

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11267 SENATE LABOR & COMMERCE



ALASKA ASSOCIATION OF REALTORS, INC.  
741 Sesame Street, Suite 100 • Anchorage, Alaska 99503  
Telephone 907-563-7133 • Fax 907-563-8476

April 11, 2003

The Honorable Kevin Meyer  
Alaska House of Representatives  
State Capitol Building, Suite 513  
Juneau, Alaska 99801

In Re: House Bill 151 ,Relating to the Right to Repair

Dear Representative Meyer:

The Alaska Association of REALTORS with over 1,100 members statewide supports House Bill 151, which provides consumers and construction professionals with a process to resolve construction defect issues on new homes or homes that undergo substantial remodeling.

We favor this bill because it gives the conscientious builder the opportunity to repair any legitimate defects in a home, and satisfies the homeowner by having the defect repaired. The Association is in agreement that a long and costly lawsuit should be the last avenue to resolve a problem.

The Alaska Association of REALTORS encourages the passage of House Bill 151.

Sincerely,

A handwritten signature in cursive script that reads 'Carole Winton'.

Carole Winton  
President



**WHITE SPRUCE ENTERPRISES, INC.**

10288 Old Valdez Trail - Satona, AK 99714

Telephone 907-488-9004

Fax 907-488-2551

[whitespruce@mooseultra.net](mailto:whitespruce@mooseultra.net)

The Honorable Kevin Meyer  
Alaska House of Representatives  
State Capitol Building, Suite 513  
Juneau, AK 99801

Re: House Bill 151, Right to Repair

Dear Representative Meyer:

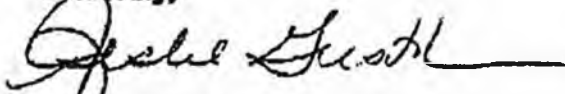
Thank you for sponsoring HB151, the right to repair legislation. This letter is to express my support for the bill.

Liability insurance rates are sharply increasing for contractors across the nation—as well as Alaska. Rates have increased significantly to my business this year. A company that I dealt with last year has pulled out of Alaska, and it is increasingly harder to find a company who has been in Alaska for a period of time or who will continue to cover liability coverage here in our state in the future.

The opportunity for the builder to be able to repair any defects in a home will provide a solution to the buyer and, hopefully, prevent costly lawsuits. Which in turn, raise the cost of insurance. If the repair does not solve the issue, both parties still retain their right to claims in court. Homeowners and builders do not want to pay costly legal fees and spend significant time in court before the repair is done.

HB151 is a way allowing the builder to fix the problem. Thank you for sponsoring this bill.

Sincerely,



Leslie Gustafson, Vice President  
White Spruce Enterprises, Inc.



03/17/03

The Honorable Kevin Meyer  
Alaska House of Representatives  
State Capitol Building, Suite 513  
Juneau, Alaska 99801

In Re: House Bill 151, Right to Repair

Dear Rep. Meyer:

Thank you for sponsoring HB151, the right to repair legislation. This letter is to express my support for the bill.

Across the entire nation - and especially in Alaska right now - liability insurance rates are dramatically increasing. The cost to my business has increased, and in fact it is becoming even more difficult to find carriers who will provide coverage.

This legislation is a win-win situation. A conscientious builder who wants to do a good job will have the opportunity to repair any defects in a home. Also, the homeowner will have the defect repaired. A long and costly lawsuit only makes the problem worse for both sides.

In the event that the notification process in HB151 does not solve the issue - both sides will retain their right to pursue claims in court if absolutely necessary. The idea here is that lawsuits should be the last thing that should be done to fix a problem.

A home is indeed a person's castle, and in most cases is the single largest investment that a family will make. Legitimate defects in a home should be repaired before the problem becomes worse for both the homeowner and the builder. Letting a problem fester while disputes wind their way through the court system only creates more potential cost for the builder and a potentially unsafe living situation for the homeowner. HB151 tries to avoid this mess by simply saying "let the builder fix the problem".

Thank you again for sponsoring this bill and your efforts. Please let me know how I can help you get this legislation passed this session.

Sincerely,

*Leonard D. Conroy*  
GENERAL MANAGER



*Kitchens & Baths*

BY DESIGN

March 15, 2003

The Honorable Kevin Meyer  
Alaska House of Representatives  
State Capitol Building, Suite 513  
Innean, Alaska 99801

In Re: House Bill 151, Right to Repair

Dear Rep. Meyer:

Thank you for sponsoring HB151, the right to repair legislation. This letter is to express my support for the bill.

Across the entire nation – and especially in Alaska right now – liability insurance rates are dramatically increasing. The cost to my business has increased, and in fact it is becoming even more difficult to find carriers who will provide coverage.

This legislation is a win-win situation. A conscientious builder who wants to do a good job will have the opportunity to repair any defects in a home. Also, the homeowner will have the defect repaired. A long and costly lawsuit only makes the problem worse for both sides.

In the event that the notification process in HB151 does not solve the issue – both sides will retain their right to pursue claims in court if absolutely necessary. The idea here is that lawsuits should be the last thing that should be done to fix a problem.

A home is indeed a person's castle, and in most cases is the single largest investment that a family will make. Legitimate defects in a home should be repaired before the problem becomes worse for both the homeowner and the builder. Letting a problem fester while disputes wind their way through the court system only creates more potential cost for the builder and a potentially unsafe living situation for the homeowner. HB151 tries to avoid this mess by simply saying "let the builder fix the problem".

Thank you again for sponsoring this bill and your efforts. Please let me know how I can help you get this legislation passed this session.

Sincerely,

Carolyn M. Foelsch, CKD, CBD



**HB**

**184**

# ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:

3044 Badger Road, Suite 290  
North Pole, AK 99705  
(907)-488-5725  
Fax# (907)-488-4721



Session Contact:  
(907)-465-3719

FAX# (907)-465-3258  
State Capitol  
Room 204

## REPRESENTATIVE JOHN COGHILL MAJORITY LEADER

### Sponsor Statement HB 184 – Deferred Annuity Products

HB 184 is an act relating to individual deferred annuity products that are regulated by the Alaska Division of Insurance under Alaska insurance statutes. The current economic trends and the corresponding drop in market interest rates prompts the need for this legislation. Specifically, the proposed insurance code revision deals with guaranteed minimum interest rates that determine minimum values holders of a fixed annuity product must receive upon policy surrender. This law would provide two basic essential provisions: **1. Give companies relief in times of low interest rates and 2. Provide an appropriate minimum guarantee for the consumer.**

As originally introduced, the bill would have simply reduced the guaranteed minimum interest rate to 1.5 % from the current 3% rate. This reduction reflects the decline of yields on fixed investments that have occurred over the last two years, and presented a practical short-term response to this problem that over 16 states have already addressed and adopted.

Even with the declining rates, fixed annuities present an attractive choice for millions of conservative, long-term investors—increasingly so as equity markets continue to produce losses or weak returns. The 1.5% figure would have made these products continually viable and available.

The National Association of Insurance Commissioners (NAIC) has been working on a long-term solution to the problem, and recently adopted The Standard Nonforfeiture Law for Individual Deferred Annuities. The revised version of HB 184 reflects that long-term solution. The model act has gained broad support among regulators and the insurance industry.

HB 184 recently passed the House.

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 184  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Law  
 Title "An Act relating to individual deferred annuities; . . ." BRU Civil Division  
 Component Fair Business Practices  
 Sponsor Representative Coghill  
 Requester House Labor and Commerce Committee Component No. 2206

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

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
 This bill changes the interest rate used in determining the minimum nonforfeiture amount for certain deferred annuities from three percent to one and a half percent.  
  
 Passage of this legislation will have no fiscal impact on the Department of Law.

Prepared by: Joan M. Kasson Phone (907) 465-5370  
 Division Attorney General's Office Date/Time 3/28/03 2:45 PM  
 Approved by: Joan M. Kasson for Gregg D. Renkes, Attorney General Date 3/28/2003  
 Agency Department of Law

# FISCAL NOTE

STATE OF ALASKA  
2002 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: SSHB 184  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Community & Economic Development  
Title: Individual Deferred Annuities BRU: Insurance (116)  
Componer: Insurance  
Sponsor: Representative Coghill  
Requester: House Labor & Commerce Component No. 354

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

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Any cost to enforce the provision on insurers would be absorbed within existing division resources.

Prepared by: Linda S. Hall, Director Phone 269-7900  
Division: Division of Insurance Date/Time 4/1/03 5:18 PM  
Approved by: Edgar Blatchford, Commissioner Date 4/1/2003  
Agency: Department of Community & Economic Development

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

EXECUTIVE  
HEADQUARTERS

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FAX 816-783-8175

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INTERNATIONAL  
RELATIONS

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SECURITIES  
VALUATION  
OFFICE

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5<sup>TH</sup> FLOOR  
NEW YORK NY  
10018-3402  
VOICE 212-398-9000  
FAX 212-382-4207

WORLD  
WIDE WEB

[www.naic.org](http://www.naic.org)

TO: Merwin Stewart, Chair  
Life Insurance and Annuities (A) Committee

FROM: Michael Batte, Chair  
Life and Health Actuarial Task Force

DATE: March 8, 2003

SUBJECT: Project History of Revisions to the "Standard Nonforfeiture Law for Individual Deferred Annuities ("Model")"

At its meeting on Friday, March 7, 2003, the Life and Health Actuarial Task Force ("Task Force") voted to recommend that the Life Insurance and Annuities (A) Committee adopt the Model. In order to assist the A Committee in its review of this document, I am submitting the following brief project history. Please feel free to contact me if you have additional questions.

1) What issues was the project intended to address?

At the Executive Committee and Plenary Meeting in San Antonio, Texas, on February 8, 2002, the issue of the appropriate interest rate to incorporate into Section 4 of the Model was discussed. The following excerpt from the minutes summarizes that discussion:

Commissioner Koken, vice chair of the Life Insurance and Annuities (A) Committee, stated that the A Committee has been reviewing the issue of the minimum nonforfeiture rate on annuities. It is currently 3%, which in the current economic climate means that companies may have to take some products off the market because they can't invest at that rate, or there will be real solvency concerns. The recommendation from the A Committee is to support the industry in their efforts to go to the legislatures and ask for a reduction in the nonforfeiture rate to 1.5% and to give a charge to the Life and Health Actuarial Task Force to develop a long-term solution to this issue. The group believes that ultimately an indexed rate is the best response so that as the economy changes it will not be necessary to go back to the legislatures.

The minutes of that meeting further show that the following motion was adopted: "Recommend that the states support a 1.5% nonforfeiture with a sunset of July 1, 2004 and a charge to develop an indexed rate."

In a subsequent discussion of the Task Force, the project was defined to include the following general scope (as captured in the Life and Health Actuarial Task Force minutes from March 14-15, 2002):

William Schreiner (ACLI) reported that the ACLI has a committee studying this matter, and that committee is looking for the Task Force's input on areas to study. He said "it is fair that you will want to look at more than just the interest rate." A lengthy, wide-ranging discussion ensued on how to proceed. Mr. Hartnedy summarized the discussion by saying that three potential areas of inquiry had been identified: 1) "You've got to carefully consider in the charge of any minimum guarantees the surrender charge;" 2) "We're very interested in a dynamic or, if you will, index rate"; and 3) "We want pros and cons as to impact on people in different circumstances by doing this." Mr. Gorski suggested "maybe there is a need to think about disclosure at the same time." Mr. Schreiner added that "all the elements of the (nonforfeiture) 'formula' will be in play."

**2) What states participated in drafting the model?**

The following states are currently members of the Task Force: New Mexico (Chair), Arkansas (Vice-Chair), California, Connecticut, Florida, Illinois, Minnesota, Nebraska, New York, Oklahoma, Pennsylvania, Texas, Utah, and Vermont.

**3) What general procedure was followed in drafting the model? What efforts were made to assure that all interested parties were provided an opportunity to comment during the drafting process?**

The efforts of the Task Force were closely coordinated with all industry interested parties. In addition to open sessions at the quarterly meetings of the NAIC, seven conference calls were held over the last year to discuss the various submissions and drafts of the Model. Notice of those conference calls was posted on the NAIC's home page on the Internet and e-mailed to approximately 200 regulators and interested parties, including representatives of the American Council of Life Insurers, the National Alliance of Life Companies, the National Fraternal Congress of America, and the American Academy of Actuaries (AAA).

**4) What significant issues were raised during the drafting process, and how were those issues resolved?**

Given this complexity of this topic and the myriad of opinions, it is impossible to put together a brief description which captures a) all of the issues raised and b) all of the detail underlying those issues. Any summary will of necessity be a broad overview and will omit numerous particulars of the project. However, I believe that the items below represent the major points of discussion:

**A) Is there really a need to change the Model?**

Many regulators expressed doubts regarding whether there was a need to change the Model. This excerpt from Frank Dino's (Florida Department of Financial Services) summary of the October 10, 2002, conference call of the Task Force summarized the basic nature of those concerns:

Some of the previously expressed doubts regarding whether a problem actually exists in the current nonforfeiture law were repeated. It was noted that the current law allows initial expense loads of 35% and 10% for flexible premium and single premium products, respectively. Even ignoring annual expense charges, it would take fifteen years and four years, respectively, for the minimum values to match the

original deposit, assuming the minimum 3% were credited each year. It was also noted almost all states interpret the existing law as imposing a cumulative standard, rather than requiring that a minimum interest credit of 3% be applied each year. This gives companies the ability to credit less than 3% some years (provided they can still meet the cumulative requirement).

Ultimately, a consensus emerged on the Task Force that changes to the Model should be made. The distinct expense loads for flexible premium and single premium products were eliminated, and replaced by a single standard of 12.5%. In its first draft Model submitted on August 22, 2002, the ACLI suggested 15%. However, subsequent discussions resulted in the compromise figure of halfway between the existing 10% standard for single premium annuities and the ACLI's proposed 15%.

**B) What should be the basis of the index used in establishing the minimum nonforfeiture interest rate?**

Early on in this project, it became clear that there is no economic or actuarial theory that makes any one index the obvious choice over another. The following suggestions were among the many received:

In correspondence received on May 24, 2002, the ACLI suggested the following:

Proposal: five-year constant maturity treasuries (CMT) is proposed as the basis of required minimum interest rate credits.

Rationale: the use of a CMT basis has the virtue of expected continuous availability, while the choice of a five-year basis lies between short and longer-term maturities.

The ACLI provided this commentary with the submission of their initial proposal for actual draft language on August 22, 2002: "The interest rate proposed is the Five-Year Constant Maturity Treasury rate (CMT) as of June 30 of the preceding calendar year minus two and one-half percent (2.5%), but not greater than four percent (4%) nor less than one percent (1%)."

In a submission dated November 13, 2002, the ACLI modified its proposal as follows: "Index Basis: 3 Year Constant Maturity Treasury (monthly) rate - minus 150 basis points, but not less than 1%."

In a submission dated January 22, 2003, the ACLI made the following recommendation: "Therefore, we urge that the index basis in the proposed model Individual Deferred Annuity Nonforfeiture Law be changed to the three-year CMT reduced by 125 bps."

In a submission labeled "Preliminary Draft" dated September 10, 2002, the AAA stated that "an index rate for the annuity non-forfeiture value can be based on either the Treasury Curve, The Swap Curve (or) somewhere on any myriad of credit curves." The submission includes a description of how LIBOR swap rates might be used:

Under this approach we define the Non-Forfeiture Interest Rate (NIR) as equal to the Applicable Swap Rate less X. The Applicable Swap Rate is the monthly average swap rate for a swap whose term is equal to the term of the guarantee period for the premium/renewal (rounded up to the next whole year) during the month the premium is received or the renewal rate is set.

Many other comments were provided relative to the appropriate choice of an index, as well as a) what reductions to the index should be made to recognize company expenses and b) maximum and minimum limits on the interest rates.

In reaching a decision, the Life and Health Actuarial Task Force concluded that the Five-Year CMT less 125 basis points provides a reasonable balance between 1) giving companies relief in times of low interest rates and 2) providing an appropriate minimum guarantee for the consumer. Also, a consensus seemed to emerge on the Task Force in agreement with the position expressed in the January 22, 2003, submission from the ACLI: "The primary goal of the law's revision is to provide a means to permit lower interest rate guarantees than the current law allows in low interest rate environments." Accordingly, a cap equal to the existing 3% interest rate was established. However, in order to provide some minimum level of guarantee to the consumer, a floor of 1% was also established. Finally, flexibility was provided to the companies by allowing for the redetermination of the minimum interest guarantees on a periodic basis.

**C) Should a lower minimum nonforfeiture interest rate be allowed for equity-indexed annuities?**

This matter was not raised in a substantive way by any of the interested parties until the Task Force meeting in December 2002. Subsequently, a report was received from the AAA (dated January 27, 2003) that recommended the following: "The Academy of Actuaries recommends that an offset for Equity Indexed Annuities be allowed. The Academy strongly believes there is a need for an offset as long as the product provides a meaningful equity participation guarantee."

The Task Force agreed with this recommendation, and inserted the following language into the Model:

During the period or term that a contract provides substantive participation in an equity indexed benefit, it may increase the reduction described in Subsection B(2) above by up to an additional 100 basis points to reflect the value of the equity index benefit. The present value at the contract issue date, and at each redetermination date thereafter, of the additional reduction shall not exceed the market value of the benefit. The commissioner may require a demonstration that the present value of the reduction does not exceed the market value of the benefit. Lacking such a demonstration that is acceptable to the commissioner, the commissioner may disallow or limit the additional reduction.

The commissioner may adopt rules to implement the provisions of Section 4C and to provide for further adjustments to the calculation of minimum nonforfeiture amounts for contracts that provide substantive participation in an equity index benefit and for other contracts that the commissioner determines adjustments are justified.

Several members of the Task Force expressed a desire that a model regulation be developed to assist the states in implementing this provision.

**5) What are the implications of this project for accreditation and codification?**

Since this project does not deal with solvency monitoring, there is no impact for accreditation and codification.

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## Alaska Statutes

(6) term policy of decreasing amount, which provides no guaranteed nonforfeiture or endowment benefits, on which each adjusted premium, calculated as specified in (h) - (w) of this section is less than the adjusted premiums calculated, on a policy of uniform amount or renewal thereof, which provides no guaranteed nonforfeiture or endowment benefits, issued at the same age and for the same initial amount of insurance for a term defined as follows: for ages at issue 50 and under, the term shall be 15 years; thereafter, the term decrease one year for each year of age beyond 50, and for a term of 20 years or less expiring before age 71, for which uniform premiums are payable during the entire term of the policy;

(7) policy, which provides no guaranteed nonforfeiture or endowment benefits, for which no cash surrender value, if any, or present value of any paid-up nonforfeiture benefit, at the beginning of any policy year, calculated as specified in (d) - (w) of this section, exceeds two and one-half percent of the amount of insurance at the beginning of the same policy year;

(8) policy which shall be delivered outside this state through an agent or other representative of the insurer issuing the policy.

(bb) For purposes of determining the applicability of subsection (aa), the age at expiry for a joint term life insurance policy shall be the age at expiry of the oldest life.

(cc) The operative date of this section is January 1, 1968 except that an insurer may elect to comply with this section before that date by filing a written notice of election with the director. A written notice of election is not effective unless the insurer specifies in the notice

(1) the date upon which this section is to be operative, which date must be later than the date on which the notice is filed;

(2) the policies to which this section applies.

### Sec. 21.45.305. Standard nonforfeiture law for individual deferred annuities.

(a) This section does not apply to any reinsurance, group annuity purchased under a retirement plan or plan of deferred compensation established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under 26 U.S.C. 408 (Internal Revenue Code), as amended, premium deposit fund, variable annuity, investment annuity, immediate annuity, any deferred annuity contract after annuity payments have commenced, or reversionary annuity, nor to any contract that shall be delivered outside this state through an agent or other representative of the company issuing the contract.

(b) In the case of contracts issued on or after the operative date of this section as defined in (k) of this section, no contract of annuity, except as stated in (a) of this section, may be delivered or issued for delivery in this state unless it contains in substance the following provisions, or corresponding provisions that in the opinion of the director are at least as favorable to the contract holder, upon cessation of payment of considerations under the contract: (1) that upon cessation of payment of considerations under a contract, the company will grant a paid-up annuity benefit on a plan stipulated in the contract of such value as is specified in (d) - (g) and (i) of this section; (2) if a contract provides for a lump sum settlement at maturity, or at any other time, that upon surrender of the contract at or before the commencement of any annuity payments, the company will pay in lieu of any paid-up annuity benefit a cash surrender benefit of such amount as is specified in (d), (e), (g) and (i) of this section; the company shall reserve the right to defer the payment of that cash surrender benefit for a period of six months after demand for the payment with

surrender of the contract; (3) a statement of the mortality table, if any, and interest rates used in calculating any minimum paid-up annuity, cash surrender, or death benefits that are guaranteed under the contract, together with sufficient information to determine the amounts of those benefits; (4) a statement that any paid-up annuity, cash surrender, or death benefits that may be available under the contract are not less than the minimum benefits required by any statute of the state in which the contract is delivered and an explanation of the manner in which those benefits are altered by the existence of any additional amounts credited by the company to the contract, any indebtedness to the company on the contract or any prior withdrawals from or partial surrenders of the contract. Notwithstanding the requirements of this subsection, any deferred annuity contract may provide that if no considerations have been received under a contract for a period of two full years and the portion of the paid-up annuity benefit at maturity on the plan stipulated in the contract arising from considerations paid before that period would be less than \$20 monthly, the company may at its option terminate the contract by payment in cash of the then present value of such portion of the paid-up annuity benefit, calculated on the basis of the mortality table, if any, and interest rate specified in the contract for determining the paid-up annuity benefit, and by that payment shall be relieved of any further obligation under the contract.

(c) The minimum values as specified in (d) - (g) and (i) of this section of any paid-up annuity, cash surrender, or death benefits available under an annuity contract shall be based upon minimum nonforfeiture amounts as defined in this section:

(1) With respect to contracts providing for flexible considerations, the minimum nonforfeiture amount at any time at or before the commencement of any annuity payments shall be equal to an accumulation up to that time at a rate of interest of three per cent a year of percentages of the net considerations as defined in this paragraph paid before that time, decreased by the sum of (A) any prior withdrawals from or partial surrenders of the contract accumulated at a rate of interest of three per cent a year; and (B) the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. The net considerations for a given contract year used to define the minimum nonforfeiture amount shall be an amount not less than zero and shall be equal to the corresponding gross considerations credited to the contract during that contract year less an annual contract charge of \$30 and less a collection charge of \$1.25 per consideration credited to the contract during that contract year. The percentages of net considerations shall be 65 per cent of the net consideration for the first contract year and 87 1/2 per cent of the net considerations for the second and later contract years. Notwithstanding the provisions of the preceding sentence, the percentage shall be 65 per cent of the portion of the total net consideration for any renewal contract year which exceeds by not more than two times the sum of those portions of the net considerations in all prior contract years for which the percentage was 65 per cent.

(2) With respect to contracts providing for fixed scheduled considerations, minimum nonforfeiture amounts shall be calculated on the assumption that considerations are paid annually in advance and shall be defined as for contracts with flexible considerations which are paid annually with two exceptions:

(A) the portion of the net consideration for the first contract year to be accumulated shall be the sum of 65 per cent of the net consideration for the first contract year plus 22 1/2 per cent of the excess of the net consideration for the first contract year over the lesser of the net considerations for the second and third contract years;

(B) the annual contract charge shall be the lesser of \$30 or 10 per cent of the gross annual consideration.

(3) With respect to contracts providing for a single consideration, minimum nonforfeiture amounts

shall be defined as for contracts with flexible considerations except that the percentage of net consideration used to determine the minimum nonforfeiture amount shall be equal to 90 per cent and the net consideration shall be the gross consideration less a contract charge of \$75.

(d) Any paid-up annuity benefit available under a contract shall be such that its present value on the date annuity payments are to commence is at least equal to the minimum nonforfeiture amount on that date. Such present value shall be computed using the mortality table, if any, and the interest rate specified in the contract for determining the minimum paid-up annuity benefits guaranteed in the contract.

(e) For contracts which provide cash surrender benefits, such cash surrender benefits available before maturity may not be less than the present value as of the date of surrender of that portion of the maturity value of the paid-up annuity benefit which would be provided under the contract at maturity arising from considerations paid before the time of cash surrender reduced by the amount appropriate to reflect any prior withdrawals from or partial surrenders of the contract. The present value shall be calculated on the basis of an interest rate not more than one per cent higher than the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, decreased by the amount of any indebtedness to the company on the contract, including interest due and accrued, and increased by any existing additional amounts credited by the company to the contract. In no event may any cash surrender benefit be less than the minimum nonforfeiture amount at that time. The death benefit under such contracts shall be at least equal to the cash surrender benefit.

(f) For contracts which do not provide cash surrender benefits, the present value of any paid-up annuity benefit available as a nonforfeiture option at any time before maturity may not be less than the present value of that portion of the maturity value of the paid-up annuity benefit provided under the contract arising from considerations paid before the time the contract is surrendered in exchange for, or changed to, a deferred paid-up annuity. The present value shall be calculated for the period before the maturity date on the basis of the interest rate specified in the contract for accumulating the net considerations to determine the maturity value, and increased by any existing additional amounts credited by the company to the contract. For contracts which do not provide any death benefits before the commencement of any annuity payments, the present values shall be calculated on the basis of the interest rate and the mortality table specified in the contract for determining the maturity value of the paid-up annuity benefit. However, in no event may the present value of a paid-up annuity benefit be less than the minimum nonforfeiture amount at that time.

(g) For the purpose of determining the benefits calculated under (e) and (f) of this section, in the case of annuity contracts under which an election may be made to have annuity payments commence at optional maturity dates, the maturity date shall be considered to be the latest date for which election shall be permitted by the contract, but is not considered to be later than the anniversary of the contract next following the annuitant's 70th birthday or the 10th anniversary of the contract, whichever is later.

(h) Any contract which does not provide cash surrender benefits or does not provide death benefits at least equal to the minimum nonforfeiture amount before the commencement of any annuity payments shall include a statement in a prominent place in the contract that such benefits are not provided.

(i) Any paid-up annuity, cash surrender, or death benefits available at any time, other than on the contract anniversary under any contract with fixed scheduled considerations, shall be calculated with allowance for the lapse of time and the payment of any scheduled considerations beyond the beginning of the contract year in which cessation of payment of considerations under the contract occurs.

(j) For any contract which provides, within the same contract by rider or supplemental contract

provision, both annuity benefits and life insurance benefits that are in excess of the greater of cash surrender benefits or a return of the gross considerations with interest, the minimum nonforfeiture benefits shall be equal to the sum of the minimum nonforfeiture benefits for the annuity portion and the minimum nonforfeiture benefits, if any, for the life insurance portion computed as if each portion were a separate contract. Notwithstanding the provisions of (d) - (g) and (i) of this section, additional benefits payable (1) in the event of total and permanent disability, (2) as reversionary annuity or deferred reversionary annuity benefits, or (3) as other policy benefits additional to life insurance, endowment, and annuity benefits, and considerations for all such additional benefits, shall be disregarded in ascertaining the minimum nonforfeiture amounts, paid-up annuity, cash surrender, and death benefits that may be required by this section. The inclusion of such additional benefits is not required in any paid-up benefits, unless those additional benefits separately would require minimum nonforfeiture amounts, paid-up annuity, cash surrender, and death benefits.

(k) After July 6, 1978, any company may file with the director a written notice of its election to comply with the provisions of this section after a specified date before July 6, 1980. After the filing of the notice, then upon the specified date, which shall be the operative date of this section for the company, this section shall become operative with respect to annuity contracts thereafter issued by the company. If a company makes no such election, the operative date of this section for the company shall be July 6, 1980.

#### Sec. 21.45.310. Prohibited policy plans.

(a) An insurer may not issue for delivery or deliver in this state a life insurance policy or annuity contract issued under any plan for the segregation of policyholders into mathematical groups and providing benefits for a surviving policyholder of a group arising out of the death of another policyholder of that group or under another similar plan.

(b) An insurer may not issue for delivery or deliver in this state a life insurance policy or annuity contract providing benefits or values for surviving or continuing policyholders contingent upon the lapse or termination of the policies of other policyholders, whether by death or otherwise. This provision does not prohibit the payment or allowance of regular annual dividends or savings under participating forms of policies or contracts, or prohibit the annual distribution to policyholders or beneficiaries of sums representing in part gains to the insurer from lapses, surrenders, or mortality either in general or as resulting from particular classifications of policies.

Sec. 21.45.320. Industrial life insurance defined. [Repealed, Sec. 17 ch 21 SLA 1985].

Repealed or Renumbered

#### Chapter 21.48. GROUP LIFE INSURANCE

#### Sec. 21.48.010. Group requirements for group contracts.

(a) A group life insurance policy may not be delivered in this state insuring the lives of more than one individual unless

(1) the policyholder was formed for purposes other than obtaining insurance or is a trust established by one or more employers or labor unions or by one or more employers and labor unions;

(2) the policy covers at least two individuals at the date of issue;

**HB**

**194**

23-LS0773\Q.1  
Kurtz  
5/6/03

AMENDMENT

OFFERED IN THE SENATE

TO: SCS CSHB 194(CRA)

- 1 Page 2, line 27, following "title;":
- 2       Insert "or"
- 3
- 4 Page 2, lines 28 - 29:
- 5       Delete all material.
- 6
- 7 Page 2, line 30:
- 8       Delete "(3)"
- 9       Insert "(2)"

**Subject:** [Fwd: HB 194]

**Date:** Wed, 07 May 2003 09:54:49 -0800

**From:** Heather Beaty <Heather\_Beaty@Legis.state.ak.us>

**Organization:** Alaska State Legislature

**To:** Jane Alberts <Jane\_Alberts@legis.state.ak.us>

---

**Subject:** HB 194

**Date:** Mon, 05 May 2003 15:52:56 -0800

**From:** Mark Graber <mark\_graber@revenue.state.ak.us>

**Organization:** State of Alaska - Department of Revenue

**To:** Heather D Beaty <heather\_beaty@legis.state.ak.us>

**CC:** Larry Persily <larry\_persily@revenue.state.ak.us>, Landa B Baily <landa\_baily@revenue.state.ak.us>

Heather -

Today's hearing, as well as previous questions, prompted me to do some more research on ARDORS and their federal tax status, and the status of members contributions. There may be an unintended provision in the bill that I should share with Representative Anderson. Its technical, so bear with me.

Alaska adopts most provisions of the Internal Revenue Code (IRC) by reference. Two parts of the IRC have relevance here. First is IRC Sec. 162, which allows a corporation to deduct "any necessary and ordinary business expense". Second, only contributions given to non-profit organizations described under IRC section 501(c)(3) qualify for a charitable contribution deduction under IRC Sec. 170. Since a charitable contribution is not an ordinary and necessary business expense, Sec. 170 is the provision that allows a taxpayer to deduct charitable contributions.

IRC section 501(c)(3) organizations are operated for religious, charitable, scientific, and educational purposes. This is different from 501(c)(6) organizations that are business leagues, chambers of commerce, and boards of trade, etc. I am fairly certain that ARDORS are (c)(6) organizations, not charitable organizations under 501(c)(3). I checked with AEDC - they tell me they are a 501(c)(6) organization. So, I am fairly certain that "contributions" to ARDORS do not generate a federal or Alaska charitable contribution deduction. However, contributions to ARDORS may qualify for a general deduction under IRC 162 as a ordinary and necessary expense.

So, here's the problem. Sec.(b) of HB 194 specifically disallows a deduction under IRC 170, but says nothing about a deduction under IRC 162. Arguably, then, a taxpayer could take the credit AND the deduction for Alaska purposes. I am sure

[Fwd: HB 194]

this is not intent of the legislation.

The fix is easy. Simply strike the words "under 26 USC 170" from page 3 line 20. My guess is that the drafter borrowed this from the Education Credit statute, where such a provision makes sense. Alternatively, if this clarification could come out in hearings, then we would have authority to disallow deductions based on legislative intent, regardless of the unnecessary reference to IRC 170.

I'd be glad to discuss this issue with you or Representative Anderson or whomever is appropriate.

Thanks.  
Mark Graber  
269-6626

# Alaska State Legislature

## House of Representatives



Official Business

State Capitol  
Juneau, AK 99801-1182

### SPONSOR STATEMENT FOR CSHB 194(L&C) BY: Representative Tom Anderson

**TITLE:** "An Act creating a tax credit under the Alaska Net Income Tax for contributions to regional development organizations; and providing for an effective date."

House Bill 194 creates a tax credit for contributions made by businesses to Alaskan regional development organizations. This legislation limits the tax credit to the first \$10,000 contributed by a business to a regional development organization. The tax credit allowed under HB 194, when combined with credits allowed under various other tax credit provisions in statute, may not exceed the previously established limit of \$150,000. This tax credit will sunset in 2005.

The definition used in HB 194 for "regional development organizations" is from statutory language used to define an Alaska Regional Development Organization (ARDOR). The Labor and Commerce Committee Substitute clarifies these organizations must be designated by the Department of Community and Economic Development as ARDORs. There are currently 13 ARDORs throughout the state covering all of Alaska except a section of the Interior and a portion of the Lower Yukon.

The ARDOR program is based on the notion that locally driven initiatives, in partnership with the State, can most effectively stimulate economic development and produce healthy, sustainable local economies. The tax credit established by HB 194 will encourage businesses to contribute to the ARDORs and assist regional development organizations' solicitation of contributions by having a tax credit as a further incentive.

I urge your support of HB 194.

# Alaska State Legislature

## Representative Tom Anderson



Official Business

State Capitol  
Juneau, AK 99801-1182

### Summary of changes made to HB 194 in CS Draft 23-LS0773\H

Page 3  
Sec. 7  
Sec. 43.20.019

Language has been added at the request of the Division of Tax to indicate that the regional development organization must be designated as such by the Department of Community and Economic Development. This is consistent with the sponsor's intent that the tax credit be made available only for contributions to recognized ARDORs and will assist the Division of Tax in readily determining which contributions are eligible to be claimed as tax credits.

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**MEMORANDUM**

March 13, 2003

**SUBJECT:** Sectional Summary of HB 194, creating a tax credit for contributions to regional development organizations (Work Order No. 23-LS0733D)

**TO:** Representative Tom Anderson

**FROM:** Kathryn L. Kurtz  
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

**Section 1.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 21.89.070(c) which, when combined, may not exceed \$150,000.

**Section 2.** Effective July 1, 2005, removes the credit added in section 1 of the bill from AS 21.89.070(c).

**Section 3.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 21.89.075(c) which, when combined, may not exceed \$150,000.

**Section 4.** Effective July 1, 2005, removes the credit added in section 3 of the bill from AS 21.89.075(c).

**Section 5.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.20.014(d) which, when combined, may not exceed \$150,000.

**Section 6.** Effective July 1, 2005, removes the credit added in section 5 of the bill from AS 43.20.014(d).

**Section 7.** Creates a tax credit not to exceed \$10,000 for cash contributions accepted for direct operation of a regional development organization. Defines "regional development organization" using the definition now found in AS 44.33.895 (scheduled for repeal 7/1/03). Provides that the credit may not be claimed under both this provision and

Representative Tom Anderson  
March 13, 2003  
Page 2

another provision of AS 43, or claimed and also allowed as a deduction under 26 U.S.C. 170 against the Alaska net income tax. Provides that the credit, when combined with other credits taken under other statutory sections, may not exceed \$150,000.

**Section 8.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.55.019(d) which, when combined, may not exceed \$150,000.

**Section 9.** Effective July 1, 2005, removes the credit added in section 8 of the bill from AS 43.55.019(d).

**Section 10.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.56.018(d) which, when combined, may not exceed \$150,000.

**Section 11.** Effective July 1, 2005, removes the credit added in section 10 of the bill from AS 43.56.018(d).

**Section 12.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.65.018(d) which, when combined, may not exceed \$150,000.

**Section 13.** Effective July 1, 2005, removes the credit added in section 12 of the bill from AS 43.65.018(d).

**Section 14.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.75.018(d) which, when combined, may not exceed \$150,000.

**Section 15.** Effective July 1, 2005, removes the credit added in section 14 of the bill from AS 43.75.018(d).

**Section 16.** Effective July 1, 2003, adds the credit created in section 7 of the bill to the list of tax credits in AS 43.77.045(c) which, when combined, may not exceed \$150,000.

**Section 17.** Effective July 1, 2005, removes the credit added in section 16 of the bill from AS 43.77.045(c).

**Section 18.** Repeals AS 43.20.019, the section creating the tax credit, effective July 1, 2005.

**Section 19.** Instructs the revisor to reconcile the material in this bill with sec. 28., ch. 46, SLA 2002, in the event the sunset date of that act is extended. That act provides a tax credit which is scheduled to sunset July 1, 2003, and this bill is drafted under the assumption that the sunset will occur. If it does not, the sections amended above will read differently, and the revisor will simply add references to AS 43.20.019 (the section of this bill which creates the tax credit) to those sections as they actually will read following July 1, 2003.

Representative Tom Anderson

March 13, 2003

Page 3

**Section 20.** Gives a July 1, 2003 effective date to the sections creating the tax credit and referring to the tax credit as part of the \$150,000 cap on tax credits under the Alaska net income tax act.

**Section 21.** Sunsets the bill July 1, 2005 by removing the credit created in sec. 7, sec. 43.20.019, and references to that section in other sections.

TML:lmb

03-075.lmb

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 194  
 (H) Publish Date: 4/2/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
 Title Regional Development Org Tax Credit BRU 405  
 Component Comm Assistance & Economic Dev  
 Sponsor Representative Anderson et al Community & Business Development  
 Requester House Community & Regional Affairs Component No. 2486

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

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation would allow for a tax credit under the Alaska Net Income Tax Act not to exceed \$10,000 for taxpayers making cash contributions to regional economic development organizations. This legislation does not impact the fiscal operations of the department.

Prepared by: Gene Kane, Acting Director  
 Division: Community & Business Development  
 Approved by: Edgar Blatchford, Commissioner  
 Agency: Department of Community & Economic Development

Phone 907.269.4578  
 Date/Time 3/28/03 5:19 PM  
 Date 3/28/2003

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 194  
 H() Publish Date: 4/2/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Regional Development BRU Revenue Operations  
Organization Tax Credit Component Tax Division  
 Sponsor Representative Anderson  
 Requester H. Community & Regional Affairs Component No. 2476

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

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation allows taxpayers to take a credit against their Alaska corporate income taxes of up to \$10,000 per year for cash contributions to a Regional Development Organization.

This legislation would not likely significantly reduce state revenues, in that any tax credits claimed under this new program would have to fall within the existing statutory \$150,000 limit on corporate income tax credits per year per taxpayer. It is possible, however, that a taxpayer could choose to contribute to this program and therefore reduce its contribution under an existing tax credit program.

The Tax Division does not expect any significant increase in its operational expenses from the new tax credit in this legislation. However, the Division would need to adopt regulations because as drafted, the statute is very broad and ambiguous as to what would constitute a Regional Development Organization under this tax credit program. The regulations would need to answer such questions as what qualifies as a Regional Development Organization, does the purpose of the organization meet the intent of the legislation, and does the organization meet the "economic, political and social interests" as required in this bill? For example, would contributions to an organization dedicated to legalized casino gambling qualify under this legislation?

Prepared by: Mark Graber, Tax Division Phone 269-6620  
 Division Tax Division Date/Time 3/28/03 4:03 PM  
 Approved by: Larry Persily, Deputy Commissioner Date 3/28/2003  
 Agency Department of Revenue

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: CSHB 194(L&C)  
 (H) Publish Date: 4/8/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Regional Development BRU Revenue Operations  
Organization Tax Credit Component Tax Division  
 Sponsor Representative Anderson  
 Requester House Labor and Commerce Component No. 2476

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

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation allows taxpayers to take a credit against their Alaska corporate income taxes of up to \$10,000 per year for cash contributions to a Regional Development Organization.

This legislation would not significantly reduce state revenues, in that any tax credits claimed under this new program would have to fall within the existing statutory \$150,000 limit on corporate income tax credits per year per taxpayer. It is possible, however, that a taxpayer could choose to contribute to this program and therefore reduce its contribution under an existing tax credit program to stay within the limit.

The Tax Division does not expect any significant increase in its operational expenses from the new tax credit in this legislation.

Prepared by: Mark Graber, Tax Division Phone 269-6620  
 Division Tax Division Date/Time 4/3/03 2:46 PM  
 Approved by: Larry Persily, Deputy Commissioner Date 4/3/2003  
 Agency Department of Revenue

*The tax credit in House Bill 194 will be combined with the following tax credits. The credit provided in HB 194 is limited to the first \$10,000 contributed in a year and when combined with the following tax credits may not exceed a total of \$150,000 in credits claimed in a year.*

**Sec. 21.89.070. Insurance tax credit for gifts to colleges.**

(a) A taxpayer is allowed a credit against the tax due under AS 21.09.210 or AS 21.66.110 for cash contributions for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, that are accepted by a nonprofit, public or private, Alaska two-year or four-year college or university accredited by a regional accreditation association or that are accepted by an Alaska university foundation that supports a university or college that could receive a contribution for which a taxpayer may obtain a credit under this section. The amount of the credit is the lesser of

(1) an amount equal to

(A) 50 percent of contributions of not more than \$100,000; and

(B) 100 percent of the next \$100,000 of contributions; or

(2) 50 percent of the taxpayer's tax liability under this title.

(b) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(c) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under more than one provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.071, 21.89.075, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.018, 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000.

**Sec. 21.89.075. Insurance tax credit for gifts to the Alaska Fire Standards Council.**

(a) For cash contributions prequalified under (d) of this section and made for fire services programs to the Alaska Fire Standards Council established under AS 18.70.330, a taxpayer is allowed a credit against the tax due under AS 21.09.210 that is imposed on insurance that includes coverage for losses due to fire.

(b) The amount of the credit allowed to a taxpayer under (a) of this section is the lesser of

(1) an amount equal to

(A) 50 percent of contributions of not more than \$100,000; and

(B) 100 percent of the next \$100,000 of contributions; or

(2) 50 percent of the taxpayer's tax liability under this title.

(c) [See delayed amendment note]. A contribution claimed by a taxpayer as a credit under this section may not

(1) be claimed as a credit under more than one provision of this title;

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.018, 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000; or

(3) be claimed as a credit unless the contribution qualifies for the credit under (d) of this section.

(d) A taxpayer may not claim a contribution as a credit under (a) of this section unless the taxpayer applies to the director for prequalification of the contribution as a tax credit and receives written notice from the director that the contribution prequalifies for the tax credit described under this section. The director shall allow prequalified tax credits for contributions under this section in the order that the director receives applications by taxpayers and may not provide notice of prequalification if the taxpayer's contribution would cause the total contributions made by all taxpayers during the calendar tax year to exceed \$300,000.

**Sec. 43.20.014. Income tax education credit.**

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, by an Alaska university foundation or by a nonprofit, public or private, Alaska two-year or four-year college accredited by a regional accreditation association, a taxpayer is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

(b) [Repealed Sec. 12 ch 71 SLA 1991].

(c) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(d) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title;

(2) also be allowed as a deduction under 26 U.S.C. 170 against the tax imposed by this chapter; and

(3) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, 21.89.075, AS 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.018, 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000.

**Sec. 43.55.019. Oil or gas producer education credit.**

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, by an Alaska university foundation or by a nonprofit, public or private, Alaska two-year or four-year college accredited by a regional accreditation association, a producer of oil or gas is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

**Sec. 43.56.018. Oil or gas property education credit.**

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, by an Alaska university foundation or by a nonprofit, public

or private, Alaska two-year or four-year college accredited by a regional accreditation association, the owner of property taxable under this chapter is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

(b) [Repealed, Sec. 12 ch 71 SLA 1991].

(c) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(d) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, 21.89.075, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.018, 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000.

(e) The department may, by regulation, establish procedures by which a taxpayer may allocate a pro rata share of a credit claimed under this section against monthly tax payments made during the tax year.

**Sec. 43.65.018. Mining business education credit.**

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions, and contributions to endowment, by an Alaska university foundation or by a nonprofit public or private, Alaska two-year or four-year college accredited by a regional accreditation association, a person engaged in the business of mining in the state is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

(b) [Repealed, Sec. 12 ch 71 SLA 1991].

(c) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(d) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, 21.89.075, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, 43.65.019, AS 43.75.018, 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000.

**Sec. 43.75.018. Fisheries business education credit.**

(a) For cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions and contributions to endowment, by an Alaska university foundation or by a nonprofit, public or private, Alaska two-year or four-year college accredited by a regional accreditation association, a person engaged in a fisheries business is allowed as a credit against the tax due under this chapter

- (1) 50 percent of contributions of not more than \$100,000; and
- (2) 100 percent of the next \$100,000 of contributions.

(b) [Repealed, Sec. 12 ch 71 SLA 1991].

(c) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(d) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, 21.89.075, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.019, AS 43.77.045, or 43.77.046, exceed \$150,000.

**Sec. 43.77.045. Fisheries resource landing tax education credit.**

(a) In addition to the credit allowed under AS 43.77.040, for cash contributions accepted for direct instruction, research, and educational support purposes, including library and museum acquisitions and contributions to endowment, by an Alaska university foundation or by a nonprofit, public or private, Alaska two- year or four-year college accredited by a regional accreditation association, a person engaged in a floating fisheries business is allowed as a credit against the tax due under this chapter

(1) 50 percent of contributions of not more than \$100,000; and

(2) 100 percent of the next \$100,000 of contributions.

(b) Each public college and university shall include in its annual operating budget request contributions received and how the contributions were used.

(c) [See delayed amendment note]. A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.071, 21.89.075, AS 43.20.014, 43.20.018, AS 43.55.019, 43.55.021, AS 43.56.018, 43.56.019, AS 43.65.018, 43.65.019, AS 43.75.018, 43.75.019, or AS 43.77.046, exceed \$150,000.

Alaska Department of Revenue  
 Tax Division - Mark Graber 4/2/03

RE: HB 194 Tax Credit for Contributions to ARDORS

Tax Credits claimed under the current \$150,000 limitation:

	FY00	FY01	FY02
<b>Education Credit</b>			
AS 21.89 (Insurance Premiums Tax)	\$ 280,000	\$ 430,000	\$ 300,000
AS 43.20 (Corporate Income Tax)	\$ 1,627,558	\$ 1,163,790	\$ 1,305,267
AS 43.56 (Oil and Gas Property Tax)	\$ -	\$ -	\$ -
AS 43.75 (Fisheries Business Tax)	\$ 14,140	\$ 4,815	\$ 1,794
AS 43.77 (Fisheries Landing Tax)	\$ 312,098	\$ 607,897	\$ 1,555,875
AS 43.65 (Mining License Tax)	\$ 63,751	\$ -	\$ 2,840
<b>Total Education Credits</b>	<b>\$ 2,297,547</b>	<b>\$ 2,206,502</b>	<b>\$ 3,165,776</b>
AK Fire Standards Council Contributions Credit (AS 21.89.075)	\$ -	\$ -	\$ -
<b>Total Credits Claimed Subject to \$150,000 Limit</b>	<b>\$ 2,297,547</b>	<b>\$ 2,206,502</b>	<b>\$ 3,165,776</b>

Note: Contributions to the Alaska Veterans Memorial Fund made between June 18, 2002 and July 1, 2003 will also be subject to the \$150,000 limit.



# Municipality of Anchorage

Office of the Mayor  
*George P. Wuerch, Mayor*



March 28, 2003

Representative Tom Anderson  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Re: HB 194

Dear Representative Anderson,

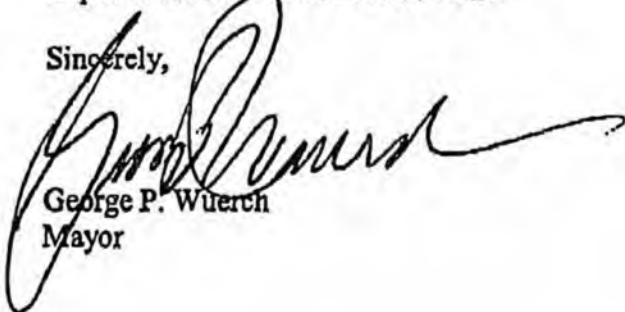
Thank you for introducing HB 194, an act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations.

We all recognize that economic development is vital to the future prosperity of Alaska. Without economic development, we cannot hope to solve the State's fiscal dilemma nor can we ensure a vibrant future for the state. Key to helping realize this vision are the 13 Alaska Regional Development Organizations (ARDORS) throughout the state, funded through a combination of public and private resources. These regional organizations help stimulate economic development and produce healthy, sustainable local economies.

HB 194 will provide additional resources to Alaska's ARDORS by allowing taxpayers to make a contribution and take a tax credit equal to the amount of the contribution, not to exceed \$10,000. This tax credit will fall within the existing \$150,000 tax credit limitation thereby not impacting the State's revenues.

We support the passage of HB 194 and thank you for your commitment to helping to improve the future success of Alaska.

Sincerely,



George P. Wuerch  
Mayor



701 West Eighth Avenue  
Suite 600  
Anchorage, AK 99501

Telephone 907 265 1200  
Fax 907 265 1295

March 24, 2003

Alaska State Legislature  
State Capitol  
Juneau, AK 99801

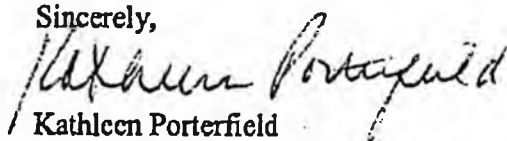
As the chair of Anchorage Economic Development Corporation (AEDC), and a long time business owner, I encourage you to support House Bill 194, an act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations.

Economic development is critical for the future of our state. Alaska has several private, non-profit community development organizations working diligently on economic development initiatives aimed at bringing new investment and jobs to their communities and to the state. Over the years, these organizations have had success in contributing to the economic well being of our state. However, each is limited by its financial support and relies heavily on private contributions for funding.

HB 194 would allow taxpayers to make contributions to regional economic development organizations and take a tax credit equal to the amount of the contribution, not to exceed \$10,000, thus enhancing their ability to support economic development. This bill would not increase the \$150,000 tax credit limit. It would simply provide another option for companies to contribute to the economic future of the state.

AEDC appreciates your support for our global logistics initiatives, and I thank you for your consideration of HB 194.

Sincerely,



Kathleen Porterfield  
Managing Partner





# Fairbanks North Star Borough

Office of the Mayor

809 Pioneer Road

P.O. Box 71267

Fairbanks, Alaska 99707-1267

907/459-1300

Fax 907/459-1102

Email [mayor@co.fairbanks.ak.us](mailto:mayor@co.fairbanks.ak.us)

April 3, 2003

Via Facsimile 907-465-2418

The Honorable Tom Anderson  
State Capitol, Room 432  
Juneau, AK 99801

Re: HB 194

Dear Representative Anderson:

Thank you for introducing HB 194, "An Act creating a tax credit under the Alaska Net Income Tax Act for Contributions to regional development organizations."

We all recognize that economic development is vital to the future prosperity of Alaska and that the 13 ARDORS are a key part of achieving this prosperity. HBR 194 will provide additional resources to Alaska's ARDOR by allowing corporate taxpayers to make a contribution and equal tax credit of \$10,000. This tax credit falls within the existing \$150,000 corporate tax credit limitation and therefore will not negatively impact the State's revenues.

We support the passage of HB 194 and thank you for your commitment to helping Alaska achieve its goal of economic prosperity.

Sincerely,

Rhonda Boyles, Mayor



Resource Conservation & Development Council

March 31, 2003

Representative Tom Anderson  
State Capitol, Room 432  
Juneau, AK 99801  
Fax (907) 465-2418

Re: HB 194

Representative Anderson:

I would like to express our support for House Bill 194 "An Act creating a tax credit under the Alaska Net Income Tax Act for Contributions to regional development organizations".

This bill will encourage economic development in all regions of the state, and will increase our ability to raise funds from the private sector. Regional development organizations benefit both the public and private sector, and this legislation will assist in their ability to leverage sufficient local funds to meet prioritized needs.

If you have any questions regarding regional economic development in the Mat-Su, please do not hesitate to contact me at (907) 373-1062, extension 108.

Sincerely,

A handwritten signature in black ink, appearing to read 'Charles Parker'.

Charles Parker  
Executive Director



# KPEDD



KENAI PENINSULA  
ECONOMIC DEVELOPMENT DISTRICT, INC.

BUSINESS INNOVATION CENTER

Representative Tom Anderson  
Alaska State House of Representatives  
Alaska State Capitol  
Juneau, AK 99801

April 1<sup>st</sup>, 2003

Re: Supporting House Bill 194

Dear Honorable Representative Anderson,

The Kenai Peninsula Borough Economic Development District ("EDD") has been an Alaskan Regional Development Organization ("ARDOR") since 1988. EDD provides economic development services throughout the Kenai Peninsula Borough that are consistent with the goals and objectives of the State of Alaska's regional economic assistance program. We are doing our part to encourage the private sector to create local jobs, leveraging public and private sector investment and assisting underserved communities with strategic planning. Our ultimate goal is to enhance the quality of life of our residents.

Enacting House Bill 194 as amended would be a huge benefit to the EDD and our financial supporters. It also would improve our endeavors leveraging state funds. Even though our corporate donors are generous, HB 194 would not only assist us greatly with possible larger donations but also securing more donations as well. With a state tax credit, donors would certainly be encouraged to contribute to our cause. Although ARDORs are well known for leveraging state funds (averaging 5:1), three out of the last four years EDD has operated in the red. There is certainly a need for such legislation.

It has been a pleasure to work with such a professional staff as yours. If EDD can assist you with HB 194, we certainly will.

Again, EDD greatly appreciates your effort with HB 194, and we undoubtedly want to see it become law.

Sincerely,

KENAI PENINSULA BOROUGH ECONOMIC DEVELOPMENT DISTRICT, Inc.

James S. Carter  
Executive Director



prince william sound  
**ECONOMIC  
 DEVELOPMENT  
 DISTRICT**

Chenege Bay  
 Cordova  
 Tatliak  
 Valdez  
 Whittier

Rep. Tom Anderson  
 Juneau, Alaska 99801

Dear Rep. Anderson:

On behalf of Prince William Sound Economic Development District, I would like to express our support for HB 194. This important legislative bill will provide tax incentives for corporate contributions to the Alaska Regional Development Organizations.

Prince William Sound Economic Development Council became a member of ARDOR in 1991. In 2001, PWSEDC became a federal Economic Development District. Funding for our projects comes from the State of Alaska, corporate contributions, and the Economic Development Administration.

ARDORs across Alaska provide a regional approach to responsible economic development. In Prince William Sound our projects since 1991 are various. Presently, with Valdez Fisheries Development Assoc., funding has been received for a state-of-the-art fish processing plant to serve the region's fishermen 12 months a year. They also received a State Mini Grant to help provide safety training for fish processing machinery, marketing and business planning. We are currently helping the Whittier Museum Association obtain a Mini-grant to open a museum in Whittier this summer. Other projects range from spot shrimp population studies with NOAA and the Valdez Native Tribe to the Chenege Bay Residual oil clean up efforts. Ways to improve tourism in the Sound are being discussed, especially now that all ports in Alaska are National Scenic Byways.

As funding hasn't been increased at the State level for ARDORs, it would be very helpful to offer incentives for contributors with HB 194.

Sincerely,

Sue Cogswell  
 Executive Director

Post-It® Fax Note	7671.	Date	# of pages ▶
To: <i>Tom Anderson</i>		From: <i>Sue Cogswell</i>	
Co/Dept:		Co.	
Phone #		Phone #	
Fax # <i>465-2418</i>		Fax #	

LOWER KUSKOKWIM ECONOMIC DEVELOPMENT COUNCIL  
PO BOX 2021, BETHEL, ALASKA 99559 \* 907 543-5967

March 19, 2003

Rep. Tom Anderson  
Alaska State Legislature  
Juneau, AK 99801

Dear Rep. Anderson:

re: Support of House Bill 194

This letter is written in support of HB 194, which would provide tax credits for contributions by private entities to regional development organizations.

We are in our twelfth year of operations as the regional development body for Bethel and 26 lower Kuskokwim villages in SW Alaska. Funding received through the State of Alaska over the years has been leveraged with other sources to allow us to cover our operations expenses, the cost of doing business continues to grow each year and the outlook for funding from the state is uncertain.

Allowing private bodies to donate up to \$10,000 in cash, in exchange for a tax credit equal to the amount of the contribution, would be very helpful to us in our continuous fundraising efforts, assisting us to gain revenues to cover our increasing operating expenses.

Thank you for your efforts to assist us in promoting regional economic development by increasing the financial support options to our organization.

Very truly,



Carl Berger  
Executive Director



3300 Arctic Boulevard, Suite 203  
Anchorage, Alaska 99503

Phone: (907) 562-7380  
Fax: (907) 562-0438

April 10, 2003

Representative Tom Anderson  
ALASKA STATE LEGISLATURE  
State Capitol, Room 432  
Juneau, AK 99801-1182

Dear Representative Anderson:

The Board of Directors of the Southwest Alaska Municipal Conference supports House Bill 194 and urges its passage by the Alaska State Legislature.

As an Alaska Regional Development Organization (ARDOR) since 1989, SWAMC has long served as a public-private partnership by leveraging limited state and federal funds with local municipal contributions and private-sector memberships. Hopefully, the passage of HB 194 will create additional benefit and incentive for private sector participation and membership in all ARDOR organizations.

It is difficult to gauge the impact of the regional development organization tax credit. During our discussion, the Board speculated that it seems most likely to benefit urban centers and the North Slope. Nonetheless, it provides a worthwhile incentive to the private sector, and we hope it will generate broad-based benefits to all regions of the state.

Thank you for introducing and championing this bill.

Sincerely,

A handwritten signature in cursive script that reads 'Alice A. Ruby'.

Alice Ruby  
President  
Board of Directors

pc: Southwest Alaska Legislative Delegation

**COPPER VALLEY ECONOMIC DEVELOPMENT COUNCIL, INC.**

**P.O. Box 9  
Glennallen, Alaska 99588**

Representative Tom Anderson  
State Capitol  
Juneau, Alaska 99801-1182


RE: HB194

Dear Representative Anderson;

I would like to take a moment to commend you in your efforts to address the needs of the ARDORS throughout the state of Alaska. As you know it is very hard to raise money to keep projects going and the doors open. With a bill such as HB194 that would enhance the fund raising abilities of the ARDORS throughout the state. There is a great need for a way to entice donations and offer an incentive to organizations that might not otherwise donate. I feel HB194 is a step in the right direction. Again I commend you in your efforts. If there is anything our office can do to help please feel free to let us know.

I have contacted Rep. Carl Morgan's office and urged them to help your efforts in getting this legislation passed this year. I will also contact Rep. Harris's office with the same request.

Sincerely,



John Downes  
Executive Director  
Copper Valley Economic Development Council



**ARDOR**

# **NORTHWEST ARCTIC BOROUGH**

**P.O. BOX 1110**

**KOTZEBUE, ALASKA 99752**

**(907) 442-2500 / FAX (907) 442-2930**

March 26, 2003

Representative Tom Anderson  
State Capitol Room 432  
Juneau, Alaska 99801

Dear Representative Anderson:

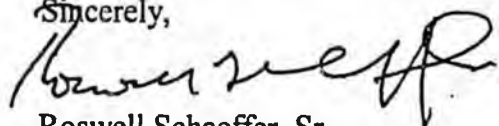
The Northwest Arctic Borough would like to convey full support for HB 194, "An Act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations; and providing for an effective date." We are one of the recognized Alaska Regional Development Organizations (ARDORS) in the state and believe that this legislation would facilitate investment in those organizations from large businesses operating within Alaska.

Our ARDOR is active in creating small business opportunities and otherwise stimulating employment in an area with a 65% non full-time employment rate among working age adults. Over the last two years we have made in excess of 150 small business loans, provided over \$100,000 in small business grants, and purchased and marketed the arts and crafts of over 120 of our residents. Our economic development programs and activity can be reviewed at our website, [www.northwestarcticborough.org](http://www.northwestarcticborough.org).

In rural regions in particular, where a high percentage of the adult population lacks even a high school education, direct assistance from an ARDOR is essential if individuals are going to make a successful transition to the modern cash economy. In most cases, creation of a job or business has the direct outcome of reducing the cost of public assistance in the form of food stamps or temporary aid to families with dependent children. In all cases, jobs and businesses provide people with the opportunity to learn and grow.

The outcome of this legislation should be additional capital for ARDORS, from which all regions of the state would benefit. Thank you for your support.

Sincerely,



Roswell Schaeffer, Sr.,  
Mayor



March 28, 2003

Representative Tom Anderson  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Dear Legislator Anderson:

I encourage you to support House Bill 194, an act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations. As a board member of the Anchorage Economic Development Corporation, I am aware of the positive impact the regional development organizations have.

Economic development is critical for the future of our state. Alaska has several private, non-profit community development organizations working diligently on economic development initiatives aimed at bringing new investment and jobs to their communities and to the state. Over the years, these organizations have had success in contributing to the economic well being of our state. However, each is limited by its financial support and relies heavily on private contributions for funding.

HB 194 would allow taxpayers to make contributions to regional economic development organizations and take a tax credit equal to the amount of the contribution, not to exceed \$10,000, thus enhancing their ability to support economic development. This bill would not increase the \$150,000 tax credit limit. It would simply provide another option for companies to contribute to the economic future of the state.

Thank you for your consideration and your ongoing commitment to the economic success of our State.

Sincerely,

Gene L. O'Hara, Pharm.D.  
Chief Executive  
Providence Alaska Medical Center



**WALSH · SHEPPARD · FLYNN**

GROWTH STRATEGIES  
& COMMUNICATIONS

March 26, 2003

Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Dear State Legislator:

I am writing to ask your support of a bill very important to my city of Anchorage and Alaska as a whole—House Bill 194. This would create a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations.

As a woman who has built and run a business in Anchorage for the past 17 years, I understand very clearly how critical economic development is for the future of my business, this city, and our state. That's why I support and contribute my time to the Anchorage Economic Development Corporation (AEDC).

AEDC is just one of several private, non-profit community development organizations in Alaska working on initiatives to bring new investment and jobs to their communities and to the state—and many business supporters like myself contribute to this important work. Over the years, there have been many successes to celebrate. These successes could be greater, but we are handicapped by limited financial support from the State and therefore need to rely heavily on private contributions for funding.

HB 194 can help. It would allow taxpayers to make contributions to regional economic development organizations and take a tax credit equal to the amount of the contribution, not to exceed \$10,000, thus enhancing their ability to support economic development. This bill would not increase the \$150,000 tax credit limit. It would simply provide another option for companies to contribute to the economic future of the state.

Please support the passage of HB194. It's highly important to all of us.

Sincerely,

Pat Walsh  
President & CEO  
Walsh Sheppard Flynn

1410 Rudakoff Circle  
Anchorage, Alaska  
99508  
T: 907.338.3857  
F: 907.338.3857



March 25, 2003

architecture  
development  
interior design  
planning

The Honorable Tom Anderson  
Alaska State Representative  
State Capitol, Room 432  
Juneau, AK 99801-1182

shaping  
tomorrow  
today

Re: House Bill 194

Dear Representative Anderson:

I encourage you to support House Bill 194, an act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations.

Economic development is critical to the future of our state. Alaska has several private, non-profit community development organizations working diligently on economic development initiatives aimed at bringing new investment and jobs to their communities and to the state. Over the years, these organizations have had success in contributing to the economic well being of our state. However, each is limited by its financial support and relies heavily on private contributions for funding.

House Bill 194 would allow taxpayers to make contributions to regional economic development organizations and take a tax credit equal to the amount of the contribution, not to exceed \$10,000, thus enhancing their ability to support economic development. This bill would not increase the \$150,000 tax credit limit. It simply would provide another option for companies to contribute to the economic future of Alaska.

Thank you for your consideration and your ongoing commitment to the growth and prosperity of our state.

Sincerely,

Mark E. Pfeffer  
President/CEO

425 G Street  
Suite 800  
Anchorage  
Alaska 99501  
907.274-7443 T  
907.274.7407 F  
www.kpb-alaska.com



**ANCHORAGE SAND and GRAVEL CO., INC.**  
1040 O'Malley Road • Anchorage, Alaska 99515 • Phone (907) 349-3333 • FAX (907) 344-2844

April 1, 2003

Representative Tom Anderson  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Dear Representative Anderson:

Upon reviewing HB 194, Anchorage Sand and Gravel Co., Inc., and our 175 employees, we encourage you to support House Bill 194, an act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations.

Economic development is critical for the future of our state by providing a more diverse economy. Alaska has several private, non-profit community development organizations working diligently on economic development initiatives aimed at bringing new investment and jobs to their communities and to the state. Over the years, these organizations have had success in contributing to the economic well being of our state. However, each is limited by its financial support and relies heavily on private contributions for funding.

HB 194 will have a positive impact on Economic Development. It will allow regional development organizations to more easily reach out to corporate taxpayers in their districts by suggesting that those corporate taxpayers contribute \$10,000 of their \$150,000 limit to local economic development efforts.

Thank you for your consideration and your ongoing commitment to the economic success of our State.

Sincerely,

Dale G. Morman  
President

# ASCG

INCORPORATED

March 21, 2003

Honorable Tom Anderson  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

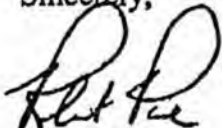
Representative Anderson:

I encourage you to support House Bill 194. This bill would allow taxpayers to make contributions to regional economic development organizations, like the Anchorage Economic Development Corporation (AEDC), and take a tax credit equal to the amount of the contribution, not to exceed \$10,000. This bill would not increase the current \$150,000 tax credit limit; it would simply provide another option for companies to contribute to the economic future of Alaska.

Economic development is critical for the future of our state. Alaska has several private, non-profit community development organizations working diligently on economic initiatives aimed at bringing new investment and jobs to their communities and to the state. Over the years, these organizations have had very real success in contributing to the economic well being of Alaska. However, each is limited by its respective financial support and each relies heavily on private contributions for funding.

This legislation is also supportive of the Governor's efforts to strengthen Alaska's economy through increased economic development of Alaska's resource base. HB 194 could contribute significantly to the ability of economic development organizations throughout Alaska to assist with Alaska's economic development. Thank you for your consideration of this bill and for your ongoing commitment to the economic success of our State.

Sincerely,



Robert Poe  
Sr. Vice President  
Alaska Operations



Joe Griffith  
General Manager

March 24, 2003

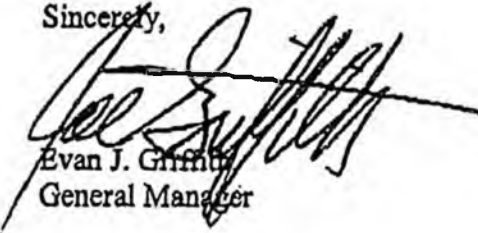
*Via fax: (907) 465-2418*

Representative Tom Anderson  
State Capitol, Room 432  
Juneau, AK 99801-1182

Dear Representative Anderson:

I am writing to express my support for HB 194. As an electric utility, Chugach has a long history of working with the Anchorage Economic Development Corporation and others striving to grow in our economy and create jobs. These organizations have important missions that help build strong communities. The legislation seems like a reasonable way to broaden the base of support for the economic development so important to the future of Alaska.

Sincerely,



Evan J. Griffith  
General Manager

Chugach Electric Association, Inc.

5601 Minnesota Drive, P.O. Box 196300, Anchorage, Alaska 99519-6300 • (907) 563-7494 Fax (907) 562-0027 • (800) 478-7494  
www.chugachelectric.com • info@chugachelectric.com

**HB**

**195**

# ALASKA STATE LEGISLATURE

## House of Representatives

### COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN  
LABOR & COMMERCE COMMITTEE, MEMBER  
LEGISLATIVE COUNCIL, MEMBER  
SPECIAL COMMITTEE ON OIL & GAS, MEMBER  
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: <http://www.akrepublicans.org/rokeberg/>



INTERIM:  
716 WEST 4TH AVENUE SUITE 300  
ANCHORAGE, AK 99501  
PHONE (907) 269-0117  
FAX (907) 269-0119

SESSION:  
ALASKA STATE CAPITOL  
JUNEAU, AK 99801-1182  
PHONE (907) 465-4968  
FAX (907) 465-2040

## Representative Norman Rokeberg

e-mail: [Representative\\_Norman\\_Rokeberg@legis.state.ak.us](mailto:Representative_Norman_Rokeberg@legis.state.ak.us)

### SECTIONAL ANALYSIS FOR CSHB 195 (L&C) am

BY: Representative Norman Rokeberg

**TITLE:** An Act relating to coverage offered under an individual policy of health care insurance; and providing for an effective date.

- Section 1:** Allows for individual health care insurance coverage without state mandated benefits. Requires that a signature be obtained during the application process acknowledging that these mandates will not be covered.
- Section 2:** Amends AS 21.55.130 as required by the federal Trade Adjustment Assistance Act of 2002 (TAA), to prohibit a state plan issued to a qualified TAA eligible individual from imposing a preexisting condition exclusion.
- Section 3:** Amends the ACHIA statutes to conform to the TAA program requirement that a plan cannot exceed 150 percent of the standard risk premium rates.
- Section 4:** Amends the ACHIA statutes to allow for TAA eligible individuals to participate in ACHIA.
- Section 5:** Amends the ACHIA statutes to exempt TAA eligible individuals from restrictions on eligibility for participation in ACHIA, in order to conform to TAA requirements. Moves certain existing requirements for eligibility previously found in the exclusion statute to the eligibility section. See Section 9.
- Section 6:** Amends the ACHIA statutes to require that the ACHIA to notify the director that a TAA eligible individual is enrolled in ACHIA in order to allow the director to certify that a TAA eligible individual has qualified health coverage as required under the TAA.
- Section 7:** Amends the definition of "resident" to provide for TAA eligible individuals.
- Section 8:** Defines "qualified TAA eligible individual" and "TAA eligible individual."
- Section 9:** Repeals AS 21.55.140(b). The provisions were moved to AS 21.55.300 (b) (see section 5). They were moved to clarify that these are eligibility requirements, not exclusion provisions.
- Section 10:** This Act takes effect on July 1, 2003.

# ALASKA STATE LEGISLATURE

## House of Representatives

### COMMITTEE ASSIGNMENTS

RULES COMMITTEE, CHAIRMAN  
LABOR & COMMERCE COMMITTEE, MEMBER  
LEGISLATIVE COUNCIL, MEMBER  
SPECIAL COMMITTEE ON OIL & GAS, MEMBER  
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: <http://www.akirepublicans.org/rokeberg>



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FAX (907) 269-0119

SESSION  
ALASKA STATE CAPITOL  
JUNEAU, AK 99801-1182  
PHONE (907) 465-4968  
FAX (907) 465-2040

## Representative Norman Rokeberg

e-mail: [Representative\\_Norman\\_Rokeberg@legis.state.ak.us](mailto:Representative_Norman_Rokeberg@legis.state.ak.us)

### SPONSOR STATEMENT FOR CSHB 195 (L&C) am

BY: Representative Norman Rokeberg

**TITLE: An Act relating to coverage offered under an individual policy of health care insurance; and providing for an effective date.**

Alaska and the nation are in the midst of a health care financial crisis. Alaskans are being asked to contribute a greater percentage of their disposable income to the increasing costs of health care insurance. It is the legislature's responsibility to help contain these costs. This legislation is intended to lower the cost of insurance for individuals and families who are not part of a group health plan. In most group plans, employers typically contribute to the employee's cost of health insurance. Individuals seeking coverage do not have this benefit.

HB 195 allows a health insurance company to offer a new type of health insurance policy. This legislation gives insurance companies the authority to offer an individual health insurance plan that does not provide coverage for all of the insurance mandates currently required in state statute. An amendment was added on the House Floor requiring that a signature be obtained during the application process acknowledging that these mandates will not be covered.

Alaska law requires insurance companies to provide for specific types of coverage; these are called "mandates." For example, some of the mandates required are coverage for services of midwives, substance abuse treatment, education for those with diabetes, and screening for prostate and cervical cancer. This legislation allows a health insurance company to offer an individual plan without covering these mandates, thus giving Alaskans a more affordable health insurance option.

A couple of changes were made to HB 195 in the House Labor & Commerce Committee. The first change was to delete several federal mandates that were initially included in the list of mandates that an insurance company could choose not to provide. These federal mandates would have to be provided regardless of state statute. Another change was the deletion of the premium tax exemption for these new types of individual health care policies.

In addition to the changes mentioned above, sections 2-9 were added at the request of the Division of Insurance. These sections relate to the Federal Trade Adjustment Assistance Reform Act of 2002 (TAA), which provides tax credits of 65% of the amount paid by an eligible individual for qualified health insurance coverage. Alaskans qualify for TAA assistance if they have lost their jobs to foreign imports, e.g. salmon and oil. These sections amend the Alaska Comprehensive Health Insurance Association (ACHIA) statutes to make Alaskans eligible under TAA, eligible for coverage under ACHIA. This will allow these Alaskans to get 65% of their premiums paid by the U.S. Department of Treasury.

HB 195 is a small step towards creating more affordable health care in Alaska. I encourage your support of this legislation.

SPONSOR STATEMENT

ED 4: 5/9/03

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: \_\_\_\_\_  
Bill Version: CSHB 195 (L&C) AM  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title Individual Health Care Insurance BRU Insurance (116)  
Component Insurance Operations  
Sponsor Representative Rokeberg  
Requester Senate Labor & Commerce Component No. 354

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

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Section 1 of the bill allows insurers to offer an individual health insurance policy that excludes state mandated health insurance benefits.

Trade Adjustment Assistance Reform Act of 2002 (TAA) provides tax credits of 65% of the amount paid by eligible individuals for the qualified health insurance coverage. Eligible individuals are those individuals that lose their jobs due to the effects of international trade. One of the qualified health insurance options available to Alaskan's under TAA is the Alaska Comprehensive Health Insurance Association (ACHIA). Sections 2-9 of the bill make the necessary amendments to the ACHIA statutes (AS 21.55) to allow Alaskan's eligible under TAA to enroll for coverage under ACHIA and receive 65% of their premiums paid directly by the U.S. Department of Treasury. There is no fiscal impact on the operations of the division.

Prepared by: Linda S. Hall, Director  
Division: Insurance  
Approved by: Edgar Blatchford, Commissioner  
Agency: Department Community & Economic Development

Phone 907-269-7900  
Date/Time 5/12/03 11:35 AM  
Date 5/12/2003

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 195(L&C)  
 (H) Publish Date: 4/14/2003

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
 Title Individual Health Care Insurance BRU Insurance  
 Component Insurance Operations  
 Sponsor Representative Rokeberg  
 Requester House Labor & Commerce Component No. 354

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

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2002) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Due to the adoption of a committee substitute by the House Labor & Commerce Committee, which no longer requires the involvement of the Commissioner of Administration, this bill will now have a zero fiscal impact.

Prepared by: Representative Tom Anderson Phone \_\_\_\_\_  
 Division Chair, House Labor & Commerce Committee Date/Time 4/14/03 11:45 AM  
 Approved by: Representative Tom Anderson Date 4/14/2003  
 Agency House Labor & Commerce Committee

# ALASKA STATE LEGISLATURE

## House of Representatives

### COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN  
LABOR & COMMERCE COMMITTEE, MEMBER  
LEGISLATIVE COUNCIL, MEMBER  
SPECIAL COMMITTEE ON OIL & GAS, MEMBER  
LEGISLATIVE ETHICS COMMITTEE, MEMBER

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## Representative Norman Rokeberg

e-mail: [Representative\\_Norman\\_Rokeberg@legis.state.ak.us](mailto:Representative_Norman_Rokeberg@legis.state.ak.us)

### MEMORANDUM

To: Senate Labor & Commerce Committee

From: Representative Norman Rokeberg *NR/HRW*

Date: May 9, 2003

Re: Health Care Mandates

---

The health mandates are located in AS 21.42:

- 42.353: Acupuncture coverage (offer only, does not mandate coverage)
- 42.355: Coverage for services of midwives
- 42.363: Eye care (if plan provides for eye care, can use an optometrist)
- 42.365: Substance abuse treatment coverage
- 42.375: Mammography coverage
- 42.380: Phenylketonuria
- 42.385: Dental, Vision, Health coverage (offer only, does not mandate coverage)
- 42.390: Coverage for diabetes treatment
- 42.392: Requirements relating to dental (if coverage is provided)
- 42.395: Prostate and cervical cancer screening

#### Federal Mandates

- 42.345: Coverage of newly born children
- 42.347: Postpartum hospital stay coverage
- 42.400: Reconstructive surgery following mastectomies

**BILL BACKUP**

Re: Quick Questions

**Subject: Re: Quick Questions**

**Date:** Wed, 09 Apr 2003 11:32:20 -0800

**From:** Katie Campbell <katie\_campbell@dced.state.ak.us>

**To:** Heather Nobrega <Heather\_Nobrega@legis.state.ak.us>

**CC:** Linda S Hall <linda\_hall@dced.state.ak.us>, Sally A Saddler <sally\_saddler@dced.state.ak.us>

Hi Heather,

According to the 2001 Health Insurance Survey the number of individual health policies in force at the end of 2001 was 5,843. The number of individuals covered under those policies (i.e. includes dependents) was 14,946. The premium collected during 2001 was about \$24 million.

Katie

Heather Nobrega wrote:

> Katie,

>

> Rep. Rokeberg would like to know the current number of individual health  
> insurance policies currently issued in the state for today's meeting?

>

> Thanks Katie.

> Heather

The Honorable «Governor»  
Governor of «State»  
«Address»  
«Address2»  
«City\_State\_ZIP»

Dear Governor «Governor\_Last\_Name»:

The Trade Act of 2002, Public Law No. 107-210 ("the Act"), includes important provisions to assist certain workers who lose their jobs due to the effects of international trade in paying for qualified health insurance. The Act also provides such assistance to certain beneficiaries of the Pension Benefit Guaranty Corporation. The primary mechanism for assistance is a federal tax credit equal to 65 percent of the amount paid by eligible individuals for such health insurance. An additional interim mechanism to assist in paying for qualified health insurance is through National Emergency Grants (NEGs). We estimate these provisions could help over 500,000 Americans each year – many of whom may reside in your state – continue or obtain health insurance. To make the most of this opportunity, however, we need your assistance.

Under the law, the States play an important role in providing health insurance coverage options and assisting individuals to enroll. The Department of the Treasury administers the federal tax credit under the Act. NEG assistance, which is administered by the Department of Labor, is available without any cost to the State. Certain health insurance coverage options, such as continuation health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (commonly known as COBRA coverage), are automatically available to all eligible individuals. Other options specified in the law are available only if the State elects them and certain conditions are met. Enclosed is more detailed guidance on how States may elect coverage options for eligible individuals under the Trade Act. Please note that funds are available to States through additional NEGs administered by the Department of Labor for start-up and administrative costs relating to the tax credit program. The Department of Health and Human Services will assist States in interpreting this guidance with respect to qualified health insurance.

We strongly encourage your state to take advantage of the benefits of these programs. We also encourage your state to elect options to increase the opportunities for eligible individuals to have health insurance.

We look forward to working with you. If you or your staff have any questions, please contact Ruben J. King-Shaw Jr., Senior Advisor to the Secretary of the Treasury for Health Insurance Initiatives, at 202-622-2336.

Sincerely,

John W. Snow  
Secretary of the Treasury

Elaine L. Chao  
Secretary of Labor

Tommy G. Thompson  
Secretary of Health  
and Human Services

## **Guidance for Elections of Qualified Health Insurance Under the Trade Act of 2002**

### **I. Purpose and Background**

On August 6, 2002, President Bush signed into law the Trade Act of 2002 ("the Act"), Public Law 107-210.<sup>1</sup> Title II of the Act contains provisions that provide assistance to certain individuals participating in the Trade Adjustment Assistance program (TAA) or receiving a payment from the Pension Benefit Guaranty Corporation (PBGC), to enable them to purchase health insurance. (A copy of Title II of the Act is available at [http://www.doleta.gov/tradeact/2002act\\_index.asp](http://www.doleta.gov/tradeact/2002act_index.asp)). The primary mechanism for such assistance is a federal tax credit that is equal to 65 percent of the amount paid by the eligible individual for coverage for the individual and qualifying family members under qualified health insurance. The end of the year tax credit became available on December 1, 2002 for individuals who claim the credit on their subsequent income tax return. By August 1, 2003, the credit will also be available on a monthly basis as the premium is paid. The government's share (65 percent of the premium amount paid by the individual) will be combined with the eligible individual's payment of the 35 percent and paid on a monthly basis, in general to the qualified health plan in which the individual has enrolled. The Department of the Treasury (Treasury) is responsible for implementing this advance credit under its Health Coverage Tax Credit program (HCTC).

The Act also authorizes two types of National Emergency Grants (NEGs) for which States may apply under the Workforce Investment Act of 1998. One type of NEG is available to assist eligible TAA and PBGC recipients, on an interim basis, in paying up to 65 percent of the premiums for qualified health insurance (equivalent to the Federal share under the tax credit) until the advance tax credit mechanism becomes available in August. The second type of NEG is available to provide resources to assist the States with start-up and administrative costs relating to the tax credit. The Department of Labor (DOL) is responsible for administering both types of NEGs (see Section V below).

The Administration estimates that as many as 260,000 people nationwide may be able to claim this credit next year. When combined with qualifying dependents, this means more than a half million people could benefit from the credit. (Attachment A provides estimates of TAA and PBGC recipients eligible in each State).

The States play a critical role in the administration of this assistance. Particularly important to the success of this assistance are the States' efforts toward ensuring the availability of coverage for which the assistance can be used, making eligible individuals aware of the program, and increasing the options available to them. The purpose of this guidance is to inform the States of the program and to explain their role in making health insurance options available.

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<sup>1</sup> The law is the Trade Act of 2002. Division A of the Trade Act contains its own title: The Trade Adjustment Assistance Reform Act of 2002. Title II of the Act (Division A) contains the health coverage assistance provisions.

## II. Who Is Eligible

There are two basic categories of individuals who may be eligible for the tax credit and NEG assistance under the Act: (1) certain Trade Adjustment Assistance (TAA) recipients as described below, and (2) people who have attained age 55 but who are not on Medicare or other specified coverage who receive pension payments from the Pension Benefit Guaranty Corporation (PBGC).

### A. TAA Recipients:

An eligible TAA recipient is defined as any individual who is receiving a trade readjustment allowance under the Trade Act of 1974 at any time during a month, or individuals who would be eligible for such an allowance except that they have not exhausted their regular unemployment insurance benefits. In addition, individuals receiving benefits under the alternative trade adjustment assistance program, established under section 246 of the Trade Act of 1974 (which commences on August 1, 2003) also will be eligible for assistance. All TAA recipients remain eligible for the tax credit for one month after the end of the month that their eligibility for TAA status ceases.

### B. PBGC Pension Recipients:

A person who is receiving a benefit payment from PBGC and who has attained age 55 (but who is not eligible for Medicare) on the first of the month may be eligible for the tax credit.

### C. Other factors:

An eligible individual is not entitled to the tax credit for any month if, on the first day of the month, the individual is covered by "other specified coverage".

The tax credit can be used to purchase qualified health insurance that also covers an eligible individual's spouse or dependent (i.e., anyone who qualifies as a dependent under the Internal Revenue Code), provided the spouse or dependent does not have "other specified coverage".

"Other specified coverage" includes:

- insurance coverage through the spouse's employer, and the spouse's employer contributes at least 50 percent of the cost of coverage for the spouse, the eligible individual and dependents (or the spouse receives coverage in lieu of an employer's cash or other benefits under a cafeteria plan);
- coverage under Medicare Part A or enrolled under Part B;
- a State's Medicaid program;
- a State's SCHIP program;
- a plan in the Federal Employees Health Benefit program; or
- a Defense Department health plan.

An individual who is imprisoned cannot be an eligible individual.

Individuals with questions about their TAA status or tax credit eligibility should contact their State workforce agency. PBGC beneficiaries with questions about their eligibility for the tax credit will be able to contact a toll free telephone number that we expect to establish in the near future.

### **III. Qualified Health Insurance**

#### *A. Types of Plans*

The law identifies ten categories of health insurance that may be "qualified" as coverage for purposes of the tax credit and NEG assistance. The coverage must be for comprehensive health coverage.<sup>2</sup>

The ten categories are:

1. COBRA: any continuation coverage that the eligible individual has under the federal Consolidated Omnibus Budget and Reconciliation Act of 1985.
2. State COBRA or continuation coverage: any State-based continuation coverage in a group plan that is obtained under a State law that requires such coverage.
3. High risk pool: as defined in the Public Health Service Act section 2744(c)(2), coverage that is offered through a State high risk pool that is otherwise open to "HIPAA eligibles" without imposing a preexisting condition exclusion, and is consistent with the NAIC model act entitled "Health Plan for Uninsurables" that was in effect in August, 1996. (Attachment B is a list of the State high risk pools that are qualified based on the information currently available to the Department of Health and Human Services.<sup>3</sup>)
4. State employees' health plan: coverage under a State employees' health insurance program.
5. A State-based health insurance program that is comparable to the health insurance program offered to State employees.
6. A State arrangement: a State can enter into an arrangement with an issuer of health insurance coverage (including individual insurance) to offer coverage to eligible individuals. It can also enter into an arrangement with an administrator or an employer to offer coverage to the individual, or with a group health plan (including a multiemployer plan).
7. Purchasing pool: a State arrangement for coverage that is provided through a private sector purchasing pool.
8. Other State plans: coverage that is provided through a State operated health plan that does not receive any federal financial assistance.

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<sup>2</sup> Examples of types of plans that are not eligible for the credit or NEG assistance are limited coverage plans such as dental or vision care; fixed dollar indemnity coverage; specific disease insurance; workers' compensation; health coverage under an automobile insurance policy; liability insurance; or coverage for on-site medical clinics.

<sup>3</sup> The Act also provides a grant program that provides up to \$1 million to a State to establish a qualified high risk pool in FY 2003 or 2004, and a separate two year grant program that will provide a grant up to 50 percent of a qualified high risk pool's operating losses, up to a national total of \$40 million each year. The seed grant announcement can be found at [www.cms.hhs.gov/riskpool](http://www.cms.hhs.gov/riskpool). The grant announcement for the operating losses will be forthcoming.

9. Spouse's coverage: coverage under a group health plan that is available through the employment of the eligible individual's spouse, if the spouse's employer contributes less than 50 percent of the total cost of coverage for the spouse, the eligible recipient, and any dependents. (There is a distinction for Alternative TAA recipients—those aged 50 or older who are receiving income support. If these people are eligible for spousal coverage where the employer pays 50 percent or more, they are considered to have other specified coverage, even if they are not actually covered by the spouse's plan.)
10. Individual health insurance: coverage under individual health insurance if the eligible individual was covered under the insurance during the entire 30 day period that ended on the date that such individual became separated from the employment that qualifies the person as a TAA or PBGC recipient.

#### *B. State Election*

Coverage options 1, 9 and 10 above are automatically considered to meet the definition of "qualified health insurance" for all eligible individuals, without further state action. Options 2 through 8 only meet the definition if the State elects to have one or more of these options considered to be qualified health insurance. For individuals who have had at least three months of creditable coverage<sup>4</sup> prior to seeking enrollment in any of these Options 2 through 8, the insurance will only be considered qualified health insurance if it meets the following four criteria:

1. Guaranteed issue: Qualifying individuals must be guaranteed enrollment regardless of their medical status and must be permitted to remain enrolled so long as they pay the premium.
2. No pre-existing condition restrictions: No pre-existing condition restriction may be imposed on qualifying individuals.
3. Nondiscriminatory premium: The premium charged for a qualifying individual may not be greater than the premium for a similarly situated person who is not receiving the credit.
4. Benefits are the same (or substantially the same) under coverage provided to similarly situated individuals who are not qualifying individuals.

Generally, periods of coverage prior to a break in coverage of 63 days or more do not count in determining whether an individual has three months of creditable coverage. However, individuals who do not have at least three months of creditable coverage may still use the tax

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<sup>4</sup> "Creditable coverage" is defined in section 9801(c) of the Internal Revenue Code, and includes most kinds of health coverage. (The identical definition also appears in section 2701(c) of the Public Health Service Act and section 701(c) of the Employee Retirement Income Security Act (ERISA). Periods of creditable coverage prior to a "significant break in coverage" do not count in determining whether an individual has three months of creditable coverage for purposes of the tax credit or NEG assistance. This also means that there can be a break in coverage between the loss of health plan coverage and applying for a new plan elected by the State. A significant break in coverage under federal law is a break in coverage of at least 63 consecutive days (days in a waiting period in which an individual has no other coverage are not considered creditable coverage nor are they taken into account when determining if there is a significant break in coverage). However, the length of time that passes before a significant break in coverage is reached may be longer under State law that applies to HMOs and health insurance carriers.

credit or NEG assistance in connection with enrollment in health insurance that the State has elected to have treated as qualified.

States may find that the four requirements can be met most easily by selecting as the State option(s) the coverage arrangements that now qualify as the State's alternative mechanism under section 2744 of the Public Health Service Act. These are typically either a high risk pool (#3) or individual coverage (#6).

The Department of Health and Human Services will assist States in interpreting this guidance with respect to qualified health insurance. Questions should be directed to:

Stephen Finan  
Office of the Assistant Secretary for  
Planning and Evaluation  
Dept. of Health and Human Services  
Room 442E  
200 Independence Ave, SW  
Washington, DC 20201  
Telephone: 202.690.7387  
E-mail: Stephen.Finan@hhs.gov

#### IV. State Elections

##### A. *Elections Letter*

Options 1, 9 and 10 are automatically considered to meet the definition of "qualified health insurance" for all eligible individuals without any further State action. However, under the law, the remaining options are available only if the State elects to provide one or more of them.

To facilitate implementation of the law, we request that the Governor, or the Governor's representative, send a letter indicating which options (2-8, above) the State is electing to make available to eligible recipients under the tax credit. (Note: DOL expects the coverage options for the interim assistance NEG to be identified in the application for the grant and will coordinate the review of these options with HHS). Please send the letter to:

John Hoff, Deputy Assistant Secretary  
Office of the Assistant Secretary for  
Planning and Evaluation  
Dept. of Health and Human Services  
Room 424E  
200 Independence Ave, SW  
Washington, DC 20201

## *B. Information Requested*

The letter should:

1. Identify the State official responsible for implementing this decision, including address and telephone number.
2. State the option(s) chosen by the State (of options 2-8).
3. Provide the name, policy form number or other unique identifier for each qualifying plan under each option. Also, provide a name and contact number for the plan administrator or insurance carrier official who can provide additional information, if necessary.
4. Certify that the four requirements (III. B. above) are met for each plan under each option.
5. Certify that the benefits made available to tax credit recipients are the same or substantially the same as those in the plans who do not receive the tax credit.

## *C. Public Information*

To assist eligible individuals, the State should take steps to publicize the options available to eligible individuals in their State. Such steps can include the listing of qualified plans on a website, providing lists at State TAA offices, unemployment offices, and other locations where eligible recipients may obtain information.

## **V. National Emergency Grant Assistance**

As noted above, the Trade Adjustment Assistance Reform Act of 2002 authorizes two new NEG mechanisms relating to the provision of health insurance coverage assistance that are to be administered by the Department of Labor. The Department of Labor and the Department of Health and Human Services will work closely together to facilitate the provision of technical assistance to the States regarding these NEGs.

*A. System Development Grants.* These grants are intended to help States cover certain start-up and administrative costs. Guidance for applying for these grant funds have been issued in Training and Employment Guidance Letter (TEGL) 10-02. These grants may be used to establish and implement systems for:

- eligibility verification;
- certification of State-based health insurance coverage;
- notification to eligible individuals of available qualified health insurance options;
- providing assistance to individuals in enrolling in qualified health insurance;
- processing of certificates confirming eligibility of individuals for the advance payment of the tax credit;
- developing and installing necessary data management systems; and
- other expenses, as determined appropriate by the Secretary of Labor, including the start-up and ongoing administration of State-elected health-insurance coverage options.

*B. Health Insurance Interim Assistance Grants.* These grants are available to States to assist eligible TAA and PBGC recipients in paying up to 65 percent of the monthly premiums for

qualified health insurance coverage until the advance payment mechanism for the tax credit becomes available. The grants may also be used to provide additional support services to eligible individuals. Draft guidance was published in the Federal Register on December 4, 2002 (67 FR 72222-72234), and guidance for applying for Health Insurance Interim Assistance Grants will soon be issued through another TEGL .

*C. Contact.* For further assistance regarding these NEGs please contact:

Shirley M. Smith  
Office of National Response  
U.S. Department of Labor  
Employment and Training Administration  
Room N5420  
200 Constitution Ave., NW  
Washington DC 20210  
202-693-3501

**Attachment A: Estimated Eligibles by State 2002 Level  
Under The Trade Act of 2002**

	Estimated Population <sup>5</sup>		
	Total	TAA	PBGC
Alabama	8,100	5,500	2,600
Alaska	200	100	100
Arizona	2,500	1,000	1,500
Arkansas	3,000	1,700	1,300
California	14,300	7,100	7,200
Colorado	1,800	500	1,300
Connecticut	2,600	1,100	1,500
Delaware	200	0	200
District of Columbia	100	0	100
Florida	13,000	1,700	11,300
Georgia	10,700	4,700	6,000
Hawaii	600	0	600
Idaho	1,100	800	300
Illinois	11,900	4,800	7,100
Indiana	9,700	5,100	4,600
Iowa	1,900	600	1,300
Kansas	3,600	2,600	1,000
Kentucky	4,200	2,900	1,300
Louisiana	1,400	400	1,000
Maine	1,600	1,300	300
Maryland	1,200	100	1,100
Massachusetts	3,900	2,000	1,900
Michigan	7,500	4,000	3,500
Minnesota	4,900	2,800	2,100
Mississippi	3,100	2,300	800
Missouri	6,500	1,300	5,200
Montana	100	0	100
Nebraska	500	200	300
Nevada	900	200	700
New Hampshire	1,300	800	500
New Jersey	5,900	1,200	4,700
New Mexico	600	300	300
New York	11,900	4,200	7,700
North Carolina	14,600	9,900	4,700

<sup>5</sup> These estimates are intended to provide states with rough guidance as to the size of the eligible population at 2002 levels. States listed as having zero TAA eligibles may have a few participants. Actual enrollment will depend on many factors, including the size of the population currently eligible for TAA and PBGC benefits, the number and type of health plans available to the eligible population, and take-up rates. Moreover, in some states the number of workers eligible for Trade Adjustment Assistance varies significantly from year to year.

	Estimated Population		
	Total	TAA	PBGC
North Dakota	100	0	100
Ohio	19,600	5,200	14,400
Oklahoma	3,400	2,400	1,000
Oregon	5,100	4,500	600
Pennsylvania	20,000	8,400	11,600
Rhode Island	500	200	300
South Carolina	5,200	3,400	1,800
South Dakota	200	100	100
Tennessee	9,000	4,700	4,300
Texas	15,500	10,700	4,800
Utah	600	300	300
Vermont	500	300	200
Virginia	6,700	3,800	2,900
Washington	11,600	10,300	1,300
West Virginia	1,700	700	1000
Wisconsin	5,300	3,300	2,00
Wyoming	200	100	100

Source: TAA data are based on information from the Employment and Training Administration, U.S. Department of Labor. PBGC estimates are based on data provided by the Pension Benefit Guaranty Corporation.

## Attachment B: Currently "Qualified" State High Risk Pools<sup>6</sup>

Alabama  
Alaska  
Arkansas  
Colorado  
Connecticut  
Idaho  
Illinois  
Indiana  
Iowa  
Idaho  
Kansas  
Kentucky  
Louisiana  
Minnesota  
Mississippi  
Montana  
Nebraska  
New Hampshire  
North Dakota  
Oklahoma  
South Carolina  
Texas  
Wisconsin  
Wyoming

Note: To be "qualified," a high risk pool (as defined in the Public Health Service Act section 2744(c)(2)) must be open to "HIPAA eligibles" without imposing a preexisting condition exclusion and be consistent in its premium rates and benefits with the NAIC model act entitled "Health Plan for Uninsurables" that was in effect in August, 1996.

---

<sup>6</sup> These States' risk pools meet the criteria set forth in section 2744(c)(2) of the Public Health Services Act. In addition, to be qualified health insurance under the credit or NEG assistance, the risk pools must meet the four conditions in III.B. above.

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5-18-02

# ALASKAALMANAC

*Got health insurance? You're lucky*



**116,000** – Estimated number of Alaskans without health coverage

**19** – Percentage of Alaskans without health coverage

**3** – Number of states that have a higher percentage of uninsured residents than Alaska does

**\$9,076** – Amount a typical 45-year-old Alaskan will pay each year for an individual health policy covering his family with a \$1,000 deductible

**184** – Percentage increase in Alaska medical care

costs since 1983

**3:1** – Ratio by which the increase in Alaska medical costs has exceeded overall inflation since 1983

**\$297,500** – Minimum amount state health insurance will pay toward the \$300,000 of medical bills recently incurred by a state legislator (assuming no dispute over the price or necessity of the treatment)

**Unknown** – Number of Alaskans who will be able to afford health coverage if Alaska creates an unsubsidized insurance-buying pool for small businesses and non-profit groups

Source: Daily News files; state division of retirement and benefits.

# In Alaska, health insurance depends on job



## Falling Through the Cracks

ALASKA'S HEALTH INSURANCE CRISIS

■ **HEALTH INSURANCE:** This story and others in the Life section look at the health insurance problems facing Alaskans. The series continues Tuesdays in Life & Health through May.

■ **WITHOUT:** Small-business employees, self-employed, young can seldom afford it.

By ANN POTEPA  
Anchorage Daily News

5/7/02

Studies show that the 116,000 Alaskans without health insurance aren't always whom you expect.

They're working people. They're self-employed. They're twenty-somethings who assume youthful

good health will see them through. Often they work for small businesses that cannot afford to offer benefits.

They're your neighbors.

People like Steven Small. He has repaired cars in Anchorage for almost 20 years and has never had health insurance, even since he opened his own shop.

Doctors diagnosed liver cancer last fall. Small has been paying his medical bills out of pocket and with

the help of donations. With a family to support and employees who need work, Small can't stop. After his chemotherapy infusion last week, he worked an eight-hour-plus day.

Rep. Sharon Cissna, D-Anchorage, has met many families like the Smalls.

"It's not like they made all the wrong choices in life," she said. "It's not like they weren't hard workers."

See Back Page, INSURANCE

# INSURANCE: 116,000 are not covered

Continued from A-1

Cissna has opened her office and invited the public in to talk about solutions to rising health care and insurance. She's not the only one paying attention. Local and state agencies have spent the past few years studying the problem and publishing data. They have discovered a disparity in who gets health insurance and who doesn't, and that difference often centers on one thing: where Alaskans work.

"Some folks get a Cadillac (plan)," Cissna said. "Some folks get bare bones."

And some folks get nothing at all. Well over 100,000 Alaskans, 19 percent of the state, lack health insurance. About 26,000 live in Anchorage.

Nancy Cornwell, the state's health policy analyst, said this total reflects Alaska's population in the late 1990s, but more recent data suggest that number is rising.

The U.S. Census Bureau and the Henry J. Kaiser Family Foundation, an independent agency tracking national health issues, have ranked all 50 states according to uninsured residents. In both studies, Alaska falls in the bottom five states.

New Mexico ranks lowest, with almost 24 percent uninsured; Rhode Island has the best performance, with only about 6 percent uninsured. The United States as a whole is almost in the middle, with 14 percent of Americans lacking health insurance.

Cornwell said some people wonder whether Alaska really has 116,000 residents without health insurance. They question whether Alaska Natives might have responded that they have no insurance, even though they receive health care through tribal programs like Indian Health Services, she said.

That issue aside, the deciding factor for whether Alaskans have benefits often comes down to whom they work for. The smaller the company, the less

likely its workers are to have health insurance, studies show.

Fewer than half of Anchorage companies offer health insurance to full-time employees, according to data collected by the Anchorage Access to Health Care Coalition. Companies with more than 250 employees are most likely to offer it. But the local marketplace is filled with companies of fewer than 10 employees. Only 35 percent of those offer health insurance to full-time workers.

Compare that to the nation, and Alaska falls short. Coast to coast, almost 60 percent of small businesses offer employees health insurance, according to the coalition.

Expensive premiums are the main reason employers give for not offering the benefit. Premiums escalate for many reasons, including rising health care costs.

Studies show Alaskans pay more for medical services than people in the Lower 48.

Last year, the state Department of Labor concluded that health care costs for Alaskans are increasing at a faster rate than any other cost-of-living category, including housing, food and transportation. The state Division of Medical Assistance studied the 300 most common dental, medical and surgical procedures performed nationwide. It reported that health care costs Alaskans 25 percent more than the average for all states.

As premiums climb, businesses make choices. They shop for a cheaper insurance provider, cut positions or ask employees to pick up more of the tab.

Jan MacClarence faced this choice just a few months ago. The executive director for Abused Women's Aid in Crisis learned that her health insurance provider would no longer serve the nonprofit organization in 2002. The best option she found more than doubled her premiums, jumping, per em-

## How states rank

Percent of state population without health insurance, 1999-2000

Rank	State	Percent not insured
1	Rhode Island	6%
2	Pennsylvania	8%
2	New Hampshire	8%
2	Minnesota	8%
2	Iowa	8%
2	Connecticut	8%
	U.S. average	14%

## Least Insured

46	California	19%
47	Alaska	19%
48	Louisiana	21%
49	Texas	22%
50	New Mexico	24%

Source: Henry J. Kaiser Family Foundation

RON ENGSTROM / Anchorage Daily News

ployee, from about \$300 to \$765 a month.

AWAIC pays all its employees' full premiums, but continuing to do so has meant sacrifices. MacClarence has had to leave positions unfilled to cover the expense.

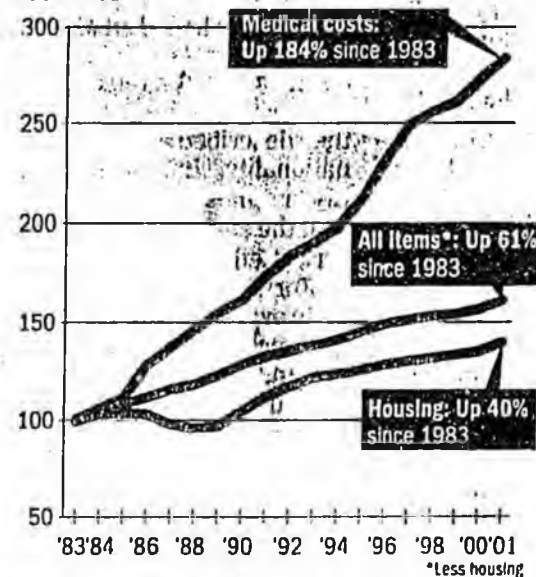
For the self-employed, the story is even more grim. They buy their own policies and pay all costs. Premera Blue Cross writes about 90 percent of all individual health insurance policies in Alaska, said Bob Lohr, director of the Division of Insurance. The average annual premium for a 35-year-old Alaskan with a \$1,000 deductible is \$2,484, Lohr said. The family rate is \$6,828.

And numbers climb with age. A 45-year-old will pay \$3,768 in premiums, \$9,096 if the whole family is covered, Lohr said.

People who cannot afford that kind of coverage often go without health care.

## Medical costs have soared

Anchorage Consumer Price Index for selected costs, 1983-2001



Source: U.S. Bureau of Labor Statistics, Alaska Department of Labor

RON ENGSTROM / Anchorage Daily News

"I think there's a perception that not having health insurance is not a big deal," said Catherine Schumacher, chairwoman for the steering committee of the Anchorage Access to Health Care Coalition. "That people can just go to the emergency room and get the care they need."

The coalition's data show otherwise. Almost half of uninsured Anchorage residents couldn't see a doctor during the past year because of cost. Many have chronic conditions like high blood pressure but aren't able to pay for medications needed to manage them, Schumacher said. And forget about preventive checkups.

"They don't get their mammo grams, their pap smears," she said. "They don't get their cholesterol checked."

So when they do end up in an emergency room, their conditions are often more serious — and more expensive.

Reporter Ann Polempa can be reached at apolempa@adn.com or 257-4581.



# MainePoint

May 2003

A Publication of the Maine Public Policy Institute

## Summary

Maine's enthusiasm for regularly adding health insurance mandates has driven up the cost of health insurance and driven consumers out of the market. Our neighboring states have shown greater restraint and have more citizens able to buy health care coverage. To promote access to health insurance, Maine should impose a moratorium on new mandates. More to the point, Maine should allow insurers to offer new policies free of most, if not all, current mandates. Other states have done so.

Maine text word count: 746

## Mandates Cause Uninsurance

JOHN R. LA PLANTE

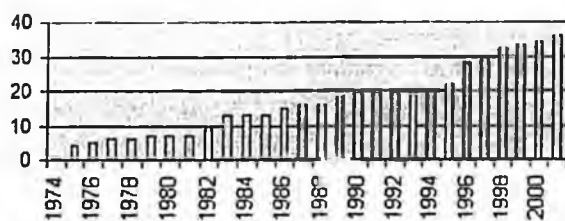
As state legislators wrestle with health care issues, one place to begin is the extensive system of mandates that contribute to the rising cost of insurance.

According to a December 2001, national survey conducted by the BlueCross BlueShield Association, the fifty states plus the District of Columbia have combined to impose over 1,500 mandates on insurance policies.<sup>1</sup> Roughly half of those mandates require companies to pay for specific treatments, such as hearing aids or the removal of port wine stains.

Some procedures are widely mandated, such as mammography screening: 45 states require insurance companies to pay for it. (Four other states require insurers to offer this coverage as an option.) Not every benefit is widely applied—only 17 states require payment for contraceptives, for example.

A second group of mandates requires insurers to pay for services rendered by various professions, such as pastoral counselors, naturopaths, and social workers. A third group of mandates requires insurance plans to cover certain populations, such as dependent students and children who do not live with the insured parent.

Maine's Insurance Mandates  
1974-2001



*"Few states have been as eager as Maine to impose mandates on insurance companies and their customers."*

### MULTIPLYING MANDATES

Few states have been as eager as Maine to impose mandates on insurance companies and their customers. In fact, only ten states impose more mandates than Maine. In New England, Maine is second only to Connecticut.

By the end of the 1970s, Maine had 7 mandates, while New Hampshire had four, and Vermont only three. This pattern continued for the next two decades. As of the end of 2001, there were 36 mandates on the books in Maine, 24 in New Hampshire, and 19 in Vermont. Not only has Maine consistently had more mandates than either New Hampshire or Vermont, it has also, more often than not, been the first to impose new ones.

Once the content of insurance policies is dictated by the political process, it is hard for legislators to resist the temptation to pile on. Special interests, whether they be patient advocacy groups demanding that a particular disorder be covered, or occupational groups demanding that insurers pay for their services, seek their own welfare in calls for increased regulation. On average, every four years has brought another five mandates on what insurers may sell, and what consumers may buy.

<sup>1</sup> Information on the number of mandates is taken from *State Legislative Health Care and Insurance Issues: 2001 Survey of Plans* is available online at <http://bcbshealthissues.com/relatives/19364.pdf>. Data for this chart is taken not from the main body of the survey, but from an appendix titled *State Mandated Benefits and Providers*, which can be found at <http://bcbshealthissues.com/state/appendix/XYZAABB.pdf>





## SO WHAT'S THE PROBLEM?

Clearly, then, Mainers—or at least Maine's health care activists and legislators—like mandates. And why not? Isn't it better to get something for nothing?

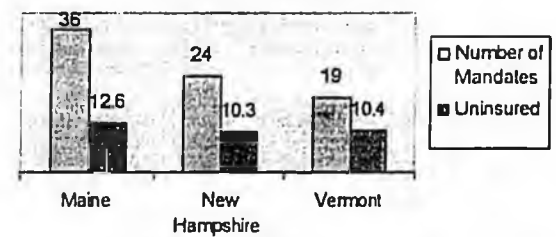
The problem, of course, is that you can't get something for nothing. As reported by Dr. Gail A. Jensen of Wayne State University, and Dr. Michael A. Morrissey, of the University of Alabama, mandates have costs. Across the nation, insurance premiums are anywhere from 4 to 13 percent higher as a result of state mandated benefits.<sup>2</sup> When the General Accounting Office reviewed studies on mandated benefits, it found costs ranging from 5.4 percent in Iowa to 22 percent in Maryland.<sup>3</sup>

People who are employed by small businesses are most vulnerable to rising premiums. These firms, which are least able to afford increased expenses, can end up dropping insurance coverage altogether. Jensen and Morrissey reported that of the companies that do not offer health insurance, nearly 20 percent cite mandates as the reason.<sup>4</sup>

The effects of mandate-driven premium increases can be seen by comparing the rate of uninsurance in Maine, New Hampshire, and Vermont. In Maine, where mandates are more common, insurance coverage is less widespread. According to a report by the Kaiser Family Foundation, more of the population in Maine is uninsured (12.6 percent) than is the case for New Hampshire (10.3 percent) or Vermont (10.4 percent).<sup>5</sup>

*"Across the nation, insurance premiums are anywhere from 4 to 13 percent higher as a result of state mandated benefits"*

Mandates and rates of uninsurance



Source: BlueCross Blue Shield Association, Kaiser Family Foundation

## WHAT TO DO

To promote access to health insurance, Maine should stop piling on the mandates. At the least, it should place a moratorium on new mandates, as North Carolina has done. This will give small businesses a chance to adjust to recent premium increases. Any new mandates imposed after a moratorium, say of five years, should have sunset provisions to expire after five or seven years, so that the value of the mandate must be revisited.

More significantly, the state should allow insurers to offer new policies that are free of most, if not all of the current mandates. Arkansas and North Dakota have enacted such laws in recent years.

If legislators want to decrease the number of uninsured and make Maine a better place to do live, work, and do business, they can start by halting and even reversing the use of mandates.

*John R. La Plante is a political economist and editorial consultant in St. Paul, MN and is an editor and researcher specializing in public policy and law. Mr. LaPlante was formerly a Managing Editor at the Heartland Institute in Chicago and is an adjunct scholar with the Maine Public Policy Institute.*

<sup>2</sup> Gail A. Jensen and Michael A. Morrissey, Mandated Benefit Laws and Employer-Sponsored Health Insurance, p. 13, January 1999 Health Insurance Association of America. Not available online.

<sup>3</sup> Health Insurance Regulation: Varying State Requirements Affect the Cost of Insurance, Report GAO/HEHS-96-161 General Accounting Office, 1996., p. 12. Available on the Internet at [www.gao.gov/archive/1996/he96161.pdf](http://www.gao.gov/archive/1996/he96161.pdf)

<sup>4</sup> Jensen and Morrissey, p. 15

<sup>5</sup> Health Insurance Coverage in America, The Kaiser Commission on Medicaid and the Uninsured, January 2003, table 13., Available on the Internet at <http://www.kff.org/content/2003/4070/4070.pdf>

### Attention Editors and Producers

MainePoint commentaries are provided for reporting in newspapers and other publications. Electronic text is available at [www.maineinstitute.com](http://www.maineinstitute.com).

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Fax, 207-862-2433

[scott@maineinstitute.com](mailto:scott@maineinstitute.com)



**Subject:** HB 10 & HB 196 Comments for Rep. Rokeberg  
**Date:** Mon, 5 May 2003 09:48:24 -0800  
**From:** Janet Waldron <janet\_waldron@bradycompany.com>  
**To:** 'Janet Seitz' <Janet\_Seitz@legis.state.ak.us>

Representative Rokeberg,

As a corporate insurance broker with over 10 years of experience in the insurance industry and the human resources profession, I'd like to comment on your proposed legislation HB 195 and HB 10.

HB 10: I've run into some road blocks gathering information about how specific carriers would approach this new pooling concept. I can comment that the ones I've spoken to don't believe it will solve a lot, but they aren't violently opposed to the bill either.

Most brokers that I talk to are split on this bill. Some believe that it undermines the small group reform work that has been accomplished. Others are wary that it will cause cherry-picking and allow healthy groups to band together and they argue that it is too difficult to regulate against that. Then there are folks like me who don't think it will damage the market (I have confidence that the carriers, with the oversight of the Division of Insurance, can effectively and responsibly market products with effective controls), and if it helps a handful of little businesses then it was worth it.

I have confidence that the Division of Insurance would effectively oversee the market and react accordingly.

HB 195: Mandates increase costs; Bottom line. Anytime that government requires that certain enhancements be added to a product, it increases the cost. While some of the mandates in Alaska are very good, they do increase the cost. Chiropractic care coverage is an example. (I'm surprised that the Chiro. doctors aren't sending you hate mail) My statistics and figures are all corporate based as I manage medium and large sized health plans, so I can't comment on the individual pricing although I would guess that this particular mandate would make a difference in the overall premium. It certainly impacts our large corporate plans. I can provide corporate statistics, but they are probably irrelevant as this is an individual bill aimed at the uninsured and not applicable. I keep coming back to -- some insurance is better than none...

I can give you some feedback as someone who has been in the insurance industry & market for a while, but is also an HR professional and struggling with the costs like every other employer out there. I spoke with Katie Campbell in detail on this bill and I'm comfortable with it. I am the incoming president of one of the largest professional organizations in Alaska representing nearly all of the medium and large businesses in the state with over 300 active members. As Human Resources professionals, we are responsible for managing our company benefit plans and are very concerned about the financial burdens being placed on our budgets and yet as business managers are huge advocates of free enterprise. As long as your bills don't hurt the market and encourage free market exchange, you have our support. I have begun the process of obtaining an official position paper from our national level and our local level.

If any of the legislators have questions on benefit trends, average costs, plan designs, etc or can provide me with specific requests of statistical support, I would be happy to gather it for you. I sent you a couple pages today of a recent survey conducted on the benefit plans offered by many of the non-profit agencies in our state. This survey was conducted by the Foraker group and is the most comprehensive that I've seen conducted in the Alaska market. I'll continue to listen into the hearings and if I hear of arguments, try to get you statistical support whether pro or con.

Thanks for allowing us to contribute to the process.

Best wishes,

*Janet*

Janet L. Waldron, PHR  
Employee Benefits Consultant  
President – Elect Anchorage Society for Human Resource Management



Jack C. McRae  
Senior Vice President

May 5, 2003

Representative Norman Rokeberg  
State Capitol, Room 214  
Juneau, AK 99801-1182

Dear Representative Rokeberg:

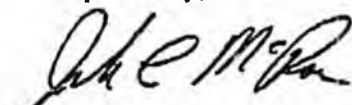
I am writing in reference to **CSHB 195(L&C)** and the benefits that passing this legislation will have to the residents of Alaska.

The bill allows health insurers to offer a product in the individual health insurance market that is not subject to ten statutorily required benefit mandates. As we discussed, Blue Cross Blue Shield of Alaska does not currently have quantifiable data on the precise cost of the close to a dozen mandates that are in Alaska's statutes. However, in the past we had our actuarial department assess the cost of Washington State health insurance mandates and found that the Washington State mandates collectively constitute nearly twenty percent of the premium that our customers pay.

Whatever the ultimate cost of the Alaska mandates, I am convinced **CSHB 195(L&C)** will send a clear message that consumers need relief from rapidly escalating health insurance premiums. That message may be ultimately more important than the dollars and cents attached to the mandates themselves. In a world where the cost of health care is rising at the alarming rate of the mid-teens, any legislation that will put downward pressure on these increases will be of benefit to the many constituents you represent and to all Alaskans.

If you have any questions or would like to discuss this issue further, you can reach me on my direct line at the number above.

Respectfully,



Jack C. McRae

April 11, 2003

Jack C. McRae  
Senior Vice President

Representative Norman Rokeberg  
House of Representatives  
State Capitol, Room 24  
Juneau, AK 99801-1182

Re: Alaska House Bill 195

Dear Representative Rokeberg:

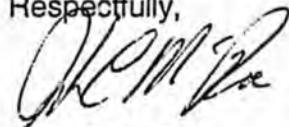
Blue Cross Blue Shield of Alaska is pleased to support the proposed Committee Substitute for House Bill 195 (version "Q"). We believe this bill represents an important step forward for Alaska in addressing increasing costs of health care coverage and the problem of the uninsured.

HB 195 gives health insurers the flexibility of offering a benefit plan to individuals that is not subject to state mandated health insurance benefits. We strongly believe that Alaska consumers should have choice in the insurance products available for purchase. The product allowed under HB 195 will be welcomed by many individual consumers looking for an alternate to plans currently available in the marketplace.

We are also pleased to see that version "Q" of HB 195 recognizes important new options available through the Federal Trade Act of 2002. The Trade Act contains important provisions for workers whose health coverage could be affected because of unemployment related to foreign trade agreements. Given that the Alaska Comprehensive Health Association is already a federally qualified HIPAA high-risk pool, the ACHIA amendments made by HB 195 are a fiscally responsible way to leverage federal dollars to assist in covering workers eligible under the Trade Act.

Blue Cross Blue Shield of Alaska congratulates Representative Rokeberg for introducing a bill that will benefit Alaskans seeking new alternatives for health insurance. We urge the committee to advance the bill to the next step in the legislative process.

Respectfully,



Jack C. McRae

Cc: Jerry Reinwand  
Jeff Davis



# STATE OF ALASKA

Department of Community and  
Economic Development

## DIVISION OF INSURANCE 64<sup>th</sup> ANNUAL REPORT

Calendar Year 2001 ♦ Fiscal Year 2002



**IX**

**Statistical  
& Financial  
Data**



**2001 ALASKA HOSPITAL AND  
MEDICAL SERVICE CORPORATIONS  
(\$000)**

**PREMIUMS WRITTEN**

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL
	Individual	Group					
PREMERA/ BLUE CROSS	15,353	183,269	1,597	0	0	48,735	248,754
ALASKA VISION	0	0	0	1,074	0	0	1,074

**PREMIUMS EARNED**

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL
	Individual	Group					
PREMERA/ BLUE CROSS	15,269	184,247	1,573	0	0	48,966	250,055
ALASKA VISION	0	0	0	1,121	0	0	1,121

**CLAIMS INCURRED**

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL	NUMBER OF SUBSCRIBERS*
	Individual	Group						
PREMERA/ BLUE CROSS	12,406	153,369	1,087	0	0	45,524	212,386	104,763
ALASKA VISION	0	0	0	919	0	0	919	19,187

\*Numbers not rounded to the nearest thousand.