

2 **SHB 2018 - H AMD TO H AMD (H-2836.2/97) 301 FAILED 3-18-97**  
3 By Representative Conway

4

5 Beginning on page 40, after line 25 of the amendment, strike all of  
6 sections 213 through 218 and insert the following:

7 "NEW SECTION. **Sec. 213.** A new section is added to chapter 48.01  
8 RCW to read as follows:

9 (1) The commissioner may disapprove a health care service  
10 contractor or health maintenance organization's health benefit plan if  
11 the benefits provided in the plan are unreasonable in relation to the  
12 amount charged for the contract. A rate is reasonable in relation to  
13 benefits if it is based on the following elements and is at or above  
14 the minimum loss ratio in subsection (2) of this section:

15 (a) An actuarially sound estimate of all future claims costs  
16 associated with the filing for the rate renewal period. Claims costs  
17 and capitation expenses used in the actuarial estimate should  
18 recognize, as applicable, the savings and costs associated with managed  
19 care provisions of the contracts included in the filing;

20 (b) An actuarially sound estimate of all prudently incurred claims  
21 settlement, operational, and administrative expenses that are allocated  
22 to the filing on the basis of a reasonable and consistent method;

23 (c) A reasonable, expected cost of capital or contribution to  
24 surplus to the extent not offset by investment income and other income,  
25 and considering the level of unassigned surplus available to the  
26 carrier.

27 When a carrier files rates with the commissioner, it must  
28 demonstrate that it has accounted for and allocated each of these costs  
29 in a well-supported and verifiable manner so that the commissioner can  
30 determine whether the proposed rates satisfy the requirements of RCW  
31 48.44.020 and 48.46.060.

32 (2) For purposes of this section, equity, net worth, or unassigned  
33 surplus shall be computed according to statutory accounting principles  
34 that must be reconciled to the books and records of the company. In  
35 the absence of a means to allocate equity or unassigned surplus to  
36 specific products or groups of products, the equity calculation and the

1 related cost of capital calculation or required contribution to surplus  
2 shall be made on a total company basis. The rate derived shall be  
3 assigned to the contract filing at issue.

4 (a) The anticipated loss ratio for each contract included in a  
5 filing shall be at or above the following:

6 Individual contracts	75%
7 Small employer contracts	75%
8 Merit pool	85%
9 Negotiated contracts	85%

10 (b) Negotiated contracts for which the anticipated loss ratio is as  
11 great as shown in (a) of this subsection shall be deemed reasonable in  
12 relation to the amount charged, except in the case of extraordinary  
13 circumstances.

14 (c) The loss ratio shall be calculated on the basis of the  
15 projected incurred claims divided by the anticipated total earned  
16 premium for the contract or grouping of contracts in the filing for the  
17 projected renewal period; but in no case shall the loss ratio for any  
18 contract included in the filing be less than that shown in (a) of this  
19 subsection."

20 Renumber the remaining sections consecutively and correct internal  
21 references accordingly.

22 EFFECT: Deletes rate-setting provisions that would have  
23 established precise loss ratios and thus, if met, would presume rates  
24 to be "reasonable in relation to benefits." Adds a multi-criteria  
25 process for health care service contractors or health maintenance  
26 organizations (loss ratio exist for disability insurer in rule).  
27 Establishes explicit authority for the Insurance Commissioner to  
28 approve or disapprove rates.

--- END ---