

ARIZONA HOUSE OF REPRESENTATIVES  
Fifty-first Legislature – First Regular Session

**COMMITTEE ON INSURANCE AND RETIREMENT**

Minutes of Meeting  
Tuesday, March 19, 2013  
House Hearing Room 3 -- 2:00 p.m.

Chairman Lovas called the meeting to order at 2:12 p.m. and attendance was noted by the secretary.

**Members Present**

Mr. Livingston  
Ms. McCune Davis  
Mr. Mendez

Mr. Robson  
Ms. Steele  
Ms. Townsend

Mr. Allen, Vice-Chairman  
Mr. Lovas, Chairman

**Members Absent**

None

**Committee Action**

SB1173 - DP (5-0-0-3)  
SB1174 - DP (5-0-0-3)

SB1243 - DPA S/E (6-2-0-0)

**CONSIDERATION OF BILLS**

**SB1243 – insurance regulation; exemption – DO PASS AMENDED S/E**  
**S/E: same subject**

**Vice-Chairman Allen moved that SB1243 do pass.**

**Vice-Chairman Allen moved that the Lovas four-page strike-everything amendment to SB1243 dated 03/15/2013 (Attachment 1) be adopted.**

Chloe Love, Majority Intern, explained that the Lovas four-page strike-everything amendment to SB1243 dated 03/15/2013 (Attachment 1) exempts associations and orders from Title 20 of the Arizona Revised Statutes, defines *associations and orders*, requires policies to contain a printed disclosure and requires associations and orders to file annual financial statements with the Department of Insurance (DOI) (Attachment 2).

Michael Low, Attorney, Army and Air Force Mutual Aid Association (AAFMAA), in support of the strike-everything amendment to SB1243, stated this legislation is important and a valid exercise of the state's authority to grant this exemption. There are adequate consumer protections and capital requirements in place for both of these groups, which sell life insurance

only but are interested in service to its members. If someone in a foxhole in Afghanistan wants to obtain a policy, it will be taken care of immediately and these companies will pay claims in seven days.

Donald Shepperd, Major General, United States Air Force (retired); President, The Shepperd Group, testified in support of the strike-everything amendment to SB1243. He provided the following handouts:

- His biography and testimony (Attachment 3)
- A letter from Lauren M. Bloom, Navy Mutual Aid Association, explaining why SB1243 is essential to Navy Mutual's continued presence in Arizona, and her biography (Attachment 4)

Mr. Shepperd noted that he can sell insurance to active duty members stationed anywhere, but approval is required to sell quality life insurance and products and services at low cost to veterans living in Arizona. He is aware of concerns over competition with others, such as USAA, to which he does not want to do any damage. Almost all of his insurance is with USAA so he does not consider the company as competition since his company is very small.

Lauren Bloom, General Counsel/Vice President for Governmental Affairs, Navy Mutual Aid Association, spoke in support of the strike-everything amendment to SB1243. She stated that in the Commonwealth of Virginia, the associations obtained this exemption from the Legislature and, in 20 years, there have been no scandals, consumer complaints or problems. These two organizations are taxed under a special exemption granted by the U.S. Congress in Section 501(c)(23) of the Internal Revenue Code (Attachment 5).

She noted that an excerpt from the Department of Defense's report issued by the Deputy under Secretary of Defense indicates how these organizations are different, that they are part of the Department of Defense's establishment and should be recognized and respected as such (Attachment 6). She indicated that USAA sells life insurance, but does many things the associations do not; it is a totally different business model. In order to maintain the 501(c)(23) status, clients must be veterans or immediate family members; this bill levels the playing field because services must be provided in the niche market it serves. She asked the Members to allow the organizations to continue to do what has been done legally and well for 134 years.

In response to questions, Ms. Bloom stated the Association never denied a claim. It advertises in military papers and has a website; most of the membership is from word of mouth. In order to be eligible for the tax exemption under Section 501(c)(23) of the Internal Revenue Code, a company has to have been formed before 1880, so there will be no other similar organizations.

Mr. Shepperd said it is very expensive to get this done, so it is taken step by step and members of his company go to places where there are many veterans.

Ms. Bloom stated that several insurance departments testified in support of this legislation and the request was never denied. In response to questions, she related that the organizations are not monopolies. She conveyed the policies the organizations issue, how veterans are contacted and requirements for membership.

Mr. Shepperd noted that he has many friends in Tucson who are veterans and want to purchase insurance but he cannot sell to them because they are Arizona residents.

Ms. Bloom and Mr. Shepperd responded to further questions about the products sold, the boards of directors, company headquarters and marketing.

Ellen Poole, Executive Director, Southwest Region, Government Relations, USAA, opposed the strike-everything amendment to SB1243, stating that these organizations are competitors and noted the following:

- The description in the bill describes USAA exactly, except the founding date of 1880. If that date is replaced with 1995, USAA will be on a level playing field, with none of the companies being subject to regulations.
- A competitive disadvantage will be created because regulation is expensive for a large or small company. These entities may be small now, but without regulation, they can grow quickly and will still be exempt, which results in the absence of consumer protection.
- The strike-everything amendment stipulates that financial information must be provided to DOI and gives DOI a few actions that can be taken if the information received is not sufficient. The lag time between receiving the information and action taken is a concern.
- The legislation requires entities exempt under this bill to include, in marketing materials, a disclosure that if a company fails, it is not covered by the state's Guaranty Fund; however, a consumer's decision about a life insurance policy is not based on the Guaranty Fund but mostly price and coverage. Consumers may not read the disclosure statement and know it is meaningful or that premiums may be lower than from a company that is subject to regulations.
- These companies will not be subject to many consumer provisions, such as training requirements, the Unfair Claims Settlement Practices Act, etc.

In response to questions, Ms. Poole acknowledged that neither of the companies are 501(c)(3) or licensed. The time frame for paying claims will not apply but if USAA does not pay claims within 30 days, interest starts accruing. If anyone has a complaint, the Attorney General's Office will not be the place to present the case and DOI will not be available. She asked the Members to vote against the strike-everything amendment.

In response to further questions, Ms. Poole indicated that the companies' websites offer insurance at a lower premium than group life insurance, which is partly federally subsidized, than USAA can offer, and also shows the price versus USAA's price. Their price is the result of lower regulation, not mandated reserves. She noticed that the Army and Air Force Mutual Aid Association's website indicates that investment advice will given as well, which USAA is branching into. She thought the organization would be regulated under the Arizona Corporation Commission (ACC) in that case, but it is not.

Vice-Chairman Allen indicated that if the companies return next year and move into investments, the companies can be placed under the umbrella of the ACC. Smaller vendors that do specialty work are protected in the same market with larger vendors. Because only two organizations fit this mold, if company personnel decide this is a mistake, changes can be made in the future.

In response to questions, Ms. Poole noted that USAA pays taxes, but it is a nonprofit company and money left over goes to members at the end of each year. She explained the difference between mutual companies and reciprocal companies like the USAA, indicating that there is no competitive advantage because both are subject to the same regulations and taxation. Over 80 percent of USAA products are sold to the military; however, state law requires the USAA to sell products to anyone who requests it, except auto and home insurance. She discussed premium taxes paid by USAA.

Senator Al Melvin, sponsor, related that this legislation is designed to help members of the military, especially those in harm's way. He does not know of any other entity where a soldier in a foxhole in Afghanistan who is getting ready to go out on patrol can call to arrange for \$800,000 in life insurance coverage and obtain it. He added that he and his father have been insured by USAA, so he is disappointed in that company's opposition. He asked the Members to support the strike-everything amendment to SB1243.

Ms. Poole related that USAA receives calls from soldiers in foxholes, and it is alarming to hear requests for a life insurance policy while bombs are dropping in the background. The only distinction is the minimum amount of coverage offered, depending on factors, is \$500,000.

Andrew Carlson, Executive Assistant for Policy Affairs, Arizona Department of Insurance (DOI), neutral on the strike-everything amendment to SB1243, stated that fraternal benefit societies are exempt under Title 20. DOI does not know who is operating as a marketplace under this exemption unless a complaint is received and, in speaking to the Consumer Affairs Division, there is no record of any organization or fraternal benefit societies with complaints that are offered the exemption. He stated that there are some technical issues with the language in Section 3 of the strike-everything amendment relating to reporting requirements and disclosure, but DOI will have a report on solvency that can be conveyed upon request. The Director can ask for an increase in capital surplus of the organizations, and if there is no compliance, a cease and desist order can be issued so the company cannot sell policies in Arizona.

Ms. McCune Davis stated she has observed that many fraternal organizations in the state are shrinking in size and wondered about insurance products sold without oversight. Growth is needed for solvency and stability. Mr. Robson responded that many of the fraternal organizations do not offer the insurance discussed.

Mr. Livingston asked if other fraternal organizations for police officers and firemen provide annual financial disclosures to DOI. Mr. Carlson replied that he does not have that information, but if those entities are exempt under Title 20, DOI will not receive any information. DOI will be provided with more information to review under this legislation than from other fraternal benefit societies.

Ms. McCune Davis said she understands DOI licenses companies and makes determinations about solvency. Mr. Carlson agreed, noting that DOI conducts financial and product examinations.

Vice-Chairman Allen said small groups prove solvency by continuing the business. Ms. McCune Davis stated she wants to make the distinction that the purpose of DOI is solvency

rather than grading and business standards. She asked if the strike-everything amendment provides resources to DOI to cover the cost of additional tasks that will be performed. Mr. Carlson answered that there is no appropriation but Title 20 requires insurance companies to pay fees in order to file paperwork.

Chairman Lovas announced the names of those who signed up in opposition to SB1243 but did not speak:

Gretchen Conger, Director of Government Relations, Arizona Chamber of Commerce and Industry

**Question was called on the motion that the Lovas four-page strike-everything amendment to SB1243 dated 03/15/2013 (Attachment 1) be adopted. The motion carried.**

**Vice-Chairman Allen moved that SB1243 as amended do pass. The motion carried by a roll call vote of 6-2-0-0 (Attachment 7).**

### **SB1173 – CORP; amendments – DO PASS**

**Vice-Chairman Allen moved that SB1173 do pass.**

Jeanine Jones, Staff Attorney, Majority Research Analyst, explained that SB1173 modifies statutory provisions governing return to work, disability and local boards under the Corrections Officers Retirement Plan (CORP) (Attachment 8).

Chairman Lovas announced the names of those who signed up in support of SB1173 but did not speak:

James Hacking, Administrator, Public Safety Personnel Retirement System (PSPRS)

Dianne McCallister, Public Policy Partners, PSPRS

Jared Smout, Deputy Administrator, PSPRS

Doug Cole, Lobbyist, PSPRS

**Question was called on the motion that SB1173 do pass. The motion carried by a roll call vote of 5-0-0-3 (Attachment 9).**

### **SB1174 – EORP; amendments – DO PASS**

**Vice-Chairman Allen moved that SB1174 do pass.**

Jeanine Jones, Staff Attorney/Majority Research Analyst, explained that SB1174 makes administrative changes to statutory provisions governing the Elected Officials Retirement Plan (EORP) (Attachment 10).

Chairman Lovas announced the names of those who signed up in support of SB1174 but did not speak:

James Hacking, Administrator, Public Safety Personnel Retirement System (PSPRS)

Dianne McCallister, Public Policy Partners, PSPRS

Jared Smout, Deputy Administrator, PSPRS

Doug Cole, Lobbyist, PSPRS

**Question was called on the motion that SB1174 do pass. The motion carried by a roll call vote of 5-0-0-3 (Attachment 11).**

Without objection, the meeting adjourned at 3:44 p.m.

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Linda Taylor, Committee Secretary  
April 16, 2013

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>).