail to pay compensation.

Section 26 - Applicability section.

Section 27 - Repealer.

Section 28 - Effective date.

MFF:mkr
m4/061

Alaska State Legislature

Representative Nillo Koponen

FAIRBANKS
Box 252
Fairbanks, Alaska 99707
479-6782

JUNEAU
Pouch V
Juneau, Alaska 99811
465-4992

POSITION PAPER--HB657

HB 657 is an effort to bring increased efficiency to the Workers' Compensation Act. By providing a mechanism that allows a single pool state fund or employer self-insurance option, cost savings and greater control of risk management would be achieved.

By harnessing the collective buying power of Alaskan employers or allowing businesses with demonstrated reserves to self-insure one aspect of the current insurance issue would be brought under rational formulation.

Further advantages:

Income generated by the fund could be invested to produce dividends.

Private sector is not excluded.

Administrative costs within Workers' Comp. would decline.

Worker security would be enhanced.

States which allow group self-insurance: Alabama, Arkansas, Delaware, Florida, Georgia, Illinois, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New York, North Carolina, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Virginia, & Rhode Island.

Ohio operates an exclusive state fund for Workers' Comp.

February 1977

The Feasibility of Establishing A State Fund

WORKERS' COMPENSATION

Legislative Affairs Agency

STATE OF ALASKA



FINAL COPY

Legislative Affairs Agency
Pouch & State Capitol
Juneau, Alaska 99801

WORKERS' COMPENSATION

THE FEASIBILITY OF ESTABLISHING A STATE FUND

PREPARED BY

LEGISLATIVE AFFAIRS AGENCY
DIVISION OF RESEARCH

FEBRUARY, 1977

FOREWORD

The purpose of this report is to investigate the feasibility of establishing a state fund to provide workers' compensation coverage in Alaska. The Alaska Legislative Council, pursuant to House Concurrent Resolution No. 92 (1976), directed the Research Division of the Legislative Affairs Agency to conduct this study.

The project was begun in June, 1976, by J. K. Humphreys. The literature was reviewed and interviews were conducted with representatives of state funds, private carriers, and federal agencies. Questionnaires were prepared and distributed to private carriers and employers in Alaska.

The first chapter consists of background information. The following chapters compare the operations of state funds, private carriers nationwide and private carriers in Alaska, estimate the costs of establishing a state fund in Alaska, and explore other pertinent considerations.

The federal Interdepartmental Task Force on Workers' Compensation has generously provided preliminary results of a massive study in advance of their final report. Woodward and Pondiller, nationally known actuarial consultants, under contract to the Legislative Council, have prepared Chapter IV of this report dealing with costs of a state fund.

We hope this report will prove useful to the Legislative Council and the Legislature in addressing the question of whether to establish a state fund in Alaska.

Gregg K. Erickson
Director of Research
Legislative Affairs Agency

Juneau, Alaska
February, 1977

ACKNOWLEDGEMENTS

I would like to express my gratitude to the people, too numerous to name, who have generously contributed indispensable materials as well as their time and advice during the course of this study. The list includes representatives of the federal Interdepartmental Task Force, state funds, the American Association of State Compensation Insurance Funds, Alaskan private insurance carriers, the National Council on Compensation Insurance, the Alaska Division of Insurance, the Alaska Division of Workmen's Compensation, many Alaskan employers, and others who do not fall into any of these categories.

The responsibility for errors and omissions is mine.

J. K. Humphreys

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I. HISTORY AND BACKGROUND

Workmen's compensation is a system for providing benefits in the form of wage replacement and medical care to victims of work related injury. The system is supported by employers' payments in the form of insurance premiums which are included in the price of the product and passed on to the consumer. It was designed to replace employers' liability statutes and common law remedies and represents the first application in the United States of the economic and legal principle of liability without fault.

In the late nineteenth century, the high industrial death rate coupled with the difficulty of recovery under the existing common law system brought public sentiment for some form of statutory relief to a head. The first efforts came in the form of employers' liability statutes which removed or weakened the three defenses which were available to employers under the common law: (1) contributory negligence--an employee could not recover if his own negligence had been even partly responsible for the injury; (2) the fellow-servant doctrine--there could be no recovery if a fellow worker's negligence was a contributing cause of injury; and (3) assumption of risk--no award was allowed if the injury resulted from an inherent hazard of that employment which the worker was, or should have been, aware.¹

¹ Herman Somers and Anne Somers, Workmen's Compensation (New York, N.Y.: John Wiley and Sons, Inc., 1954), pp. 17-37.

Awards increased under the influence of employers' liability statutes, but the system proved satisfactory in only a few instances such as the case of the railroad workers. Public opinion and the almost unanimous recommendations of some 40 federal and state investigatory commissions called for systems of workmen's compensation to replace the employers' liability laws. A worker would give up his prerogative to sue his employer in return for certain benefits. The objectives of the new compensation laws, generally reversals of the perceived shortcomings of the existing system, were:

(1) to eliminate wasteful litigation and legal fees by removing the fault principle of liability and reducing the range of court discretion;

(2) to provide predetermined, adequate and prompt benefits through the use of fixed scales which, when applied to objective features of the case would yield income replacement instead of lump-sum damages;

(3) to increase the certainty of payment by guarding against such contingencies as bankrupt employers;

(4) to promote safety and health activities through the use of merit rating plans and other built-in incentives;

(5) to lower overhead costs by broadening the base of coverage and passing on savings associated with a reduction in litigation; and

(6) to increase the availability and use of medical and rehabilitation services.²

² Ibid.

Maryland enacted the first legislation to significantly embody the compensation principle in this country in 1902 (Germany had pioneered the first modern compensation system in 1884). The Maryland act, like many other early state efforts, was declared unconstitutional. In 1908 Congress passed a compensation act to cover federal employees. Three years later New York's compensation law (the first state act of general application) was held unconstitutional in the Ives³ decision on the grounds of deprivation of property without due process of law. The Ives decision attracted fierce criticism from all quarters, and subsequent court decisions tended toward a more liberal view of compensation; however, the fear of unconstitutionality had been planted with the result that most state legislatures avoided the ideal, comprehensive, compulsory coverage in favor of fragmentary, elective plans which have fallen short of realizing the stated objectives.⁴

Some 40 states had been covered by workmen's compensation by 1920 but it was not until 1948 that the last state (Mississippi) followed the trend. Generally, the actions of courts and legislatures have extended coverage to include a greater percentage of workers, included provisions for occupational disease and vocational rehabilitation, increased the level of benefits, instituted second-injury funds, strengthened industrial safety laws and, on the whole, liberalized workmen's compensation

³ Ives v. South Buffalo Railway Company, 201 N.Y. 271, 94 N.E. 431 (1911).

⁴ Marcus Rosenblum, ed., Compendium on Workmen's Compensation (Washington, D.C.: National Commission on State Workmen's Compensation Laws, 1973), pp. 17-18.

in the United States.⁵

In this country, 18 states, Puerto Rico and the Virgin Islands provide coverage through state funds which are organizations owned and operated by the state (see Table I-1). Twelve of the state funds compete (in some cases inactively) for business with private carriers; self-insurance is allowed under certain conditions. Three states have state funds and allow self-insurance. The five remaining state funds are "exclusive". All of the Canadian provinces have systems similar to exclusive state funds.

The first state fund was established in Washington in 1917, the last in Oklahoma in 1933. The reasons for establishing the funds have been the subject of some debate. Availability of coverage was one source of concern. Workmen's compensation was a new line of insurance with which private carriers had little or no experience. There were often no provisions for an assigned risk pool which would assure coverage for hazardous lines of employment such as coal mining. There was little experience on which to rely in the coverage of disease. Individual private carriers could, and still can, refuse to provide coverage for risks which in their opinion were "bad"; most state funds accept all risks. The poor performance of private carriers under the employers' liability statutes increased the dissatisfaction with the old laws. A New York commission discovered that only \$37 of every \$100 paid in by employers was paid to workmen; in Iowa benefits amounted to \$28 for every

⁵ Abner Brodie, "The Adequacy of Workmen's Compensation as Social Insurance: A Review of Developments and Proposals," 1963 Wisconsin Law Review, 57, January 1963, pp. 62-80.

TABLE I-1

TYPES OF WORKERS' COMPENSATION SYSTEMS IN THE UNITED STATES AND ITS TERRITORIES

A. Exclusively by Private Insurance:

GUAM

TEXAS

B. By Private Insurance or by Authorized Self-Insurance:

ALABAMA
ALASKA
ARKANSAS
CONNECTICUT
DELAWARE
DISTRICT OF COLUMBIA
FLORIDA
GEORGIA
HAWAII
ILLINOIS
INDIANA
IOWA
KANSAS
KENTUCKY
LOUISIANA
MAINE

MASSACHUSETTS
MINNESOTA
MISSISSIPPI
MISSOURI
NEBRASKA
NEW HAMPSHIRE
NEW JERSEY
NEW MEXICO
NORTH CAROLINA
RHODE ISLAND
SOUTH CAROLINA
SOUTH DAKOTA
TENNESSEE
VERMONT
VIRGINIA
WISCONSIN

C. Exclusively by State Fund:

NEVADA
NORTH DAKOTA
PUERTO RICO

VIRGIN ISLANDS
WYOMING

D. By either State Fund or Authorized Self-Insurance:

OHIO
WASHINGTON

WEST VIRGINIA

E. By any one of three means: Private Insurance, State Fund, or Authorized Self-Insurance:

ARIZONA
CALIFORNIA
COLORADO
IDAHO
MARYLAND
MICHIGAN

MONTANA
NEW YORK
OKLAHOMA
OREGON
PENNSYLVANIA
UTAH

Source: The American Association of State Compensation Insurance Funds, State Funds, Their Purpose and Impact (Phoenix: AASCIF Reports, 1975), p. 4.

\$100 in premiums.⁶

No new state funds for workmen's compensation insurance have been created since 1933 and the status of the existing funds has remained constant with the exception of a change from an exclusive to a competitive fund in Oregon in 1965. The development of modern workers' compensation laws has proceeded along similar lines in almost all states.

State legislation in recent years has been strongly influenced by the work of the 1971-72 National Commission on State Workmen's Compensation Laws. The commission, as dictated by Congress in the Occupational Safety and Health Act of 1970, undertook "a comprehensive study and evaluation of State Workmen's Compensation Laws in order to determine if such laws provide an adequate, prompt, and equitable system of compensation." The commission found that "The inescapable conclusion is that State workmen's compensation laws in general are inadequate and inequitable." Neither Federal administration nor control of the programs was recommended (except by a minority) but more than 80 recommendations were made with some 19 of them considered "essential" for every state act and "particularly suitable for Federal support." The 19 essential recommendations called for complete, compulsory coverage of all workers, full coverage of work-related diseases, unlimited medical care and physical rehabilitation services, employee selection of the state in which he would file a claim under certain conditions, and the establishment (in cases of death or total disability) of benefits not less than 66 2/3 percent of the wage of the injured worker, subject to a maximum no less

⁶ Somers and Somers, p. 24.

than 100 percent of the state's average weekly wage, with no time limits.⁷

Payrolls covered by workers' compensation insurance hit an all-time high of 86 percent in 1974, up from 84 to 85 percent for all years back to 1959. The upgrading of state programs in recent years and the persistent growth in medical and hospitalization costs have resulted in increased costs to employers. Table I-2 gives these costs in dollar terms and as a percent of payroll in covered employment. Benefit payments have exhibited a similar rate of growth.^{8,9}

On May 13, 1974, an interdepartmental group which had been working in the area of workers' compensation made its report to the President.¹⁰ The White Paper on Workers' Compensation generally supported the recommendations of the National Commission, and recognized that these recommendations had already had considerable impact. It outlined a program of immediate reforms with a series of minimum objectives to be accomplished by the states by the end of 1975. The objectives generally

⁷ The Report of the National Commission on State Workmen's Compensation Laws, Washington, D.C., July 1972. (See Appendix I for a list of the 19 essential recommendations and a table showing state compliance.)

⁸ Ibid.

⁹ Daniel N. Price, "Workmen's Compensation Payments and Costs," Social Security Bulletin (January 1975, January 1976).

¹⁰ Department of Labor, Department of Commerce, Department of Health, Education, and Welfare and Department of Housing and Urban Development, White Paper on Workers' Compensation--A Report on the Need for Reform of State Workers' Compensation, May 13, 1974.

followed the National Commission's recommendations in the areas of coverage and benefit levels, but federal technical assistance was suggested in the development of guidelines for occupational disease coverage, benefit policy research, and the development and implementation of a model data system which would aid researchers in their efforts to assess the strengths and weaknesses of the various systems. Finally, they proposed "a major program of research to analyze the fundamental issues and to develop options for further improvements."

The President established an Interdepartmental Workers' Compensation Task Force in 1974 to accomplish the broad research and assistance objectives set out in the White Paper and to document the states' progress in achieving the recommended improvements. The work of the task force represents a primary source of comprehensive, current information on the subject of workers' compensation.

The question of federal legislation in the field of workers' compensation remains open and will undoubtedly depend on reactions to the report of the task force which cannot be anticipated at this time. "Substantial progress" by the states along lines that have been indicated by various reports will be a considerable factor. At the present time it is clear that virtually no one has ruled out the possibility of some form of federal control. The National Conference of State Legislatures is conducting a study to determine what progress the states have made toward conformance with the recommendations of the National Commission and the possible future role of the federal government in workers' compensation; their report should be available early in 1977.

The Policy Group of the Interdepartmental Workers' Compensation Task Force reported officially to the President on January 19, 1977. On the subject of federal control they concluded that:

Secondly, a program so affected by local employment conditions and local services, and requiring so much interaction with claimants probably is more effectively managed at the State level. On balance, the Group recommends giving the States a while longer to strengthen their workers' compensation systems. Legislation to Federalize the system is not warranted at this time.

However, the Policy Group feels that State progress must be both assisted and monitored by the Federal Government. In making its recommendations, the Group has tried to give special attention to the problems which have slowed the pace of reform so far. Our attention is directed as much to effective implementation of reforms as to the principles which should guide them.¹¹

Development In Alaska

The development of workmen's compensation in Alaska has generally conformed to the trend which has prevailed in other states. The first act in Alaska was passed in 1915, covered the mining industry only, and was "permissive" in that it allowed both an employer and an employee to decide whether they wished to be covered. This original act was replaced in 1923 by another which was considerably broader in scope, and, from there, Alaska has moved into substantial compliance with all but three of the essential recommendations of the National Commission.

¹¹ Workers' Compensation: Is There a Better Way, A Report on the Need for Reform of State Workers' Compensation by the Policy Group of the Interdepartmental Workers' Compensation Task Force, Washington, D. C., January 1977.

The costs and benefits associated with workmen's compensation in Alaska have been a subject of perennial concern to the legislature. At the direction of the Territorial Legislature, Twenty-third Session, the Legislative Council conducted a study to assess the potential impact of a bill which would have increased benefits but was vetoed by the governor. The council also concerned itself with a general review of rates and benefits, including a comparison with those in other jurisdictions, and discussed the theory and the pros and cons of a state industrial fund.

The National Council on Compensation Insurance, a "...seasoned, nationally-known rate making organization..." supported by insurance companies, has operated in Alaska since 1947. Advisory rates were filed by the National Council on behalf of almost all carriers and approved or disapproved by the commissioner (now director) of insurance. (In February, 1976, the National Council was declared by the director to be a licensed rating bureau.) There had, however, been no "...effective insurance regulatory agency prior to 1956..." and this had contributed to excessive rates being charged.¹²

The 1958 report contained testimony from the National Council on Compensation Insurance, the American Association of Compensation Insurance Funds and representatives of labor and the insurance industry. The Legislative Council concluded that rates had been higher than necessary and that improved benefits were in order. In view of recently instituted

¹² Alaska Legislative Council, A FINAL Report on the Workmen's Compensation Study, Publication No. 23-4 (Final).

regulatory apparatus for the insurance industry and impending reorganization of the executive branch associated with the achievement of statehood, it was recommended that the establishment of a state fund be deferred and a reappraisal conducted following reorganization in the light of new experience.¹³

In 1961, at the direction of the Second Legislature, the Legislative Council, in cooperation in the Departments of Labor and Commerce, held public hearings on the subject of a non-profit exclusive state fund and the workmen's compensation insurance rates which were then in effect. Again, testimony was taken from representatives of all concerned factions.¹⁴ At the time of the hearings, the overall rate level had risen by only 4 1/2 percent since the 1958 final report. A liberalization in benefits which tended to increase rates by 24.1 percent had become effective in the interim, but the effects were almost totally offset by favorable "experience" (see Table I-4).

The legislature again failed to enact legislation which would have established a state fund. A bill to establish an exclusive state fund was introduced in 1965 and, until the present concern, represented the last official interest in the area.

Workmen's compensation coverage in Alaska is furnished almost exclusively by private insurance companies. Currently, 33 employers are self-insured in accordance with AS 23.30.090. The vast majority

¹³ Ibid.

¹⁴ Transcript of Proceedings, Public Hearings on Workmen's Compensation, Hearings conducted by the Alaska Legislative Council, Department of Commerce and Department of Labor, Juneau, Alaska, August 24, 25, and 26, 1961.

of workers' compensation in Alaska (78 percent of earned premiums in 1975) is accounted for by the business of non-participating stock companies which are organized as profit-making ventures in the field of insurance and return almost no premiums to the insured in the form of dividends. Almost all the the remaining 22 percent of the market is divided between participating stock companies which are organized for profit but do pay dividends and mutual companies which are organized as non-profit corporations owned by policyholders. Reciprocals (similar to mutuals) and miscellaneous companies account for an insignificant share. Table I-3 gives 1975 shares of the Alaskan market by type of company.

Prior to statehood, most of the workmen's compensation insurance was written by Lloyd's of London. Even though some American companies began to make inroads into the market, particularly in special program areas, there were no domestic carriers organized under Alaskan law until 1967 when a charter was granted to Alaska Pacific Assurance Company. Since that time three other carriers have been chartered in Alaska-- Industrial Indemnity of Alaska, Providence-Washington of Alaska, and the Alaska Insurance Company. Alaska Pacific dominates the market, writing 40 percent of the 1975 premiums; the other three domestics together accounted for 24 percent of the total.

The present concern with the workmen's compensation system in Alaska stems primarily from spectacular increases in premium costs borne by employers. Rates remained below their 1957 level until June of 1972; they did not rise more than 4 1/2 percent above that level until June of 1974. Liberalized benefit provisions enacted during that period which

TABLE I-3
 1975 SHARES OF THE ALASKAN MARKET
 BY TYPE OF COMPANY
 (Direct Business)

Type of Company	Earned Premiums in 1975	Percent of Total
Non-participating stock	27,478,699	78.22
Participating stock	5,144,487	14.64
Mutual	2,476,479	7.05
Reciprocal	2,665	0.01
Miscellaneous	28,233	0.08
All companies	35,130,563	100.00

Source: National Council on Compensation Insurance, Insurance Expense Exhibit (countrywide) compiled in 1976.

would have increased rates in the absence of other influences were almost exactly offset by improving experience (losses were consistently less than had been projected). Rates have more than doubled since 1973 as a result of two factors: changes in the law which would have increased rates by 67 percent compounded with poor experience which would have produced a 23 percent increase.

Table I-4 gives rate level history for Alaska. These changes in rate level are aggregate or average changes in manual rates; one of the more than 500 classifications into which insureds are divided for rating purposes have experienced larger increases and some smaller increases than the average. This report will not go into detail concerning the rates and rating practices in Alaska which are being treated in a separate report to the council by the actuarial consulting firm of Woodward and Fondiller.

The rates which went into effect on June 1, 1975, were considerably higher than had been predicted or anticipated. Adverse experience and a delayed increase related to legislation from May 1974 (SB 400) brought the average increase to about 50 percent. Complaints to the Division of Insurance coupled with other concerns on the part of the director resulted in the first rate hearings to be held by a director of the Division of Insurance in Alaska. The hearings were held in November of 1975 in Ketchikan, Fairbanks and Anchorage.¹⁵

¹⁵ For a more complete description of the circumstances surrounding the hearings of November, 1975, and the director's finds, see Division of Insurance Order 76-1. Two volumes of testimony were taken at the hearings and have been transcribed by the division.

TABLE 1-4

ALASKA WORKMEN'S COMPENSATION RATE LEVEL HISTORY

Date of Rate Change	Total Change in W.C. Rate Level	Cumulative % of Sept. 1957 Level	Portion Due to Experience	Cumulative % of Sept. 1957 Level	Portion Due to Law Change	Cumulative % of Sept. 1957 Level
10- 1-57	-11.5%	.865	-11.5%	.885	0%	1.000
10- 1-58	- 8.8%	.807	- 8.8%	.807	0%	1.000
8- 1-59	+ 6.0%	.855	-14.6%	.689	+24.1%	1.241
12- 1-60	- 1.3%	.844	- 1.4%	.679	+ 0.1%	1.242
12-31-61	+ 6.2%	.897	+ 6.2%	.721	0%	1.246
12-31-63	- 0.4%	.893	- 0.7%	.716	+ 0.3%	1.246
12-31-63	- 5.4%	.845	- 5.4%	.677	0%	1.246
10- 1-64	+15.1%*	.972	+ 9.6%	.742	+ 5.0%	1.308
9- 1-55	- 0.3%	.969	- 0.3%	.740	0%	1.308
10- 1-66	-11.8%	.855	-13.0%	.644	+ 1.4%	1.327
11- 1-67	- 3.1%	.829	- 3.1%	.624	0%	1.327
1- 1-69	+ 7.2%	.888	+ 4.9%	.655	+ 2.2%	1.356
11- 1-69	+ 1.6%**	.902	+ 6.1%	.695	0%	1.356
10- 1-70	+ 5.4%	.951	- 1.2%	.686	+ 6.7%	1.447
4- 1-72	- 5.2%	.902	- 5.2%	.650	0%	1.447
6-15-72	+15.8%	1.044	0%	.650	+15.8%	1.675
3- 1-73	- 3.1%	1.012	- 3.1%	.630	0%	1.675
6- 1-74	+34.2%	1.357	+20.7%	.761	+11.2%	1.862
6- 1-75	+49.9%	2.035	+11.3%	.847	+35.2%***	2.518
11- 1-76	+ 3.7%	2.110	- 8.2%	.777	+11.0%****	2.796

Source: Division of Insurance; NCCI Rate Filings.

* Difference due to compounding.

** Difference is accounted for by change of premium basis from a \$300 per week payroll limitation to a \$400 per week payroll limitation. This also causes a 5-6% disagreement in the cumulative columns from that point on.

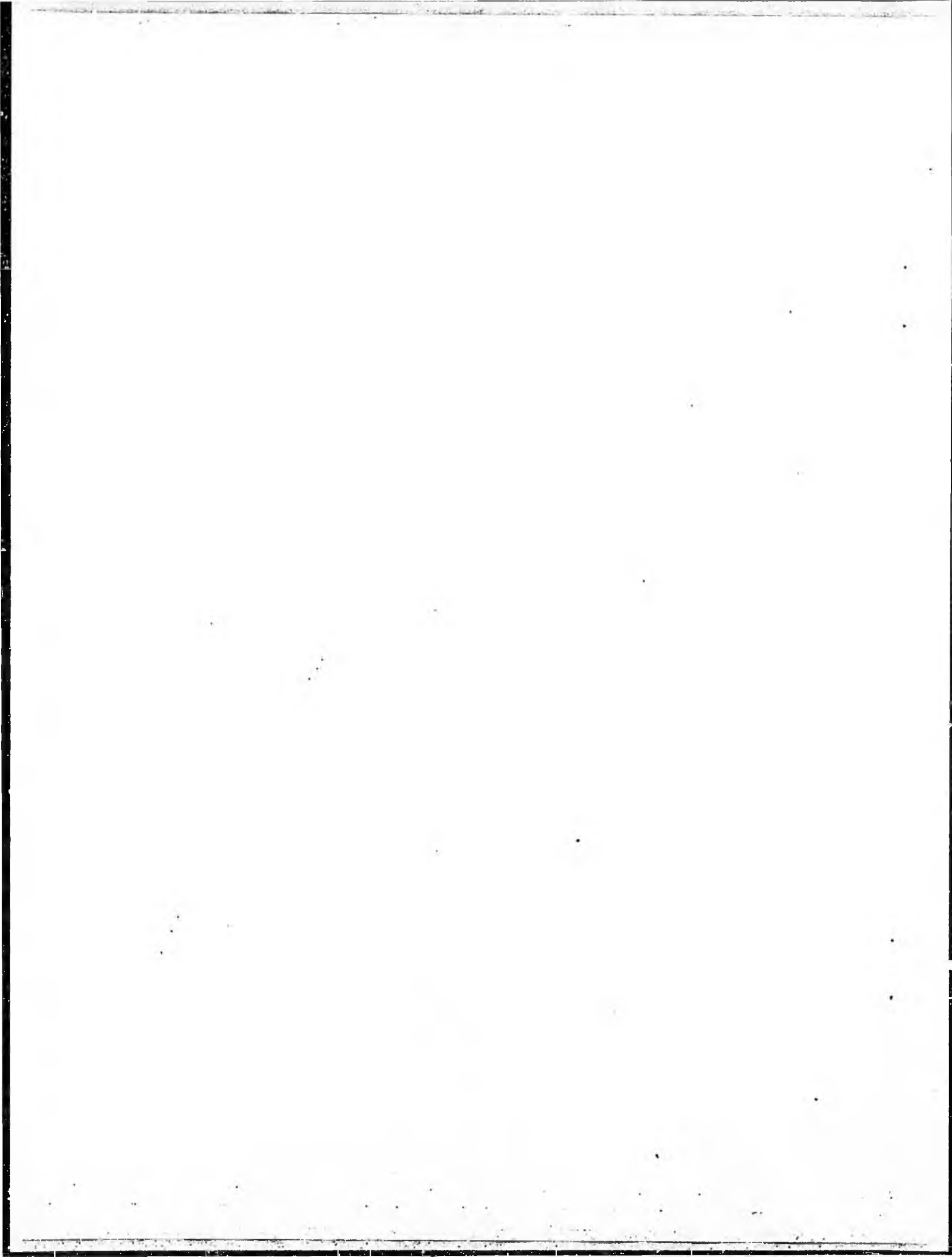
*** 26.4% from SB 146 (Ch. 83, SLA 1975) and 7%, applicable only for policies in force from June 1, 1975, through December 31, 1976, as a result of the retroactive benefit provisions of SB 400 (Ch. 51, SLA 1974).

**** The 10% decrease which would have resulted from SB 569 (Ch. 252, SLA 1976) was more than offset by two 11% increases: one from a reevaluation of SB 146 and the other from the automatic increase in the limit on benefits from 80% to 100% of the increased weekly wage.

The Alaska Legislative Council Subcommittee on Workmen's Compensation also held hearings in Anchorage and Fairbanks in December of 1975. Public testimony reflected concern with rates, and the bill which the committee had drafted with a view to providing relief became Chapter 252, S.L.A. 1976. It restricted benefits to be provided to beneficiaries who moved out of Alaska into areas with a lower cost of living and, had other things been equal, would have reduced rates by 10 percent.

The rates which went into effect on June 1, 1975 were approved by the director in Order 76-1. In addition, the National Council was designated as a licensed rating bureau, and practices not in accord with their rules were invalidated. The National Council was also ordered to refile new rates to more accurately reflect Alaskan conditions. This latest filing resulted in the rate increase of 3.7 percent which became effective November 1, 1976. The downward influence of Chapter 252 and good experience would have produced a decrease of 17.4 percent. Those tendencies were more than offset by a reevaluation of the May 22, 1975, legislation and an automatic change in benefit limit to 100 percent of the state average weekly wage which had gone up to \$358.

It is too early to assess the effects of some of the recent procedural changes on the market. The effects of pipeline construction have moderated. Large increases in benefit levels in the near future seem unlikely. In general, the market is beginning to stabilize.



II. COSTS

This chapter will compare the costs of delivering benefits through private insurance carriers as opposed to state funds. Direct comparisons are impossible because of differences among states in areas such as wage rates, benefit levels, agency administration, court interpretation and economic character. It is possible to use some accepted standards of comparison and draw valid conclusions but they must be interpreted with care. Services rendered to employers as well as benefits paid must be taken into account. Effective loss control may appear as an expense and, at the same time, be reducing total cost. The extent to which injured workers are receiving the medical care, rehabilitation and compensation to which they are entitled under the law in a timely manner is a paramount consideration when one is weighing cost factors. Account must be taken of subsidies which some state funds receive in the form of tax exemptions or services provided without charge. Consideration of the factors bearing on the overhead of benefit administration will occupy much of the remainder of this report.

Apparent Overhead

Loss ratios are a widely available and generally accepted source of information on the proportion of the premium dollar which reaches the injured worker. A ratio that will be used extensively is that of incurred losses to net earned premiums.

"Incurred losses" for a given period refers to the losses that are paid during that period plus the outstanding reserves at the end of the period minus the reserves at the beginning of the period. Reserves are the amounts set aside to make continuing payments in future years. Typically, allowances for losses that have been incurred but not yet reported, cases which will be reopened and specific contingencies are also included. This measure of losses is widely and increasingly favored over the simpler "paid losses". Incurred losses will tend to exceed paid losses in a period in which losses and the volume of outstanding reserves are increasing.^{16,17}

"Earned premiums" refers to that portion of premiums which should be allocated to the year in question on a pro rata basis according to the portion of the policy period that falls in that year. For example, \$50 in earned premium would be generated in calendar year 1975 by a policy selling for \$100 and running from July 1, 1975, through June 30, 1976. In a period of expanding business activity, earned premiums tend to be smaller than written premiums (the amount actually paid in without regard to policy period).¹⁸ Net earned premium is earned premium minus returns to policyholders in the form of premium discounts and through experience and retrospective rating plans.

These loss ratios will be more meaningful if they are viewed in conjunction with dividends paid to policyholders to arrive at a figure for the amount which is retained by the carriers to cover expenses and profit. A high loss ratio might be a reflection of relatively

¹⁶ Somers and Somers, pp. 119-120

¹⁷ Final Report 1958, p. 25.

¹⁸ Ibid., Somers and Somers, and Final Report 1958.