

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3304-03
Bill No.: HCS for HB 1278
Subject: Insurance - General; Insurance - Property; Insurance Dept.
Type: Original
Date: March 5, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	\$0 to (\$10,620,676)	\$0 to (\$10,620,676)	\$0 to (\$10,620,676)
Total Estimated Net Effect on General Revenue Fund #	\$0 to (\$10,620,676)*	\$0 to (\$10,620,676)*	\$0 to (\$10,620,676)*

*** Does not include unknown savings relating to insurance subrogation rights.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Insurance Dedicated	(\$3,400)	\$0	\$0
County Foreign Insurance	\$0**	\$0**	\$0**
Insurance Examiners	\$0**	\$0	\$0
Patrol Hwy Fund **	Unknown	Unknown	Unknown
MoDOT Highway Fund **	Unknown	Unknown	Unknown
Other Funds **	Up to \$63,221	Up to \$63,221	Up to \$63,221
Total Estimated Net Effect on <u>All</u> State Funds	Up to \$59,821*	Up to \$63,221*	Up to \$63,221*

***Does not include unknown savings relating to subrogated insurance claims.**

****Savings and losses net to \$0.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 18 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Federal Funds	Up to \$102,461	Up to \$102,461	Up to \$102,461
Total Estimated Net Effect on <u>All</u> Federal Funds	Up to \$102,461	Up to \$102,461	Up to \$102,461

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	(\$0 to \$11,000,000)*#	(\$0 to \$11,000,000)*#	(\$0 to \$11,000,000)*#

***Does not include unknown savings relating to subrogated insurance claims.**

Subrogated claims savings could exceed \$100,000 annually.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Accounting, Department of Mental Health, Department of Labor and Industrial Relations, Department of Public Safety (DPS) - Missouri State Water Patrol, Missouri Department of Conservation, Department of Revenue, Department of Social Services and Office of State Courts Administrator** assume the proposal will have no fiscal impact on their organization.

Officials from the **Department of Health and Senior Services (DOH)** state the proposal would not be expected to fiscally impact the operations of the DOH. If a fiscal impact were to result, funds to support the program would be sought through the appropriations process.

Officials from the **DPS - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the fiscal impact of this proposal on their organization.

Officials from the **Missouri Department of Transportation (DOT)** state the proposal makes changes to the statutes adding Section 375.246, which allows credit for reinsurance for domestic ceding insurers. This will not have an impact on the MHTC or the Highway and Patrol Medical Plan.

ASSUMPTION (continued)

The proposal establishes coverage similar to the Health Insurance Portability Accountability Act (HIPAA) and health pool and small employer coverage. While this proposal places certain eligibility requirements on the health insurance issuer, the Highway and Patrol Medical Plan does not fall within the definition of health insurance carrier. The Highway and Patrol Medical Plan does, however, follow the general HIPAA laws relative to eligibility for allowing coverage for members who were not enrolled but have lost coverage. This portion of the proposal will not have an impact on the MHTC or the Medical Plan.

The proposal allows public entities which provide a self-insured medical plan to its employees or other persons covered under the plan to require reimbursement of any medical claims by the public entity's self-insured plan for which there was third-party liability. In addition, the proposal permits subrogation by the public entity and allows the public entity to require assignment of the claim or cause of action.

The MHTC would be included in the definition of "public entity". Currently, Section 104.270 RSMo Supp., 2002 and Section 14.01 of the Highway and Patrol Medical Plan document requires reimbursement for third party liability for medical claims paid by the Highway and Patrol Medical Plan. However, this proposal would go beyond 104.270 and 14.01 by allowing MHTC/DOT and the Highway and Patrol Medical Plan to subrogate and to require assignment.

Although this proposal does not allow the DOT to receive any more than the actual medical claims paid by the Medical Plan, the proposal would allow MHTC/DOT and the Highway and Patrol Medical Plan to file suit against a third party without including the subscriber or member in the suit or have the covered person assign his or her claim or cause of action against the third party to the Highway and Patrol Medical Plan. As a result, this proposal could have a positive fiscal impact on the Highway and Patrol Medical Plan in situations where DOT is currently unable to get reimbursement of medical claims paid when our participant does not make a claim against the third party or when the participant chooses to deny continued benefits under the Highway and Patrol Medical Plan. This proposal would have no fiscal impact if the Medical Plan would receive reimbursement of all medical claims paid when a third party is involved.

For fiscal note purposes only, **Oversight** has presented a positive unknown fiscal impact for the General Revenue Fund, Patrol Highway Fund and MoDOT Highway Fund. Any potential impact to other DOT funds would be minimal.

Officials from the **Department of Insurance (INS)** provide the following assumptions relating to the proposal:

ASSUMPTION (continued)

Section 374.160 (1) deletes examinations as an expense to be paid by the company. The state could become liable for expenses of an examination if a company refused to pay since there is not a statute reference for enforcement.

Direct Costs

Section 374.160(3) Limits assessment to insurance companies for the cost of examination to the direct expenses incurred by examiners. Requires an itemized report including examiner pay rate and time spent by each examiner whose expenses are included. Currently an itemized bill is sent to companies along with assessment. The INS would be required to add examiner pay rate and time spent as the current itemized bill only includes total amount billed. This would require modifications to the Exam Billing System within the department. The INS estimates that modifications to the exam billing system would require 40 hours of programming time at a cost of \$85.00 per hour for a total of **\$3,400**. This would be paid from the Insurance Dedicated Fund as no information systems costs are currently funded from the examiners fund. Examiners currently submit to the INS an expense reimbursement form that verifies and attests to the direct expenses incurred by each examiner.

The INS assumes that fringe benefits for examiners would be considered a direct expense. If it were not included, an additional \$1,038,000 (FY03 amount) would be lost in revenue to the Examiners Fund. If fringes are not included as a direct cost, then all 82.00 FTE funded from the Examiners fund would be lost as expenditures would exceed revenues collected and the INS could not continue to operate these programs. **Total FY03 direct expenditures were \$5,219,329 including fringe benefits.**

Section 374.160(5) Limits the examiners expenses when an examination is conducted in Missouri to either the actual cost or 80% of the federal per diem rate for Jefferson City, whichever is less. The 80% of the federal per diem would equal \$76 per day for hotel and meal expenses. **This would result in a loss of approximately \$50,000 in direct costs (FY03 actual in- state meals and lodging less estimated total under per diem).** This limit conflicts with the state travel policy of using CONUS rate for the city in which the expenses occur. Many of the in-state examinations take place in Kansas City and St. Louis and \$76 per day would not cover the cost of lodging and meals. This would hinder conducting examinations for any company not located in Jefferson City or an area with a CONUS rate at that level.

ASSUMPTION (continued)

Prorated/Allocated Costs

In addition to the direct costs of examiners salaries, the INS prorates among all companies being examined the following costs:

- The salary, benefits and expenses associated with 4 audit managers
- The salary, benefits and expenses associated with 1 reinsurance examiner
- Vacation and sick leave for all exam fund staff
- Continuing Education costs for all examiners
- Shipping charges
- Telephone charges
- Copier maintenance and repair charges
- Office supplies
- Computer equipment for exam fund staff
- OA cost allocation for exam fund staff (includes prorated share of costs for the Department of Revenue, Office of Administration, all Elected Offices, General Assembly and Retiree health care costs)

These costs totaled \$1,730,238 in FY03 and 5 FTE and would be lost under the current proposal as it does not allow for prorated or allocated costs.

Administration Percent

The 15% additional charge for supervision and support is reduced to 10%. In FY03 the 15% amount totaled \$1,042,594. With the changes to allow only direct expenses, the base for the administrative surcharge has been reduced by \$1,780,238. The reduction to the base and the percentage change from 15% to 10% will result in the supervision and support amount being reduced to \$516,932. By allowing only direct costs to be billed and no prorated costs, the 10% does not cover the cost of vacation and sick leave for the examiners (\$527,208). The INS also has a number of other costs previously prorated that it would not be able to cover the cost of including: computer/Information System costs for examiners which is no longer allowed (\$80,000), Building rent (\$41,991), OA cost allocation for exam fund (\$168,680) which includes a prorated share of costs for the Department of Revenue, Office of Administration, all Elected Offices, General Assembly and Retiree health care costs.

ASSUMPTION (continued)

The reduction of the administration percentage along with the decrease in the base it is applied to will require personal service and expense reductions for the following positions previously paid from the 15%:

- 5 financial analysts
- 1 financial analyst supervisor
- 2 examination coordinators (secretaries)
- 2 legal counsels
- 1 paralegal

A total of 16 support staff would be lost leaving only 2 supervisory staff in financial and market conduct examination sections for over 60 examiners. This would also eliminate legal support for these divisions that are key to collecting over \$1.7 million annually in forfeitures (state school book fund) and recoveries (goes to consumers). The entire financial analysis section would be eliminated. This section reviews annual and quarterly statements for company solvency and is a critical element necessary to maintain national accreditation through the National Association of Insurance Commissioners. Without accreditation from the NAIC, Missouri domestic companies (those incorporated under Missouri law) would face financial examinations from other states in which they do business. Currently each state that is accredited does financial examinations for their domestic companies only and other states accept those examinations as "good". Without the financial analysis section, this benefit to Missouri domestics would be lost and Missouri companies could be impacted by the cost of multiple other states coming in to do financial examinations. Without sufficient in-house staff and supervisory staff, examination reports would have to be finalized and negotiated on-site. Examiners would be able to do fewer exams because each would take longer.

	Current	Proposed	Difference
Direct costs	\$5,219,329	\$5,169,329	(\$50,000)
Prorated costs	\$1,730,238	0	(\$1,730,238)
Admin %	\$1,042,594	\$516,932	(\$525,617)
Total	\$7,992,161	\$5,686,261	(\$2,305,855)

Total loss of revenue and reductions to the INS equal \$2,305,855 and 16 FTE including all of the financial analysis section, reinsurance examiner, support staff, and legal staff. If expenses are not realized, then companies are not billed and revenue is lost. This results in a net impact of zero and does not result in savings to the state for reduced expenditures.

ASSUMPTION (continued)

The costs of examinations are deductible against premium tax liability. Premium tax is distributed 50/50 to General Revenue (GR) and County Foreign or County Stock Fund. Only 20-25% of examination costs are taken as a credit each year as most companies would be required to pay retaliatory tax if they are not Missouri domestics. The INS anticipates very little change in premium tax credits taken for examination expenses.

375.772-375.1220 - If the Property & Casualty (P&C) Guaranty Fund should assess at 2% of net premiums rather than 1%, there is a possibility that premium tax deductions would be more than doubled. Prior year premium tax credits for the P&C Guaranty Association was \$22 million. Range of \$0-22 million increase to P&C Guaranty Association Tax Credit is estimated. Tax credit is taken against GR and County Foreign Insurance Fund.

Sections 376.421-376.986 revises laws concerning Missouri Health Pool Coverage. Legislation provides pool coverage to HIPAA eligibles in lieu of the current federal HIPAA alternatives for individual health insurers, which require all individual health insurers to have at least 2 plans available to HIPAA eligible individuals. Passage of this proposal will eliminate this requirement of insurers in favor of the Missouri Health Insurance Pool being the sole source of guaranteed issue individual health insurance coverage to HIPAA eligible individuals who do not otherwise qualify under and individual health insurer's underwriting guidelines.

Legislation caps rates for HIPAA eligible individuals at the lesser of the actuarial rate necessary to fund claims for HIPAA eligible individuals or 150% of the standard rate. This section is also revised to set pool rates for all other eligible persons at 150% of the standard rate. Rates at 150% of the standard rate for all eligibles will make the pool attractive for individuals who are now in the competitive market.

Section 376.975 provides that assessments paid for calendar year 2005 cannot be deducted from premium taxes payable until calendar year 2008, assessments paid for calendar year 2006 cannot be deducted until 2009, and assessments paid for calendar year 2007 cannot be deducted until 2010. This postpones the increased cost to GR from premium tax credits to years outside the fiscal note estimate. The INS has not received an actuarial analysis of legislation from the MO Health Insurance Pool, but assumes that costs in years 2008-2010 would be at a minimum those included in last years' worse case fiscal estimates. This would be \$26.8 million in 2008, \$61.1 million in 2009 and \$72.2 million in 2010. These assessment costs would be taken as a credit against the GR portion of the premium tax paid.

Section 379.110 and 379.815 will have no fiscal impact to the INS.

ASSUMPTION (continued)

Section 282.210 – No fiscal impact to INS.

Section 384.062 – Removal of the bond requirement may impact collection of taxes due from surplus lines brokers. The INS has utilized this requirement 3 or 4 times over the past years and collected taxes that would not otherwise have been paid. The INS hasn't utilized the bonds for payment of taxes in the past year, so a minimal fiscal impact is estimated at this time.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state the proposal would modify various insurance provisions. The proposal would also allow public entities to acquire subrogation rights under a self-insurance plan. Because events that may result in subrogated claims are unpredictable, it is very difficult to forecast the potential savings this proposal may yield.

In a February 2000 study, using the Inter Study National HMO Financial Database, the subrogation/Coordination of benefits (COB) rate for 1997 was \$1.38. Employing this PMPM rate results in a 2004 HCP potential savings of \$545,006 when applied to HCP's current 32,911 self-insured membership.

HCP officials note this is a rough estimate as the \$1.38 PMPM figure is several years old and could be different today. The figure refers to subrogation and COB and the proposal only refers to subrogation. No updated estimates were found.

Oversight assumes some cost savings could be passed on to the State, but is unable to determine that amount. **Oversight** also assumes other public entities could experience cost savings.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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GENERAL REVENUE FUND

Savings - Missouri Department of Transportation

Health benefit reimbursements from third party tortfeasors	Unknown #	Unknown #	Unknown #
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Savings - Missouri Consolidated Health Care Plan

Health benefit reimbursements from third party tortfeasors	Up to \$379,324	Up to \$379,324	Up to \$379,324
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Loss - Department of Insurance

Increase in P&C Guaranty Association Premium Tax Credits	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 to</u> <u>(\$10,620,676)*#</u>	<u>\$0 to</u> <u>(\$10,620,676)*#</u>	<u>\$0 to</u> <u>(\$10,620,676)*#</u>
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* Does not include unknown savings related to subrogated insurance claims.
 #Savings could exceed \$100,000 annually.

INSURANCE DEDICATED FUND

Costs - Department of Insurance

Programming costs	<u>(\$3,400)</u>	<u>\$0</u>	<u>\$0</u>
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ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>(\$3,400)</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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COUNTY FOREIGN INSURANCE FUND

Savings- Department of Insurance

Reduction in Transfer-Out of P&C	\$0 to	\$0 to	\$0 to
Guaranty Association Premium Tax	\$11,000,000	\$11,000,000	\$11,000,000
Credits to School Districts			

Loss - Department of Insurance

Increase in P&C Guaranty Association	(\$0 to	(\$0 to	(\$0 to
Premium Tax Credits	<u>\$11,000,000)</u>	<u>\$11,000,000)</u>	<u>\$11,000,000)</u>

**ESTIMATED NET EFFECT ON
COUNTY FOREIGN INSURANCE
FUND ****

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**** Savings and losses net to \$0.**

INSURANCE EXAMINERS FUND

Savings - Department of Insurance

Costs Saved from Reduction in Exams	\$2,919,141	\$0	\$0
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Loss - Department of Insurance

Reduction in Exam Assessments	<u>(\$2,919,141)</u>	<u>\$0</u>	<u>\$0</u>
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**ESTIMATED NET EFFECT ON
INSURANCE EXAMINERS FUND****

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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**** Savings and losses net to \$0.**

PATROL HIGHWAY FUND

Savings - Missouri Department of
Transportation

Health benefit reimbursements from third party tortfeasors	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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**ESTIMATED NET EFFECT ON
PATROL HIGHWAY FUND#**

<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
MoDOT HIGHWAY FUND			
<u>Savings - Missouri Department of Transportation</u>			
Health benefit reimbursements from third party tortfeasors	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON MoDOT HIGHWAY FUND#	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
OTHER FUNDS			
<u>Savings - Missouri Consolidated Health Care Plan</u>			
Health benefit reimbursements from third party tortfeasors	<u>Up to \$63,221</u>	<u>Up to \$63,221</u>	<u>Up to \$63,221</u>
ESTIMATED NET EFFECT ON OTHER FUNDS	<u>Up to \$63,221</u>	<u>Up to \$63,221</u>	<u>Up to \$63,221</u>
FEDERAL FUNDS			
<u>Savings - Missouri Consolidated Health Care Plan</u>			
Health benefit reimbursements from third party tortfeasors	<u>Up to \$102,461</u>	<u>Up to \$102,461</u>	<u>Up to \$102,461</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>Up to \$102,461</u>	<u>Up to \$102,461</u>	<u>Up to \$102,461</u>
# Savings could exceed \$100,000 annually.			

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
<u>Savings - All Political Subdivisions</u>			
Health benefit reimbursements from third party tortfeasors	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
SCHOOL DISTRICTS			
<u>Loss - School Districts</u>			
Reduction in Transfer-In from the County Foreign Insurance Fund	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>	<u>\$0 to</u> <u>(\$11,000,000)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS AND SCHOOLS	<u>\$0 to</u> <u>(\$11,000,000)*#</u>	<u>\$0 to</u> <u>(\$11,000,000)*#</u>	<u>\$0 to</u> <u>(\$11,000,000)*#</u>

***Does not include unknown savings relating to subrogated insurance claims.**
Subrogated claims savings could exceed \$100,000 annually.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal makes changes to the laws regarding insurance.

DEPARTMENT OF INSURANCE FEES

The proposal changes the way fees are assessed to pay for expenses incurred by the Department of Insurance. The proposal:

DESCRIPTION (continued)

- (1) Limits the expenses that insurance companies must pay for examinations by the department. Current law allows the director to assess fees on each insurer for the examination of that insurer. The proposal limits this assessment to the direct expenses incurred by the examiners. The department must provide an itemized report of expenses which includes the rate of pay for each examiner and the amount of time spent by each examiner. The itemized reports must be verified by the insurance company before the department can issue the assessment;
- (2) Changes the additional assessment for examiner support staff from 15% to 10% of the total expenses assessed; and
- (3) Limits the reimbursement of department employees to either 80% of the federal per diem rate or the actual travel expenses incurred in conducting the examinations, whichever is less.

PROPERTY AND CASUALTY INSURANCE

The proposal amends the laws regarding the Property and Casualty Insurance Guaranty Association Act. The proposal:

- (1) Expands the guaranty association's obligations for claims arising from bodily injury, sickness, or disease to include damages for pain and suffering;
- (2) Adds provisions establishing the guaranty association's obligations for insurance products that have been created during the past several years; and
- (3) Clarifies provisions regarding the administration of the guaranty fund to comply with the recommendations of the National Conference on Insurance Guaranty Funds.

GROUP HEALTH INSURANCE

The proposal amends the law regarding group health insurance. The proposal:

- (1) Defines the terms "pre-existing condition exclusions" and "waiting period";
- (2) Prohibits group health insurance issuers from establishing enrollment eligibility requirements based on health status-related factors, which include medical history and genetic information;
- (3) Prohibits health insurance issuers that offer group health insurance coverage from requiring any individual, as a condition of enrollment, to pay a premium or other contribution that is greater than that made by other similarly situated individuals enrolled in the plan on the basis of health status-related factors;

DESCRIPTION (continued)

- (4) Requires health insurance issuers offering large group health plan coverage to renew or continue coverage in force at the option of the plan sponsor;
- (5) Outlines conditions under which health insurance issuers can non-renew or discontinue group health plan coverage, particular types of large group health insurance coverage, and all large group health insurance coverage;
- (6) Permits health insurance issuers to modify coverage for a large group health plan at the time of coverage renewal; and
- (7) Changes the definition of the term "placement" as it pertains to coverage of adopted children. In current law, placement means that the child is in the physical custody of the adoptive parent. The proposal changes it to mean the assumption and retention by the insured of a legal obligation for total or partial support of a child in anticipation of adoption.

MISSOURI HEALTH INSURANCE POOL

The proposal makes several changes to the laws regarding the Missouri Health Insurance Pool, known as the high-risk pool. The proposal:

- (1) Adds the term "federal defined eligible individual" as it relates to the health insurance pool;
- (2) Adds two members to the board of directors;
- (3) Designates as eligible for pool coverage individuals who are residents of Missouri and who provide evidence of: (a) refusal by one insurer to issue substantially similar insurance for health reasons; or (b) refusal by an insurer to issue insurance except at a rate exceeding 150% of the standard risk rate;
- (4) Creates a qualified plan that will comply with the federal Trade Adjustment Assistance Reform Act of 2002;
- (5) Requires insurers to inform a person of the existence of the high-risk pool and how to apply for coverage when the person is affected by a change in the insurer's underwriting, such as the insurer putting new limitations on coverage or increasing premiums;
- (6) Defers, for three years, the deductions from premium taxes that may be taken for high-risk pool participation assessments, starting in the 2005 tax year;

DESCRIPTION (continued)

- (7) Makes eligible for pool coverage persons who terminated coverage in the pool less than 12 months prior, persons on whose behalf the pool has paid out \$1 million in benefits, and persons receiving treatment for drug or alcohol abuse. Under current law, these persons are ineligible for pool coverage;
- (8) Allows persons who do not maintain residency in Missouri to be terminated at the end of the policy period;
- (9) Changes the percentage limit on pool rates from 200% to 150% of the rates applicable to individual standard risks; and
- (10) Changes the time within which a person has to apply for pool coverage from 60 days to 63 days in order to have a waiver of pre-existing condition exclusions.

SMALL EMPLOYER HEALTH INSURANCE

The proposal amends the laws regarding the Small Employer Health Insurance Availability Act. The proposal:

- (1) Adds the terms "creditable coverage," "excepted benefits," "health status-related factor," and "medical care" as they relate to the Small Employer Health Insurance Availability Act;
- (2) Modifies the definition of "small employer" as it pertains to a group health plan to include political subdivisions. A small employer is one who employs two to 50 eligible employees. Under current law, a small employer has three to 25 employees;
- (3) Modifies conditions under which small employer health benefit plans are not renewable;
- (4) Lists conditions under which small employer carriers can discontinue a particular type of small group health benefit plan and discontinue all small employer health insurance coverage;
- (5) Repeals the requirement for small employer carriers electing to non-renew all of its small employer health plans in the state to provide certain types of notice;
- (6) Allows small employer carriers offering coverage through a network plan not to offer coverage to an eligible person who no longer lives or works in the service area or to a small employer who no longer has an enrollee in the plan who lives or works in the service area;

DESCRIPTION (continued)

- (7) Requires small employer carriers to offer all health benefit plans they actively market to small employers in the state. Current law requires small employer carriers to offer at least two health benefit plans: a basic and a standard health benefit plan;
- (8) Changes the way small employer health benefit plans can define pre-existing conditions. The proposal specifies that a pregnancy existing on the effective date of coverage is not considered a pre-existing condition;
- (9) Changes the requirement that creditable coverage be continuous from 30 days prior to the effective date of new coverage to a date not less than 63 days prior to application for new coverage;
- (10) Establishes cases where small employer carriers are prohibited from imposing any pre-existing condition exclusion; and
- (11) Abolishes the Missouri Small Employer Reinsurance Program on December 31, 2005. The program will not take on any risk after October 1, 2004.

OTHER PROVISIONS

In other provisions regarding insurance, the proposal:

- (1) Repeals the sunset clause on a section of law governing the liquidation of insurance companies. This provision is currently set to expire on December 31, 2005. The provision allows an estimation of contingent liabilities to be used to fix creditors' claims during the liquidation process. It also requires a reinsurer's payment to be made directly to the liquidator, except where the contract specifically provides for another payee or where another insurer assumes the ceding insurer's policy obligations;
- (2) Changes the definition of "renewal" as it applies to automobile insurance. Any automobile insurance policy with a term of less than six months or with no fixed expiration date will be considered a six-month policy. Under current law, the default term is 12 months;
- (3) Repeals the bond requirement for acquiring a license to sell surplus lines of insurance;
- (4) Amends the formula used to determine extraordinary dividends for shareholders in insurance holding companies; and

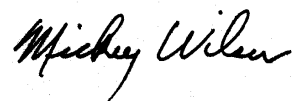
DESCRIPTION (continued)

(5) Grants a right of subrogation to public entities that self-insure for their health care benefits when the entity pays the medical bills of the covered person and there is third-party liability. The public entity may require the covered person to assign to the public entity his or her claim or cause of action against the third party.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Accounting
Office of State Courts Administrator
Department of Mental Health
Department of Health and Senior Services
Department of Labor and Industrial Relations
Department of Revenue
Department of Social Services
Missouri Department of Transportation
Department of Public Safety -
 Missouri State Highway Patrol
 Missouri State Water Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation



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Mickey Wilson, CPA
Director
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