

HOUSE BILL REPORT

HB 2548

As Reported By House Committee On:
Health Care

Title: An act relating to establishing minimum loss ratios for health care service contractors and disability insurers.

Brief Description: Establishing minimum loss ratios for health care service contractors and disability insurers.

Sponsors: Representatives Dyer, Morris and L. Thomas.

Brief History:

Committee Activity:

Health Care: 1/25/96, 1/30/96 [DPS].

HOUSE COMMITTEE ON HEALTH CARE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Dyer, Chairman; Backlund, Vice Chairman; Hymes, Vice Chairman; Campbell; Casada; Crouse; Morris and Sherstad.

Minority Report: Do not pass. Signed by 4 members: Representatives Cody, Ranking Minority Member; Murray, Assistant Ranking Minority Member; Conway and H. Sommers.

Staff: Charlie Gavigan (786-7340).

Background: Health carriers are statutorily defined as disability insurers, health maintenance organizations, and health care service contractors. All are regulated by the Office of the Insurance Commissioner. Health carriers provide or pay for health services in return for premiums.

Loss ratios compare the relationship between losses (benefits paid for or provided) and premiums. Premiums must be reasonably related to benefits provided.

The Insurance Commissioner has adopted rules regarding loss ratio requirements for individual disability insurance contracts and group disability insurance contracts. A similar rule for health care service contracts recently was repealed.

Summary of Substitute Bill: The Insurance Commissioner's existing rules regarding loss ratio requirements for individual disability insurance contracts and group disability insurance contracts and the former rule regarding health care service contracts are modified and codified in statute.

For individual disability insurance policies, the loss ratio must be at least 65 percent over a period of time chosen by the insurer and satisfactory to the Insurance Commissioner. For group disability insurance policies, the loss ratio must be at least 75 percent for specified disease group insurance and between 60 percent and 80 percent for group policies, depending on size. Standards are provided for determining the applicable time period. The Insurance Commissioner may approve a series of smaller rate increases in lieu of one large increase. Disability insurers must review their experience periodically and file appropriate rate increase requests in a timely manner to avoid filing exceptionally large rate increases.

For health care service contractors, the anticipated loss ratio must be at least 65 percent for individual subscriber contracts, 70 percent for franchise plan contracts, and 80 percent for group contracts. The commissioner may allow contracts, rider, and endorsement forms to be combined for purposes of determining the anticipated loss ratio, if they provide substantially similar coverage.

Substitute Bill Compared to Original Bill: The substitute bill incorporates in statute the current rules on scope and definitions regarding disability insurance loss ratios. It removes the presumption that rates are deemed reasonable if the loss ratio exceeds specified levels.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This is necessary to set standards for the review of rates. It provides a benchmark for defining when rates are reasonable.

Testimony Against: The Insurance Commissioner must be able to consider factors other than just the loss ratio when deciding whether a rate is reasonable. Putting these standards in statute may presume that the only factor to consider when reviewing rates is the loss ratio.

Testified: (Pro) Mel Sorensen, Washington Physicians Service and Blue Cross/Blue Shield of Oregon; Rick Wickman, Blue Cross of Washington; Basil Badley, Health

Insurance Association of America; and (Con) Mary Clogston, Office of the Insurance Commissioner.