Ohio House of Representatives

State Representative Brian Lampton
District 73

HB 530 – Sponsor Testimony
House Insurance Committee
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Chairman Brinkman, Ranking Member Miranda, and members of the House Insurance Committee, thank you for the opportunity to provide testimony on HB 530 – the Guaranty Fund Protection Act. The Ohio Life and Health Insurance Guaranty Association is a private, non-profit, organization that was established by state law in 1989. All insurance companies licensed by the State of Ohio to sell life, health, and annuity policies must belong to the Guaranty Association. The Guaranty Association protects Ohioans when a health or life insurance company is deemed insolvent by a court. The Guaranty Association offers a maximum protection amount to policyholders, which varies depending on the policy. For example, the Guaranty Association covers up to $250,000 for an individual for all annuity contracts bought from the same insurance company. The Guaranty Association receives no tax money and is one-hundred percent funded by insurance companies that are required to contribute to an assessment by state law.

Recent insolvencies in the long-term care insurance industry have strained the Guaranty Association system. During a time when many state Guaranty Associations were already under pressure from covering obligations for failing Co-Ops, the state Guaranty Associations were then hit with the Penn Treaty Network American Insurance Company Insolvency. This insolvency ranks as the largest health insurance insolvency case and the second largest insurance insolvency overall. Penn Treaty was liquidated in 2017. This insolvency costed approximately 4.8 billion dollars nationwide. Nearly every state Guaranty Association, and the customers they protect, felt the unprecedented impact.

When an insurance company that sells any type of health insurance becomes insolvent, other insurance companies writing any type of health insurance will be assessed by the Guaranty Association based on the amount of total health insurance premiums they collect in the state.

Without this critical protection, one insolvency could destroy consumer confidence and bring down both the health and life insurance industries.

The Ohio Life and Health Insurance Guaranty Association can be greatly improved with HB 530. This legislation is the result of an agreement between life and health insurance companies on both the national level and state level. HB 530 is model legislation from the National Association of Insurance Commissioners (NAIC) and has been passed by 34 other states in the Union. There is no known opposition to this legislation from the insurance industry.

This legislation does two things. First, it expands the base of insurance companies who contribute to an assessment by including health insuring corporations, otherwise known as HMOs. Second, it broadens the assessment base in the event of a long-term care insolvency by splitting the assessment between life and health insurance companies.

Currently, HMOs are not members of the Guaranty Association. Thus, assessments are spread over a portion of the health insurance industry. Including HMOs in the Guaranty Association will ensure that all companies in the relevant insurance sector help fund an insolvency. Ohioans who use HMOs for their health insurance currently lack a critical consumer protection. This lack of protection threatens the stability of the insurance industry in Ohio as a whole.

In 1989, when the Guaranty Association was created in Ohio, HMO plans rarely became insolvent. When HMOs got into financial trouble, the Department of Insurance typically knew it was happening and made sure that members were not impacted. HMOs now directly compete with major medical carriers and there is no compelling argument for HMOs to continue to be excluded from the Guaranty Association.

Under current law, long-term care insurance is categorized as health insurance. However, life insurance companies write the vast majority of long-term care policies. If a long-term care assessment were to occur today, the health insurance industry would pay the assessment.

HB 530 splits the burden of long-term care insolvencies equally between life and health insurance companies since they both sell long-term care policies. This will spread the assessment burden across the market.

This legislation is essential to protecting consumers in Ohio from future insolvencies in both the health and life insurance industries. Broadening the assessment base for long-term care insolvencies will ensure adequate assessment capacity to support Guaranty Association obligations. HB 530 will enhance the overall stability of the Guaranty Association system for Ohioans.

Chairman Brinkman, Ranking Member Miranda, and members of the House Insurance Committee, thank you again for this opportunity to provide testimony. I am happy to answer questions the committee may have at this time.