

HOUSE BILL REPORT

HB 2503

*As Reported By House Committee on:
Financial Institutions & Insurance*

Title: An act relating to stop loss insurance.

Brief Description: Providing for stop loss insurance.

Sponsor(s): Representatives Dellwo, Zellinsky, Broback, Mielke, Winsley and Paris.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, January 28, 1992,
DPS.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 11 members: Representatives Dellwo, Chair; Broback, Ranking Minority Member; Mielke, Assistant Ranking Minority Member; Anderson; Inslee; R. Johnson; R. Meyers; Paris; Schmidt; Scott; and Winsley.

Staff: John Conniff (786-7119).

Background: Health insurance companies frequently provide excess of loss or "stop loss" insurance to private employers who self-fund their employees' health and welfare benefit plans. The coverage is designed to insulate the employer from large losses either on a per claim or aggregate claims basis. The coverage works as a deductible might under a personal auto policy. The employer is responsible for funding a certain amount of every loss while the insurer covers anything over the agreed amount.

Technically, stop loss insurance can be viewed as a casualty or liability coverage since the health insurance company is not directly providing health insurance but rather, is protecting the employer from exposure to large dollar losses. However, such coverage can be viewed as health insurance coverage since the liability assumed by the health insurance company relates only to losses sustained under a health insurance plan. This ambiguity resulted in the insurance commissioner's issuance of a bulletin late last

year explaining that the commissioner's office would no longer approve disability insurance company policy forms providing stop loss coverage because disability insurers were not authorized to sell casualty insurance.

Summary of Substitute Bill: Disability insurance is defined to include stop loss insurance sold to cover self-funded employee health benefit plans. Stop loss coverage is excluded from laws governing mandated health benefits, from the state high risk health pool, and from the life and health insurance guaranty association. Stop loss coverage must provide coverage and payments only to the employer, trustee, or other sponsor of the self-funded employee benefit plan. Such coverage may not extend to losses under 120 percent of the expected claims in the aggregate and may not extend to losses under 5 percent of the expected claims or \$100,000 for individual claims whichever is less.

Substitute Bill Compared to Original Bill: Technical amendments are made.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: This act applies to policies issued or renewed on or after July 1, 1992.

Testimony For: This change in the definition of disability insurance permits health insurance companies to continue selling stop loss coverage for self-funded employee health benefit plans.

Testimony Against: None.

Witnesses: Dave Rogers, OIC; and Basil Badley, HIAA.