

HOUSE BILL REPORT

HB 1544

*As Reported By House Committee on:
Financial Institutions & Insurance*

Title: An act relating to third party administrators for insurance.

Brief Description: Regulating third party administrators.

Sponsor(s): Representatives Dellwo, R. Meyers, Paris, R. Johnson, Winsley and Wang; by request of Insurance Commissioner.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, March 5, 1991, DPS.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *That Substitute House Bill No. 1544 be substituted therefor, and the substitute bill do pass.*
Signed by 13 members: Representatives Dellwo, Chair; Zellinsky, Vice Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Dorn; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

Staff: John Conniff (786-7119).

Background: Third party administration cannot be easily categorized or defined. Third party administration refers to tasks performed by a person or organization on behalf of some other insuring or self-insuring organization. A third party administrator performs a variety of insurance related functions depending upon the contract between the administrator and the insuring entity. Administrators are not subject to state regulation as administrators; but, administrators may hold a license that does subject them to state regulation such as an insurance agent or broker license.

Although third party administrators (TPA's) provide services to insurance companies and services related to all kinds of insurance, TPA's commonly work with self-insured employee health and welfare benefit plans. The administrator may have substantial management control over a plan or may

perform one or more of the functions necessary to administer plan coverage including the collection of premiums, investment of plan assets, and adjustment and payment of claims. If the TPA works for an employer providing a self-funded health and welfare benefit plan that qualifies under the federal Employee Retirement Income Security Act (ERISA), state laws regulating the administrator's activities are preempted.

In recent years, TPA's have been responsible for the insolvency of many self-insured health and welfare benefit plans. In some cases, the insolvencies occurred through mismanagement due to inexperience; in other cases, the insolvencies were a direct result of fraudulent practices of the TPA.

Summary of Substitute Bill: The insurance commissioner is directed to study regulation of third party administrators, develop legislation, and report to the Legislature no later than December 1, 1991.

Substitute Bill Compared to Original Bill: The substantive regulation of third party administrators is replaced with a direction to the insurance commissioner to conduct a study of third party administrator regulation.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: (Original bill) The regulation of third party administrators is necessary to prevent recurring problems leading to the insolvency of multiple employer welfare arrangements.

Testimony Against: (Original bill) While regulation of third party administrators is probably desirable, any new law must be carefully crafted to avoid disruption or elimination of legitimate practices. With more time, better legislation can be developed.

Witnesses: David Rodgers, Deputy Insurance Commissioner (Pro); Mel Sorensen, Washington Physicians Services/Blue Cross (Con); and Ken Bertrand and Jean Hochnadel, Group Health Coop (Con).