MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

2174

2007 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2174

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2174**

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Hearing Date: **January 24, 2007**

Recorder Job Number: **1747**

Committee Clerk Signature

Minutes:

S Potter – Sponsor of SB 2174 - ***In Favor***

TESTIMONY #1

Talks of loss ratio. [:00 – 4:42m] covers testimony

S Klein: In this bill we're not dealing with health, but fringe policies.

S Potter: [gives examples 6:20m]

S Klein: Currently no bottom, or what is it? It is...?

S Potter: In '93 the bottom was too high. Was set up at 65% loss ratio. I'm suggesting that we should have a floor.

S Wanzek: Does the market not help set a floor?

S Potter: In insurance, it's very difficult to know what's going on. What we have is eliminating competition by confusion.

S Klein: Do we have a problem we need to fix or provide a comfort level?

S Potter: It is not an outcry. In my experience there are policies we should avoid.

Q? Favor? O?

Constance Hofland – AFLAC – ***In Opposition***

TESTIMONY # 2 [Explained testimony]

S Klein: Does this number make you happy or not?

C Hofland: There is a number already present

S Andrist: Is there a difference? I'm a free market person. I believe in letting the market work. Are high pressure sales and others treated the same?

C Hofland: There is a limited loss ratio now.

<u>**Mike Fix – Life & Health Division Insurance Dept. – *In Opposition***</u>

Spoke of minimum loss ratio. ND minimum loss is required: There are minimum loss ratios for: Medicare supplement, long term care, hospital – medical/surgical, credit insurance. Everything else is in general needs to be reasonable in relation to premiums.

50% For non-cancelable premium

55% guaranteed renewable

60% for optionally renewable

We haven't seen any reason to change. Every company is subject to minimum requirements, they have minimum requirements.

S Potter: Major medical the loss ratios that you've been enforcing are "department policy." Have you been tested, challenged?

M Fix: No. Been no challenges on initial filings.

S Wanzek: What's the difference between guaranteed renewals and on cancellable?

M Fix: You can't cancel guaranteed, but can increase premiums. You can't cancel non-cancellable but you also can't increase premiums.

S Klein: Are there issues or not?

M Fix: There have not been

S Klein: You believe as you look at the dept. that's it's working.

M Fix: Yes

S Andrist: Are you neutral or positive?

M Fix: Dept entered the bill [covered 23:55m on their bill]

F? O? N?

HOLD put on the bill

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2174 B**

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Hearing Date: **January 30, 2007**

Recorder Job Number: **2292**

Committee Clerk Signature	

S. Potter's Bill on Insurance Policies:

S Potter: What the bill does is bring in the cancer, hospital indemnity policies, accidental death and disability policies and put them at 60% loss ratio standard. Because the other bills had advanced as it has, I wonder, if this bill should be amended to those same standards, not the bill but the existing act is sighted here. Does that create a problem? If they both passed.

S Klein: I don't believe so. The testimony from some of the folks, AFLAC folks, and after Mike Fixes information he gave us from the Insurance commissioner that they do have those ratios in place and they use them, within the department. I'm not going to be supporting your bill. Unless you've got something you want to work on.

S Potter: I'll let it die it's natural death.

S Hacker: Can you give me an argument FOR?

S Potter: It relates to the argument of the others, maybe even moreso. In this area it is very difficult for a consumer to know what the benefits are in a cancer policy, for instance. This ends up being the sleaziest form of insurance. Offering insurance when it's not insurance. Consumer is uninsured and they know they need some kind of insurance, so they purchase these policies. I think we need to put some kind of minimum standard in there so that when they're buying it, it has some value. Why would you exempt policies that are most subject to abuse in the market. That's why I offered this bill.

S Hacker: Is this is a specific policy for cancer patients?

S Potter: Exactly, what they're saying is they're offering you a policy that says, "If you get cancer, we'll cover you up to 1 million bucks," maybe. In relation in the benefits, the premiums can be out of whack. They should be more like a standard health policy.

AFLAC saying they need more, 55% would be happier for them than 60%. I know they can come up to the 60%, just have less company profit.

Hospital indemnity on the TV ads. The hospital policy will maybe give you $100 a day when it actually costs $3000. Give the illusion of health insurance. I'm just saying consumers need protection.

S Wanzek: How is the potential insurance product, say they have a good year and there are no claims on the policy. What happens at the end of the year when they don't quite reach the full percentage of loss, I understand you used to be in the insurance department, so can help me understand. Then, do they have to have a rebate?

S Potter: Loss ratios are anticipated loss ratios. The "science" of the math that goes into it, not the individual experience. When hey come back for a rate increase, the insurance commissioner can take into account the actual experience, and if their experience has been bad it can grant rate increases; if low can be denied increases.

ND is never large enough, you have to rely on the science.

S Wanzek: Using the science, you're taking in more data.

S Potter: A million customers over a 10 year period.

S Klein: The comfort I have is when Mike Fix explained how they actually regulate those particular areas. I sensed that the AFLAC folks, when their premiums were so small, the coverage isn't like Blue Cross, but they have a more difficult time meeting their costs.

Their policies are much cheaper.

Do you want to stew over it some more? We can wait until tomorrow.

CLOSE

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2174 C**

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Hearing Date: **January 31, 2007**

Recorder Job Number: **2421**

Committee Clerk Signature	

Minutes:

S Heitkamp: Made motion for amendment on bill

S Klein: This is to lower the 60% - 55%.

Second from Senator Potter

Roll on Amendment to lower 60% to 55%

6 – 0 – 1 Passed Amendment

Motion for Do Pass as amended S Heitkamp

Second from S Behm

S Klein: I'm voting no, I still think we have the flexibility in the Insurance Commissioners office and don't feel this is necessary.

S Hacker: I'm not sure how much it's going to do. I would like to leave the power in the commissioner's office.

S Potter: My position is, the dept. is doing it, this solidifies things.

S Wanzek: I appreciate the spirit in it being done, there's flexibility. The company will provide quality product and will be the most efficiently will rise to the top.

S Heitkamp: Suggest "without committee recommendation"

Vote for Do Pass As Amended: 3 Y – 3 N – 1 A [Nays: Klein, Hacker, Wanzek]

MOTION: S Wanzek – DO PASS WITHOUT COMMITTEE RECOMMENDATION

Second S Heitkamp

Vote for Do Pass As Amended Without Committee Recommendation

6 Y – 0 N – 1 A

Carrier: S Heitkamp

S Heitkamp: When you carry a “without committee recommendation” it behooves whoever carries it to explain both sides of what happened in the committee.

70424.0101
Title.0200

Adopted by the Industry, Business and Labor Committee
January 31, 2007

1-31-07

PROPOSED AMENDMENTS TO SENATE BILL NO. 2174

Page 1, line 23, replace "sixty" with "fifty-five"

Renumber accordingly

Date: ~~1-30-07~~ 1-31-07

Roll Call Vote : 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2174

Senate **INDUSTRY BUSINESS & LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number Ammendment

Action Taken

Motion Made By Heitkamp Seconded By Potter

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein	✓		Senator Arthur Behm	✓	
Vice Chair Nicholas Hacker	✓		Senator Joel Heitkamp	✓	
Senator John Andrist	NP		Senator Tracy Potter	✓	
Senator Terry Wanzek	✓				

Total Yes 6 No 0

Absent 1

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 1-31-07

Roll Call Vote : 2

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2174

Senate **INDUSTRY BUSINESS & LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass As Ammended

Motion Made By Heitkamp Seconded By Behm

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein		✓	Senator Arthur Behm	✓	
Vice Chair Nicholas Hacker		✓	Senator Joel Heitkamp	✓	
Senator John Andrist	NP		Senator Tracy Potter	✓	
Senator Terry Wanzek		✓			

Total Yes ~~4~~ 3 No ~~3~~ 3

Absent 1

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 1-31-07

Roll Call Vote : 3

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2174

Senate **INDUSTRY BUSINESS & LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken DOPAA W/O committee recommendation

Motion Made By Wanzek Seconded By Heitkamp

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein	✓		Senator Arthur Behm	✓	
Vice Chair Nicholas Hacker	✓		Senator Joel Heitkamp	✓	
Senator John Andrist	NP.		Senator Tracy Potter	✓	
Senator Terry Wanzek	✓				

Total Yes 6 No 0

Absent 1

Floor Assignment ~~Potter~~. Heitkamp.

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2174: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **BE PLACED ON THE CALENDAR WITHOUT RECOMMENDATION** (6 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2174 was placed on the Sixth order on the calendar.

Page 1, line 23, replace "sixty" with "fifty-five"

Renumber accordingly

2007 TESTIMONY

SB 2174

Testimony of Sen. Tracy Potter, D-35, on SB 2174, Senate IBL:

The loss ratio standard is a matter of consumer protection. It is difficult for most of us to understand the exact terms of an insurance policy and what the appropriate price should be for various degrees of coverage. It takes an actuary to design the policies and put a price to them. The actuary tells the insurance company - this policy is figured to produce a 50 or 60 or 70 percent loss ratio. 50 or 60 or 70 percent of the premiums collected would go to pay claims. The rest would be the company's. The lower the loss ratio, the better for corporate profits and the worse for consumers. The legislature has extended protection to consumers by requiring that health insurance policies meet minimum standards, and the best way to insure that is to set loss ratio standards. That's what we've done.

Loss ratio is the best way to judge the worth of an insurance policy to consumers.

SB 2174 re-introduces standards for health insurance policies not covered under the statute being addressed in the bill we already have under consideration. These are the fringe policies, generally and not entirely accurately described as specified disease policies: accidental death and disability, cancer insurance, hospital indemnity policies. In 1993, when the legislature adopted loss ratio standards for health insurance, these policies were included in the requirement to achieve a 65% loss ratio. Two years later they were excluded from any standards.

This bill strikes a middle ground, a place where these policies will be available, but where consumers can be sure that they at least meet minimum standards.

I have some experience with regulating health insurance policies at a 60% anticipated loss ratio. It works.

I was the North Dakota Insurance Department's life and health insurance analyst from 1978 to 1981. We did not have real authority to regulate health insurance rates. Our legal standing in opposing policy or rate filings was so weak, and the volume of requests so great that there seemed only one effective method of dealing with them. At my urging the Commissioner agreed to a 60% loss ratio standard on health insurance policy and rate filings. Any policy that could not meet that standard would be held without approval or formal disapproval. We explained our policy to the companies and notified them of their right to deem approved policies that did not receive our stamp of approval. Companies avoid that, wanting to be able to say in marketing that their product is approved by the Insurance Commissioner.

The 1993 Legislature gave the Insurance Commissioner a real tool in protecting the consumer by establishing loss ratio standards. Whether they should now be adjusted or not, I hope you will agree that if standards should apply to major medical insurance, they should also apply to other health insurance.

There may be wailing and gnashing of teeth that the products will not be available at a 60% loss ratio. They will be available, and with your do-pass recommendation, consumers can be assured that their policy guarantees a reasonable level of benefits. I hope you can support SB 2174.

#1
2174

TESTIMONY IN OPPOSITION TO SB 2174

Good morning Chairman Klein and Members of the Senate Industry, Business and Labor Committee:

My name is Constance Hofland and I represent AFLAC. I am here to testify in opposition to SB 2174.

SB 2174 proposes to eliminate the provision of the loss ratio statute that currently exempts limited benefit policies. Specifically, the types of policies that are currently exempt are policies that are exclusively for accident, disability income, specified disease, hospital confinement indemnity and other limited benefit health insurance. This bill mandates a minimum loss ratio of 60% for these limited benefit health policies.

Currently, these policies are regulated, even though they are exempt from this minimum loss ratio statute. As Mike Fix from the Department of Insurance testified last week in front of this committee on SB 2154, addressing this same statute, the department requires the loss ratios for various types of policies be "reasonable" and this statute defines "reasonable" for health insurance policies by setting a minimum loss ratio. In other words, if the loss ratio is equal to or higher than the minimum loss ratio, it is deemed reasonable.

#2
2174

However, for policies not covered by the minimum loss ratios mandated in this statute, there are still minimum loss ratios required by the department. For limited benefit policies these are 55% for guaranteed renewable policies, 50% for non-cancelable policies, and 60% for optionally renewable policies. Therefore, this proposed bill with its 60% mandated minimum loss ratio for all limited benefit health plans, will **increase** the minimum loss ratio for limited benefit health plans that are guaranteed renewable (the majority of plans) or optionally renewable. This will eliminate those policies that cannot meet this minimum loss ratio from the marketplace and decrease competition for those types of policies.

It is not appropriate to group these limited benefit policies together with major medical policies or comprehensive policies because of the inherent differences of the policies themselves.

The NAIC model act considers the inherent differences of these limited policies as compared to major medical coverage. For that reason, the NAIC model act minimum loss ratios are lower for limited benefit plans. AFLAC has worked with NAIC in developing these loss ratio levels and we support the use of the NAIC model act loss ratio levels.

For example, one of the inherent differences in these policies versus major medical is that limited benefit policies are low premium policies. AFLAC's average annual cost for a family policy is $400. Compare that to an annual

#2
2174

premium of major medical of $2000 to $5000. So, for a policy with an annual premium of $400 a year, overhead costs, which may be $200, comprise a larger proportion of the premium. Overhead cost may be similar for a major medical policy, but is a much lower percent of the premium that ranges from $2000 to $5000. In fact, because of this, the NAIC model act provides additional offsets for low premium policies.

These overhead costs are necessary for the management and administration of that policy. The administrative costs can only be decreased so much, for example, AFLAC operates a call center for service to policy holders, which costs money to administer but is an important service to the customers.

We believe the current regulatory system is working and is more flexible and responsive to particular types of policies. This one-size-fits-all proposal is not necessary and may be counter-productive.

We urge a Do Not Pass on SB 2174.

#2
2174