

HOUSE BILL REPORT

SSB 5011

As Reported By House Committee On:
Financial Institutions & Insurance

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: Senate Committee on Financial Institutions, Insurance & Housing (originally sponsored by Senators Prentice and Winsley).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/27/97, 3/20/97 [DPA].

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended. Signed by 10 members: Representatives L. Thomas, Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Grant, Assistant Ranking Minority Member; Benson; Constantine; DeBolt; Keiser; Sullivan and Wensman.

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 pre-paid basis (generally monthly).

Health care service contractors and health maintenance organizations are required to maintain a certain level of net worth. Those amounts currently are \$1.5 million for health care service contractors and \$1 million for health maintenance organizations. Limited health care service contractors are defined as a provider that offers 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 amended net worth.

Summary of Amended 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. 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.

Amended Bill Compared to Substitute Bill: The minimum net worth requirement for limited health care service contractors is changed from \$500,000 to \$300,000.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Amended Bill: 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 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: John Woodall, Office of the Insurance Commissioner (supports).