

MINUTES
SENATE AND HOUSE INTERIM COMMITTEES ON INSURANCE AND COMMERCE
State Capitol, Room 171
Little Rock, Arkansas
Wednesday, July 19, 2017

The Senate and House Interim Committees on Insurance and Commerce met jointly at 10:00 a.m. Wednesday, July 19, 2017, at the State Capitol, Room 171, in Little Rock, Arkansas.

Committee members present: Senators Jason Rapert, Chairman; Cecile Bledsoe, Joyce Elliott, Larry Teague, Stephanie Flowers; Representatives Robin Lundstrum, Vice Chair; Reginald Murdock, Mark Lowery, Chris Richey, Joe Jett, Deborah Ferguson, Grant Hodges, Laurie Rushing, Ken Henderson, James Sorvillo, DeAnn Vaught, Marcus Richmond, John Maddox, and Les Warren.

Also attending: Senators Missy Irvin, Lance Eads, Bryan King, and Trent Garner; Representatives Steve Hollowell, Danny Watson, David Fielding, Jon Eubanks, Mark McElroy, Carol Dalby, Fred Allen, Charles Blake, Charlotte Douglas, Trevor Drown, Kim Hammer, Jimmy Gazaway, and Vivian Flowers.

Senator Rapert called the meeting to order.

OPENING REMARKS

Representative Ferguson noted she attended the recent National Conference of Insurance Legislators (NCOIL) meeting in Chicago, and the conference addressed a variety of topics such as introduction to insurance, health, life, property and casualty, international insurance, and financial services issues. NCOIL also writes model legislation, and Senator Rapert has brought some of it back to Arkansas, which has been enacted. She encouraged members to attend. She mentioned Senator Rapert will become President of NCOIL in November at the Phoenix meeting.

Senator Rapert echoed Representative Ferguson's comments and noted the Griffith Foundation, an insurance education institute, would be a good source of information for our committees. In a short amount of time, this would be a good way to get an overview of the Arkansas issues.

CONSIDERATION TO APPROVE RESPECTIVE MINUTES

[Exhibits C-1, C-2]

Senator Bledsoe made a motion to approve the September 26, 2016, Senate Insurance and Commerce Committee meeting minutes, and with a second by Senator Elliott, the motion carried.

Senator Bledsoe made a motion to approve the September 27, 2016, Senate Insurance and Commerce Committee meeting minutes, and with a second by Senator Elliott, the motion carried.

CONSIDERATION OF A MOTION TO AUTHORIZE CHAIRMAN TO APPROVE SPECIAL EXPENSES INCURRED BY THE SENATE INTERIM COMMITTEE ON INSURANCE AND COMMERCE [Exhibit D]

Senator Bledsoe made a motion to authorize the Committee chairman to approve special expenses incurred by the Senate Interim Committee on Insurance and Commerce, and with a second by Senator Elliott, the motion carried.

ARKANSAS ASSOCIATION OF INSURANCE COMPANIES

[HANDOUT 1]

Mr. Courtney Crouch, Vice President, Arkansas Association of Insurance Companies (AAIC), and President of Selected Funeral and Life Insurance Company, noted he was one of the AAIC founding members in 1984, and at that time it was composed of life insurance companies. Most of the domestic industry is still composed of life insurance.

- There are 472 life insurers licensed to do business in Arkansas, and 22 are domiciled in the state.
- Most of the 22 life insurance companies in Arkansas are niche-based companies, and a large number sell small, face amount policies through funeral homes.
- The life insurance industry plays into the big picture of the economy and the AAIC is focused on dealing with Arkansas companies and their role in the insurance industry both in the state and on the national level.

Mr. Bill Booker, President, Citizens Fidelity Insurance Company and Roller Funeral Homes, and AAIC Officer, noted:

- The insurance industry is a regulated environment by Commissioner Kerr, of the Arkansas Insurance Department (AID).
- AAIC has a long relationship with the AID; its code requires diversification for AAIC investments, and because of adherence to this code, Arkansas has weathered many financial storms.
- Our limitations include stock market investments of up to 10% of total assets. Life insurance companies' current investments in Arkansas' economy is approximately \$33 billion. Although out-of-state companies have invested a lot in Arkansas agriculture, AAIC investors invest back into Arkansas companies.
- AAIC's biggest challenge is to remain competitive while delivering an effective product as efficiently as it can.

Senator Rapert noted a societal shift is occurring, and the dynamics are changing within the millennial generation. They are not doing retirement / long-term planning and not purchasing life insurance. In doing business, if it cannot be done on the cell phone, they are not interested; they do not want a face-to-face meeting. Phone applications (apps) are raising awareness about life insurance, and he challenged the AAIC to look into health apps for the millennial generation.

Senator Rapert said legislators from around the country involved in NCOIL are very in-tune with the state-based insurance regulatory system and are in lock-step with the National Association of Insurance Commissioners (NAIC) in maintaining that. At the American Insurance Association level, the Insurance and Commerce Committees, and the Arkansas Legislature are all working in Arkansas and with other legislators around the nation to ensure the status quo to protect state-based regulatory insurance models.

STATE EMPLOYEES' AND PUBLIC SCHOOL EMPLOYEES' INSURANCE PLANS AND ISSUES

Mr. Chris Howlett, Director, Employee Benefits Division (EBD), Arkansas Department of Finance and Administration, noted:

- Brief update of activities over the past year include: medical management contract procured and implemented fall 2016.
- Spring of 2017, work began on a Request for Proposal for current claims administration contracts; and choices now are QualChoice and Arkansas Blue Cross under Health Advantage.
- EBD is working and planning design options for plan year 2019. Included are a health risk assessment and a wellness visit to qualify for a discount.
- Fiscal update relative to fiscal year-end, June 30th for plan year 2016 by groups:

State Employees: FY2016 net assets, \$65.37 million, and net assets available, \$33.97 million
 FY2017 net assets, \$85.5 million, and net assets available, \$35.4 million

Public School Employees: FY2016 net assets, \$90 million, and net assets available, \$43.1 million
 FY2017 net assets, \$126.8 million, and net assets available, \$56.9 million

Senator Irvin asked about the value of the online Health Risk Assessment (HRA) and noted that she is bothered by this. There needs to be a direct email to each person with their log-in / password and instruction for how to complete it. State employees are complaining, and now the covered spouses are being required to participate. She noted that benefit cards do not have the needed information to process pharmacy purchases.

Mr. Howlett noted the wellness program was not at a point to be saving money, it is still costing the program money. The HRA will be moved to the AR Benefits platform by November 2017 and EBD will be able to pull its data. However, because it is self-reported, “All are 5’8”, 120 pounds, and no one smokes.” Mr. Howlett sees this as a serious concern. The plan spends \$115 million between a wellness discount of \$75 dollars a month; and a claim averages \$250 dollars depending on the patient. This averages from \$83 million to \$86 million just to provide a check box to say employees have met wellness.

Representative Ferguson explained October 31st is the deadline for the premium-discount wellness visit. (Mr. Howlett said November 1, 2017 – October 31, 2018, wellness visits will qualify for the 2019 plan year.) She agreed with Senator Irvin that the HRA is a concern. She learned at NCOIL that health insurance plans said, for the first time, that pharmacy costs are their biggest category of expense, and she asked if this is also the case with Arkansas insurance plans. She requested the percentages of costs for pharmacy, hospitals and doctors.

Mr. Howlett will get that information to the committee, and he noted pharmacy costs for FY2016 did have an increase over FY2015 of 3.5%.

Senator Teague, asked, 1) What caused the increase in assets? 2) What is a “fat tax”; and is Arkansas using something similar?

Mr. Howlett responded the fiscal year ends (June 30th), mid plan-year, so there are some complexities and some carry over, but there were not a lot of high dollar claims.

Mr. Howlett said some systems / plans have a threshold [or target] and when these are not met, a fee is assessed. These plans do not have these targets and fees.

Representative Flowers asked if incentives are offered to state employees for fitness memberships, nutrition services, and trainers. Mr. Howlett noted there is nothing in place, as persons could have memberships but not actually participate.

REPORTS RECEIVED

Senator Rapert requested the record show that the following reports are received:

- 2016 Workers’ Compensation Insurance Market in Arkansas, and
- 2017 Use and Impact of Credit in Personal Lines Insurance Premiums

Mr. Allen Kerr, Commissioner, AID, addressed an earlier question by Senator Elliott regarding cashing in cash value life policies, and he noted there are rarely good ideas about cashing in a cash value life policy. If there are companies doing it on a regular basis, AID needs to know about this.

He also explained a “captive company” is when a company creates its own insurance company, it must have reserves and meet all criteria for setting up an insurance company. Captive refers to one customer, one policy holder which is the owner of the company. The middle man is cut out, and the company manages its own risk causing them to be more careful managing risk, because they must payout their own claims. This is a good tool and is a good idea for Arkansas. There are currently four in the state, and applications for many more now that Arkansas’ rules have been

changed. The over 100 captive companies operating in Arkansas were domesticated in other states where the rules and taxes were more favorable.

In addressing the Workers' Compensation Report, Commissioner Kerr noted the premium has been coming down steadily for several consecutive years. It is down for admitted companies 8%, and not-admitted companies, 5%. Surrounding states do not have state income tax, but Arkansas has a lower worker's compensation rate. So for businesses, low worker's compensation costs make Arkansas competitive.

Regarding the Credit Report, Commissioner Kerr said auto and homeowner insurers will use credit to manage their risk as part of their rating process, which is this report, and the numbers have not changed much in the last decade. Approximately 80% of policy holders had a flat or discounted rate because of it. Insurance companies are moving away from putting emphasis on credit, and instead, using other items for underwriting purposes. This is the last issue of the Credit Report being brought to the Insurance and Commerce Committees, but AID is willing to provide any information as needed.

OTHER BUSINESS

Senator Rapert will work with Representatives Collins and Lundstrum about a September or October joint meeting and possibly bring the Griffith Foundation in for an overview presentation. He said to be aware that Washington is working with the Affordable Care Act, so begin to think about the possibility of the governor calling a special session regarding how Arkansas will respond.

With no further business, the meeting adjourned at 11:20 a.m.