Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Health Care & Wellness Committee

HB 1301

Brief Description: Determining health insurance rates by comparing premiums and benefits.

Sponsors: Representatives Cody, Liias, Van De Wege, Sells, Fitzgibbon, Frockt, Dickerson, Kenney, Darneille and Reykdal; by request of Insurance Commissioner.

Brief Summary of Bill

- Allows the Office of the Insurance Commissioner to review the surpluses of non-profit insurers in the individual and small group markets.

Hearing Date: 1/27/11

Staff: Jim Morishima (786-7191).

Background:

The Office of the Insurance Commissioner (OIC) has the authority to regulate health insurance companies in Washington. As part of this authority, the OIC has the authority to review insurance rates in both the individual and small group markets. Insurers are required to file their individual and group rates with the OIC. The OIC may disapprove the rates if they are unreasonable in relation to the benefits in the agreement. The OIC also reviews individual and small group market insurers for compliance with statutory requirements such as adjusted community rating and medical loss ratios (for purposes of determining remittances to the Washington State Health Insurance Pool).

The OIC currently does not have the authority to review the surpluses of non-profit insurers in the individual and small group markets.

Summary of Bill:

A non-profit health insurer in the individual or small group market must submit, as part of its rate filings, a determination of whether its surplus exceeds the three-month average claims expense.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

If the insurer's surplus exceeds the three-month average, the insurer must submit the following additional information:

- the net underwriting gain for the three preceding calendar years (including investment income); and
- a comparison between the net underwriting gain and the prior projections of contribution to surplus, contingency charges, or risk charges, or any combination thereof, that were submitted for the previous three years.

If the net underwriting gain exceeds the total of the proposed contributions to surplus, contingency charges, or risk charges, or any combination thereof, the OIC must disallow the rate unless the insurer adjusts its proposed rate by:

- reducing the overall rate by the three-year averaged difference between the gain and the proposed contribution; and
- by reducing its proposed contribution to surplus, contingency charges, or risk charges, or any combination thereof, to zero.

If the net underwriting gain is equal to, or less than, the total of the proposed contributions to surplus, contingency charges or risk charges, or any combination thereof, the OIC must disallow the rate unless the insurer reduces its proposed contribution to surplus, contingency charges, or risk charges, or any combination thereof, to zero.

If the applicable line of business does not have a three-year history and the carrier's surplus exceeds the three-month average, the carrier may not propose a contribution to surplus, contingency charges, or risk charges, or any combination thereof, for three years.

In addition, the OIC must disallow a proposed rate if the insurer:

- does not recognize investment earnings, allocated proportionally to each product line based on the ratio of its premium volume to the entire premium collected by the company, in its calculation or in the development of its proposed rates;
- includes fines, remittances, penalties, administrative sanctions, or similar impositions paid by the carrier in its calculation of rates; or
- includes any net loss incurred on a self-funded plan for which it performs only administrative services in the calculation or development of rates for underwritten health plans.

The OIC may approve a rate that would otherwise be disapproved if it finds that failure to approved the rate unreasonably impairs the financial health of the insurer. The OIC may also waive or modify the surplus review requirements upon a finding that a line of business contains or involves unique provisions or circumstances and that the requirements represent an extraordinary administrative burden on the carrier.

Appropriation: None.

Fiscal Note: Requested on 1/20/11.

Effective Date: The bill takes effect on January 1, 2012.