

# HOUSE BILL REPORT

## ESHB 1064

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**As Passed House**  
February 21, 1997

**Title:** An act relating to the financial and reporting requirements of health care service contractors and health maintenance organizations.

**Brief Description:** Changing the financial and reporting requirements of health care service contractors and health maintenance organizations.

**Sponsors:** By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives L. Thomas, Wolfe, Dyer and Mason; by request of Insurance Commissioner).

**Brief History:**

**Committee Activity:**

Financial Institutions & Insurance: 1/20/97, 1/27/97 [DPS].

**Floor Activity:**

Passed House: 2/21/97, 95-0.

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### HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives L. Thomas, Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Benson; Constantine; DeBolt; Keiser and Wensman.

**Minority Report:** Do not pass. Signed by 1 member: Representative Sullivan.

**Staff:** Charlie Gavigan (786-7340).

**Background:** There are three types of health carriers in Washington State: (1) disability insurers, which are traditional insurance companies that reimburse policyholders for covered health care expenses; (2) health care service contractors (HCSCs), which are organizations that provide health care services through a provider network to enrollees who have contracted with the HCSCs; and (3) health maintenance organizations, which are organizations that provide health care services to enrollees on a prepaid basis (generally monthly).

Health care service contractors and health maintenance organizations are required to maintain a certain level of net worth. Those amounts generally are \$1.5 million for

health care service contractors and the greater of \$1 million or three months of uncovered expenses for health maintenance organizations.

Limited health care service contractors are defined as providers that offer one health care service such as vision care, dental care, mental health services, or pharmaceutical services. Currently, limited health care service contractors are not required to maintain any particular net worth.

**Summary of Bill:** Health care service contractors (HCSCs) and health maintenance organizations (HMOs) must maintain a net worth equal to the greater of \$3 million or 2 percent of annual premiums on the first \$150 million of annual premiums and 1 percent on annual premiums in excess of that amount. HMOs' current requirement that net worth also equal at least three months of uncovered expenses is maintained. Existing health care service contractors and health maintenance organizations that currently do not meet the new requirements may meet these requirements in specified increments by December 31, 1999.

Limited health care service contractors must maintain a minimum net worth of \$300,000. Existing limited health care service contractors that have a net worth less than \$300,000 are allowed to continue operating and meet this requirement in specified increments by December 31, 1999.

Any HMO or HCSC that falls below the net worth requirements is required to cure the deficiency within 90 days after the deficiency notice from the insurance commissioner. If the deficiency is not corrected, the contractor or HMO is declared insolvent and may not issue any further individual or group contracts or agreements. HMOs and HCSCs must file their annual statements and other schedules with the National Association of Insurance Commissioners.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** The current minimum net worth requirements for health care service contractors and HMOs are out-of-date. The substantial increase in the use of managed care over the past few years has resulted in minimum net worth requirements that are too low in today's market. These new minimum net worth requirements improve solvency and still allow entry into the field by new companies.

**Testimony Against:** None.

**Testified:** Nancee Wildermuth, PacificCare of Washington (supports); Ken Bertrand, Group Health Cooperative (supports); and John Woodall, Office of the Insurance Commissioner (supports).