

Senate Bill No. 161

CHAPTER 443

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.

[Approved by Governor October 1, 2013. Filed with
Secretary of State October 1, 2013.]

LEGISLATIVE COUNSEL'S DIGEST

SB 161, 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.

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

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

Article 5. Stop-Loss Insurance

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

(a) “Attachment point” means the amount of health claims incurred by a small employer in a policy year for its employees and their dependents, and covered by a stop-loss insurance policy, above which the stop-loss insurer incurs a liability for payment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Notice of the decision to cease writing, issuing, or administering new or existing stop-loss insurance policies in this state is provided to the commissioner, and to the small employer, at least 180 days prior to the discontinuation of the coverage.

(2) Stop-loss insurance policies subject to this article shall not be canceled until 180 days after the date of the notice required under paragraph (1).

During that time, the stop-loss insurer shall continue to comply with this article.

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

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

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

(1) Five thousand dollars (\$5,000) times the total number of group members.

(2) One hundred twenty percent of expected claims.

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

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

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

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

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

(1) Five thousand dollars (\$5,000) times the total number of group members.

(2) One hundred twenty percent of expected claims.

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

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

10752.43. Sections 10752.3 and 10752.4 do not apply to a stop-loss insurance policy provided to a small employer that was in effect prior to September 1, 2013. A stop-loss insurance policy that was in effect prior to September 1, 2013, may be renewed or reissued, or a stop-loss insurance policy may be issued by another stop-loss insurer to maintain continuity of stop-loss coverage for a small employer who had a stop-loss insurance policy in effect prior to September 1, 2013, provided that a stop-loss policy issued to maintain continuity of coverage shall have attachment points that are the same as or higher than the attachment points that were in place in the policy held by the small employer prior to September 1, 2013.

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

10752.5. The commissioner may adopt regulations as may be necessary to carry out the purposes of this article. In adopting regulations, the

commissioner shall comply with Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

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

10752.7. Nothing in this article shall affect the ongoing operations of multiple employer welfare arrangements regulated pursuant to Article 4.7 (commencing with Section 742.20) of Chapter 1 of Part 2 of Division 1 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.

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