

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2005

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HOUSE BILL 1987
Committee Substitute Favorable 6/26/06
Senate Commerce Committee Substitute Adopted 7/7/06

Short Title: Health Plans/Changes to Basic and Std. (Public)

Sponsors:

Referred to:

May 16, 2006

1 A BILL TO BE ENTITLED
2 AN ACT TO MAKE CHANGES TO THE STATUTORY BASIC AND STANDARD
3 HEALTH PLANS FOR SMALL EMPLOYERS, AS RECOMMENDED BY THE
4 HOUSE SELECT COMMITTEE ON HEALTH CARE.

5 The General Assembly of North Carolina enacts:

6 **SECTION 1.** G.S. 58-50-125 is amended by adding a new subsection to
7 read:

8 "(a1) Both the basic health care plan and the standard health care plan provided for
9 in subsection (a) of this section may have optional deductible and co-payment levels as
10 may be determined by the small employer carrier, including high deductible options. A
11 small employer carrier shall file any changes in deductibles or co-payment levels with
12 the Commissioner for the Commissioner's approval prior to implementing the changes
13 in this State. The Commissioner may periodically review and update the benefits
14 provided by these plans to address trends in the small group market. The Commissioner
15 shall consult with small employer carriers and representatives of the insurance agent and
16 small employer communities as part of that periodic review."

17 **SECTION 2.** G.S. 58-50-125(d) reads as rewritten:

18 "~~(d) Within 180 days after the Commissioner's approval under subsection (b) of~~
19 ~~this section, every small employer carrier shall, as~~

20 As a condition of transacting business as a small employer carrier in this State, the
21 carrier shall either offer small employers at least one basic and one standard health care
22 plan. ~~plan or the alternative coverages provided in G.S. 58-50-126.~~ Every small
23 employer that elects to be covered under such a plan and agrees to make the required
24 premium payments and to satisfy the other provisions of the plan shall be issued such a
25 plan by the small employer carrier. The premium payment requirements used in
26 connection with basic and standard health care plans may address the potential credit
27 risk of small employers that elect coverage in accordance with this subsection by means

1 of payment security provisions that are reasonably related to the risk and are uniformly
2 applied.

3 If a small employer carrier offers coverage to a small employer, the small employer
4 carrier shall offer coverage to all eligible employees of a small employer and their
5 dependents. A small employer carrier shall not offer coverage to only certain
6 individuals in a small employer group except in the case of late enrollees as provided in
7 ~~G.S. 58-50-130(a)(4)~~. G.S. 58-50-130(a)(4b). A small employer carrier shall not modify
8 any health benefit plan with respect to a small employer, any eligible employee, or
9 dependent through riders, endorsements, or otherwise, in order to restrict or exclude
10 coverage for certain diseases or medical conditions otherwise covered by the health
11 benefit plan. In the case of an eligible employee or dependent of an eligible employee
12 who, before the effective date of the plan, was excluded from coverage or denied
13 coverage by a small employer carrier in the process of providing a health benefit plan to
14 an eligible small employer, the small employer carrier shall provide an opportunity for
15 the eligible employee or dependent of an eligible employee to enroll in the health
16 benefit plan currently held by the small employer."

17 **SECTION 3.** Article 50 of Chapter 58 of the General Statutes is amended by
18 adding a new section to read:

19 **"§ 58-50-126. Alternative coverage permitted.**

20 (a) In General. – In the case of health insurance coverage offered in this State, a
21 small employer carrier may elect to limit the coverage offered under G.S. 58-50-125(d)
22 if the carrier offers at least two different policy forms of health insurance coverage and
23 both policy forms meet all of the following:

24 (1) The policy forms are designed for, made available or actively
25 marketed to, and actually enroll self-employed individuals and other
26 small employer groups.

27 (2) The policy forms meet the requirements of either subsections (b) or (c)
28 of this section, as elected by the small employer carrier.

29 (b) Choice of Most Popular Policy Forms. – The requirements of this section are
30 met for health insurance coverage policy forms offered by a small employer carrier if
31 the carrier offers the policy forms for small group health insurance coverage with the
32 two highest premium volume numbers of all the policy forms offered by the carrier in
33 this State or in applicable marketing or service areas in the period involved.

34 (c) Choice of Two Policy Forms with Representative Coverage. – The
35 requirements of this section are met for health insurance coverage policy forms offered
36 by a small employer carrier in the small group market if the small employer carrier
37 offers both policy forms described in this subsection and each policy form includes
38 benefits substantially similar to other small group health insurance coverage offered by
39 the small employer carrier in this State.

40 (1) Lower-level coverage policy form. – A policy form is deemed a
41 lower-level coverage policy form if the actuarial value of the benefits
42 under the coverage is at least eighty-five percent (85%), but not greater
43 than one hundred percent (100%) of a weighted average, as described
44 in subdivision (3) of this subsection.

- 1 (2) Higher-level coverage policy form. – A policy form is deemed a
2 higher-level coverage policy form if all of the following apply:
3 a. The actuarial value of the benefits under the coverage is at least
4 fifteen percent (15%) greater than the actuarial value of the
5 coverage described in subdivision (1) of this subsection offered
6 by the small employer carrier.
7 b. The actuarial value of the benefits under the coverage is at least
8 one hundred percent (100%), but not greater than one hundred
9 twenty percent (120%) of a weighted average, as described in
10 subdivision (3) of this subsection.
11 (3) Weighted average. – For the purposes of this subsection, a weighted
12 average is the average actuarial value of the benefits provided by all
13 the health insurance coverage issued, as elected by the small employer
14 carrier, either by that small employer carrier or all small employer
15 carriers in this State in the small group market during the previous
16 year, not including coverage issued under this section, weighted by
17 enrollment for the different coverage.
18 (d) Election. – The small employer carrier elections of the policies to be offered
19 under this section shall apply uniformly to all small employers in this State for that
20 small employer carrier. The election shall be effective for a period of not less than two
21 years.
22 (e) Assumptions. – For the purposes of subsection (c) of this section, the
23 actuarial value of benefits provided under small group insurance coverage shall be
24 calculated based on a standardized population and a set of standardized utilization and
25 cost factors.
26 (f) Discontinuation of Basic or Standard Plans. – If a small employer carrier
27 chooses to offer the plans under this section and discontinues coverage under the basic
28 or standard health benefit plans provided for in G.S. 58-50-125, the carrier shall make
29 available to the insured employer whose coverage is to be discontinued both of the plans
30 offered under this section. New coverage made available under this section shall
31 constitute replacement coverage and shall be rated in accordance with
32 G.S. 58-50-130(b)(3).
33 (g) Different Policy Forms. – For purposes of this section only, policy forms that
34 have different cost-sharing arrangements or different riders shall be considered to be
35 different policy forms."

36 **SECTION 4.** G.S. 58-68-40(e)(2) reads as rewritten:

37 "(2) A self-employed individual as defined in G.S. 58-50-110(21a), except
38 as otherwise provided for the basic and standard health care plans or
39 other plans under G.S. 58-50-126 under the North Carolina Small
40 Employer Group Health Coverage Reform Act."

41 **SECTION 5.** G.S. 58-50-110(5a) reads as rewritten:

42 "(5a) 'Case characteristics' means the demographic factors age, gender,
43 family size, ~~and geographic location~~ location, and industry."

1 **SECTION 6.** G.S. 58-50-110 is amended by adding the following
2 subdivision to read:

3 "(12a) "Industry" means a demographic factor used to reflect the financial
4 risk associated with a specific industry."

5 **SECTION 7.** G.S. 58-50-130(b) reads as rewritten:

6 "(b) For all small employer health benefit plans that are subject to this section, the
7 premium rates for health benefit plans subject to this section are subject to all of the
8 following provisions:

9 (1) Small employer carriers shall use an adjusted-community rating
10 methodology in which the premium for each small employer can vary
11 only on the basis of the eligible employee's or dependent's age as
12 determined ~~in accordance with~~ under subdivision (6) of this
13 subsection, the gender of the eligible employee or dependent, number
14 of family members covered, or geographic area as determined under
15 subdivision (7) of this ~~subsection.~~ subsection, or industry as
16 determined under subdivision (9) of this subsection. Premium rates
17 charged during a rating period to small employers with similar case
18 characteristics for same coverage shall not vary from the adjusted
19 community rate by more than ~~twenty percent (20%)~~ twenty-five
20 percent (25%) for any reason, including differences in administrative
21 costs and claims experience.

22 (2) Rating factors related to age, gender, number of family members
23 covered, ~~or geographic location~~ location, or industry may be developed
24 by each carrier to reflect the carrier's experience. The factors used by
25 carriers are subject to the Commissioner's ~~review;~~ review.

26 (3) A small employer carrier shall not modify the premium rate charged to
27 a small employer or a small employer group member, including
28 changes in rates related to the increasing age of a group member, for
29 12 months from the initial issue date or renewal date, unless the group
30 is composite rated and composition of the group changed by twenty
31 percent (20%) or more or benefits are changed. The percentage
32 increase in the premium rate charged to a small employer for a new
33 rating period shall not exceed the sum of all of the following:

34 a. The percentage change in the adjusted community rate as
35 measured from the first day of the prior rating period to the first
36 day of the new rating ~~period,~~ and period.

37 b. Any adjustment, not to exceed fifteen percent (15%) annually,
38 due to claim experience, health status, or duration of coverage
39 of the employees or dependents of the small ~~employer,~~ and
40 employer.

41 c. Any adjustment because of change in coverage or change in
42 case characteristics of the small employer group.

43 (4), (5) Repealed by Session Laws 1995, c. 238, s. 1.

- 1 (6) ~~For the purposes of subsection (b) of this section, a small employer~~
2 ~~carrier shall, unless~~ Unless the small employer carrier uses composite
3 rating, the small employer carrier shall use the following age brackets:
4 a. Younger than 15 years;
5 b. 15 to 19 years;
6 c. 20 to 24 years;
7 d. 25 to 29 years;
8 e. 30 to 34 years;
9 f. 35 to 39 years;
10 g. 40 to 44 years;
11 h. 45 to 49 years;
12 i. 50 to 54 years;
13 j. 55 to 59 years;
14 k. 60 to 64 years;
15 l. 65 years.

16 Carriers may combine, but shall not split, complete age brackets for
17 the purposes of determining rates under ~~subsection (b) of this section.~~
18 this subsection. Small employer carriers shall be permitted to develop
19 separate rates for individuals aged 65 years and older for coverage for
20 which Medicare is the primary payor and coverage for which Medicare
21 is not the primary payor.

- 22 (7) ~~For the purposes of subsection (b) of this section, a~~ A carrier shall ~~not~~
23 ~~apply different geographic rating factors to the rates of small~~
24 ~~employers located within the same county; and~~ define geographic area
25 to mean medical care system. Medical care system factors shall reflect
26 the relative differences in expected costs, shall produce rates that are
27 not excessive, inadequate, or unfairly discriminatory in the medical
28 care system areas, and shall be revenue neutral to the small employer
29 carrier.

- 30 (8) The Department may adopt rules to administer this subsection and to
31 assure that rating practices used by small employer carriers are
32 consistent with the purposes of this subsection. Those rules shall
33 include consideration of differences based on all of the following:
34 a. Health benefit plans that use different provider network
35 arrangements may be considered separate plans for the purposes
36 of determining the rating in subdivision (1) of this subsection,
37 provided that the different arrangements are expected to result
38 in substantial differences in claims ~~costs;~~ costs.
39 b. Except as provided for in sub-subdivision a. of this subdivision,
40 differences in rates charged for different health benefit plans
41 shall be reasonable and reflect objective differences in plan
42 design, but shall not permit differences in premium rates
43 because of the case characteristics of groups assumed to select
44 particular health benefit ~~plans; and~~ plans.

1 c. Small employer carriers shall apply allowable rating factors
2 consistently with respect to all small employers.

3 (9) In any case where the small employer carrier uses industry as a case
4 characteristic in establishing premium rates, the rate factor associated
5 with any industry classification divided by the lowest rate factor
6 associated with any other industry classification shall not exceed 1.2."

7 **SECTION 8.** G.S. 58-50-149 reads as rewritten:

8 "**§ 58-50-149. Limit on cessions to the Reinsurance Pool.**

9 In addition to any individual or group previously reinsured in accordance with
10 G.S. 58-50-150(g)(1), the Pool shall only reinsure a health benefit plan issued or
11 delivered for original issue by a reinsuring carrier on or after October 1, 1995, if the
12 health benefit plan provides coverage to a small employer with no more than 25 eligible
13 employees, including self-employed individuals. Notwithstanding any other provision
14 of law, the Pool shall cease to reinsure any individual or group on January 1, 2007.
15 Reinsuring carriers as of that date shall continue to be governed by G.S. 58-50-135(b)
16 and G.S. 58-50-150 until and through the termination of the Pool."

17 **SECTION 9.** G.S. 58-50-120, 58-50-125(b), (e), and (g), 58-50-135(a),
18 58-50-140, and 58-50-145 are repealed.

19 **SECTION 10.** G.S. 58-50-125(f) reads as rewritten:

20 "(f) Every ~~To the extent it is required under this section and G.S. 58-68-40, every~~
21 ~~small employer carrier shall fairly market the basic and standard health care plan all of~~
22 its small group health benefit plans it offers on a guaranteed issue basis to all small
23 employers in the geographic areas in which the carrier makes coverage available or
24 provides benefits."

25 **SECTION 11.** G.S. 58-50-135(b) reads as rewritten:

26 "(b) A small employer carrier that ~~elects to stop~~ stops participating as a reinsuring
27 carrier ~~and to become a risk assuming carrier shall not reinsure or continue to reinsure~~
28 ~~any small employer health benefit plans under G.S. 58-50-145 and G.S. 58-50-150 as~~
29 ~~soon as the carrier becomes a risk assuming carrier; however, a reinsuring carrier~~
30 ~~electing to become a risk assuming carrier shall pay a prorated assessment based upon~~
31 ~~business issued as a reinsuring carrier for any part of the year that the business was~~
32 ~~reinsured. A small employer carrier that elects to stop participating as a risk assuming~~
33 ~~carrier and to become a reinsuring carrier may reinsure small employer health benefit~~
34 ~~plans under the provisions of G.S. 58-50-145 and G.S. 58-50-150. an assessment is~~
35 made under G.S. 58-50-150."

36 **SECTION 12.** G.S. 58-50-150(a) reads as rewritten:

37 "(a) There is created a nonprofit entity to be known as the North Carolina Small
38 Employer Health Reinsurance Pool. All carriers issuing or providing health benefit
39 plans in this State ~~on and after~~ from January 1, ~~1992, 1992,~~ until the termination of the
40 Pool, except any small employer carrier electing to be a risk-assuming carrier, are
41 members of the Pool."

42 **SECTION 13.** G.S. 58-3-191(b)(1) reads as rewritten:

1 "(b) Disclosure requirements. – Each health benefit plan shall provide the
2 following applicable information to plan participants and bona fide prospective
3 participants upon request:

4 (1) The evidence of coverage (G.S. 58-67-50), subscriber contract
5 (G.S. 58-65-60, 58-65-140), health insurance policy (G.S. 58-51-80,
6 58-50-125, 58-50-126, 58-50-55), or the contract and benefit summary
7 of any other type of health benefit plan;"

8 **SECTION 14.** G.S. 58-50-125(h) reads as rewritten:

9 "(h) The provisions of ~~subsections (b), (d), and (g) and subdivision (e)(2)~~
10 subsection (d) of this section apply to every health benefit plan delivered, issued for
11 delivery, renewed, or continued in this State or covering persons residing in this State
12 on or after the date the plan becomes operational, as determined by the Commissioner.
13 For purposes of this subsection, the date a health benefit plan is continued is the
14 anniversary date of the issuance of the health benefit plan."

15 **SECTION 15.** This act is effective when it becomes law.