

# State Corporation Commission

## 2002 Fiscal Impact Statement

1. **Bill Number** SB293

**House of Origin** ☒ Introduced ☐ Substitute ☐ Engrossed  
**Second House** ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Norment

3. **Committee** Commerce and Labor

4. **Title** Health maintenance organizations; dental care; net worth.

5. **Summary/Purpose:** Reduces the minimum net worth requirement for a health maintenance organization (HMO) that provides only dental care services. Such limited services HMOs shall be required to have a net worth at least equal to the greater of (i) the lesser of \$4 million or two percent of its annual gross premium income or (ii) \$600,000.

6. **No Fiscal Impact on the State Corporation Commission**

7. **Budget amendment necessary:** No

8. **Fiscal implications:** None

9. **Specific agency or political subdivisions affected:** State Corporation Commission  
Bureau of Insurance

10. **Technical amendment necessary:** No

11. **Other comments:** Under current law, all HMOs must have a minimum net worth equal to the sum of uncovered expenses for the most recently ended quarter (three month period), but not less than \$600,000, up to a maximum of \$4 million. That is a net worth or surplus at least equal to three months of "uncovered" expenses. Senate Bill 293 would allow operational losses or distributions to shareholders and affiliates to drain significant amounts of surplus from a limited services HMO that provides dental care only. As a result, the ability of these HMOs to pay current expenses and to honor long term commitments could be threatened. Further, in the event of insolvency, the ability of regulators to arrange for and provide a continuation of services to subscribers would be compromised.

Provisions subject to amendment were added to the Code of Virginia four years ago at the request of the Bureau of Insurance. At that time, the Bureau considered the projected impact of the minimum net worth requirements on full -service HMOs as well as limited services HMOs which offer, for example, only dental or optometric services. Minimum net worth requirements took into account the nature of HMO operations, the lack of tested guaranty fund policyholder protection mechanisms, and the public's increasing reliance on the constant availability of ancillary health care services. The net worth requirements recognize that an HMO's enrollment and services, and therefore, its

premium volume and expenses, are likely to fluctuate from month to month, and that it is often misleading to use monthly data to project annual income or annual expenses. Current net worth requirements encourage HMOs to contain expenses. In addition, they include a cap that ensures that an HMO's minimum net worth requirement is in line with, but never exceeds, the insurers' threshold for minimum capital and surplus.

The Bureau of Insurance has agreed to work with the proponents of the bill to find other ways to achieve their goals. The bill has been continued to 2003 in the Senate Commerce and Labor Committee

**Date:** 2/1/02 V. Tompkins

cc: Secretary of Commerce and Trade