



**House  
Legislative  
Analysis  
Section**

Washington Square Building Suite 1025  
Lansing, Michigan 48909  
Phone: 517/373-6466

PRUDENT PURCHASER SUNSETS  
RECEIVED

AUG 04 1988

Senate Bill 775 (Substitute H-1) Senate Bill 776  
(Substitute H-1) Mich. State Law Library  
Senate Bill 777 with committee amendments  
Senate Bill 778 as passed the Senate  
Senate Bill 779 as passed the Senate  
First Analysis (7-1 88)

Sponsor: Sen. Dick Posthumus  
Senate Committee: Commerce & Technology  
House Committee: Insurance

**THE APPARENT PROBLEM:**

Public Act 233 of 1984 created the Prudent Purchaser Act as part of a package of legislation authorizing and regulating the formation and operation of prudent purchaser organizations (sometimes called preferred provider organizations). An organization of this kind negotiates contracts with health care providers and facilities and then requires its customers to make use of only the providers and facilities with whom it has contracts, or at least offers incentives to encourage such use. When the package of legislation was enacted, a sunset date (that is, a date when provisions would no longer apply) of July 1, 1988, was included in the Prudent Purchaser Act and in the corresponding provisions of the other acts. Some people feel that the prudent purchaser approach to the provision of health care services has been a successful one and the regulatory acts should remain in effect indefinitely.

**THE CONTENT OF THE BILL:**

Senate Bill 775 would amend the Prudent Purchaser Act to repeal the act's July 1, 1988, sunset date. Senate Bills 776 through 779 would amend various other acts to eliminate sunsets on provisions pertaining to prudent purchaser organizations. The bills would also remove language from the acts that is no longer applicable due to already expired sunset dates. Additionally, Senate Bill 776 contains a provision that would allow group life and group disability (health) policies to be issued to a trust or to trustees of a fund established by two or more employers to insure employees.

Senate Bill 776 would amend the Insurance Code. Senate Bill 777 would amend the Nonprofit Health Care Corporation Reform Act, which regulates Blue Cross and Blue Shield of Michigan. Senate Bill 778 would amend the Public Health Code to apply to health maintenance organizations. Senate Bill 779 would amend Public Act 125 of 1963, which regulates Delta Dental Corporation.

MCL 550.56 et al. (Senate Bill 775)  
500.3405 et al. (Senate Bill 776)  
550.1502a (Senate Bill 777)  
333.21054 (Senate Bill 778)  
550.366a (Senate Bill 779)

**HOUSE COMMITTEE ACTION:**

The House substitutes and amendments made technical changes recommended by the Insurance Bureau to make the bills consistent with one another.

**FISCAL IMPLICATIONS:**

According to the Senate Fiscal Agency, the bills would have a minimal fiscal impact on state and local government. The bills would continue the need for the Insurance Bureau to review the criteria developed by the Prudent Purchaser organizations for their provider panels. This information would also be required to be filed and kept available under the Freedom of Information Act. The Insurance Bureau estimated that the equivalent of one-half of one FTE would be required indefinitely at a cost of approximately \$24,000 per year. (4-21-88)

**ARGUMENTS:**

**For:**

Prudent purchaser organizations (PPOs) have become a common and successful approach to providing health care benefits. Many employee benefit plans use PPOs or a similar approach, health maintenance organizations, to provide health care benefits to workers. The PPO regulatory statutes should not be allowed to sunset on July 1 of this year.

**For:**

Some people say that the bills merely would "clean up" the statutes, since, according to recent rulings of the attorney general, the legislation in question would not be repealed anyway. The attorney general has ruled that language to repeal an act or a section of an act is not legally enforceable unless the act's title indicates repeal on a specific date. None of the acts that would be amended by these bills contains such language in their title.

**POSITIONS:**

The Insurance Bureau, within the Department of Licensing and Regulation, supports the bills. (6-22-88)

S.B. 775 et al (7-1-88)