Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Insurance, Financial Services & Consumer Protection Committee

HB 1203

Brief Description: Limiting maximum capital and reserves accumulations by health care service contractors and health maintenance organizations.

Sponsors: Representatives Chase, Kirby, Green, Appleton, Conway and Kagi.

Brief Summary of Bill

- Limits the amount of capital and reserves that a health carrier can maintain to two months' claims expense.
- Requires excess capital and reserves to be distributed to policyholders.

Hearing Date: 1/25/07

Staff: Jon Hedegard (786-7127).

Background:

Insurance is regulated by the Office of the Insurance Commissioner (OIC). The OIC oversees the financial regulation of insurers. In order to be authorized to transact insurance in Washington, health insurers must meet minimum net worth standards and must meet statutory risk-based capital (RBC) standards.

Health care service contractors (HCSCs) are required to maintain a minimum net worth equal to the greater of:
- $3 million; or
- 2 percent of the first $150 million of annual premium and 1 percent of the annual premium on the premium in excess of $150 million reported on the most recent annual financial statement filed with the OIC.

Health maintenance organizations (HMOs) are required to maintain a minimum net worth equal to the greater of:

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- $3 million;
- 2 percent of the first $150 million of annual premium and 1 percent of the annual premium on the premium in excess of $150 million reported on the most recent annual financial statement filed with the OIC; or
- an amount equal to the sum of three months' uncovered expenditures as reported on the most recent financial statement filed with the commissioner.

Statutory risk-based capital standards provide the OIC with an additional method to measure and monitor the minimum amount of capital that a health carrier needs to support its overall business operations. RBC formulas are intended to determine capital requirements considering the size and degree of risk taken by the insurer. If a health carrier does not meet risk-based capital standards, the OIC may take action. There are four different categories of action that the OIC may take depending on the inadequacy of the carrier's RBC. The actions range from requiring additional reporting to the Insurance Commissioner taking control of the carrier.

"Net worth" is defined as "the excess of total admitted assets as defined in RCW 48.12.010 over total liabilities but the liabilities shall not include fully subordinated debt."

Summary of Bill:

Health carriers that receive more than $250 million in annual premiums may not accumulate capital and reserves in excess of two months' claims expense. Any amount in excess must be returned to policyholders. If the amount is less than $2 per subscriber, the excess must be retained by the health carrier until the refund total will equal or exceed $10 per subscriber. If the amount equals or is greater than $10 per subscriber, it must be returned by the policyholder's choice of:
- electronic transfer;
- check; or
- reduction of the next yearly premium.

Transfer of assets to any organization which does not directly provide health services must be included in reserve calculations by the OIC.

The OIC must not approve premium rate increases or reductions in coverage for health carrier that does not reduce premiums.

The initial refund must be calculated as a percentage of premiums paid between January 1, 2003 through December 31, 2005. The calculation must be approved by the OIC. Subsequent refunds must be declared at the time of filing quarterly reports. The refunds must be paid to all policy owners during the quarter and must be calculated as a percentage of premiums paid.

The OIC can waive the requirements of the bill if the Insurance Commissioner determines that the health carrier will use reserves to make new capital investments in the next year.

If the refund level lowers the reserves beneath the RBC company action level, the RBC requirement overrides the requirement to provide a refund.

Appropriation: None.

Fiscal Note: Requested on 1/22/2007.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.