

Document: Proposed Rule, **Register Page Number:** 28 IR 313

Source: October 1, 2004, Indiana Register, Volume 28, Number 1

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TITLE 760 DEPARTMENT OF INSURANCE

Proposed Rule
LSA Document #04-39

DIGEST

Adds 760 IAC 1-70 regarding a health maintenance organization's plan for covering outstanding claims in the event the health maintenance organization enters receivership. *NOTE: LSA Document #04-39, printed at 27 IR 2560, was resubmitted for publication.* Effective 30 days after filing with the secretary of state.

760 IAC 1-70

SECTION 1. 760 IAC 1-70 IS ADDED TO READ AS FOLLOWS:

Rule 70. Health Maintenance Organization Plan for Continuation of Benefits in the Event of Receivership

760 IAC 1-70-1 Applicability and scope

Authority: IC 27-13-16-5; IC 27-13-35-1

Affected: IC 27-13-1; IC 27-13-16-1

Sec. 1. This rule is intended to prescribe a form and standards for the plan required of all health maintenance organizations to provide for continuation of benefits in the event a health maintenance organization is placed into receivership. (*Department of Insurance; 760 IAC 1-70-1*)

760 IAC 1-70-2 Definitions

Authority: IC 27-13-16-5; IC 27-13-35-1

Affected: IC 27-13-1; IC 27-13-16-1

Sec. 2. The definitions in IC 27-13-1 and the following definitions apply throughout this rule:

(1) "Insurer" means the insurance company that issues an insolvency insurance policy to a health maintenance organization.

(2) "Plan" means the plan for handling receivership required by IC 27-13-16-1.

(3) "Total projected costs" means the amount on line 10 of the form set forth in section 8 of this rule.

(*Department of Insurance; 760 IAC 1-70-2*)

760 IAC 1-70-3 General requirements

Authority: IC 27-13-16-5; IC 27-13-35-1

Affected: IC 27-13-8-3

Sec. 3. (a) Each health maintenance organization shall maintain a plan acceptable to the commissioner for continuation of benefits in the event of receivership.

(b) The plan must finance the greater of one million dollars (\$1,000,000) or total projected costs in the event of receivership as calculated by the form set forth in section 8 of this rule.

(c) The plan may utilize the following for financing the health maintenance organization's obligation for continuation of benefits in the event of receivership:

(1) Letters of guarantee from a parent company.

(2) Conversion policies.

- (3) Insolvency insurance policies.
- (4) Additional deposits.

(d) The plan must be filed with the department by March 1 of each year. Any proposed amendment to the plan shall be filed with the department at least thirty (30) days before being adopted.

(e) The form prescribed in section 8 of this rule shall be filed with the department on a quarterly basis with the financial reports required under IC 27-13-8-3(c). *(Department of Insurance; 760 IAC 1-70-3)*

760 IAC 1-70-4 Projected costs

Authority: IC 27-13-16-5; IC 27-13-35-1
Affected: IC 27-13

Sec. 4. The health maintenance organization shall calculate its total projected costs under Part 2 of the form set forth in section 8 of this rule. *(Department of Insurance; 760 IAC 1-70-4)*

760 IAC 1-70-5 Parental guarantee

Authority: IC 27-13-16-5; IC 27-13-35-1
Affected: IC 27-13

Sec. 5. If a health maintenance organization's plan includes a parental guarantee, the health maintenance organization shall submit to the department the most recent audited financial statements of the parent company. The financial statements shall be filed annually and shall be updated within thirty (30) days of any material change to the financial condition of the parent company. *(Department of Insurance; 760 IAC 1-70-5)*

760 IAC 1-70-6 Insolvency insurance policy

Authority: IC 27-13-16-5; IC 27-13-35-1
Affected: IC 27-13

Sec. 6. An insolvency insurance policy shall contain the following provisions:

- (1) Any grace period for payment of premium shall not exceed thirty (30) days.
- (2) A provision that the department shall be notified in writing within five (5) business days if either of the following occurs:
 - (A) The health maintenance organization fails to pay the required premium on the date premium is due without the benefit of any grace period.
 - (B) The health maintenance organization or the insurer tenders notice to terminate or terminates the policy for any reason.
- (3) Coverage under the policy shall include benefits as defined in the evidence of coverage for all eligible enrollees on the date the health maintenance organization is placed into receivership.
- (4) The policy shall not contain any deductibles or coinsurance provisions.
- (5) The policy must state that it provides insolvency coverage for Indiana members only.

(Department of Insurance; 760 IAC 1-70-6)

760 IAC 1-70-7 Deposits

Authority: IC 27-13-16-5; IC 27-13-35-1
Affected: IC 27-13-13-1

Sec. 7. If a health maintenance organization posts an additional deposit to finance its plan, the deposit shall be in the form required by IC 27-13-13-1. Any such deposit shall be in addition to the amount required by IC 27-13-13-1. *(Department of Insurance; 760 IAC 1-70-7)*

760 IAC 1-70-8 Form for calculating the total projected costs

Authority: IC 27-13-16-5; IC 27-13-35-1
Affected: IC 27-13-13; IC 27-13-16-1

Sec. 8. The form required by sections 3 and 4 of this rule is as follows:

Plan for handling receivership in accordance with IC 27-13-16-1

Company Name: _____ NAIC No. _____ Completed by: _____

For purposes of this calculation, estimated costs will be based on 30 days of continued benefits after an insolvency (IC 27-13-16-1)

Input Required

<p>1. Premium Revenue less Federal Employees Health Benefit Plan less Medicare less Medicaid</p> <p>(If prepared on a quarterly basis, use annualized premium revenue)</p>	<p>Financial Statement, Analysis of Operations by Lines of Business</p>
<p>2. Medical Expense (Total Hospital and Medical Expense less Federal Employees Health Benefit Plan less Medicare less Medicaid less 50% Capitated Medical Expense)</p> <p>(If prepared on a quarterly basis, use annualized medical expense)</p>	<p>Financial Statement, Analysis of Operations by Lines of Business; Summary of Transactions of Providers</p>
<p>3. Administrative Expense less Federal Employees Health Benefit Plan less Medicare less Medicaid</p> <p>(If prepared on a quarterly basis, use annualized administrative expense)</p>	<p>Financial Statement, Analysis of Operations by Lines of Business</p>

Assumptions

A) Increased medical expense, as a % of premium	10%
B) Admin costs	
Month 1, as a percent of current	70%
Month 2, as a percent of current	50%
Month 3, as a percent of current	40%
C) Costs for Indiana insolvency, legal and consulting	\$400,000
D) Premium Collection percentage	96%

4. Medical Expense Ratio (Medical Expenses/Premium Revenue)	<hr/> <hr/>
5. Administrative Expenses Ratio (Administrative Expenses/Premium Revenue)	<hr/> <hr/>
6. Assumed Insolvent Medical Expense Ratio (Medical Expense Ratio + Assumption A)	<hr/> <hr/>

Calculation for Costs of Continued Benefits

<p>Medical Expense ((Annualized Premium Revenue * Assumed Insolvent Medical Expense Ratio)/12)</p> <p>Less: Premium ((Annualized Premium Revenue * Assumption D)/12)</p>	
7. Net Medical Costs	<hr/> <hr/>
Administration	
Month 1 (((Annualized Premium Revenue * Administrative Expense Ratio)/12)* Assumption B)	
Month 2 (((Annualized Premium Revenue * Administrative Expense Ratio)/12)* Assumption B)	

Month 3 (((Annualized Premium Revenue * Administrative Expense Ratio)/12)* Assumption B)

8. Administrative Costs	
9. Closing Costs (Fixed Costs)	\$400,000
10. Projected Costs (Medical Costs + Administrative Costs + Closing Costs)	
11. Deposits-IC 27-13-13	\$500,000
12. Total Projected Costs (Projected Costs - Deposits)	
13. Amount to be financed – the greater of Total Projected Costs (line 12) or one million dollars (\$1,000,000)	

(Department of Insurance; 760 IAC 1-70-8)

Notice of Public Hearing

Under IC 4-22-2-24, notice is hereby given that on October 26, 2004 at 10:00 a.m., at the Department of Insurance, 311 West Washington Street, Suite 300, Indianapolis, Indiana the Department of Insurance will hold a public hearing on a proposed new rule regarding health maintenance organizations’ plans for insolvency. Copies are available on the Department of Insurance’s Web site at www.state.in.us/idoi. Copies of these rules are now on file at the Department of Insurance, 311 West Washington Street, Suite 300 and Legislative Services Agency, One North Capitol, Suite 325, Indianapolis, Indiana and are open for public inspection.

Amy E. Strati
 Acting Commissioner
 Department of Insurance