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HOUSE BILL 2903

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State of Washington

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By Representatives Paris, Sprenkle, Padden, Sheldon, Tate, Orr, Broback, Franklin, Vance, Ferguson, McLean, Ludwig, R. Johnson, Scott, Wood, Casada, Hochstatter, Van Luven, Edmondson, Bowman, Wynne, Winsley, Forner, Silver, Horn, May, Mitchell and P. Johnson

Read first time 01/31/92. Referred to Committee on Financial Institutions & Insurance.

1 AN ACT Relating to reinsurance; adding a new chapter to Title 48  
2 RCW; and providing an effective date.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4 NEW SECTION. **Sec. 1.** The legislature finds that it is  
5 difficult for group disability insurers, contractors, or health  
6 maintenance organizations to provide coverage to small employer groups  
7 because the experience rating base is small. It finds that when such  
8 coverage is provided the issuer may need to make enormous rate  
9 increases from one year to the next in order to cover losses. The  
10 legislature further finds that with huge rate increases, provisions  
11 such as guaranteed renewability and conversion rights lose their  
12 meaning, which creates a problem of accessibility.

13 It is the intent of the legislature to make it economically  
14 feasible for issuers to provide small employer group coverage by

1 creating a stop-loss mechanism within the office of the insurance  
2 commissioner. The purpose of which will be to protect both employers  
3 and issuers from unusual claims.

4 NEW SECTION. **Sec. 2.** Unless the context clearly requires  
5 otherwise, the definitions in this section apply throughout this  
6 chapter.

7 (1) "Issuer" means group disability insurers as defined in chapter  
8 48.21 RCW, health service contractors as defined in chapter 48.44 RCW,  
9 and health maintenance organizations as defined in chapter 48.46 RCW.

10 (2) "Small employer" and "employer" mean a business which, during  
11 the most recent calendar year, employed at least three and not more  
12 than fifty employees who are eligible for coverage under a health care  
13 benefit plan on at least fifty percent of that business' working days.

14 (3) "Health benefit plan" and "plan" mean any group policy,  
15 contract, or agreement, which provides medical, surgical, or hospital  
16 care or benefits to employees of a small employer and their dependents.

17 (4) "Premium" means consideration for issuance and administration  
18 of a policy, contract, or agreement.

19 NEW SECTION. **Sec. 3.** (1) There is hereby created a nonprofit  
20 entity to be known as the Washington residents health care reinsurance  
21 pool. This pool will serve as a stop loss for claims that exceed  
22 twenty-five thousand dollars in any one issuing year on any one  
23 individual within the small employer groups.

24 (2) All issuers providing small business coverage within the state  
25 of Washington shall participate in the Washington residents health care  
26 reinsurance pool.

27 (3)(a) The pool shall operate subject to the supervision and  
28 control of the board which is hereby created. Subject to the

1 provisions of (b) of this subsection, the board shall consist of eight  
2 members appointed by the commissioner plus the commissioner or his or  
3 her designated representative, who shall serve as an ex officio member  
4 of the board.

5 (b) In selecting the members of the board, the commissioner shall  
6 include representatives of small employers and small employer issuers  
7 and other individuals determined to be qualified by the commissioner.  
8 At least five of the members of the board shall be representatives of  
9 reinsuring issuers and shall be selected from individuals nominated by  
10 small employer issuers in this state pursuant to procedures and  
11 guidelines developed by the commissioner.

12 (c) The initial board members shall be appointed as follows: (i)  
13 One-third of the members to serve a term of two years; (ii) one-third  
14 of the members to serve a term of four years; (iii) and one-third of  
15 the members to serve a term of six years. Subsequent board members  
16 shall serve for a term of three years. A board member's term shall  
17 continue until his or her successor is appointed.

18 (d) A vacancy in the board shall be filled by the commissioner. A  
19 board member may be removed by the commissioner for cause.

20 (4) Premium rates charged for reinsurance by the pool to a health  
21 maintenance organization that is federally qualified under 42 U.S.C.  
22 Sec. 300c(c)(2)(A), and as such is subject to requirements that limit  
23 the amount of risk that may be ceded to the pool, shall be reduced to  
24 reflect that portion of the risk above the amount that may not be ceded  
25 to the pool, if any.

26 (5) Small group employer issuers' participation in excess of loss  
27 claim payments will be set by the board in an equitable manner related  
28 to experience.

29 (6)(a) The board, as part of the plan of operation, shall establish  
30 a methodology for determining premium rates to be charged by the pool

1 for reinsuring small employers and individuals. The methodology shall  
2 include a system for classification of small employers that reflects  
3 the types of case characteristics commonly used by small employer  
4 issuers in the state.

5 (b) The board periodically shall review the methodology established  
6 under (a) of this subsection, including the system of classification  
7 and rating factors, to assure that it reasonably reflects the claims  
8 experience of the pool. The board may propose changes to the  
9 methodology which shall be subject to the approval of the commissioner.

10 (c) The board may, with approval of the commissioner, change the  
11 assessment formula from time to time as appropriate. The board may  
12 provide for the shares of the assessment base attributable to premiums  
13 from all health benefit plans and to premiums from newly issued health  
14 benefit plans to vary during a transition period.

15 (d) Subject to the approval of the commissioner, the board shall  
16 make an adjustment to the assessment formula for reinsuring issuers  
17 that are approved health maintenance organizations that are federally  
18 qualified under 42 U.S.C. Sec. 300, et seq., to the extent, if any,  
19 that restrictions are placed on them that are not imposed on other  
20 small employer issuers.

21 NEW SECTION. **Sec. 4.** The board, in consultation with members  
22 of the committee, shall study and report at least every three years to  
23 the commissioner on the effectiveness of this chapter. The report  
24 shall analyze the effectiveness of the chapter in promoting rate  
25 stability, product availability, and coverage affordability. The  
26 report may contain recommendations for actions to improve the overall  
27 effectiveness, efficiency, and fairness of the small group health  
28 insurance marketplace. The report shall address whether issuers and  
29 producers are fairly and actively marketing or issuing health benefit

1 plans to small employers in fulfillment of the purposes of this  
2 chapter. The report may contain recommendations for market conduct or  
3 other regulatory standards or action.

4 NEW SECTION. **Sec. 5.** The commissioner may adopt rules under  
5 this chapter.

6 NEW SECTION. **Sec. 6.** If any provision of this act or its  
7 application to any person or circumstance is held invalid, the  
8 remainder of the act or the application of the provision to other  
9 persons or circumstances is not affected.

10 NEW SECTION. **Sec. 7.** Sections 1 through 6 of this act shall  
11 constitute a new chapter in Title 48 RCW.

12 NEW SECTION. **Sec. 8.** This act shall take effect July 1, 1993.