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2 STATE OF ALASKA
3 DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
4 THE DIVISION OF INSURANCE

4 In the Matter of:)

5 PRINCIPAL LIFE INS. CO.)
6 _____)

Case No. D 08- 05

7 **STIPULATED AGREEMENT AND ORDER**

8 The State of Alaska, Department of Commerce, Community, and
9 Economic Development, Division of Insurance (the "Division") and Principal Life
10 Insurance Company ("Principal") (hereinafter sometimes collectively referred to as the
11 "Parties") stipulate and agree, in lieu of formal administrative action, to resolve by
12 Stipulated Agreement ("Agreement") all disputed issues arising out of Principal's
13 settlement of health claims under employer group health insurance policies using a
14 cost-based methodology that, in the view of the Division, does not meet the
15 requirements of 3 AAC 26.110. The terms and conditions of the Agreement are set
16 forth below.
17

18 **Background**

19 Upon investigation of several consumer complaints, the Division
20 determined that Principal was using a cost-based methodology in its group health
21 insurance policies and settling claims under the policies in a manner that in its view did
22 not meet the requirements of 3 AAC 26.110. The regulation specifies a minimum
23 standard for settling claims for health care services and supplies that is charged based.
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DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ANCHORAGE BRANCH
1031 W. FOURTH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-6100

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2 On November 1, 2005, as part of its nationwide move to a cost based methodology,
3 Principal began using a cost-based methodology in Alaska.

4 By letter dated August 31, 2007, the Division advised Principal that it was
5 using a prevailing charge definition in its group policies that in the Division's view did
6 not comply with 3 AAC 26.110. Subsequently, on October 25, 2007, the Division
7 advised Principal that its cost-based methodology as implemented in settling claims did
8 not comply with 3 AAC 26.110. The Division requested that Principal stop using this
9 methodology and amend its group health insurance policies to reflect a prevailing
10 charge definition with a charge-based methodology consistent with the minimum
11 standard in 3 AAC 26.110. Principal complied with the request and represented that as
12 of October 26, 2007 all claims were being processed under a charge-based methodology
13 consistent with 3 AAC 26.110.
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16 The Division believes that Principal's use of a cost-based methodology to
17 settle Alaska claims from November 2005 to October 2007 constitutes a general
18 business practice that violates Alaska's Unfair Claims Settlement Act codified at AS
19 21.36.125 and 3 AAC 26.110. The Division further believes that the conduct is subject
20 to civil penalties or other remedial actions under AS 21.36.320.
21

22 Principal denies (i) that it has engaged in a general business practice that
23 violates Alaska's Unfair Claims Settlement Act and (ii) that its conduct is subject to
24 civil penalties or other remedial actions under AS 21.36.320. Principal believes its cost-
25 based methodology was approved by the Division in a form filing submitted to the
26 Division on October 1, 2004 and approved by the Division on July 14, 2005, before

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2 Principal began using the cost-based methodology in Alaska. Principal also believes
3 that 3 AAC 26.110 applies to a charge based methodology and that this regulation does
4 not apply to the cost-based methodology described in the filing submitted to and
5 approved by the Division. The Division disagrees with this interpretation and asserts
6 that the regulation provides a minimum standard for payment of claims regardless of the
7 methodology used. The Division also disagrees that its approval of the form constituted
8 approval of a claim settlement methodology that as implemented by Principal did not
9 comply with the minimum standard in 3 AAC 26.110. The Parties have resolved these
10 disputes as set forth in the Terms and Conditions below.

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12 **Terms and Conditions**

13 In resolution of the above disputed issues, the Division and Principal
14 agree as follows:

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16 1) Principal agrees to pay to the Division in full and final settlement
17 of the alleged violations of the insurance code the amount of \$25,000 to compensate the
18 Division for the costs of investigation and examination of Principal's claim practices
19 and the consumer complaints filed with the Division. Said payment does not constitute
20 a fine or penalty.

21
22 2) Principal has recalculated all claims paid under the cost-based
23 methodology using a compliant definition of prevailing charge. If the difference
24 between the amount paid under the cost-based methodology on a given claim and the
25 recalculated amount ("the Claim Difference") is greater than \$50, Principal agrees to
26 send a letter substantially in the form attached hereto as Exhibit A to the affected

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2 insured, as well as a postage paid return envelope. If the insured certifies by completing
3 and returning the form included as part of Exhibit A that he/she was balance-billed by
4 the provider of the service, and that the insured did in fact pay the provider the balance,
5 Principal will pay the insured the Claim Difference. Principal must allow not less than
6 thirty seven (37) days from the date it mails Exhibit A to an insured for an insured to
7 deposit in the mail the return envelope containing the fully executed Exhibit A. If
8 Principal receives a response from an insured that is postmarked more than thirty seven
9 (37) days after the mailing date of Exhibit A to the insured, Principal need not pay the
10 insured the Claim Difference.
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12 3) Principal is not obligated to pay providers the Claim Difference;
13 only those affected insureds who timely sign and return the form included as part of
14 Exhibit A are entitled to reimbursement.
15

16 4) Principal agrees to file a report with the Division no later than one
17 hundred twenty (120) days after it is notified that this Stipulated Agreement and Order
18 has been approved by the Director. This report shall show the number and dollar
19 amount of claims needing adjustment and the number and dollar amount of additional
20 payments actually made.
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22 5) Principal agrees that, unless changed by legislation or regulation
23 duly adopted under AS 44.62, it will abide by the Division's interpretation of
24 3 AAC 26.110 that the regulation establishes a minimum standard for payment of a
25 health claim, regardless of the payment methodology used, in addition to complying
26 with all other applicable laws. Principal acknowledges that it must be knowledgeable of

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2 and must comply with all Alaska laws that are applicable to the contracts it issues in this
3 state. In addition to complying with the requirements of 3 AAC 31.200 – 3 AAC
4 31.250, Principal agrees to clearly describe in detail in each form filing any contract
5 changes that Principal believes may significantly affect Alaskan consumers and will
6 contact the Division for clarification before implementing contract language that it
7 believes has a reasonable likelihood of violating Alaska law. Principal acknowledges
8 that, under 3 AAC 31.250(e)(1)(B)(ii), when a form filing contains separately identified
9 optional components, such as alternative language for a prevailing charge definition, the
10 filing must also include an explanation of how each optional component will be used.

11
12 6) In the course of the settlement negotiations that led to this
13 Agreement, Principal voluntarily provided the Division with documents Principal
14 believes to be confidential and not subject to public inspection. Within 15 working days
15 after this Agreement becomes binding, Principal will identify any documents it claims
16 to be confidential and provide a showing satisfactory to the Director that the records are
17 trade secret or proprietary business information or within another category of records
18 designated as confidential under AS 21.06.060(f). The Division will review the
19 documents and respond in good faith. If the Division receives a public records request
20 seeking access to documents designated by Principal as confidential and if the Division
21 does not consider the documents to be confidential, the Division, before release of the
22 documents, will give notice to Principal to allow it to seek judicial review of the
23 Division's decision. Principal will retain all rights to appeal through the Alaska State
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2 Court System the Division's final action on any issue relating to the confidentiality of
3 the Principal documents.

4 7) This Agreement has been entered into in good faith by the Parties
5 to resolve issues which are disputed. Nothing contained in this Agreement shall be
6 deemed to be an admission or interpreted as evidence of a violation of Alaska law or as
7 evidence of any wrongdoing.

8 8) This Agreement is intended to be a full and final resolution of this
9 matter and sets forth the entire agreement between the Parties. No amendment of this
10 Agreement shall be binding unless in writing and signed by the Parties.

11 9) Principal, by signing this Agreement, understands and agrees that
12 failure to comply with the terms and conditions of this Agreement will be grounds to
13 suspend, revoke, or not renew certificates of authority of Principal.

14 10) Principal understands that this Agreement is not binding on the
15 Parties unless and until the Director signs the order approving the Agreement.

16 Dated: 10/27/08

DIVISION OF INSURANCE

17 By: Katherine Campbell
18 Katie Campbell
19 Life/Health Actuary

20 Dated: 10/24/08

TALIS J. COLBERG
ATTORNEY GENERAL

21 RECEIVED

OCT 27 2008

22 SOA-DCCED
23 DIVISION OF INSURANCE
24 JUNEAU OFFICE

25 By: Signe P. Andersen
26 Signe P. Andersen
Attorney for Division Staff

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Dated: 10/20/08

PRINCIPAL LIFE INSURANCE COMPANY

By: [Signature]

Its: Director of Compliance

Dated: 10/22/08

LESSMEIER & WINTERS LLC

By: [Signature]

Michael L. Lessmeier
Attorney for Principal Life Insurance Co.

ORDER

IT IS ORDERED that this Stipulated Agreement and Order is adopted in full resolution of the issues in this matter and shall constitute the final order in this matter.

DATED this 27th day of October, 2008.

[Signature]

Linda S. Hall
Director of Insurance

[Signature]
OCT 27 2008

SCA DCCED
DIVISION OF INSURANCE
JUNEAU OFFICE

DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ANCHORAGE BRANCH
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ANCHORAGE, ALASKA 99501
PHONE: (907) 269-5100

Date

Name of Insured.

Our records indicate that you and/or your dependent(s) have been covered by one of our group medical insurance policies.

We have recently reviewed your claims history. According to our records, (name of provider) provided services on _____ (date) _____ to _____ (you or name of dependent) _____. The total amount billed for the services was XXXXXX. Our records indicate that we paid benefits totaling XXXX in connection with that bill. We believe that an additional benefit payment may be due under the insurance policy in connection with the noted claim. After coinsurance and deductibles are considered, you may be entitled to additional payment from us.

If you paid the balance between the amount we paid and the amount your provider billed as set forth above, please sign this letter before a notary, make a copy for your records and return the signed original letter to us in the enclosed postage paid envelope. **The envelope must be postmarked by _____ (date) _____ in order for you to receive reimbursement.**

If you have any questions or if you need more details regarding the referenced claim, please feel free to call us at 1-800-247-4695, Extension 57042.

PRINCIPAL LIFE INSURANCE COMPANY

Diane J. Howe
Assistant Vice President - Claims

I affirm I paid _____ (name of provider) _____ the difference between the amount that provider billed and the amount my insurance paid as set forth above.

Insured

Date

SUBSCRIBED AND SWORN TO before me this ___ day of _____, 2008.

Notary Public in and for the State of Alaska
My Commission Expires: _____

NOTE: Alaska Insurance Code §21.36.360(b)(2) provides that a fraudulent insurance act is committed by a person who, with intent to injure, defraud, or deceive presents to an insurer a written or oral statement of a claim for payment or other benefit under an insurance policy, knowing that the statement contains false, incomplete, or misleading information concerning a matter material to the claim.

I hereby certify that a copy of the document(s) listed below was distributed to the below-listed parties and files by mail or by personal delivery. The original document is officially filed in the Juneau office of the Division of Insurance.

Stipulated Agreement and Order, signed by the Director of Insurance on October 27, 2008, in Case No. D 08-05, In the Matter of Principal Life Ins. Co.

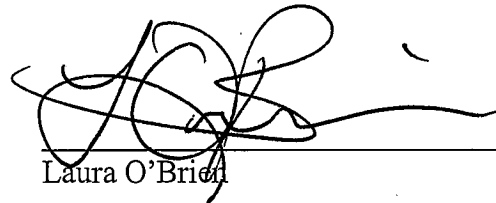
Signe Andersen
Assistant Attorney General
Department of Law

Michael L. Lessmeir
Lessmeier & Winters LLC
Attorney for Principal Life Insurance Co.
(Copy received 10/27/08)

Principal Life Insurance Company
711 High Street
Des Moines, IA 50392-0220
Att: Martha Crist
Counsel- Government Relations
(certified mail)

Katie Campbell, Division of Insurance
Company licensing file of the Division of Insurance

Dated: October 30, 2008 in Juneau, Alaska.



Laura O'Brien