

AMENDED IN ASSEMBLY JUNE 25, 2013

AMENDED IN SENATE MAY 28, 2013

AMENDED IN SENATE APRIL 25, 2013

SENATE BILL

No. 161

Introduced by Senator Hernandez

February 1, 2013

An act to add Article 5 (commencing with Section 10752) to Chapter 8 of Part 2 of Division 2 of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL'S DIGEST

SB 161, as amended, Hernandez. Stop-loss insurance coverage.

Existing law prohibits a person from transacting any class of insurance business, including health insurance, in this state without first being an admitted insurer. Under existing law, admission is secured by procuring a certificate of authority from the Insurance Commissioner. Existing law prohibits a health insurance policy from being issued or delivered to any person in this state unless specified requirements have been met, including that a copy of the form and premium rates are filed with the commissioner. Under existing law, if the commissioner notifies the health insurer that the filed form does not comply with specified requirements, it is unlawful for that health insurer to issue any health insurance policy in that form.

Existing law, with respect to small employer health insurance, requires an insurer providing aggregate or specific stop-loss coverage or any other assumption of risk with reference to a health benefit plan, as defined, to provide that the plan meets specified requirements concerning preexisting condition provisions, waiting or affiliation periods, and late enrollees.

Existing law, the federal Patient Protection and Affordable Care Act (PPACA), commencing January 1, 2014, prohibits a group health plan and a health insurance issuer offering group or individual health insurance coverage from imposing any preexisting condition exclusion with respect to the plan or coverage.

This bill would prohibit a stop-loss insurer, as defined, from excluding any employee or dependent on the basis of actual or expected health status-related factors, as specified. Except as specified, the bill would require a stop-loss insurer to renew, at the option of the small employer, all stop-loss insurance policies. The bill would prohibit a stop-loss insurance policy issued, *reissued, or renewed* on or after January 1, 2014, *and prior to January 1, 2016, except as provided*, to a small employer from containing certain individual or aggregate attachment points for a policy year or providing direct coverage, as defined, of an employee or his or her dependent. *The bill would require a stop-loss insurer to report to the Department of Insurance, on April 1, 2014, and annually thereafter, the number of small employer stop-loss policies it had issued and in effect in the previous year, as specified.* The bill would make a stop-loss insurer in violation of these provisions subject to administrative penalties and would prohibit the act from affecting the ongoing operations of multiple employer welfare arrangements that provide health care benefits to their members on a self-funded or partially self-funded basis and that comply with small group health reforms.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Article 5 (commencing with Section 10752) is
2 added to Chapter 8 of Part 2 of Division 2 of the Insurance Code,
3 to read:

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Article 5. Stop-Loss Insurance

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10752. As used in this article, the following definitions shall

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apply:

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(a) "Attachment point" means the amount of health claims

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incurred by a small employer in a policy year for its employees

1 and their dependents, and covered by a stop-loss insurance policy,
2 above which the stop-loss insurer incurs a liability for payment.

3 (1) “Individual attachment point” means the amount of health
4 claims incurred by a small employer in a policy year for an
5 individual employee or dependent of an employee, and covered
6 by a stop-loss insurance policy, above which the stop-loss insurer
7 incurs a liability for payment, under individual stop-loss coverage.
8 For purposes of this article, “specific attachment point” has the
9 same meaning as “individual attachment point.”

10 (2) “Aggregate attachment point” means the total amount of
11 health claims incurred by a small employer in a policy year for all
12 covered employees and their dependents, and covered by a
13 stop-loss insurance policy, above which the stop-loss insurer incurs
14 a liability for payment under aggregate stop-loss coverage.

15 (b) “Dependent” means the spouse, registered domestic partner
16 as described in Section 297 of the Family Code, or child of an
17 employee.

18 (c) “Direct coverage” means that an insurance company assumes
19 a direct obligation to an employee under an insurance policy to
20 pay or indemnify the employee for health claims incurred by the
21 employee or the employee’s dependents.

22 (d) “Expected claims” means, for the purposes of aggregate
23 stop-loss coverage, the total amount of health claims that is
24 projected to be incurred by a small employer for its employees
25 and their dependents in a policy year.

26 (e) “Policy year” means the 12-month period that is designated
27 as the policy year or policy period for the stop-loss insurance
28 policy. If the stop-loss insurance policy does not designate a policy
29 year, the policy year is the year in which the total amount of health
30 claims incurred by a small employer for an individual employee
31 or dependent of an employee, or the aggregate amount for all
32 covered employees and their dependents, are added together for
33 the purposes of determining whether the claims have exceeded the
34 attachment point.

35 (f) “Small employer” has the same meaning as defined in
36 subdivision (q) of Section 10753.

37 (g) “Stop-loss insurer” means an insurance company providing
38 individual or aggregate stop-loss insurance coverage, or both, or
39 any other assumption of risk, to a small employer for the health
40 claims it incurs for its employees and their dependents.

1 (h) “Stop-loss insurance policy” means a policy, contract,
2 certificate, or statement of coverage between a stop-loss insurer
3 and small employer providing individual or aggregate stop-loss
4 insurance coverage, or both, or any other assumption of risk, to a
5 small employer for the liability the small employer incurs related
6 to the covered health claims of its employees and their dependents.

7 10752.1. A stop-loss insurer shall not exclude any employee
8 or dependent on the basis of an actual or expected health
9 status-related factor. Health status-related factors include, but are
10 not limited to, any of the following: health status; medical
11 condition, including both physical and mental illnesses; claims
12 experience; medical history; receipt of health care; genetic
13 information; disability; evidence of insurability, including
14 conditions arising out of acts of domestic violence of the employee
15 or dependent; or any other health status-related factor as determined
16 by the department.

17 10752.2. A stop-loss insurer shall renew, at the option of the
18 small employer, all stop-loss insurance policies written, issued,
19 administered, or renewed on or after January 1, 2014, and all small
20 employer stop-loss insurance policies in force on or after January
21 1, 2014, except as follows:

22 (a) (1) For nonpayment of the required premiums by the small
23 employer, if the small employer has been duly notified and billed
24 for the charge and at least a 30-day grace period has elapsed since
25 the date of notification.

26 (2) A stop-loss insurer shall continue to provide coverage as
27 required by the small employer’s policy during the grace period
28 described in paragraph (1). Nothing in this section shall be
29 construed to affect or impair the small employer’s or the stop-loss
30 insurer’s other rights and responsibilities pursuant to the policy.

31 (b) Where the stop-loss insurer demonstrates fraud or an
32 intentional misrepresentation of material fact by the small employer
33 under the terms of the stop-loss insurance policy.

34 (c) Where the stop-loss insurer has been determined by the
35 commissioner to be financially impaired.

36 (d) Where the stop-loss insurer ceases to write, issue, or
37 administer new stop-loss insurance policies in this state; provided,
38 however, that the following conditions are satisfied:

39 (1) Notice of the decision to cease writing, issuing, or
40 administering new or existing stop-loss insurance policies in this

1 state is provided to the commissioner, and to the small employer,
2 at least 180 days prior to the discontinuation of the coverage.

3 (2) Stop-loss insurance policies subject to this article shall not
4 be canceled until 180 days after the date of the notice required
5 under paragraph (1). During that time, the stop-loss insurer shall
6 continue to comply with this article.

7 10752.3. A stop-loss insurance policy issued, *reissued, or*
8 *renewed* on or after January 1, 2014, and prior to January 1, 2016,
9 to a small employer shall not contain any of the following
10 provisions:

11 (a) An individual attachment point for a policy year that is less
12 than thirty-five thousand dollars (\$35,000).

13 (b) An aggregate attachment point for a policy year that is less
14 than the greater of one of the following:

15 (1) Five thousand dollars (\$5,000) times the total number of
16 ~~covered employees and dependents~~ *group members*.

17 (2) One hundred twenty percent of expected claims.

18 (3) Thirty-five thousand dollars (\$35,000).

19 (c) A provision for direct coverage of an employee or dependent
20 of an employee.

21 10752.4. A stop-loss insurance policy issued, *reissued, or*
22 *renewed* on or after January 1, 2016, to a small employer shall not
23 contain any of the following provisions:

24 (a) An individual attachment point for a policy year that is less
25 than forty thousand dollars (\$40,000).

26 (b) An aggregate attachment point for a policy year that is less
27 than the greater of one of the following:

28 (1) Five thousand dollars (\$5,000) times the total number of
29 ~~covered employees and dependents~~ *group members*.

30 (2) One hundred twenty percent of expected claims.

31 (3) Forty thousand dollars (\$40,000).

32 (c) A provision for direct coverage of an employee or dependent
33 of an employee.

34 10752.43. *Sections 10752.3 and 10752.4 do not apply if a*
35 *stop-loss insurer is providing insurance to a small employer that*
36 *had a self-insured health plan prior to September 1, 2013, if the*
37 *stop-loss insurance policy is being renewed or reissued, or issued*
38 *by another stop-loss insurer to maintain continuity of stop-loss*
39 *coverage with the same or higher attachment points that were*

1 *included in the policy held by the small employer prior to*
2 *September 1, 2013.*

3 *10752.46. On April 1, 2014, and on April 1 annually thereafter,*
4 *a stop-loss insurer shall report to the Department of Insurance*
5 *the number of small employer stop-loss policies it had issued and*
6 *in effect as of December 31 of the previous year. The information*
7 *shall include new policies written and policies renewed in the*
8 *previous year for groups that have two to 50 employees and 51 to*
9 *100 employees.*

10 10752.5. The commissioner may adopt regulations as may be
11 necessary to carry out the purposes of this article. In adopting
12 regulations, the commissioner shall comply with Chapter 3.5
13 (commencing with Section 11340) of Part 1 of Division 3 of Title
14 2 of the Government Code.

15 10752.6. A stop-loss insurer that violates the provisions of this
16 article is subject to the remedies and administrative penalties
17 applicable to insurers in Sections 10718 and 10718.5.

18 10752.7. Nothing in this article shall affect the ongoing
19 operations of multiple employer welfare arrangements regulated
20 pursuant to Article 4.7 (commencing with Section 742.20) of
21 Chapter 1 of Part 2 of Division 1 that provide health care benefits
22 to their members on a self-funded or partially self-funded basis
23 and that comply with small group health reforms.

24 10752.8. The provisions of this article are severable. If any
25 provision of this article or its application is held invalid, that
26 invalidity shall not affect other provisions or applications that can
27 be given effect without the invalid provision or application.

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