

SENATE BILL REPORT

SB 6290

As Reported By Senate Committee On:
Financial Institutions & Housing, January 19, 1996

Title: An act relating to minimum net worth requirements and the impairment of health care service contractors and health maintenance organizations.

Brief Description: Setting net worth requirements.

Sponsors: Senators Prentice, Fraser, Quigley and Pelz; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions & Housing: 1/11/96, 1/19/96 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & HOUSING

Majority Report: That Substitute Senate Bill No. 6290 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Hale and Sutherland.

Staff: David Cheal (786-7576)

Background: Health care service contractors and health maintenance organizations are required to maintain a certain level of net worth. Those amounts currently are \$1,500,000 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 particular net worth.

Summary of Substitute Bill: Limited health care service contractors must maintain a minimum net worth of \$500,000. Currently, registered limited health care service contractors are allowed to continue operating and meet this requirement incrementally by December 31, 1999.

Health care service contractors must maintain a net worth equal to the greater of \$3 million or 2 percent of annual premiums on the first \$150 million of premium and 1 percent on the premium revenue in excess of that amount.

Existing health care service contractors may meet this requirement in staged increments by December 31, 1999.

Health maintenance organizations must maintain a minimum net worth equal to the greater of \$3 million or 2 percent of annual premiums on the first \$150 million of premium and 1

percent on the premium in excess of that amount. Existing health maintenance organizations are allowed to meet this requirement in staged 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 made good, the contractor is deemed insolvent and may not issue any further individual or group contracts.

Substitute Bill Compared to Original Bill: Several grammatical improvements are made, technical terms and internal references corrected.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: Minimum net worth requirements have not been raised for some time, yet obligations of HMOs and HCSCs have increased significantly. Net worth requirements give the Office of Insurance Commissioner necessary regulatory tools to ensure the financial viability of the health care delivery system.

Testimony Against: None.

Testified: Ken Bertrand, Group Health (pro); John Woodall, OIC (pro).