

SENATE BILL REPORT

SB 5658

As Reported By Senate Committee On:
Health & Long-Term Care, February 8, 2007

Title: An act relating to establishing a health care reinsurance program for small businesses.

Brief Description: Establishing a health care reinsurance program for small businesses.

Sponsors: Senators Keiser, Kohl-Welles, Fairley, Franklin and Rockefeller.

Brief History:

Committee Activity: Health & Long-Term Care: 2/01/07, 2/8/07 [DP-WM, DNP].
Ways & Means: 2/28/07.

SENATE COMMITTEE ON HEALTH & LONG-TERM CARE

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Keiser, Chair; Franklin, Vice Chair; Fairley, Kohl-Welles and Marr.

Minority Report: Do not pass.
Signed by Senators Pflug, Ranking Minority Member; Carrell and Parlette.

Staff: Mich'l Needham (786-7442)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Elaine Deschamps (786-7441)

Background: Many states have sought to stabilize health insurance markets with reinsurance programs, which assume a portion of insurers' high-cost claims. Currently, at least 21 states have reinsurance pools, although most are very small and seven are inactive or have no enrollment. States have chosen a variety of approaches for reinsurance programs, with some targeting small groups, individual and small groups combined, or high risk pool products.

Connecticut began offering the nation's first small employer reinsurance pool in 1990, which became the National Association of Insurance Commissioners (NAIC) model for reinsurance. Their pool reinsures all small-group carriers, who are required to offer coverage to small groups from one to 50. The pool pays claims above \$5,000 for each reinsured life. Their program is funded by reinsurance premiums paid by insurers who cede risk to the pool, as well as an annual assessment on all licensed health insurers.

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.

New York began offering a program in 2001 targeting uninsured, low-wage workers in small businesses, sole proprietors, and individuals. Approximately 26 percent of their enrollment comes from small employer groups. The pool pays 90 percent of claims between \$5,000 and \$75,000. Their program is funded by the tobacco settlement and other state funds.

Summary of Bill: A reinsurance program for small businesses is created in the Office of the Insurance Commissioner. The reinsurance program will reimburse 90 percent of insurance carrier claims, between \$10,000 and \$90,000 annually, for individuals enrolled in coverage with an eligible small employer. Small employers are eligible to participate if at least 30 percent of their employees receive less than \$30,000 in annual wages, adjusted annually for inflation.

Claims reimbursement will be made annually for the prior year's claims. In the event the total amount requested for reimbursement exceeds available funds, the commissioner shall provide a pro rata distribution of available funds, based on each carrier's total eligible claims in relation to the total eligible claims paid by all carriers.

The premium rates for small employers may vary from the adjusted community rate as a result of reinsurance premium discounts.

A reinsurance account is created and funded with an additional 25 cent tax on cigarettes, and five million dollars from the health services account, to fund the reimbursements paid to carriers and the associated administrative expenses of the reinsurance program.

Appropriation: \$5 million from the Health Savings Account.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony (Health & Long-Term Care): PRO: The concept advocated in the bill is a good mechanism to help hold down costs and reduce reliance on medical underwriting. It will bring down the premium costs for small businesses.

CON: Don't tax cigarettes and hurt small retailers. Focus on incremental steps endorsed by the Blue Ribbon Commission. This may hurt association plans. Reinsurance may not be the best tool for helping small business. Use the existing structures with Basic Health and the Small Employer Health Insurance Partnership (SEHIP).

OTHERS: More study and modeling would be helpful. Current programs like Basic Health and SEHIP may serve this need with funding. They more directly target the low-income with more flexibility.

Persons Testifying: (Health & Long-Term Care) PRO: Senator Keiser, prime sponsor; Mike Kreidler, Insurance Commissioner; Bill Daley, Washington Community Action Network.

CON: Mark Johnson, Washington State Retailers; Ron Black, Harbor Wholesale; James Lee, Korean Grocers Association; Gary Smith, Independent Business Association; Carolyn Logue, National Federation of Independent Businesses.

OTHER: Nancy Ellison, Regence Blue Shield; Karen Merrikin, Group Health.

Staff Summary of Public Testimony (Ways & Means): PRO: This bill should move forward now rather than waiting to debate further about how to reduce risk in the health care market. By removing risk now, you can make health care more affordable. People without adequate insurance end up being dependent on state funds anyway.

OTHER: We think it is important to also focus on high-cost employees in the small business world rather than primarily low-income, as low-income enrollees are not necessarily high-cost.

Persons Testifying (Ways & Means): PRO: Bill Daley, Washington Community Action Network.

OTHER: Carolyn Logue, National Federation of Independent Business.