

MINUTES
SENATE AND HOUSE INTERIM COMMITTEES ON INSURANCE AND COMMERCE
Room 171, State Capitol, Little Rock, Arkansas
Wednesday, July 1, 2015

The Senate and House Interim Committees on Insurance and Commerce met Wednesday, July 1, 2015, at 9:30 a.m. in Room 171, State Capitol, Little Rock, Arkansas.

Insurance and Commerce members present: Senators Jason Rapert, Chair; Terry Rice, Vice Chair; Jonathan Dismang, Jane English, Stephanie Flowers, Jeremy Hutchinson, and Larry Teague. Representatives Charlie Collins, Chair; Reginald Murdock, Vice Chair; John Vines, Greg Leding, Fredrick Love, Bruce Cozart, Scott Baltz, Mark Lowery, Joe Jett, Bill Gossage, John Baine, Micah Neal, Joe Farrer, Deborah Ferguson and James Sorvillo.

Other legislators present: Senators David Sanders, Eddie Joe Williams, Jon Woods, and Bill Sample. Representatives Kelley Linck, Mark McElroy, Betty Overbey, James Ratliff, Laurie Rushing, Sue Scott, Jeff Wardlaw, David Meeks, Stephen Meeks, Mary Bentley, Kenneth Ferguson, Charlotte Douglas, Gary Deffenbaugh, Douglas House, Jim Dotson, Jana Della Rosa and Nate Bell.

Senator Rapert called the meeting to order.

ISSUES OF IMPORTANCE TO ARKANSAS INSURANCE COMPANIES

Mr. Courtney Crouch, Vice President, Arkansas Association of Insurance Companies and President of Selected Funeral and Life Insurance Company was recognized and gave a brief overview of [Handout #1] titled "U.S. Life Insurers by Year – Number of Companies and U.S. Life Insurance Companies by State Domicile," providing a profile of the insurance industry from the life insurance perspective.

Mr. Crouch mentioned the National Conference of Insurance Legislators (NCOIL) meeting to be in Little Rock in 2016.

Mr. Marc Oudin, President of Agents Mutual, was recognized and gave a brief overview of [Handout #2] titled "Report on Property and Casualty Insurance Companies". He stated there are two types of insurance companies: stock insurance companies, owned by stock holders, and Mutual insurance companies, owned by policy holders.

Senator Rapert asked if there are any insurance industry challenges the legislature should address.

Mr. Crouch replied many of the insurance concerns were addressed during the regular session of the 90th General Assembly.

UPDATE ON KING V. BURWELL AND IMPACT IT WILL OR WILL NOT HAVE ON ARKANSAS HEALTHCARE GOING FORWARD

Mr. Allen Kerr, Commissioner, Arkansas Insurance Department (AID), was recognized and stated the *King v. Burwell* decision presents the Health Reform Legislative Task Force a large set of options for consideration. The decision will allow the state to continue the fight for the maximum amount of flexibility from the federal government. He stated Act 1500 of 2013 created the Arkansas Health Insurance Marketplace (AHIM) so the state has the option of seeking the 1332 Waiver. AHIM's creation and today's transfer insures the state's insurance department remains the chief industry regulator.

Ms. Cheryl Smith Gardner, Executive Director, AHIM, was recognized and stated in the *King v. Burwell* decision, she hoped for a ruling in favor of King. She stated the next front for fighting what has become a federal takeover of the American healthcare system is going to be with the states, and the mechanism in place for that is a 1332 Waiver and Medicaid reform.

Ms. Gardner stated no state has to do a 1332 waiver or a state-based exchange. If you don't have a state-based exchange, then you would have to have a federal exchange. A state exchange is not required for a 1332 waiver, but a 1332 waiver use requires a state-based exchange.

Meeting recessed at 10:00 a.m. for Purple Heart Ceremony and reconvened at 10:39 a.m.

Representative Charlie Collins, Co-Chair, Health Reform Legislative Task Force, was recognized and stated the *King v. Burwell* decision does not disrupt the state's plans. The Stephen Group continues to collect data to formulate a recommendation for the Task Force consideration. He stated since many of the subjects and topics discussed in the Task Force are of interest to Insurance and Commerce Committee members, they are encouraged to attend.

UPDATE ON ALL-PAYER CLAIMS DATABASE AND 1332 WAIVER

Senator David Sanders was recognized and stated the 90th General Assembly passed the Arkansas Health Transparency Initiative Act which will allow individuals the ability to make both qualitative and quantitative decisions about their healthcare. He stated a key component is a newly-created advisory committee that will work with AID. He stated for the Enrollment and Eligibility Framework (EEF) system to function properly, there must be correct oversight and organizational structure in place.

He stated there is an Interim Study on the 1332 Waiver. AHIM is prepared to address options for the 1332 Waiver and the potential flexibility for the state.

DISCUSSION OF ARKANSAS MUNICIPAL BOND RATINGS – IMPACT ON INTEREST COSTS FOR ARKANSAS TAXPAYERS

Mr. Aaron Burkes, President, Arkansas Development Finance Authority (ADFA) [Exhibit F1]

Mr. Burkes was recognized and stated ADFA is a state agency formed in 1985 and operated essentially as the investment bank for the state. ADFA has two main focus areas: economic development and housing programs. The agency issued approximately \$685 million worth of debt in 2014 on behalf of state agencies, non-profits, and other entities. They do not issue general obligation bonds for the Highway and Transportation Department. General obligation bonds are bonds where the state acts a cosigner or guarantor and they pledge to use any taxing authority that they have or ability to borrow funds to pay back the bonds that are issued. A revenue bond is something that typically the revenue that is generated by the finance project is paying back the bond holders.

He said the state has approximately \$5 billion in debt and approximately \$1.49 billion is general obligation debt. About \$900 million of the general obligation debt are highway bonds. Amendment 82 bonds issued for Big River Steel is \$125 million, \$220 million for natural resources, \$2.1 billion in revenue bonds, and most of these are college and university bonds, and about \$1.1 billion in component unit debt.

Senator Rapert asked Mr. Burkes to provide a hard copy of this information to the committee.

Mr. Burkes stated there are essentially three rating agencies; Moody's, Standard and Poor's, (S&P) and Fitch (which does not rate all of the states, but they do a number of them). There are approximately 80,000 different issuers of municipal bonds through the country and the scale goes from AAA (the highest rating), down to C or D, depending on the rating agency. Currently, Arkansas is Aa1 with Moody's which is described as high quality and very low credit risk. That is one level below the AAA. S&P rates the state as AA stable, which means unlikely to have a change in the next two years. This compares to the U.S. rating which is AAA by two of the rating agencies and AA+ by S&P. Arkansas has been rated AA since 1966 by S&P. There are 28 states with ratings higher than Arkansas. [See Exhibit F1]

Rating agencies consider the following when assigning a credit rating for a state: Government Framework, Financial Management, State's Economy, Budgetary Performance, and Debt and Liability Profile.

Mr. Burkes stated the biggest challenge to securing a higher rating is the economy. In February 2015, S&P assigned Arkansas a three out of four (one equals best, and four equals worst), citing the following:

- Heavily concentrated in manufacturing than other states as a whole. The state is 13% manufacturing versus 8.8% for the United States. Food processing is 30% of all of the state's manufacturing employment.
- Per capita income and output are about 20% below the nation as a whole. The state has a high age-dependency ratio, which is a factor looking at the workforce. The people who are age 15-65, that percentage of your population that is able to be in the workforce is low relative to other states.
- Also our lack of a well-funded rainy day fund.
- Unfunded or underfunded pension liabilities. The total unfunded actuarial accrued liability for all retirement plans in the state are approximately \$6.9 billion about \$2300 per capita and that is considered high. The combined pension funded ratio is below average at about \$71.5 million. Post employment benefits are considered high.

According to S&P, Arkansas' strengths are:

- Strong fund balance – approximately \$3.7 billion fund balance
- Strong budgetary framework
- Revenue stabilization act
- Timely responses and budget adjustments
- Low debt levels
- Rapid amortization of debt

If Arkansas had a AAA bond rating, the results would be:

- 12 Basis Points Lower Borrowing Cost
- Total savings over the 20-year life of the bond issue = \$1,275,957
- **Annual savings = \$63,798.**

CONSIDERATION TO ADOPT INTERIM STUDY PROPOSALS (ISPS) [EXHIBITS G1, G2, G3, G4, AND G5]

Senator Rice made a motion to adopt Interim Study Proposals 2015-013, 2015-19, 2015-43, 2015-91 and 2015-101. The motion was seconded by Senator Flowers, and without objection the motion carried.

REPORT RECEIVED FROM INSURANCE DEPARTMENT [EXHIBIT H]

Senator Rapert made the committees aware of the "2015 Annual Use and Impact of Credit in Personal Lines Premiums Report."

There being no further business, the meeting adjourned at 11:50 a.m.