

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 86/2

9637 SENATE LABOR & COMMERCE

State	Citation	Guaranty Mechanism	Who Regulates	Minimum Net Worth	Minimum Required Security	Minimum Premium	Comments
Alabama	Sec. 25-5-260 Sec. 25-5-2 Sec. 25-5-8	WC SI Guaranty Ass. Inc.	Dept of Industrial Relations				2 or more employers may pool their liabilities to qualify as a group s/i; requires groups to furnish satisfactory proof of financial ability to pay compensation, as required by the Director
Alaska	(No provision)						
Arizona	Sec. 23-661.01		Industrial Commission		\$100K	\$750K	2 or more employers in similar industry may pool liabilities to qualify as a group s/i; members are l/s liable for obligations; Industrial Commission must promulgate rules to safeguard the solvency of groups, including minimum and combined premiums, combined net worth, and security requirements. Groups must have been in business for a minimum of 5 years.
Arkansas	Sec. 11-9-404 Sec. 11-9-808	SI Group Guaranty Fund	Workers Comp Commission	\$1 million	\$200K		2 or more employers in the same business may pool liabilities to qualify as a group s/i (classified as a homogeneous s/i); 2 or more employers who are members of the same trade association may also pool their liabilities (classified as a common s/i); association must have been in business for min. of 5 years. All group members are jointly & severally liable for obligations; Excess insurance in an amount acceptable to the commission is required.
California	Sec. 3703 Sec. 11655.6	Guaranty Fund	Dept of Industrial Relations				2 or more employers may pool liabilities to qualify as a group s/i; requires: 1) at least 75% of members to be engaged in a common trade or business; 2) each group to establish safety committee; and 3) at least 75% of each employer's payroll to have been developed under the same two manual classifications. At least 60% of members must have been in business for 1 year
Colorado	Sec. 8-44-2-05 8-44-2-06	SI Guaranty Fund	Insurance Dept.				2 or more trade associations or 2 or more employers in the same or similar business who are members of the same trade association may pool their liabilities to form a s/i group; requires each group to establish a trust fund, on an annual basis, to provide for payment of the total loss incurred by all pool members within each given year
Connecticut	Sec. 38a-107a		Insurance Dept.	\$5 million	\$500K	\$1 mil	Requires an independent actuarial feasibility study of the group; Members must pay a min. of 25% of their first-year annual premium; Excess insurance required

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Delaware	Sec. 18-404		Insurance Dept.	\$1 million		\$250K	Groups of employers may pool their liabilities to qualify as a group self group or members are selfs; excess insurance required
DC	No provision						
Florida	624.43	Self Fund Guaranty Assoc.	Dept. of Labor & Employment Security				2 or more employers may pool their liabilities to qualify as group self fund; Requires monetary reserves and reinsurances; provides for annual reporting requirements
Georgia	34-8-160 34-8-152 34-8-180		Insurance Dept.		\$200K	\$1 million	A trade association may establish an self group; municipalities counties, school boards or hospital authorities may also form self groups; permits levies against group members, as necessary, to secure payment of obligations. Trade associations must have been in business for a minimum of 3 years.
Hawaii	Sec. 388-101 Sec. 388-184 Sec. 388-207		Insurance Dept.	\$1 million		\$250K	Five or more employers in the same or similar business and who are members of the same trade or professional association may pool their liabilities to qualify as a group self fund; Requires the professional or trade association to have been in existence for at least 5 years; members must pay a min. of 25% of their first-year annual premium; Excess insurance and security required; group members are selfs; health permits levies against group members, as necessary, to ensure payment of obligations
Idaho	No provision						
Indiana	Sec. 306/4a	Group Self Insolver by Fund	Dept. of Insurance				2 or more employers with similar risk characteristics or that are members of a professional, commercial or industrial trade association may pool their liabilities to qualify as a self group; requires actuarially sufficient reserves
Indiana	No provision						
Iowa	Sec. 67.4	Insurance Guaranty Acton.	Insurance Dept.				Groups of employers by themselves or in association with their workers may form self associations; requires the commissioner to adopt rules to establish minimum financial standards

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State	Citation	Guaranty Mechanism	Who Regulates	Minimum Net Worth	Minimum Required Security	Minimum Premium	Comments
Kansas	Sec. 44-581 Sec. 44-588a			\$1 million for all groups whose members are in a similar business, \$1.25 mil when group members are in dissimilar businesses	\$250K for groups with members in a similar business, or 500K when group members are in dissimilar businesses		Groups of five or more employers in similar business who are members of a trade, merchant or professional association that has been in existence for at least 5 years may form self groups; also allows such employers when in dissimilar types of business to pool liabilities for group self when an accurate prediction of loss can be made; members must pay a min. of 35% of the first-year estimated premium; group members are j&s liable; excess insurance required
Kentucky	Sec. 842.950 Sec. 342.806	Group SI Fund	Dept of WC Claims				Groups of employers may form mutual insurance associations or reciprocal or interinsurance exchanges; also allows 11 or more employers or 2 or more city, county, municipal or urban-county employers to enter into agreements to pool liabilities
Louisiana	Sec. 23:11F5 Sec. 23:11B0		Dept. of Insurance	\$1 million	\$100K	\$500K	5 or more employers who are members of the same trade or professional association may enter into agreements to pool liability; provides that such groups are not member insureds of the Insurance Guaranty Association
Maine	Sec. 403 Sec. 404	SI Guaranty Assoc.	Insurance Dept.				Any group of employees may adopt a plan for self groups may not take the form of a corporation, partnership or LLC; requires security
Maryland	Sec. 48A 808 Sec. 48A 808	SI Guaranty Fund	Workers Comp Commission	\$1 million	\$100K	\$250K	2 or more employers may form a self group; group members are j&s liable; excess insurance is required
Massachusetts	Sec. 152.25A Sec. 25a-25U		Insurance Dept.	\$1 million	\$150K	\$250K	5 or more employers engaged in the same or similar business, who are members of the same industry, trade, or professional association that has been in existence for at least 2 years, or who or parties to the same collective bargaining agreements may pool their liabilities; group members are j&s liable; members must pay a min. 25% of their annual first-year net premium; permits levies against group members, as necessary, to ensure ability to pay obligations; excess insurance required
Michigan	Sec. 418.611 Sec. 500.7801		WC Bureau	\$1 million			2 or more employers in the same industry with combined min assets of \$1 mil, or 2 or more public employers of the same type of unit may pool their liabilities to form self groups; nonpublic health care facility employers may be permitted to join with public employers if the principal service rendered by the health care employer is the same type of service rendered by the public employers.

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State	Citation	Guaranty Mechanism	Who Regulates	Minimum Net Worth	Minimum Required Security	Minimum Premium	Comments
Minnesota	Sec. 70A.15 Sec. 170.181		Dept. of Commerce	An amount equal to the greater of 10 times the retention selected with the WC reinsurance association or 1/3 of the current annual modified premiums of members.		\$300K	2 or more employers may apply for authority to act as a group. establishes renewal reporting, requirements
Mississippi	Sec. 71-3-75 Sec. 71-3-183	97 Guaranty Assn. - 2% of gross paid losses every six months for four years then as necessary	Workers Comp Commission				2 or more employers engaged in similar business or association may pool liabilities; each member of a group is classified as a self insured
Missouri	Sec. 287.280		W/C Division		\$125K		Any employer or group of employers may self-insure upon approval; if approved as a group, individuals do not have to qualify as indiv. self; groups must be employers in same industry or associations. Assoc must have been in existence for at least 8 years.
Montana	Sec. 30-71-117 30-71-2101 30-71-2103		Dept. of Labor and Industry		The greater of \$250K or an average of the liabilities incurred by the employer in Montana for the first 3 of the last 4 completed calendar years. Extra security may also be required.		Groups permitted; but each individual in an assoc. of employers approved to self insure liable for obligations incurred by assoc.
Nebraska	Sec. 44-1304						Allows two or more public agencies to operate as a risk management pool

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Nevada	Secs. 616A, 050, 616A, 805, 616B, 350 thru 616, 3446	Provides for assessments by the commissioner against all associations for claims against insolvent associations. Such monies will be credited to the account for insolvent associations in the fund for workers compensation and safety	Insurance Dept.	\$2.5 million	\$100K		Allows five or more employers engaged in similar employment to operate as an "association of self-insured employers". Provides for joint and several liability of association members. Provides for an aggregate annual assessment of at least \$2500K
New Hampshire	Secs. 281-A:5-a, 281-A:5-b		Department of Labor				Private employers and groups of homogeneous employers may self excess insurance is required; must maintain a prop loss reserves and file annual financial reports. Group self excess governed by same provisions as individual self
New Jersey	Secs. 34:15-77, 34:15-12b, 16	Self Guaranty Assoc. (unclear whether it applies to group self)	Insurance Dept.				Group self only allowed for groups of 10 or more hospitals
New Mexico	Sec. 62-6-2, Sec. 62-6-5, Sec. 62-6-20		WC Division	\$3 million	\$100K	\$250K	Proposed groups must file a certificate of approval; outlines appropriate requirements; members must pay a min of 25% of their first-yr annual premium; group must also have specific and aggregate excess insurance; members are self liable. Employers must have been in business for at least 5 years.
New York	Sec. 51(3-a), Sec. 316	Self Guaranty Fund (not clear whether it applies to group self)	WC Board		Determined jointly by WC Board and Dept. Insurance		Groups of employers engaged in related activities may adopt self plan; group members are self liable; outlines extensive app requirements. Requires reports at time of app and annually on financial condition, losses, etc.

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North Carolina	Sec. 97-99 Sec. 97-100 Sec. 97-131(b) Sec. 68-47-60 thru 68-47-135	Grp self insurers must be members of the S/I Guaranty Assoc; Assessments made annually	Insurance Dept.		Surety bonds as required by Commis. required. Grps must deposit \$500k or 10% of its ann. earned premium	Employee base must be actuarially sufficient to spread risk. Every grp member must pay a deposit of 25% of the estm. annual earned prem.	Groups of 2 or more employers may become licensed to pool their w/o liabilities. Employers must be part of bona fide trade association and engaged in similar profession. External license application requirements. Mergers w/ other grps prohibited unless in same trade. Surplus requirements: Must maintain surplus = to 10% of the total undiscounted claim liability, or \$300,000. Grps must maintain specific and aggregate excess insurance or reinsurance w/ limits according to exposure. Law also addresses rate filing requirements, group governance & services, and the admission & termination of members. Grp members are jointly & severally liable for all w/o obligations. trade assoc. must have been incorp. in NC and been in existence for 5 years
North Dakota	Sec. 65-04-04 Sec. 65-01-05	Self insurance not permitted; all employers must insure w/ exc. state fund					
Ohio	Sec. 4123.29 Sec. 4123.35	S/I Guaranty Fund (unclear whether it applies to s/i groups)	WC Administrator			Over \$150K or at least 100 total employees	Allows the state to insure employer obligations under a plan that groups employers for rating purposes and pools risks of employers within the group. (Unclear whether grp s/i is permitted or not.)
Oklahoma	85 sso 61 85 sec. 61.1 85 sec. 88.2 85 sec. 142.1 85 sso 149.2	Group S/I Guaranty Fund	Workers Comp. Court				2 or more employers may pool their liabilities to qualify as a group s/i and each employer w/d be classified as a self-insurer; employers in groups must accept j&s liability; administrators of groups barred from certain positions

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State	Citation	Guaranty Mechanism	Who Regulates	Minimum Net Worth	Minimum Required Security	Minimum Premium	Comments
Oregon	Sec. 656.407 Sec. 656.430 Sec. 656.614	SIJ Employer Group Adjustment Reserve; assessments based on simulated premium		If group members have insurance coverage with a retention of \$100K or more, the minimum net worth is \$1 million. If such retention is less than \$100K, the employer's aggregate net worth must at least be equal to the proportion of \$1 million that the retention bears to \$100K			Director may certify 5 or more employers in same industry as if employer group; employers are jointly liable for obligations; group must be organized as a corp. or coop; must have centralized admin
Pennsylvania	Sec. 802 Sec. 803 Sec. 805	SIJ Guaranty Fund	Dept. of Labor & Industry	\$1 million		Requires members to have a combined annual payroll of \$500K or greater	5 or more homogeneous employers may pool their liabilities; employers are jointly & severally liable for obligations; members must pay a minimum of 25% of their annual assessment on or before the inception of the fund. Employers must have been in business for a minimum of 3 years.
Rhode Island	Sec. 28-38-1 Sec. 28-47-1 thru Sec. 28-47-13		Department of Business Regulated				Employers must be in related industry or an association; members are jointly liable for obligations; groups are assigned to 1 of 5 classification groups; application and termination req. outlined; groups must maintain both specific & aggregate reinsurance and/or excess ins. provides for losses against group members, as necessary, to ensure ability to pay obligations
South Carolina	Sec. 42-5-20		Industrial Commission		Acceptable security required by Commission		2 or more employers in similar business may pool liabilities to qualify as an

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South Dakota	Sec. 65-5-5 Sec. 62-5-3		Dept. of Labor Div. of Insur		For self-insurers, 260K or twice the amount of compensation and medical claims paid the previous year, or the amount designated by employer as a WC reserve (not sure how the requirement applies to groups)		Allows reciprocal or interinsurance contracts. Unclear; seems that grp self permitted, but can't find specific law, law seems very vague regardless.
Tennessee	Sec. 60-6-405		Insurance Dept		\$125,000 for self-insurers (it is unclear how this provision relates to SI groups)		10 or more employers in same trade assoc. may estab self pools; grps must obtain specific & aggregate excess insurance in amounts prescribed. Employers must have been in business for a minimum of 6 years.
Texas	Ins. Code Art. 5.67A		Div. of SI Regulation				Authorizes group purchase of insurance by employers in the same or similar business
Utah	No provision						
Vermont	No provision						
Virginia	Sec. 65.2-802		State Corporation Commission		At discretion of SOC; may also require specific or aggregate excess ins. or reinsurance		2 or more employers may be licensed as a grp self assoc to pool their liabilities; members are job liable
Washington	Secs. 51.08.173 51.14.160		Director of Industrial Ins.				Self grps permitted only for school districts and state-owned hospitals.
West Virginia	No provision						
Wisconsin	No provision						
Wyoming	Sec. 27-14-201	Self insurance not permitted; all employers must insure w/ ex. state fund					

Alaska State Legislature

Sen. Tim Kelly, Chairman
Anchorage
Sen. Loren Leman, Vice-Chair
Anchorage
Sen. Robin Taylor
Wrangell
Sen. John Torgerson
Kasilof
Sen. Jim Duncan
Juneau



Official Business

Senate Rules Committee

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716 West 4th, Suite 400
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March 2, 1998

Alaska Timber Insurance Exchange
Mr. Michael Hinchon, General Manager
2555 First Avenue
Ketchikan, Ak. 99901

Dear Mr. Hinchon:

The Senate Labor & Commerce Committee is considering a bill that would allow pooling by industry groups for the purpose of self insuring for workers compensation coverage. Testimony before the Committee stated that current pools set up for that purpose are required to form a reciprocal to underwrite their worker compensation insurance. CSHB116 will have another hearing soon and I am trying to get more information on reciprocals currently operating under Alaska Statute.

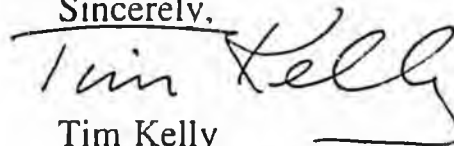
I have requested additional information from the Director of the Division of Insurance, and would also like to hear from a representative of The Alaska Timber Insurance Exchange. The Division of Insurance oversight and regulatory functions, as well as the financial requirements to form and maintain these proposed pools, are quite different from those that your group operates under. I would be more comfortable dealing with this legislation if I had a clearer understanding of how a currently operating reciprocal functions and how it compares to the new entities proposed in CSHB116.

There are several areas that I would like to hear about.

- 1) What were the financial requirements to form the Alaska Timber Insurance Exchange and were they adequate? For example, in any of the first five years did the Exchange incur operating deficits reducing surplus below initial minimum requirements?
- 2) What role did the Division of Insurance regulatory and oversight functions perform in the formative years of the Alaska Timber Insurance Exchange?
- 3) Has the Alaska Timber Insurance Exchange ever had to assess members beyond expected premium because of an unexpected high volume of claims or particularly large claims?
- 4) What safeguards exist to protect reciprocals from insolvency and claims payments in the event of a failure? How do these compare to the pooling arrangement in CSHB116?
- 5) What benefits do your members gain from participating in the Alaska Timber Insurance Exchange?
- 6) Do you believe the CSHB116 approach provides adequate protection for injured workers?

I would also appreciate any additional comments you may have on the proposed legislation. My office will notify you as soon as the Labor & Commerce Committee has scheduled a hearing on CSHB116. If you or your representative would prefer, we could arrange for testimony by teleconference. I would like to thank you for any assistance you can give us in gaining a clearer understanding of how these reciprocals function.

Sincerely,



Tim Kelly
Alaska State Senate

February 23, 1998

Marianne K Burke, Director
Division of Insurance
P.O. Box 110805
Juneau, Alaska 99801

Reg: Workers Compensation
Insurance Pooling

Dear Ms. Burke:

I would like to get some information from the Division of Insurance on reciprocals operating in Alaska. Testimony before the Senate Labor & Commerce Committee regarding CSHB116, insurance pooling for worker compensation coverage, mentioned forming a reciprocal as an option available for an industry group pool to cover their obligations in regard to mandated worker compensation coverage. Since current Statute allows the formation of these entities, I would like to have a clearer understanding of how a reciprocal works under Alaska insurance Code.

Please supply the following information:

- 1) What are the requirements, regarding financial, auditing procedures and regulatory oversight, to form a reciprocal?
- 2) What reciprocals are now operating in Alaska, what were their initial reserve request, how large are they, and how successful are they?

3) In the formative years of operating reciprocals, was there ever any need for further member assessments to supplement the original financial requirements to maintain solvency? How active was the Division in its oversight capacity to promote their success?

4) Please give a general estimate of how financial requirements have changed in relation to the purchasing power of 1998 dollars to the amount needed when the current Statue was enacted. I'm assuming that the Statue originally set a dollar amount not modified for inflation.

5) Compare the financial backing of the mechanisms proposed in the amended version of HB116 to currently authorized reciprocals. How would the different programs be able to cope with an unusually high number of claims considering the different financial backing involved?

7) If employee and administrative claims exceed the proposed reserve requirement in CSH116 what procedures would kick in, and how quickly, to insure the continuity of medical treatment and wage compensation to injured employees?

The Senate Labor & Commerce Committee intends to take up CSH116 again to address questions raised at the February 19 hearing. Please inform my office of your estimate of the time necessary to assemble this requested information.

Thank you.

Tim Kelly
Alaska State Senate

Alaska State Legislature

House of Representatives

FEB 23 1998

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



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

Session:
 Alaska State Capitol
 Juneau, AK 99801

February 23, 1998

To: Director Paul Grossi, WC Div 2797
 Director Maianne Burke, Ins. Div. 3422
 Dwight Perkins, Special Assist. Com of Labor 2784

As a follow up to prior correspondence, enclosed please find an updated chart showing payment under a solvent self insured group and an insolvent group. Also enclosed is an updated schematic of HB 116. Believe Senator Mackie also requested a side by side from the WC Div and Ins. Div showing any differences between existing WC payments from insurance companies and reciprocals and HB 116. The bill was held over for another hearing before Senate Labor and Commerce this Thursday, February 26, 1998.

Hopefully we would receive the information substantially before the hearing.

Thank you.

Sincerely,

~~James C. Hornaday~~ % Rep. Pete Kott

Cc: Robin Ward 562 5485
 Annette Kreitzer % Sen. Loren Leman 3810

Representative Pete Kott

Juneau Office (907) 465-3777 Toll Free 1-800-861-KL (5688) Fax (907) 465-2819
 Eagle River Office (907) 694-8944 Fax (907) 694-8945 E-Mail: representative_pete_kott@legis.state.ak.us



HB 116 Workers' Compensation Self-insurance Group Process

Injured worker files claim.
Follows existing workers'
compensation procedures
using existng forms.

Payment Process
Insolvent Insurer

1. Surplus from fiscal year other than current year
2. Administrative Funds
3. Additional premiums
4. Self-insurance guaranty fund
5. Assessments of membership
6. \$450,000 security
7. Other method approved by Director

Payment Process
Solvent Self-insurer

1. Premiums paid as required by Director
2. Aggregate excess insurance as required by Director
3. \$450,000 security

SCHEMATIC OF HB 116

The following is a schematic of HB 116. * indicates the provision requires the approval of the Director of the Division of Insurance, hereinafter referred to as Director.

WORKER'S COMPENSATION SELF INSURANCE GROUPS

1. A group applying for a self-insurance must, before receiving a Certificate of Approval from the Director:

- a) be properly organized and consist of at least ten (10) members;
- b) have payment by each member of 25% of that member's annual premium;
- c) show the Director a combined net worth of at least \$1,000,000;
- d) show and provide the Director security in the amount of at least \$450,000;
- e) aggregate excess insurance as required by the Director; and,
- f) provide the Director premiums of at least \$500,000 the first year and \$750,000 in subsequent years - 50% cash balance paid monthly or quarterly on approval of the Director.

- 2. Joint and several liability of members approved by Director*
- 3. Fidelity bond and errors and omissions and performance bond approved by Director*
- 4. Certificate may be revoked by Director*
- 5. Director may examine the books at any time*
- 6. The Board of Trustees ~~may~~ pay all workers' compensation benefit--70% of premiums must be used for payment of claims
- 7. Annual audited financial statements submitted to Director*
- 8. Director may require other reports*
- 9. Director may require additional premium payments from a member*
- 10. Refunds may be made only by approval of Director*
- 11. Reserve plan must be approved by the Director*
- 12. Workers compensation self insurance guaranty fund must be established
- 13. If there is a deficit, it must be made up immediately from:
 - a. Surplus of fiscal year other than current fiscal year
 - b. Administrative funds

- c. 25% annual premium
- d. Self insurance guaranty fund
- e. Assessment of group members
- f. Other method ordered by Director*

14. Director may impose penalties for noncompliance*

15. Director may revoke Certificate*

16. Group must comply with other insurance requirements such as examinations, service of process, prudent person investment rule, unfair trade practices.

NCP

CONSTRUCTION, LTD.
DESIGN/BUILD

FEB 23 1998

February 12, 1998

Senator Loren Leman, Chairman
Labor & Commerce Committee
State Capitol
Room 113
Juneau, AK 99801-1182

Dear Senator Leman:


The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self-insure for workers compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pooling process. As a consequence, workers compensation costs have decreased dramatically for those members of state home builders associations utilizing this type of legislation. Experience has shown that when an association self-insures for workers compensation the members of the association tend to focus on fraud and safety issues much more closely than their previous for-profit insurance companies causing rates to dramatically decrease.

Workers compensation costs are a substantial portion of doing business in Alaska. As an example, the average workers compensation cost for a new home in Alaska is in the area of \$4,000 to \$6,000. These costs place a burden on both the consumer and the supplier. Anything we can do to reduce the cost will benefit both the consumer and businesses in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts and peer pressure.

I and hundreds of others in the building and other industries support this legislation. I am writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,


N. CLAIBORNE PORTER, JR.
AIA, CGR
ASHBA Member



CS FOR HOUSE BILL NO. 116(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 5/7/97

Referred: Rules

Sponsor(s): REPRESENTATIVES KOTT, Hudson, Foster, Berkowitz, Hodgins, Kelly, Dyson, Davis, Phillips, Kohring, Ogan, Green, Elton

SENATOR Donley

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to workers' compensation self-insurance."

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

3 * Section 1. AS 21 is amended by adding a new chapter to read:

4 Chapter 47. Workers' Compensation Self-insurance Groups.

5 Sec. 21.47.010. Scope. The provisions of this chapter apply to workers'
6 compensation self-insurance groups. This chapter does not apply to public employees
7 or governmental entities. A workers' compensation self-insurance group that is issued
8 a certificate of approval by the director may not be considered to be an insurer or an
9 insurance company and is not subject to the provisions of the insurance laws of this
10 title except as otherwise provided in this chapter.

11 Sec. 21.47.020. Authority to act as a workers' compensation self-insurance
12 group. A person may not act as a workers' compensation self-insurance group unless
13 the person has been issued a certificate of approval by the director.

14 Sec. 21.47.030. Required qualifications. (a) A proposed workers'
15 compensation self-insurance group shall file with the director an application for a

certificate of approval accompanied by a nonrefundable filing fee established by the
director under AS 21.06.250. ^{(1) L.A.C. 1.100.010}

of its principal office, date of c ^{Burke and} ; group's name, location
other information that the director ^{Business for the community} ss of each member, and
ether with the following:

(1) proof of con ^{Business for the community} of (b) of this section;
(2) a copy of th ^{Business for the community} on, if any;

(3) a copy of agreements with the administrator and with any service
company;

(4) a copy of the bylaws of the proposed group;

(5) a copy of the agreement between the group and each member
securing the payment of workers' compensation benefits; the agreement must include
a provision for payment of assessments as provided under AS 21.47.180;

(6) designation of the initial board of trustees and administrator;

(7) the address in this state where the books and records of the group
shall be maintained at all times;

(8) a pro forma financial statement on a form acceptable to the director
showing the financial ability of the group to pay the workers' compensation obligations
of its members;

(9) proof of the group's qualification under 26 U.S.C. 501(c)(6) and
exemption from taxation under 26 U.S.C. 501(a); and

(10) proof of payment to the group by each member of not less than
25 percent of that member's first year estimated annual net premium on a date
prescribed by the director; payment shall be considered to be part of the first year
premium payment of a member if the proposed group is granted a certificate of
approval.

(b) To obtain and to maintain its certificate of approval, a workers'
compensation self-insurance group shall meet the following requirements, as well as
other requirements established by law:

(1) a combined net worth of all members of the group of at least
\$1,000,000;

(2) security in the amount of \$450,000 that shall be provided by either

1 ~~cash~~, a surety bond, security deposit, or financial security endorsement or any
 2 combination of ~~cash~~, bond, deposit, or endorsement; if a surety bond is used to meet
 3 the security requirement, it shall be issued by a corporate surety company authorized
 4 to transact business in this state; if a security deposit is used to meet the security
 5 requirement, securities shall be limited to bonds or other evidences of indebtedness
 6 issued, assumed, or guaranteed by the United States of America, or by an agency or
 7 instrumentality of it; certificates of deposit in a federally insured bank; shares or
 8 savings deposits in a federally insured savings and loan association or credit union; or
 9 any bond or security issued by a state of the United States of America and backed by
 10 the full faith and credit of the state; securities shall be deposited with the director and
 11 assigned to and made negotiable by the commissioner of labor under a trust document
 12 acceptable to the director; interest accruing on a negotiable security shall be collected
 13 and transmitted to the depositor, provided the depositor is not in default; a financial
 14 security endorsement, issued as part of an acceptable excess insurance contract, may
 15 be used to meet all or part of the security requirement; the cash, bond, security deposit,
 16 or financial security endorsement must be

17 (A) for the benefit of the state solely to pay workers'
 18 compensation claims and associated expenses; and

19 (B) payable upon the failure of the group to pay workers'
 20 compensation benefits that it is legally obligated to pay;

21 (3) specific and aggregate excess insurance in a form, in an amount,
 22 and by an insurance company acceptable to the director; the director may establish
 23 minimum requirements for the amount of specific and aggregate excess insurance
 24 based on size differences among groups, types of employment, years in existence, and
 25 other relevant factors, and may permit a group to meet this requirement by placing in
 26 a designated depository securities of the type referred to in (2) of this subsection;

27 (4) an estimated annual standard premium of at least ~~\$500,000~~
 28 a group's first year of operation; in subsequent years, the annual standard premium
 29 must be at least ~~\$750,000~~

30 (5) an indemnity agreement jointly and severally binding the group and
 31 each member of the group to meet the workers' compensation obligations of each

1 member; the indemnity agreement must be in a form prescribed by the director and
2 must include minimum uniform substantive provisions prescribed by the director;
3 subject to the director's approval, a group may add other provisions needed because
4 of its particular circumstances;

5 (6) a fidelity bond ~~and an errors and omissions insurance policy for the~~
6 ~~administrator~~ in a form and amount prescribed by the director; and

7 (7) a fidelity bond ~~and an errors and omissions insurance policy for the~~
service company in a form and amount prescribed by the director; the director may
also require the service company providing claim services to furnish a performance
bond in a form and amount prescribed by the director.

*Should (6) (7)
Sign both with form
to determine compliance*

(c) A group shall notify the director of any change in the information required
to be filed under (a) of this section or in the manner of its compliance with (b) of this
section not later than 30 days after the change.

(d) The director shall

15 (1) evaluate the information provided by the application required to be
16 filed under (a) of this section to assure that gaps in funding do not exist and that funds
17 necessary to pay workers' compensation benefits will be available on a timely basis;

18 (2) act upon a completed application for a certificate of approval within
19 60 days; if, because of the number of applications, the director is unable to act upon
20 an application within this period, the director may have an additional 60 days to act
21 on an application;

22 (3) issue to the group a certificate of approval upon finding that the
23 proposed group has met all requirements, or the director shall issue an order refusing
24 the certificate setting out reasons for refusal upon finding that the proposed group does
25 not meet all requirements of this chapter.

26 (e) A workers' compensation self-insurance group shall be considered to have
27 appointed the director as its attorney to receive service of legal process issued against
28 it in this state. The appointment is irrevocable, binds any successor in interest, and
29 remains in effect as long as there is in this state an obligation or liability of the group
30 for workers' compensation benefits.

21.09.00 150

31 ~~Sec. 21.47.035. Premium tax. A group is subject to the premium tax imposed~~

~~on domestic insurers under AS 21.09.210(b)(1).~~

1
2 **Sec. 21.47.040. Certificate of approval; termination.** (a) A certificate of
3 approval issued by the director to a workers' compensation self-insurance group
4 authorizes the group to provide workers' compensation benefits as required under
5 AS 23.30. The certificate of approval remains in effect until ~~7.200~~ ^{terminated} at the request
6 of the group or revoked by the director under AS 21.47.200.

7 (b) The director may not grant the request of a group to terminate its
8 certificate of approval unless the group has insured or reinsured all incurred workers'
9 compensation obligations with an authorized insurer under an agreement filed with and
10 approved in writing by the director. Workers' compensation obligations must include
11 both known claims and associated expenses and claims incurred but not reported and
12 associated expenses. Subject to the approval of the director, a group may merge with
13 another group engaged in the same or similar type of business only if the resulting
14 group assumes in full all obligations of the merging groups. The director may hold
15 a hearing on the merger and shall hold a hearing if any party, including a member of
16 either group, requests a hearing.

17 **Sec. 21.47.050. Examinations.** The director may examine the affairs,
18 transactions, accounts, records, and assets and liabilities of a group as often as the
19 director requires. The expense of an examination shall be assessed against the group
20 in the same manner that an insurer is assessed for an examination.

21 **Sec. 21.47.060. Board of trustees: membership, powers, duties, and**
22 **prohibitions; accounts.** (a) A group shall be operated by a board of trustees of not
23 less than five persons whom the members of a group elect for stated terms of office.
24 At least two-thirds of the trustees shall be employees, officers, or directors of members
25 of the group. The group's administrator, service company, or an owner, officer,
26 employee of, or another person affiliated with the administrator or service company
27 may not serve on the board of trustees of the group. A trustee shall be a resident of
28 this state or an officer of a corporation authorized to do business in this state. The
29 board of trustees of a group shall ensure that all claims are paid promptly and take all
30 necessary precautions to safeguard the assets of the group. ~~A trustee shall observe the~~
31 ~~standards in dealing with the assets of the group that would be observed by a prudent~~

1 ~~person dealing with the property of another, and if the trustee has special skills or is~~
2 ~~named trustee on the basis of representations of special skills or expertise, the trustee~~
3 ~~is under a duty to use those skills.~~

4 (b) The board of trustees shall

5 (1) be responsible for all money collected or disbursed from the group
6 and segregate all money into a claims fund account and an administrative fund
7 account; at least 70 percent of the net premium shall be placed into a designated
8 depository for the sole purpose of paying claims, allocated claims expenses,
9 reinsurance or excess insurance, and special fund contributions, including second injury
10 and other loss related funds; this shall be called the "claims fund account"; the
11 remaining net premium shall be placed into a designated depository for the payment
12 of taxes, general regulatory fees and assessments, and administrative costs; this shall
13 be called the "administrative fund account"; the director may approve an administrative
14 fund account of more than 30 percent and a claims fund account of less than 70
15 percent only if the group shows to the director's satisfaction that

16 (A) more than 30 percent is needed for an effective safety and
17 loss control program; or

18 (B) the group's aggregate excess insurance attaches at less than
19 70 percent;

20 (2) maintain minutes of its meetings and make the minutes available
21 to the director;

22 (3) designate an administrator to carry out the policies established by
23 the board of trustees and delineate in the written minutes of its meetings the areas of
24 authority the board of trustees delegates to the administrator;

25 (4) retain an independent certified public accountant to prepare the
26 statement of financial condition required under AS 21.47.100.

27 (c) The board of trustees may not

28 (1) extend credit to individual members for payment of a premium
29 except under a payment plan approved by the director; or

30 (2) borrow money from the group or in the name of the group, except
31 in the ordinary course of business, without first advising the director of the nature and

1 purpose of the loan and obtaining prior approval from the director.

2 **Sec. 21.47.070. Group membership; termination; liability.** (a) An
3 employer joining a workers' compensation self-insurance group after the group has
4 been issued a certificate of approval shall (1) submit an application for membership
5 to the board of trustees or its administrator; and (2) enter into the indemnity agreement
6 required under AS 21.47.030(b)(5); membership may not take effect earlier than each
7 member's date of approval. An application for membership and approval of the
8 application shall be maintained as a permanent record by the board of trustees.

9 (b) Individual membership in a group is subject to cancellation by the group
10 under the bylaws of the group. In addition, individual members may elect to terminate
11 their participation in the group. The group shall notify the director and the division
12 of workers' compensation regarding the termination or cancellation of a membership.
13 Notice shall be given within 10 days after the termination or cancellation.

14 (c) The group shall pay all workers' compensation benefits for which a
15 member incurs liability during its period of membership. A member who elects to
16 terminate its membership or is cancelled by a group remains liable for any workers'
17 compensation obligations of the group and its members that were incurred during the
18 cancelled or terminated member's period of membership.

19 (d) A group member is not relieved of its workers' compensation liabilities
20 incurred during its period of membership except through payment by the group or the
21 member of workers' compensation benefits required under AS 23.30.

22 (e) The insolvency or bankruptcy of a member does not relieve the group or
23 another member of liability for the payment of any workers' compensation benefits
24 incurred during the insolvent or bankrupt member's period of membership.

25 **Sec. 21.47.080. Service companies.** (a) A service company or its employees,
26 officers, or directors may not be an employee, officer, or director of, or have either a
27 direct or indirect financial interest in, an administrator. An administrator or its
28 employees, officers, or directors may not be an employee, officer, or director of, or
29 have either a direct or indirect financial interest in, a service company.

30 (b) A service contract must state that unless the director permits otherwise, the
31 service company shall handle, to conclusion, all workers' compensation claims and

*delete section regarding
terminated members*

1 other obligations incurred during the contract period.

2 **Sec. 21.47.090. Licensing of agent.** Except for a salaried employee of a
3 group, its administrator, or its service company, a person soliciting membership for a
4 workers' compensation self-insurance group must be licensed as provided under
5 AS 21.27.

6 **Sec. 21.47.100. Financial statements and other reports.** (a) A group shall
7 submit to the director a statement of the financial condition of the group that is
8 annually audited by an independent certified public accountant on or before the last
9 day of the sixth month following the end of the group's fiscal year. ~~Upon request, the~~

10 ~~director shall allow a 60 day extension of the deadline described in this subsection.~~

11 The financial statement must be on a form prescribed by the director and must include
12 actuarially appropriate reserves, known as liabilities, for

- 13 (1) known claims and associated expenses;
14 (2) claims incurred but not reported and associated expenses;
15 (3) unearned premiums; and
16 (4) bad debts.

17 (b) The actuarial opinion required under (a) of this section shall be given by
18 a member of the American Academy of Actuaries or other qualified loss reserve
19 specialist as defined in the annual statement adopted by the National Association of
20 Insurance Commissioners.

21 (c) A person may not make an untrue statement of a material fact, or omit to
22 state a material fact necessary in order to make the statement made, in light of the
23 circumstances under which it is made, not misleading, in connection with the
24 solicitation of membership in a group.

25 (d) The director may prescribe the format and frequency of other required
26 reports including payroll audit reports, summary loss reports, and quarterly financial
27 statements.

28 **Sec. 21.47.110. Required second injury contribution.** A group is subject to
29 the required contribution provisions of the second injury fund under AS 23.30.040.
30 If an employee of a member of a group suffers a compensable injury, the member
31 shall contribute to the second injury fund as required under AS 23.30.040.

1 **Sec. 21.47.120. Misrepresentation prohibited.** A person may not make a
2 material misrepresentation or omission of a material fact in connection with the
3 solicitation of membership of a group.

4 **Sec. 21.47.130. Investments.** Funds not needed by a group for current
5 obligations may be invested by the board of trustees as provided under AS 21.21.

6 **Sec. 21.47.140. Rates and reporting of rates.** (a) A workers' compensation
7 self-insurance group shall adhere to the uniform classification system, uniform
8 experience rating plan, and manual rules designated by the director.

9 (b) Premium contributions to the group shall be determined by applying the
10 manual rates and rules to the appropriate classification of a member. Premium
11 contributions shall be adjusted by a member's experience credit or debit. Subject to
12 approval by the director, the premium contributions may also be reduced by an
13 advance premium discount reflecting the group's expense levels and loss experience.

14 (c) Notwithstanding (b) of this section, a group may apply to the director for
15 permission to make its own rates. Rates established under this subsection shall be
16 based on at least five years of the group's experience.

17 (d) A group shall use the premium rates designated by the director plus an
18 additional amount representing the member's portion of estimated expenses. A group
19 may contract with an advisory organization approved by the director for assistance in
20 developing appropriate rates.

21 (e) A group shall be audited at least annually by an auditor acceptable to the
22 director to verify proper classifications, experience rating, payroll, and rates. A report
23 of the audit shall be filed with the director in a form acceptable to the director. A
24 group or a member of a group may request a hearing on objections to the
25 classifications. If the director determines that as a result of an improper classification
26 a member's premium contribution is insufficient, the director shall order the group to
27 assess that member an amount equal to the deficiency. If the director determines that
28 as a result of an improper classification a member's premium is excessive, the director
29 shall order the group to refund to the member the excess premium collected. The
30 audit required under this subsection shall be at the expense of the group.

31 **Sec. 21.47.150. Refunds.** (a) ~~If approved by the Director~~ money for a fiscal

1 year in excess of the amount necessary to fund all obligations for that fiscal year may
2 be declared to be refundable by the board of trustees not less than 12 months after the
3 end of the fiscal year.

4 (b) A member shall be given a written description of the refund plan at the
5 time of application for membership. A refund for any fiscal year shall be paid only
6 to those employers who remain participants in the group for the entire fiscal year.

7 **Sec. 21.47.160. Premium payment; reserves.** (a) A group shall establish to
8 the satisfaction of the director a premium payment plan; the plan must include ~~payment~~
9 ~~of the balance of each member's annual premium in monthly or quarterly installments.~~

10 (b) A group shall establish and maintain actuarially appropriate loss reserves
11 that must include reserves

- 12 (1) for known claims and associated expenses;
- 13 (2) for claims incurred but not reported and associated expenses; and
- 14 (3) ~~consisting of a deposit by each member of at least 25 percent of~~
15 ~~that member's estimated annual premium before the start of the group's fiscal year;~~
16 ~~a deposit made under this paragraph is in addition to the payment required under~~
17 ~~AS 21.47.030(a)(10) and shall be refunded to a member who leaves the group if the~~
18 ~~group does not have a deficiency and is not insolvent.~~

19 (c) A group shall establish and maintain bad debt reserves based on the
20 historical experience of the group or other groups.

21 **Sec. 21.47.170. Workers' compensation self-insurance guaranty fund.** A
22 ~~group shall establish a workers' compensation self-insurance guaranty fund. The~~
23 ~~purpose of the fund is to prevent insolvency and to allow a group to discharge its legal~~
24 ~~liabilities and other obligations. In addition to any other deposit requirement under~~
25 ~~this chapter, each member of the group shall make a one time only deposit of five~~
26 ~~percent of that member's estimated annual premium before the start of the member's~~
27 ~~first fiscal year with the group. A deposit made under this section shall be refunded~~
28 ~~to a member who leaves the group if the group does not have a deficiency and is not~~
29 ~~insolvent.~~

30 **Sec. 21.47.180. Deficits and insolvencies.** (a) If the assets of a group are at
31 any time insufficient to enable the group to discharge its legal liabilities and other

*Changed
from 25%*

1 obligations and to maintain the reserves required of it under this chapter, it shall
 2 immediately make up the deficiency or levy an assessment upon the group members
 3 for the amount needed to make up the deficiency.

4 (b) In the event of a deficiency in any fiscal year, the deficiency shall be made
 5 up immediately, either from

6 (1) surplus from a fiscal year other than the current fiscal year;

7 (2) administrative funds;

8 ~~(3) funds collected under AS 21.47.160(b)(3);~~ 2578

9 ~~(4) funds collected under AS 21.47.170;~~

10 (5) assessment of the membership, if ordered by the group ~~and funds~~
 11 ~~described under (3) and (4) of this subsection are exhausted;~~ or

12 (6) an alternate method that the director may approve or direct.

13 (c) The director shall be notified before a transfer of surplus funds from one
 14 fiscal year to another. If a group fails to assess its members or to otherwise make up
 15 a deficit within 30 days, the director shall order the group to make up the deficit.

16 (d) If a group fails to make the required assessment of its members within 30
 17 days after the director orders it to do so, or if the deficiency is not fully made up
 18 within 60 days after the date on which the assessment is made, or within a longer
 19 period of time that is specified by the director, the group shall be considered to be
 20 insolvent.

21 (e) The director shall proceed against an insolvent group in the same manner
 22 as the director would proceed against an insolvent domestic insurer in this state as
 23 provided under AS 21.78. 2178

24 (f) In the event of the liquidation of a group, the director shall levy an
 25 assessment upon its members in an amount the director determines to be necessary to
 26 discharge all liabilities of the group, including the reasonable cost of liquidation.

27 **Sec. 21.47.190. Penalties.** (a) After notice and opportunity for a hearing, the
 28 director may impose a civil penalty on a person or group found to be in violation of
 29 any provision of this chapter. The civil penalty may not exceed ~~\$500~~ for each act or
 30 violation and may not exceed ~~\$5,000~~ in the aggregate.

31 (b) After notice and opportunity for a hearing, the director may issue an order

1 requiring a person or group to cease and desist from engaging in an act or practice
2 found to be in violation of any provision of this chapter.

3 (c) Upon a finding, after notice and opportunity for a hearing, that a person
4 or group has knowingly violated a cease and desist order, the director may

5 (1) impose a civil penalty of not more than ~~\$5,000~~ for each act or
6 violation of the order not to exceed an aggregate amount of ~~\$25,000~~, or

7 (2) revoke the group's certificate of approval or any insurance license
8 held by the person.

9 ~~(d) In this section, "knowingly" has the meaning given in AS 11.81.900.~~

10 **Sec. 21.47.200. Revocation of certificate of approval.** (a) After notice and
11 opportunity for a hearing, the director may revoke a group's certificate of approval if
the group

(1) is found to be insolvent;

(2) fails to pay any premium tax, regulatory fee or assessment, or
special fund contribution imposed upon the group; or

(3) fails to comply with any of the provisions of this chapter or with
any lawful order of the director within the time prescribed.

(b) In addition to (a) of this section, the director may revoke a group's
19 certificate of approval if, after notice and opportunity for hearing, the director finds
20 that

21 (1) a certificate of approval that was issued to the group was obtained
22 by fraud;

(2) there was a material misrepresentation in the application for the
certificate of approval; or

(3) the group or its administrator has misappropriated, converted,
illegally withheld, or refused to pay over upon proper demand any money that belongs
to a member, an employee of a member, or a person otherwise entitled to it, and that
has been entrusted to the group or its administrator in its fiduciary capacities.

Sec. 21.47.500. Definitions. In this chapter,

30 (1) "administrator" means an individual, partnership, or corporation
31 engaged by a workers' compensation self-insurance group's board of trustees to carry

Handwritten notes on the left margin: "How often?" and "1000?"

Handwritten notes on the left margin: "What if it's not a group?" and "What if it's not a member?"

1 out the policies established by the group's board of trustees and to provide day-to-day
2 management of the group;

3 (2) "insolvent" or "insolvency" means the inability of a workers'
4 compensation self-insurance group to pay its outstanding lawful obligations as the
5 obligations mature in the regular course of business, as may be shown either by an
6 excess of its required reserves and other liabilities over its assets or by its not having
7 sufficient assets to reinsure all of its outstanding liabilities after paying all accrued
8 claims owed by the group;

9 (3) "net premium" means premium derived from standard premium
10 adjusted by an advance premium discount;

11 (4) "service company" means a person that provides services not
12 provided by the administrator, including

13 (A) claims adjustment;

14 (B) safety engineering;

15 (C) compilation of statistics and the preparation of premium,
16 loss, and tax reports;

17 (D) preparation of required self-insurance reports;

18 (E) development of members' assessments and fees; and

19 (F) administration of a claim fund;

20 (5) "standard premium" means the premium derived from the manual
21 rates adjusted by experience modification factors but before advance premium
22 discounts;

23 (6) "workers' compensation self-insurance group" or "group" means a
24 not-for-profit association that has qualified as a trade organization under 26 U.S.C.
25 501(c)(6) (Internal Revenue Code) and is exempt from taxation under 26 U.S.C. 501(a)
26 (Internal Revenue Code), and consists of 10 or more employers who are engaged in
27 the same or similar type of business, who are members of the same bona fide trade or
28 professional association that has been in existence for not less than five years, and who
29 enter into agreements to pool their liabilities for workers' compensation benefits in this
30 state.

Anchor Electric
5362 Commercial Blvd.
Juneau, AK 99801
Phone 907-780-3690
Fax 907-780-3692
Email anchor@ptialaska.net

Dear Members of the House Labor and Commerce Committee,

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for workers compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing this type of legislation. As a consequence, workers compensation costs have decreased dramatically for those members of state home builders associations utilizing this type of legislation. Experience has shown that when an association self insures for workers compensation the members of the association tend to focus on fraud and safety issues much more closely than their previous for-profit insurance companies causing rates to dramatically decrease.

Workers compensation costs are a substantial portion of the costs of building a new house in Alaska; the average workers compensation cost for a new home in Alaska is in the area of \$4000 to \$6000. This cost places a burden on both the consumer of that house and the builder of that house. New housing is expensive in Alaska. Anything we can do to reduce the cost will benefit both the consumer and the new home builders in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts, and peer pressure.

I and hundreds of others in the home building and other association industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,



Associate Member
Home Builders Association of Juneau, Inc.



BARNEY & BERGLIN, INC., GENERAL CONTRACTORS
P.O. BOX 85272 FAIRBANKS, ALASKA 99708
(907) 457-5606 FAX (907) 457-5600

Jeff Barney

Bill Berglin

April 22, 1997

Chair of the Senate
Labor and Commerce Committee

Dear Loren Leman:

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for worker's compensation insurance through pooling arrangements.

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Workers compensation costs are a substantial portion of the costs of building a new house in Alaska. The average workers compensation cost for a new home in Alaska is in the area of \$4,000 to \$6,000. This cost places a burden on both the consumer of that house and the builder of the house. New housing is expensive in Alaska, & anything we can do to reduce the cost will benefit both the consumer and the new home builders. As mentioned, the worker's compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts and peer pressure.

I, and hundreds of others in the home building and other associated industries, support this legislation. I'm writing to ask that you also support it.

Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

A handwritten signature in black ink, appearing to be 'Jeff Barney', written in a cursive style.

Jeff Barney

ATTORNEYS AT LAW

BAXTER BRUCE BRAND & DOUGLAS

PROFESSIONAL CORPORATION

P.O. BOX 32819
JUNEAU, ALASKA 99803
(907) 789-3166 (Telephone)
(907) 789-1913 (Facsimile)
bbbd@alaska.net (E-mail)

February 3, 1998

FRED J. BAXTER
DANIEL G. BRUCE
CHRystal SOMMERS BRAND
JAMES E. DOUGLAS, JR.
KEVIN J. SULLIVAN
ELIZABETH A. ZIEGLER

FEB 04 1998

The Honorable Loren Leman, Chair
Senate Labor and Commerce Committee
Room 115, State Capital
Juneau, AK 99801

Dear Mr. Chairman,

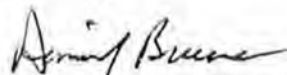
The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for workers compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pool process. As a consequence, workers compensation costs have decreased dramatically for those members of state home builders associations utilizing this type of legislation. Experience has shown that when an association self insures for workers compensation the members of the association tend to focus on fraud and safety issues much more closely than their previous for-profit insurance companies causing rates to dramatically decrease.

Workers compensation costs are a substantial portion of doing business in Alaska. As an example, the average workers compensation cost for a new home in Alaska is in the area of \$4,000 to \$6,000. This cost places a burden on both the consumer and the supplier. Anything we can do to reduce the cost will benefit both the consumer and businesses in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts, and peer pressure.

I and hundreds of others in the home building and other association industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,



BAXTER BRUCE BRAND & DOUGLAS
Associate Member
Home Builders Association of Juneau, Inc.



7220 Giseler Hwy Juneau, Alaska 99901

Dear Members of the House Labor and Commerce Committee,

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Workers compensation costs are a substantial portion of the costs of building a new house in Alaska; the average workers compensation cost for a new home in Alaska is in the area of \$4000 to \$6000. This cost places a burden on both the consumer of that house and the builder of that house. New housing is expensive in Alaska. Anything we can do to reduce the cost will benefit both the consumer and the new home builders in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts, and peer pressure.

I and hundreds of others in the home building and other association industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

A handwritten signature in cursive script that reads "Gary Bluhm". The signature is written in dark ink and is positioned above the typed name.

Associate Member
Home Builders Association of Juneau, Inc.

GARY BLUHM 789-8040

C & C GLASS AND MILLWORK, INC.

38180 SPUR HWY
SOLDOTNA, AK 99589
(907) 262-9413 FAX 262 6699



January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

The Alaska State Home Builders Association has been working with the state legislature and the Governor to pass legislation that will allow our association and other associations in the state to self-insure for workers' compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pooling process. As a consequence, workers' compensation costs have decreased dramatically for those members of state home builder associations utilizing this type legislation. Experience has shown that when an association self insures for workers' compensation, the members of the association tend to focus on fraud and safety issues much more closely than the previous "for profit" companies, causing rates to dramatically decrease.

Workers' compensation costs are a substantial portion of doing business in Alaska. As an example, an average workers' compensation cost for a new home in Alaska is in the area of \$4,000 to \$6,000. These costs place a burden on both the consumer and the supplier. Anything we can do to reduce the cost will benefit both the consumer and businesses in Alaska. As mentioned, the workers' compensation pooling we support has been shown to decrease these costs through reduction in fraud, improved safety efforts and peer pressure.

I and hundreds of others in the building and other industries support this legislation. I am writing to ask that you also support this legislation. Thank you for your support on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

Don Carson

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward



Residential Construction & Land Development 2340 Loren Circle, Anchorage, Alaska 99516 (907) 244-6233 Fax (907) 345-6934

January 14, 1998

The Honorable Loren Leman, Chair
Senate Labor and Commerce Committee
Room 115, State Capital
Juneau, Alaska 99801

Via Fax # (907) 465-3810

Dear Mr. Chairman:

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self-insure for workers compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pooling process. As a consequence, workers' compensation costs have decreased dramatically for those members of state home builders associations utilizing this type of legislation. Experience has shown that when an association self-insures for workers compensation the members of the association tend to focus on fraud and safety issues. This causes rates to dramatically decrease.

Workers' compensation costs are a substantial portion of doing business in Alaska. As an example, the average workers' compensation cost for a new home in Alaska is approximately \$4000 to \$6000. These costs place a burden on both the consumer and the supplier. Anything we can do to reduce the cost will benefit both the consumer and business in Alaska. As mentioned, the workers' compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts and peer pressure.

I and hundreds of others in the building and other industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance.

Sincerely,

Bill Taylor
ASHBA Member

COYLE CONSTRUCTION

P.O. Box 33724
Juneau, Alaska 99803
Phone (907) 780-5188
Fax (907) 780-5188



Dear Members of the Senate Labor and Commerce Committee,

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for workers compensation insurance through pooling arrangements.

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Workers compensation costs are a substantial portion of the costs of building a new house in Alaska; the average workers compensation cost for a new home in Alaska is in the area of \$4000 to \$6000. This cost places a burden on both the consumer of that house and the builder of that house. New housing is expensive in Alaska. Anything we can do to reduce the cost will benefit both the consumer and the new home builders in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts, and peer pressure.

I and hundreds of others in the home building and other association industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Coyle".

Builder Member
Home Builders Association of Juneau, Inc.

O & L Construction Co., Inc.

P. O. Box 680
Cooper Landing, Alaska 99572
(907) 262-6160 or (907) 595-1278
FAX (907) 595-1288

February 20, 1997

Representative Gary Davis
Room 513, State Capitol
Juneau, Alaska 99801-1182

Dear Representative Davis:

The Alaska State Home Builders Association has been working with the state legislature and the governor to pass legislation that will allow our association and other associations in the state to self insure for workers' compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pooling process. As a result, workers' compensation costs have decreased dramatically for those members of state home building associations utilizing this type of legislation. Experience has shown that when an association self insures for workers' compensation, the members of the association tend to focus on fraud and safety issues more closely than their previous for profit insurance companies, causing rates to dramatically decrease.

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Sincerely,





**DAVIS BLOCK
and CONCRETE**

January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

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I and hundreds of others in the building and other industries support this legislation. I am writing to ask that you also support this legislation. Thank you for your support on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

Davis Block

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward

Anchorage Office: 7890 Lake Otis Pky, Suite 102 Office: 907 349 1898 Fax: 349 2270
Soldotna Office: P.O. Box 125, Soldotna Alaska 99668 Office: 907 282 5108 Fax: 282 3122

Phone
907 456-1931

Fax
907 458-7927



Denali Builders, Inc.

G E N E R A L C O N T R A C T O R S

Chair of the Senate
Labor and Commerce Committee

Dear Loren Leman,

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for worker's compensation insurance through pooling arrangements.

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I, and hundreds of others in the home building and other associated industries, support this legislation. I'm writing to ask that you also support it.

Thank you for your help on this issue of *critical importance* to the economic health and diversification of our great state.

Sincerely,

Specializing in High Quality Homes • New & Remodels
1931 Hilling Avenue • Fairbanks, Alaska • 99709

*Commercial Buildings
Roofing Experts*



General Contractors
P. O. BOX 517
DOUGLAS, ALASKA
99824
(907) 886-6540

Dear Members of the Senate Labor and Commerce Committee,

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I and hundreds of others in the home building and other association industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

Builder Member
Home Builders Association of Juneau, Inc.

FREEDOM

Mortgage Company

January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

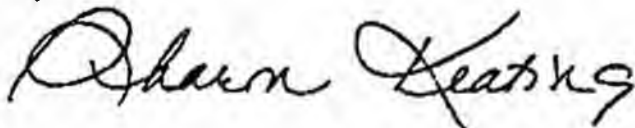
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I and hundreds of others in the building and other industries support this legislation. I am writing to ask that you also support this legislation. Thank you for your support on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,



ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward

170 North Birch, Suite 103 • Soldotna, Alaska 99669
(907) 260-4663 • Fax: (907) 260-4662



JAN 20 1998

January 14, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

I am currently a member of the Alaska State Home Builders Association and we have been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure through pooling arrangements.

Workers compensation costs are a large portion of doing business in this state. My clients are constantly amazed at the cost incurred toward the home of their dreams. As you know, costs in the State of Alaska are already inflated beyond many other states and an additional \$5000.00 figure added to building costs are to say the least, staggering. These costs put a burden on the consumer as well as the supplier. A substantial reduction of these costs by pooling would allow new homeowners to increase their buying power and allow them to afford a better home. Pooling would also reduce fraud, improve safety measures, and reduce peer pressures.

This type of legislation has been enacted in over forty other states and fourteen states are utilizing the pooling process. As a consequence, workers compensation costs have decreased dramatically for those members of state home-building associations utilizing this type of legislation. Why have the big insurance concerns dictating their own benefits?

I am writing for your support in this matter. I and many others in the building trade as well as the consumers that would benefit from this legislation thank you for your consideration in this matter.

Sincerely,

Charles R. Dearden



1301 Huffman Road, Suite 205, Anchorage, Alaska 99515 • Phone (907) 561-5296 • Fax (907) 345-7063

Dear Chairman of the Senate Labor and Commerce Committee:

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other association in the state to self insure for workers compensation insurance through pooling arrangements.

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I and many other in non-profit association management and other associated industries support this legislation. I'm writing to ask that you also support his legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Christianson", written over a horizontal line.

Todd Christianson
President

GREENRIDGE CUSTOM HOMES, INC.

*Mark & Vicki Fritzier
950 Pinton Drive
Wasilla, AK 99654*

*907-376-5884
907-376-5528 (fax)*

The Honorable Norm Roakberg
House Labor and Commerce Committee
Alaska State Legislature
State Capitol MS 3100
Juneau, AK 99801

March 21, 1997

Dear Representative Roakberg and members of the House Labor and Commerce Committee:

The Alaska State Home Builders Association has been working with the state legislature and the Governor to pass legislation that will enable our association and other associations in the state to self-insure for workers compensation insurance through pooling arrangements.

This type of legislation has been enacted in over forty other states with fourteen of these states utilizing the pooling process. As a consequence, workers compensation costs have decreased dramatically for those members of state home builders associations utilizing this type of legislation. Experience has shown that when an association self insures for workers compensation the members of the association tend to focus on fraud and safety issues more closely than their previous for profit companies, causing rates to dramatically decrease.

Workers compensation costs are a substantial portion of the costs of building a new house in Alaska; the average workers compensation cost for a new home in Alaska is in the neighborhood of \$4,000.00 to \$6,000.00. This cost places a burden on both the consumer of that house and the builder of that house. New housing is expensive in Alaska, anything we can do to reduce the cost will benefit both the consumer and the new home builders in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts, and peer pressure.

I and hundreds of others in the home building and other associated industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

M. Fritzier

Mark A. Holombo
H & H Drywall Construction
8500 East Valley Court
Juneau, Alaska 99801
(907)789-5235

February 3, 1998

The Honorable Loren Leman, Chair
Senate Labor and Commerce Committee
Room 115, State Capital
Juneau, AK 99801

Dear Mr. Chairman,

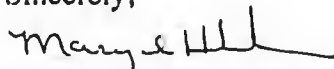
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Sincerely,



H & H Drywall
Associate Member
Home Builders Association of Juneau, Inc.

01/27/1998 11:21 2832263

PAGE 02



HALL QUALITY BUILDERS

RESIDENTIAL • COMMERCIAL • APARTMENTS
P.O. BOX 2029, KENAI, ALASKA 99611 • (907) 283-7007

January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

The Alaska State Home Builders Association has been working with the state legislature and the Governor to pass legislation that will allow our association and other associations in the state to self-insure for workers' compensation insurance through pooling arrangements.

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I and hundreds of others in the building and other industries support this legislation. I am writing to ask that you also support this legislation. Thank you for your support on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,

A handwritten signature in cursive script that reads "Clint Hall".

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward

H E A R T W O O D
B U I L D E R S & W O O D W O R K I N G

2885 Beverley Ln., Fairbanks, Alaska 99709 (907)455-6870

Chair of the Senate
Labor and Commerce Committee

Dear Loren Leman,

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Thank you for your help on this issue of *critical importance* to the economic health and diversification of our great state.

Sincerely,





THE HEATING COMPANY

PROFESSIONAL PLUMBING AND HEATING
5434 SHAUNE DRIVE, B-1 JUNEAU, ALASKA 99801
(907) 789-3332 FAX (907) 789-6868

Dear Members of the House Labor and Commerce Committee,

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Sincerely,

Associate Member
Home Builders Association of Juneau, Inc.



P. O. Box 2694
Kenai, Alaska 99611

January 27, 1998

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Sincerely,

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward



JAN 29 1998

January 27, 1998

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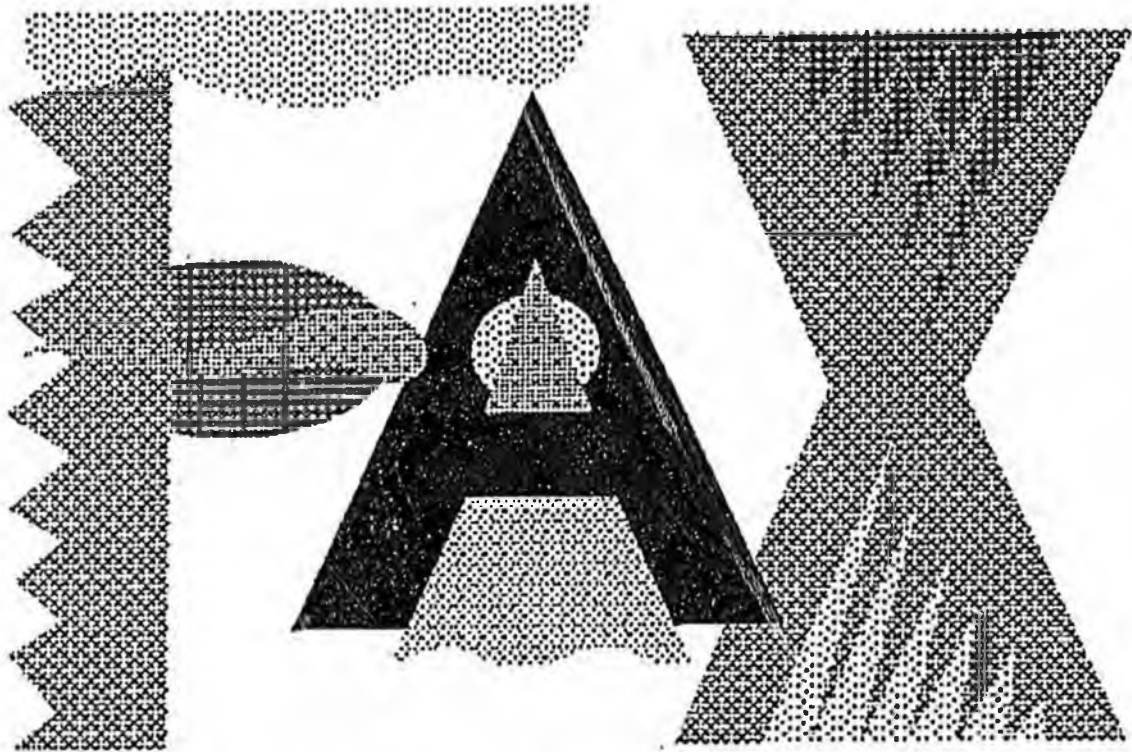
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Sincerely,

Patricia Vincent, Executive Officer

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward



TO: *Senator Loren Leman, Chairman
of the Senate of the Labor & Commerce Committee
and Committee Members*

FROM: Pat Vincent, E. O.
Kenai Peninsula Builders Association
(907) 283-8071 Phone / (907) 283-8072 Fax

DATE: 1/27/98

FAX #: 465-3810

TOTAL PAGES INCLUDING COVER: 9

CONTACT:

COMMENTS:

*We thank you in advance for
your support of the Workers'
Compensation legislation -
Have a great day!*



KENAI SUPPLY INC

PO BOX 1729 • KENAI, AK 99611 • Telephone 907-283-7521 • Fax 907-283-3162

January 27, 1998

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Sincerely,

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward

Kennedy & Co. LLC

Dar F. Kennedy, CPA, MBA and Janet C. Kennedy, CPA
Leveiw Professional Building
851 E. Westpoint Dr., Suite 108
Wasilla, Alaska 99654

work phone: 907.376-1272
fax: 907.373-1272
Internet Home Page: <http://www.corecom.net/~kennedpp>
Internet Email Address: kennedpp@corecom.net

January 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

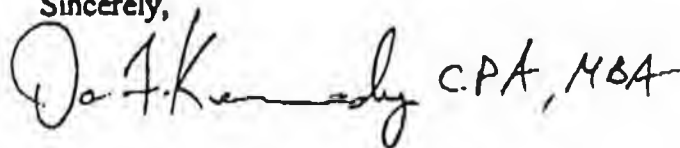
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Sincerely,



Kennedy & Co. LLC
Certified Public Accountants
851 E. Westpoint Dr. Suite 108
Wasilla, AK 99654

Landmark, Inc.
P.O. Box 355
Delta Junction, AK 99737

Chair of the Senate
Labor and Commerce Committee

Dear Loren Leman,

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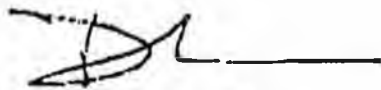
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Thank you for your help on this issue of *critical importance* to the economic health and diversification of our great state.

Sincerely,



Dana Miller

LIGHTHOUSE ELECTRIC
P.O. Box 33161
Juneau, AK 99803

JAN 30 1998

The Honorable Loren Leman, Chair
Senate Labor and Commerce Committee
Room 115, State Capital
Juneau, Alaska 99801

Dear Mr. Chairman:

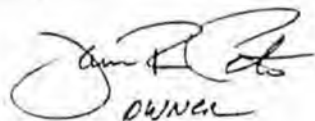
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Worker compensation costs are a substantial portion of doing business in Alaska. As an example, the average workers compensation cost for a new home in Alaska is in the area of \$4,000 to \$6,000. These costs place a burden on both the consumer and the supplier. Anything we can do to reduce the cost will benefit both the consumer and businesses in Alaska. As mentioned, the workers compensation pooling legislation we support has been shown to decrease these costs through reduction in fraud, improved safety efforts and peer pressure.

I and hundreds of others in the building and other industries support this legislation. I'm writing to ask that you also support this legislation. Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,



OWNER

ASHBA Member

M&M Services

PO Box 240604
Douglas, AK 99824-0604

Phone 586-2336

Fax 586-6332

Dear Members of the Senate Labor and Commerce Committee,

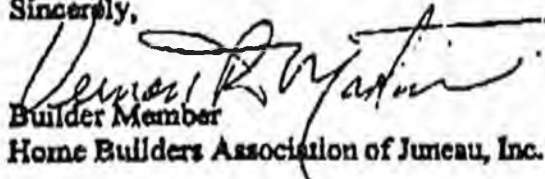
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Sincerely,


Builder Member
Home Builders Association of Juneau, Inc.

NCP

CONSTRUCTION, LTD.
DESIGN/BUILD

JAN 15 1998

January 13, 1998

Senator Loren Leman, Chair
Senator Labor & Commerce Committee
Room 115, State Capital
Juneau, AK 99801

Dear Senator Leman:

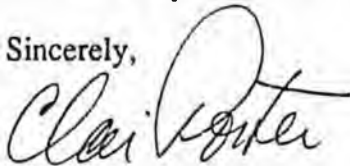
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Sincerely,



N. CLAIBORNE PORTER, JR., AIA, CGR
President



PENINSULA CLARION

P.O. Box 3009 • 150 Trading Bay • Kenai, Alaska 99611
(907) 283-7551 FAX (907) 283-3299

January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

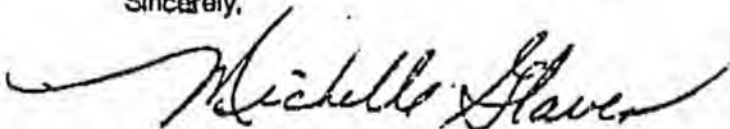
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Sincerely,



ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward



A Morris Communications Corporation Newspaper

PKBuilders

284 Forest Park Dr
Ketchikan, AK
99901
ph. 907 225-4488
fax 907 225-4488

January 26, 1998

The Honorable Loren Leman
Senate Labor and commerce Committee, Room 115
State Capitol
Juneau, AK 99801-1182

Dear Senator Leman:

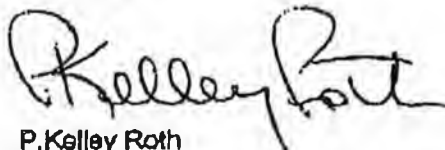
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Sincerely,



P. Kelley Roth
PKBuilders



STEVE RICH GENERAL CONTRACTOR

Lic. #20926
P.O. Box 4146
Soldotna, AK 99669
(907) 260-5930 Fax (907) 260-5940

January 27, 1998

Dear Chairman of the Senate of the Labor and Commerce Committee:

The Alaska State Home Builders Association has been working with the state legislature and the Governor to pass legislation that will allow our association and other associations in the state to self-insure for workers' compensation insurance through pooling arrangements.

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Sincerely,

A handwritten signature in dark ink, appearing to read "S. R. Rich". The signature is fluid and cursive, written over a light background.

ASHBA Member

cc: Senator John Torgerson
Senator Jerry Ward

THOMAS P. KING & ASSOCIATES**Real Estate Appraisers and Consultants**

March 28, 1997

Dear Members of the Senate Labor and Commerce Committee

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for workers compensation insurance through pooling arrangements.

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Sincerely,



Thomas P. King
Associate Member
Home Builders Association of Juneau, Inc.

TILLY & COMPANY, LTD
TANANA BUILDERS
P.O. BOX 72080
FAIRBANKS, ALASKA 99707
PH: (907) 456-5565 FAX: (907) 452-3175
AA8508

Feb. 4, 1997

Chair of the Senate
Labor and Commerce Committee

Dear Loren Leman,

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for worker's compensation insurance through pooling arrangements.

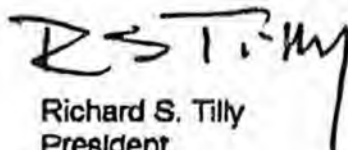
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Thank you for your help on this issue of *critical importance* to the economic health and diversification of our great state.

Sincerely,



Richard S. Tilly
President
Tilly & Company
Tanana Builders

Timberline Homes, Inc.

P.O. Box 111646 • Anchorage, Alaska 99511-1646
Telephone (907) 345-8861 • FAX (907) 345-8862

ASK
respond
JAN 20 1998

January 20,

The Honorable Loren Leman
Chair, Senate Labor and Commerce Committee
Room 15, State Capital
Juneau, Alaska 99801

Dear Mr. Leman:

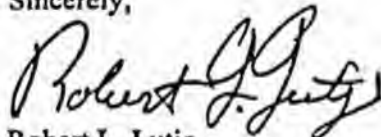
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Sincerely,



Robert L. Lutje
ASHBA Member

TIMMONS CONTRACTING, INC.

P.O. BOX 74520 • FAIRBANKS, AK 99707
PH: 907-456-7195 • FAX 907-455-8885

4/23/97

Senator Loren Leman
Chair of the Senate Labor and
Commerce Committee
Juneau, Alaska

MAY 11 1997

Dear Senator Leman:

The Alaska State Home Builders Association has been working with the state legislature and governor to pass legislation that will allow our association and other associations in the state to self insure for worker's compensation through pooling arrangements.

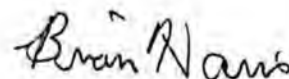
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Thank you for your help on this issue of critical importance to the economic health and diversification of our great state.

Sincerely,



Brian Harris

January 1998

The Honorable Loren Leman, Chair
Senate Labor & Commerce Committee
Room 115, State Capital
Juneau, Alaska 99801

JAN 26 1998

Dear Senator Leman:

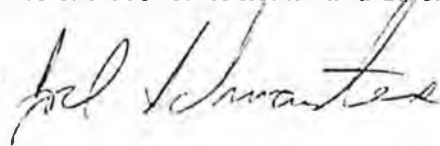
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Sincerely,



ASHBA Member

W. D. Field Construction
P.O. Box 210953
Anchorage, Alaska 99521

March 28, 1997

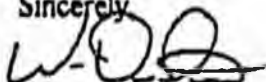
Dear Members of the Senate Labor and Commerce Committee

The Alaska State Hombuilders Association has been working with the state legislature and governor to allow associations to self insure for workers compensation by pooling.

As a result of this type of legislation being enacted in forty other states the cost has decreased dramatically for those members that have used this type of legislation.

I'm writing to ask your support for this legislation.

Sincerely



W. D. Field

Builder Member
Hombuilders Association of Juneau Alaska Inc.



WHITING REALTY

2078 JORDAN AVENUE
JUNEAU, AK 99801
BUS. (907) 788-0900
FAX (907) 788-0038

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Sincerely,



Gene Whiting
Associate Member
Home Builders Association of Juneau, Inc.

**PRESENTATION TO
ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE COMMITTEE
RE: HB 116/SB 95**

Alaska National Insurance Company

Richard L. Block
Block and Associates

Alaska National is a domestic property and casualty insurer that has been providing coverages to Alaskan business since 1980. We have been successful in making available a steady and reliable insurance market despite the ebb and flow of the economy of the State or presence or absence of other insurance markets and we have done so complying fully with the requirements of the complex and rigorous regulatory regime in which we operate.

Impact of This Legislation

HB 116 is a radical change to Alaska law. It will allow groups of commercial enterprises to "group self-insure" their workers' compensation exposure without the benefit or requirement of those standards which assure, at least, minimal capacity to meet the financial and performance obligations imposed on regular insurers or individual self-insurers. Alaska National continues to oppose this legislation despite the many efforts of the proponents to dress it up with proposed amendments that purport to meet our objections but which in fact fail to address the real purpose of our opposition.

Last year, we testified vigorously against the passage of this bill. Our opposition was based largely on our extensive background in the insurance business, our understanding of the fundamental principles of insurance accounting and reserve requirements and our general suspicion that, without the minimum financial security requirements we were urging, such groups would fail and leave the state and the injured workers holding a bag of indeterminate large dimensions. Frankly, we did not have a lot of factual information about the extent and success or failure of this activity in other states. Apparently the proponents, last year, offered little in the way of truly factual information from other states beyond citing the few most favorable examples.

Need for Financial underpinning in a Volatile line of insurance

Last year, our objections, which are still just as valid this year, included the following.

This bill deals with workers' compensation insurance. Of all the lines of insurance that a pooling scheme like this could underwrite, workers' compensation is the most volatile and runs the risk of shifting the burden of

loss to the most vulnerable constituency in the state and the one least able to protect themselves; the injured workers who would be covered by policies issued by this pooling scheme.

Any actuary will tell you, and this will likely be confirmed by the State Division of Insurance, workers' compensation carries the greatest risk of fluctuation in the valuation of loss reserves, has the longest tail, i.e. exposure to the underwriter going out for many years, and requires the greatest sophistication and technical expertise to manage losses of any line of insurance.

One of the underlying premises of all insurance regulation is that the contract upon which so many rely must be backed with sound financial resources so that when the obligations come due, which could be anywhere from one year to twenty years after the date of the contract, the financial resources will be in place to honor those obligations.

The regulatory regime in this and most other states requires minimum capitalization of all insurance enterprises, whether stock¹, mutual² or reciprocal³. This legislation attempts to exempt these pooling arrangements from the capital requirements of licensed insurance entities and establish essentially non-existent capital requirements⁴.

Experience has demonstrated over the years that the current minimums allowed today for insuring entities are probably inadequate or at least bare minimum. There is no justification for allowing any entity assuming these kinds of exposures to have lower capital requirements than what is now in the statute.

Proponents of this measure would have you believe that because of the mutual exchange of indemnities by the participants in these programs there is adequate protection in the combined net worth of the participants. How do we know if this is so? There is no requirement that the financial statements of the participants be audited. There is no requirement that any one participant have a minimum net worth. The requirements of this bill would be met, for example, if the \$1,000,000 net worth were made up of 50 participants each with a \$20,000 net worth, a net worth which could be in the form of raw land, tools and equipment, airplanes or whatever the participant's firm may have as its assets, none of which, incidentally, would be allowable assets for a responsible workers' compensation insurer.

¹ A.S. 21.09.070 requires stock companies to have \$2,750,000 to begin writing workers' compensation insurance.

² A.S. 21.69.220 requires mutual insurers to have \$2,000,000 to begin writing workers' compensation and imposes minimum initial subscribers and premium.

³ A.S. 21.75.050 requires reciprocal insurers to have \$1,875,000 plus such additional amount as may be set by the director to begin writing workers' compensation.

⁴ HB 116 sec. 1 re: 21.47.030(b)(1) p. 2 l. 29. The requirement is \$1,000,000 of aggregated net worth of the participants. There is no requirement that the pooling entity itself have its own net worth.

Use of Excess and Stop Loss Insurance

The proponents then might suggest that they are purchasing excess and aggregate stop loss insurance to minimize their exposure. Indeed this would be sound insurance pooling management. Unfortunately, however, this is fraught with risks. Let me list a few, which I learned the hard way during my tenure as President of a large well-capitalized insurer.

First, underwriters of excess and aggregate stop loss insurance are in the business of providing that coverage only so long as the risks to them are controllable. There is no assurance that over the long haul coverage will always be available or that the contract terms will provide long term, irrevocable protection for the pool. There is nothing that would prevent an excess carrier providing cover this year from saying they will not write the program next year and leaving the employer/participants scrambling to find workers' compensation coverages back in the traditional markets.

Second, much to my dismay, many of the securities, i.e. reinsurance companies, that were bound on the excess reinsurance we had protecting Alaska National during our early years got into financial difficulty, some even becoming insolvent. Some were very large and well respected names in the industry when we purchased the reinsurance. It was our capital and our financial resources that ultimately filled the gap left when these securities failed us. Had we had only the barest minimum capital, or even less as proposed here, the resources would not have been in place to fill the gap left by those reinsurers who failed us. Despite the best intentions of the creators or managers of the plan proposed here, who will be required to fill the gap if one of the excess or aggregate stop loss carriers fails? As I see it, it will be the injured workers!

Country-Wide Study

That was our testimony last year and remains our concern today. Nothing in the new Senate C.S. mitigates these concerns.

Over the summer recess, we have undertaken a more thorough study of how these groups are regulated in other states, how these groups perform in other states and what impact these groups or the authorizing legislation have had on the insurance markets in other states.

Now that we have more concrete information, we still believe that this legislation should be opposed and we urge the Legislature to study carefully the information, which we found.

As a result of our study, we have made the following findings:

1. There are, in fact, 36 states that currently permit some form of group self-insurance. There are several business groups taking advantage of these laws and doing so with success which ranges from modest to, in some cases, great success with all of the promised savings in workers'

compensation costs being realized. We refer you to the states of, Florida, Illinois, Kansas, Louisiana, Michigan, Montana, New Hampshire, New Mexico, New York, Pennsylvania and South Carolina.⁵

2. There are states in which what HB 116 would permit was authorized and attempted by some industry groups. The results were a disastrous failure. See the results in Iowa, Maine and Oklahoma involving contractors and other groups.⁶
3. There are states that permit what HB 116 would permit and are counted by those citing other states as permitting group self-insurance but which, on closer inspection, impose such high financial security requirements as to, *de facto*, really not permit the concept to be implemented at all. States such as California, Colorado, Hawaii and Vermont fall into this category.⁷
4. The driving force behind authorization and implementation of group self-insurance is either a commercial enterprise which wishes to serve as an administrator of these groups for a fee ⁸ or the failure of the commercial insurance industry to provide coverage at any price leaving the business community in a crisis--caught between the statutory requirement to have the coverage and no source to acquire the coverage.⁹

As a result of our study, we have come to the following conclusions.

⁵ The states with the largest number of successful groups are New York 60, Michigan 40, Pennsylvania 24, Illinois 23, Louisiana 23, and Kansas 21. Note that these states have an established business base and large population (personal conversations with individual state regulatory agencies, December, 1997).

⁶ Rita Garland, Insurance Commissioner for the state of Iowa, stated that the law was in place in the 1950's and poorly written but barely used. In the 1980's, when the insurance market tightened, many employers chose to form self-insured groups. Contractors, truckers and other groups failed due to poor administration and inadequate reserves for losses. There are only 2 groups currently in existence, an auto dealer and a nursing home (Ibid. December 15, 1997).

⁷ Hawaii and Vermont have no participation also due to a small population base (Ibid. December 1997). However, California and Colorado do not have that problem and attribute the absence of groups to the strict standards set by the state (Ibid.). Mark Ashcraft, Director of Industrial Relations, State of California, states that many companies balk at the extensive financial disclosure and bond requirements. In addition, group members are considered "domestic captives" and cannot leave the original group, which is another feature that insures solvency but is not attractive to businesses (Ibid.).

⁸ In Oklahoma, according to Richard Fisher, Worker's Compensation Court Administrator, third party administrators would solicit companies to form groups with the promise of reducing losses and saving the company money. The companies would then sign up, pay the administrator a fee up front and let the administrator make all the decisions regarding insurance. When the actual losses started to use up inadequate reserves, the administrator would quit and leave the financial mess to the group members who were jointly liable (85.66.1). Groups who found themselves in this situation had to assess members to pay for the shortfall in reserves. Those groups who experienced such losses never recovered and were forced to dissolve (personal conversation, January, 1998).

⁹ This situation became critical in Pennsylvania in 1993, according to Ron Harvey of the Pennsylvania Department of Labor. The private market became so tight that the state had to establish a fund for companies who couldn't find coverage. The law allowing groups was passed due to pressure from uninsured companies (Ibid.).

- A. The single most significant difference between those states that have permitted the group self-insurance concept to be implemented successfully and those states where the program has not worked well or where there have been financial failures, is the presence, either by statute or by regulation, of strict requirements for a strong financial underpinning to the enterprise in the form of substantial audited financial statements of the participants, a substantial dedicated cash base, a substantial bond, minimum up front premiums or a combination of these requirements.¹⁰
- B. Because of competitive dynamics in each of the industries that attempt such a program, these programs only work if they are started and operated during a crisis in the commercial insurance industry resulting in unusually high workers' compensation premiums or the unavailability of any insurance at all. If it is a competitive market with insurance readily available, either the groups do not have the subscribers it takes to make it successful or, if it once was successful, the membership drifts away causing the demise of the group. In the states of Arkansas, Georgia, Mississippi, Rhode Island and Virginia groups have been very successful, but have decreased in number by as much as 50% due to the softening of the insurance market.¹¹

In effect, our research into the practical application of such a law in other states has confirmed what our intuition and years of experience in the insurance industry led us to tell you last session---these programs will not work successfully for the benefit of the injured workers but will prove a costly disaster if they are allowed to come into existence without the substantial financial underpinning that has made them work in other states, which are required of commercial insurers in this state or even required of an individual self-insured in this state.¹²

Financial Requirements in Other States

There is no uniformity among the laws of the several states that permit group self-insurance. What we have found is that those states that claim successful

¹⁰ See California Code of Regs, Title 8, Article 13.

¹¹ Amanda Jamison of the Georgia State Insurance Commission, states that the tight insurance market in the early 1960's made it virtually impossible to obtain insurance and the legislature was then forced to pass the law allowing group self-insurance. However, as the market has loosened, groups are rapidly dissolving. In the past 2 ½ years, the number of groups has dropped from 42 to 22. She thinks that in the next few years all the groups will be gone and the law will eventually be repealed (personal conversation, December, 1997).

¹² The state of Maine provides an excellent example of inadequate legislation. Groups were authorized for self-insurance in the 1920's, but no one actually used the law. When the insurance market tightened in the early 1980's, many groups formed. It was quickly realized that the law was wholly inadequate and needed major revision. The law was entirely repealed in 1992 and re-written. This issue caused such turmoil in the legislature that the state government was shut down when the governor refused to sign the budget until the issue of group self-insurance was resolved (Edwin Wyman, Superintendent of Insurance, State of Maine, personal conversation, December, 1997). See Maine statues, Worker's Compensation, Insurance Benefit System, 39.21, Subchapter II.

operation of self-insured groups have, by legislation or regulation imposed higher financial responsibility requirements.

STATE	MIN NET WORTH	MIN SECURITY	ADDITIONAL REQUIREMENTS
Alabama	\$2.5 Mii	\$250,000	Ratio of combined current assets to combined current liabilities of 1:1, combined positive income for last 3 years
Arizona	\$10 Mil	\$250,000	5-Year business history
Arkansas	\$1 Mil	\$200,000	Current Ratio of 1:1, working capital sufficient to pay claims
California	\$10 Mil	\$220,000	\$5 Mil shareholders' equity; avg. net profit of \$500,000 for 5 years
Colorado	N	\$300,000	5-Year business history; on-site claims audit required
Connecticut	Determined by Commission	Determined by Commission	3-Year sworn financial stmt, payroll and loss reports
Florida	\$1 Mil	\$100,000	3-Year financial stmt, 3 x annual std premium
Georgia	None	\$350,000	\$1 Mil annual premium
Hawaii	Determined by Commission	Determined by Commission	Subjective solvency examination done By committee
Illinois	\$500,000	\$20,000 + 6% assets	Services can only be performed by licensed service co.
Iowa	\$1 Mil	Subjectively determined	None
Kansas	\$1 Mil	None	\$250,000 annual premium required
Kentucky	\$500,000	\$250,000	Financial statements must include book value of all assets
Louisiana	\$1 Mil	\$100,000	5-year business history; must pass state solvency test
Maine	Determined by Commission	Determined by Commission	\$100,000 annual premium, 25% paid on 1st day of coverage
Maryland	\$1 Mil	\$100,000	Must reinsure all incurred workers' comp obligations if terminating group

Massachusetts	None	\$100,000	None
Michigan	\$1 Mil	\$250,000	\$500,000 annual gross premium; must demonstrate reasonable solvency
Minnesota	10x selected retention limit		110% of all outstanding workers comp liabilities required as security
Mississippi	\$1 Mil	\$100,000	Commission requires applicant to appear before a hearing to determine eligibility
Missouri	\$1 Mil	\$500,000	\$1 Mil annual premium required
Montana	None	\$250,000	3-year business history, 4-year premium and loss history
Nevada	\$2.5 Mil	\$100,000	5-year business history
New Hampshire	None	\$250,000	\$1 Mil annual premium
New Mexico	\$3 Mil	\$150,000	Financial statement of each member, 25% of premium required up front
New York	None	\$625,000	Startup capital 40% of expected losses
North Carolina	\$500,000 in assets	\$600,000	\$100,000 annual premium required
Oklahoma	\$2 Mil	Determined by Commission	\$400,000 start up premium required
Oregon	\$1 Mil	\$300,000	SEC 10-K form required
Pennsylvania	\$1 Mil	\$600,000	\$500,000 minimum insurance premium
Rhode Island	None	\$100,000	Must maintain loss and transfer fund
South Carolina	None	\$250,000	\$1 Mil annual premium
Tennessee	None	\$350,000	\$1 Mil annual premium
Vermont	None	Determined by Commission	5-year business history
Virginia	\$1 Mil	\$250,000	CPA report required
West Virginia	None	\$1 Mil	None

Source: *Risk Financing* (1997), International Risk Management Institute. Dallas, TX.

If the legislature adopts this bill in its present form, it can take solace in the fact that there are some other states that have done similarly. We are urging the Alaska Legislature to follow the example of the most responsible states, not the states that, because of serious insurance availability problems, settled for low standards.

Proposed Amendments by the Proponents.

Those arguing that HB 116 should be adopted immediately continue to make grudging acknowledgment that their bill needs to be amended to become appropriate even for their own use. Accordingly, they continue to propose amendments to meet the non-financial objections from the insurance industry, from the Division of Insurance and from the Division of Workers' Compensation.

The fact is, however, the proponents have insisted that their membership cannot afford to come up with the needed minimum net worth, the minimum dedicated cash, or even the audited financial statements of its membership to permit verification of compliance with whatever standard is established and thus have continued their refusal to make these most essential changes to the financial security aspects of the bill.

The current Market Place

One of the observations to come from our study is that these programs do not work in a competitive environment where premiums are reasonable and where there are several markets providing coverage.

Last year we pointed out that, in Alaska, there are reliable markets for workers' compensation. Even if there were not voluntary commercial insurers willing to write a particular risk, the Assigned Risk Pool provided coverage at rates regulated by the Division of Insurance. Within the last year, the Assigned Risk and Voluntary market pricing became even more favorable as the minimum policy fee was eliminated; a major cost savings for the smallest business entrepreneurs.

Within the last several years workers' compensation rates have come down for all employers. These changes are the result of improved experience, favorable workers' compensation benefits legislation, increased competition and some changes in the way rates are formulated imposed by the Division of Insurance.

These rate adjustments are calculated actuarially by the National Council on Compensation Insurance based strictly on loss statistics, payroll reports and relevant operating cost factors of the industry.

OVERALL STATE-WIDE RATE

Year	Rate
Jan. 1994	+2.4%
1995	+2.6%
1996	-7.1%
1997	-10.2%
1998	-8.3%
1994-1998	-28.4%

For homebuilders, the improvement in pricing is even more favorable, largely because of both national and local improvement in loss experience in the classes most used by homebuilders.

HOMEBUILDER STATE-WIDE RATE

Year	<u>\$ premium/\$100 payroll</u>	
	carpentry 5645	class-- Carpentry—multi-fam- 5651
1994	19.33	10.83
1995	16.90	10.28
1996	16.30	9.14
1997	11.71	9.82
1998	11.22	11.88

The fact that commercial carriers are offering competitive rates is not reason alone to prohibit another mechanism for providing workers' compensation insurance. On the other hand, experience in other states suggests that when employers have available competitive rates without having to incur the financial exposure of guarantee of the group's success or the administrative burden of providing financial statements, etc., the self-insurance group will have a greater struggle to survive and thus needs even more than when it has a captive audience to have strong financial support to cover the few risks that would choose to remain in such a program.

Available Alternatives

Current Alaska law permits a variety of ways the homebuilders, or any homogeneous industry group, can have more control over their insurance costs, comply with the requirement to protect injured workers and do so in a financially responsible way. These methods will allow for more effective loss control, some expense savings and some return of investment income.

Some of these risk management techniques even meet the requirements of the homebuilders that they not be required to put up an initial capital investment.

Under current statute, a trade association can create a purchasing group. It can aggregate its members into a single group policy, pooling their experience and sharing the ultimate costs of their losses. They put up no capital to do this. There is significant added protection because there is a licensed insurer providing the financial security and there is no liability, beyond the premium, that falls back on the employers.¹³

Under the current statute, a group of employers may establish a mechanism for the mutual exchange of indemnity agreements and operate the program themselves.¹⁴ This is called a reciprocal. It requires the dedication of a substantial amount of capital to the enterprise, but it is their enterprise and they may take advantage of the investment income, determine what administrative, marketing or operating expenses it wishes to incur and set their own underwriting standards. There are two such entities already in the State of Alaska, the Alaska Timber Insurance Exchange and one operated by the Alaska Rural Electrical Cooperative (ARECA).

Under current statute, an enterprising producer might obtain a commitment from a licensed carrier to pass on reduced marketing and administrative cost savings if a large number of employers in a single industry will commit to place their workers' compensation coverage with that carrier. Several groups have been successful with such programs for liability insurance. One carrier in Alaska is providing workers' compensation insurance for such a program to the National Electrical Contractors Association.

Conclusion

The homebuilders believe that they should be permitted to set up an enterprise that fails to meet even the most basic financial responsibility requirements. These well meaning business people want to circumvent the minimum financial safety requirements in order to achieve some perceived short term cost savings.

Our study indicates that what has come to be known as self-insurance groups have been successful in states with severe market availability or pricing problems. Their success turned on the resolve of the legislature and regulatory agency of those states to impose necessary financial security requirements. So long as HB 116 remains devoid of even the most minimal of financial security requirements, we must urge that the legislature carry out its responsibility of protecting the injured worker by opposing this bill.

¹³ A.S. 21.36.190 (d)

¹⁴ A.S. 21.75

Alaska State Legislature House of Representatives

Committees

Rules Committee, Chair
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International Trade & Tourism
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Alaska State Capitol
Juneau, AK 99801

HB 116 SPONSOR STATEMENT

Alaska law permits certain public entities to enter into insurance cooperative arrangements concerning worker compensation, wherein they pool contributions to assume risks from losses or to purchase insurance coverage on a group basis. Currently, this option is available only to municipalities, public corporations, school districts, and regional educational attendance areas. HB 116 would extend this option to "worker compensation self insurance groups."

A "worker compensation self-insurance group" is a not-for-profit association of ten or more employers engaged in the same or similar business. The employers must be members of the same trade or professional association, which, in turn, must have been in existence for at least five years.

HB 116 contains numerous substantive and procedural requirements designed to ensure that worker compensation self-insurance groups remain fiscally sound and able to fulfill Alaska's worker compensation requirements. Among other requirements, self-insurance groups must be certified by the state, and the Director of the Division of Insurance may examine the books of such groups as often as is necessary. In addition, other express statutory provisions impose net worth, bonding, and security standards.

Insurance carriers often assign small employers a higher risk. This results in higher insurance costs. By pooling their numbers, small employers would qualify for lower risk assessments and therefore lower premiums.

I commend HB 116 to you, and urge your support.

Representative Pete Kott



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