



# SENATE BILL No. 1316

November 29, 1994, Introduced by Senators WARTNER and O'BRIEN and referred to the Committee on Commerce.

A bill to amend section 21042 of Act No. 368 of the Public Acts of 1978, entitled as amended "Public health code," as amended by Act No. 354 of the Public Acts of 1982, being section 333.21042 of the Michigan Compiled Laws; and to add part 211.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. Section 21042 of Act No. 368 of the Public Acts  
2 of 1978, as amended by Act No. 354 of the Public Acts of 1982,  
3 being section 333.21042 of the Michigan Compiled Laws, is amended  
4 and part 211 is added to read as follows:

5 Sec. 21042. (1) ~~A~~ EXCEPT AS OTHERWISE PROVIDED IN SUB-  
6 SECTION (2), A person proposing to operate a system of health  
7 care delivery and financing ~~which~~ THAT is to be offered to  
8 individuals, whether or not as members of groups, in exchange for

1 a fixed payment and organized so that providers and the  
2 organization are in some part at risk for the cost of services in  
3 a manner similar to a health maintenance organization, but fails  
4 to meet the requirements set forth in this part, may operate such  
5 a system if the department and insurance bureau find that the  
6 proposed operation will benefit persons who will be served by  
7 it. The operation shall be licensed and regulated in the same  
8 manner as a health maintenance organization under this part  
9 including the filing of periodic reports, except to the extent  
10 that the department and insurance bureau, with the advice of the  
11 advisory commission, agree that the regulation is inappropriate  
12 to the system of health care delivery and financing. A person  
13 operating a system of health care delivery and financing pursuant  
14 to this section shall not advertise or solicit or in any way  
15 identify itself in a manner implying to the public that it is a  
16 health maintenance organization licensed under this article.

17 (2) SUBSECTION (1) DOES NOT APPLY TO A PREPAID LIMITED  
18 HEALTH SERVICE ORGANIZATION AS DEFINED IN PART 211.

19 PART 211. PREPAID LIMITED HEALTH SERVICE ORGANIZATIONS  
20 SEC. 21101. AS USED IN THIS PART:

21 (A) "COMMISSIONER" MEANS THE COMMISSIONER OF INSURANCE.

22 (B) "ENROLLEE" MEANS AN INDIVIDUAL AND HIS OR HER DEPENDENTS  
23 WHO ARE ENTITLED TO LIMITED HEALTH SERVICES PURSUANT TO A CON-  
24 TRACT WITH AN ENTITY AUTHORIZED TO PROVIDE OR ARRANGE FOR THOSE  
25 SERVICES UNDER THIS PART.

1 (C) "EVIDENCE OF COVERAGE" MEANS THE CERTIFICATE, AGREEMENT,  
2 OR CONTRACT ISSUED PURSUANT TO SECTION 21117 SETTING FORTH THE  
3 COVERAGE TO WHICH AN ENROLLEE IS ENTITLED.

4 (D) "HEALTH PROFESSIONAL" MEANS AN INDIVIDUAL LICENSED, CER-  
5 TIFIED, OR AUTHORIZED IN ACCORDANCE WITH STATE LAW TO PRACTICE A  
6 HEALTH PROFESSION IN HIS OR HER RESPECTIVE STATE.

7 (E) "LIMITED HEALTH SERVICE" MEANS DENTAL CARE SERVICES,  
8 VISION CARE SERVICES, PODIATRIC CARE SERVICES, AND OTHER SERVICES  
9 DETERMINED BY THE DIRECTOR AND COMMISSIONER TO BE LIMITED HEALTH  
10 SERVICES. LIMITED HEALTH SERVICE DOES NOT INCLUDE HOSPITAL, MED-  
11 ICAL, SURGICAL, OR EMERGENCY SERVICES UNLESS THOSE SERVICES ARE  
12 PROVIDED INCIDENT TO A LIMITED HEALTH SERVICE.

13 (F) "NET EQUITY" MEANS THE EXCESS OF TOTAL ASSETS OVER TOTAL  
14 LIABILITIES, EXCLUDING LIABILITIES THAT HAVE BEEN SUBORDINATED IN  
15 A MANNER ACCEPTABLE TO THE COMMISSIONER.

16 (G) "PREPAID LIMITED HEALTH SERVICE ORGANIZATION" MEANS ANY  
17 CORPORATION, PARTNERSHIP, OR OTHER ENTITY THAT, IN RETURN FOR A  
18 PREPAYMENT, UNDERTAKES TO PROVIDE OR ARRANGE FOR THE PROVISION OF  
19 1 OR MORE LIMITED HEALTH SERVICES TO ENROLLEES. PREPAID LIMITED  
20 HEALTH SERVICE ORGANIZATION DOES NOT INCLUDE ANY OF THE  
21 FOLLOWING:

22 (i) AN ENTITY OTHERWISE AUTHORIZED PURSUANT TO THE LAWS OF  
23 THIS STATE TO PROVIDE ANY LIMITED HEALTH SERVICE ON A PREPAYMENT  
24 OR OTHER BASIS OR TO INDEMNIFY FOR ANY LIMITED HEALTH SERVICE.

25 (ii) AN ENTITY THAT MEETS THE REQUIREMENTS OF  
26 SECTION 21113.

1 (iii) A PROVIDER OR ENTITY IF PROVIDING OR ARRANGING FOR THE  
2 PROVISION OF LIMITED HEALTH SERVICES PURSUANT TO A CONTRACT WITH  
3 A PREPAID LIMITED HEALTH SERVICE ORGANIZATION OR WITH AN ENTITY  
4 DESCRIBED IN SUBPARAGRAPH (i) OR (ii).

5 (H) "PROVIDER" MEANS ANY PHYSICIAN, DENTIST, HEALTH FACILI-  
6 TY, OR OTHER PERSON OR INSTITUTION LICENSED OR OTHERWISE QUALI-  
7 FIED TO DELIVER OR FURNISH LIMITED HEALTH CARE SERVICE.

8 (I) "SUBSCRIBER" MEANS THE PERSON WHOSE EMPLOYMENT OR OTHER  
9 STATUS, EXCEPT FOR FAMILY DEPENDENCY, IS THE BASIS FOR ENTITLE-  
10 MENT TO LIMITED HEALTH SERVICES PURSUANT TO A CONTRACT WITH AN  
11 ENTITY AUTHORIZED TO PROVIDE OR ARRANGE FOR THOSE SERVICES UNDER  
12 THIS PART.

13 (J) "TANGIBLE NET EQUITY" MEANS NET EQUITY REDUCED BY THE  
14 VALUE ASSIGNED TO INTANGIBLE ASSETS INCLUDING, BUT NOT LIMITED  
15 TO, GOODWILL; GOING CONCERN VALUE; ORGANIZATIONAL EXPENSE;  
16 STARTING-UP COSTS; LONG-TERM PREPAYMENTS OF DEFERRED CHARGES;  
17 NONRETURNABLE DEPOSITS; AND OBLIGATIONS OF OFFICERS, DIRECTORS,  
18 OWNERS, OR AFFILIATES, EXCEPT SHORT-TERM OBLIGATIONS OF AFFILI-  
19 ATES FOR GOODS OR SERVICES ARISING IN THE NORMAL COURSE OF BUSI-  
20 NESS THAT ARE PAYABLE ON THE SAME TERMS AS EQUIVALENT TRANSAC-  
21 TIONS WITH NONAFFILIATES AND THAT ARE NOT PAST DUE.

22 (K) "UNCOVERED EXPENSE" MEANS THE COST OF HEALTH CARE SERV-  
23 ICES THAT ARE THE OBLIGATION OF A PREPAID LIMITED HEALTH SERVICE  
24 ORGANIZATION FOR WHICH AN ENROLLEE MAY BE LIABLE IN THE EVENT OF  
25 THE INSOLVENCY OF THE ORGANIZATION AND FOR WHICH ALTERNATIVE  
26 ARRANGEMENTS ACCEPTABLE TO THE COMMISSIONER HAVE NOT BEEN MADE TO  
27 COVER THE COSTS. COSTS INCURRED BY A PROVIDER WHO HAS AGREED IN

1 WRITING NOT TO BILL ENROLLEES, EXCEPT FOR PERMISSIBLE  
2 SUPPLEMENTAL CHARGES, SHALL BE CONSIDERED AS COVERED EXPENSE.

3 SEC. 21103. (1) THE DEPARTMENT AND THE COMMISSIONER SHALL  
4 COORDINATE THE FUNCTIONS NECESSARY FOR THE PROPER ADMINISTRATION  
5 OF THIS PART WITH THE DEPARTMENT SERVING AS THE LEAD AGENCY WITH  
6 THE RESPONSIBILITY OF THE OVERALL IMPLEMENTATION AND ADMINISTRATION  
7 OF THIS PART.

8 (2) THE DEPARTMENT SHALL REGULATE HEALTH DELIVERY ASPECTS OF  
9 PREPAID LIMITED HEALTH SERVICE ORGANIZATION OPERATIONS TO ASSURE  
10 THAT PREPAID LIMITED HEALTH SERVICE ORGANIZATIONS ARE CAPABLE OF  
11 PROVIDING CARE AND SERVICES PROMPTLY, APPROPRIATELY, AND IN A  
12 MANNER THAT ASSURES CONTINUITY AND ACCEPTABLE QUALITY OF HEALTH  
13 CARE. THE DEPARTMENT SHALL ENCOURAGE PREPAID LIMITED HEALTH  
14 SERVICE ORGANIZATIONS TO UTILIZE A WIDE VARIETY OF HEALTH-RELATED  
15 DISCIPLINES AND FACILITIES AND TO DEVELOP SERVICES THAT CONTRIBUTE  
16 TO THE PREVENTION OF DISEASE AND DISABILITY AND THE RESTORATION  
17 OF HEALTH.

18 (3) THE COMMISSIONER SHALL REGULATE THE BUSINESS AND FINANCIAL  
19 ASPECTS OF PREPAID LIMITED HEALTH SERVICE ORGANIZATION OPERATIONS  
20 TO ASSURE THAT THE PREPAID LIMITED HEALTH SERVICE ORGANIZATIONS  
21 ARE FINANCIALLY SOUND AND FOLLOW ACCEPTABLE BUSINESS PRACTICES.  
22 THE COMMISSIONER SHALL ASSURE THAT PREPAID LIMITED  
23 HEALTH SERVICE ORGANIZATIONS OPERATE IN THE INTEREST OF ENROLLEES  
24 CONSISTENT WITH OVERALL HEALTH CARE COST CONTAINMENT WITHIN THE  
25 REQUIREMENTS OF DELIVERING AN ACCEPTABLE QUALITY OF CARE AND  
26 SERVICES THAT ARE AVAILABLE AND ACCESSIBLE TO ENROLLEES WITH

1 APPROPRIATE ADMINISTRATIVE COSTS AND HEALTH CARE PROVIDER  
2 INCENTIVES.

3 SEC. 21105. (1) AN INDIVIDUAL, CORPORATION, PARTNERSHIP, OR  
4 OTHER ENTITY SHALL NOT OPERATE A PREPAID LIMITED HEALTH SERVICE  
5 ORGANIZATION IN THIS STATE WITHOUT OBTAINING AND MAINTAINING A  
6 LICENSE FROM THE DIRECTOR AND COMMISSIONER PURSUANT TO THIS  
7 PART.

8 (2) "PREPAID LIMITED HEALTH SERVICE ORGANIZATION" SHALL NOT  
9 BE USED TO DESCRIBE OR REFER TO A HEALTH AGENCY, AND A HEALTH  
10 AGENCY OR OTHER PERSON SHALL NOT USE ANY OTHER DESCRIPTIVE WORDS  
11 THAT MAY MISLEAD, DECEIVE, OR IMPLY THAT IT IS A PREPAID LIMITED  
12 HEALTH SERVICE ORGANIZATION, UNLESS THE AGENCY OR PERSON IS  
13 LICENSED AS A PREPAID LIMITED HEALTH SERVICE ORGANIZATION BY THE  
14 DEPARTMENT UNDER THIS PART.

15 SEC. 21107. AN APPLICATION FOR A LICENSE TO OPERATE A PRE-  
16 PAID LIMITED HEALTH SERVICE ORGANIZATION SHALL BE FILED WITH THE  
17 DIRECTOR AND COMMISSIONER ON A FORM PRESCRIBED BY THE DIRECTOR  
18 AND COMMISSIONER. THE APPLICATION SHALL BE VERIFIED BY AN OFFI-  
19 CER OR AUTHORIZED REPRESENTATIVE OF THE APPLICANT AND SHALL SET  
20 FORTH, OR BE ACCOMPANIED BY, ALL OF THE FOLLOWING:

21 (A) A COPY OF THE APPLICANT'S BASIC ORGANIZATIONAL DOCUMENT,  
22 SUCH AS THE ARTICLES OF INCORPORATION, ARTICLES OF ASSOCIATION,  
23 PARTNERSHIP AGREEMENT, TRUST AGREEMENT, OR OTHER APPLICABLE DOCU-  
24 MENTS AND ALL AMENDMENTS TO THE DOCUMENTS.

25 (B) A COPY OF ALL BYLAWS, RULES, AND REGULATIONS, OR A SIMI-  
26 LAR DOCUMENT, IF ANY, REGULATING THE CONDUCT OF THE APPLICANT'S  
27 INTERNAL AFFAIRS.

1 (C) A LIST OF THE NAMES, ADDRESSES, OFFICIAL POSITIONS, AND  
2 BIOGRAPHICAL INFORMATION OF THE INDIVIDUALS WHO ARE RESPONSIBLE  
3 FOR CONDUCTING THE APPLICANT'S AFFAIRS, INCLUDING, BUT NOT  
4 LIMITED TO, ALL MEMBERS OF THE BOARD OF DIRECTORS, BOARD OF  
5 TRUSTEES, EXECUTIVE COMMITTEE, OR OTHER GOVERNING BOARD OR COM-  
6 MITTEE, THE PRINCIPAL OFFICERS, AND ANY PERSON OR ENTITY OWNING  
7 OR HAVING THE RIGHT TO ACQUIRE 10% OR MORE OF THE VOTING SECURI-  
8 TIES OF THE APPLICANT, AND THE PARTNERS OR MEMBERS IN THE CASE OF  
9 A PARTNERSHIP OR ASSOCIATION.

10 (D) A STATEMENT GENERALLY DESCRIBING THE APPLICANT, ITS  
11 FACILITIES, PERSONNEL, AND THE LIMITED HEALTH SERVICE OR SERVICES  
12 TO BE OFFERED.

13 (E) A COPY OF THE FORM OF ANY CONTRACT MADE OR TO BE MADE  
14 BETWEEN THE APPLICANT AND ANY PROVIDERS REGARDING THE PROVISION  
15 OF LIMITED HEALTH SERVICES TO ENROLLEES.

16 (F) A COPY OF THE FORM OF ANY CONTRACT MADE OR TO BE MADE  
17 BETWEEN THE APPLICANT AND ANY PERSON LISTED IN SUBDIVISION (C).

18 (G) A COPY OF THE FORM OF ANY CONTRACT MADE OR TO BE MADE  
19 BETWEEN THE APPLICANT AND ANY PERSON, CORPORATION, PARTNERSHIP,  
20 OR OTHER ENTITY FOR THE PERFORMANCE ON THE APPLICANT'S BEHALF OF  
21 ANY OF THE FOLLOWING FUNCTIONS:

22 (i) MARKETING AND ENROLLMENT.

23 (ii) ADMINISTRATIVE SERVICES.

24 (iii) INVESTMENT MANAGEMENT.

25 (iv) SUBCONTRACTING FOR THE PROVISION OF THE LIMITED HEALTH  
26 SERVICE TO ENROLLEES.

1 (H) A COPY OF THE FORM OF ANY GROUP CONTRACT THAT IS TO BE  
2 ISSUED TO EMPLOYERS, UNIONS, TRUSTEES, OR OTHER ORGANIZATIONS OR  
3 INDIVIDUALS AND A COPY OF ANY FORM OF EVIDENCE OF COVERAGE TO BE  
4 ISSUED TO SUBSCRIBERS.

5 (I) A COPY OF THE APPLICANT'S MOST RECENT FINANCIAL STATE-  
6 MENTS AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS. IF  
7 THE FINANCIAL AFFAIRS OF THE APPLICANT'S PARENT COMPANY ARE  
8 AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS BUT THOSE OF  
9 THE APPLICANT ARE NOT, A COPY OF THE MOST RECENT AUDITED FINAN-  
10 CIAL STATEMENT OF THE APPLICANT'S PARENT COMPANY, CERTIFIED BY AN  
11 INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT, ATTACHED TO WHICH SHALL  
12 BE CONSOLIDATING FINANCIAL STATEMENTS OF THE APPLICANT, SATISFIES  
13 THIS REQUIREMENT UNLESS THE COMMISSIONER DETERMINES THAT ADDI-  
14 TIONAL OR MORE RECENT FINANCIAL INFORMATION IS REQUIRED FOR THE  
15 PROPER ADMINISTRATION OF THIS PART.

16 (J) A COPY OF THE APPLICANT'S FINANCIAL PLAN, INCLUDING A  
17 3-YEAR PROJECTION OF ANTICIPATED OPERATING RESULTS, A STATEMENT  
18 OF THE SOURCES OF WORKING CAPITAL, AND ANY OTHER SOURCES OF FUND-  
19 ING AND PROVISIONS FOR CONTINGENCIES.

20 (K) A DESCRIPTION OF THE PROPOSED METHOD OF MARKETING.

21 (L) A DESCRIPTION OF THE PROPOSED GEOGRAPHIC SERVICE AREA.

22 (M) A DESCRIPTION OF THE COMPLAINT PROCEDURES TO BE ESTAB-  
23 LISHED AND MAINTAINED AS REQUIRED UNDER SECTION 21123.

24 (N) A DESCRIPTION OF THE QUALITY ASSURANCE AND UTILIZATION  
25 REVIEW PROCEDURES TO BE UTILIZED BY THE APPLICANT.

26 (O) A DESCRIPTION OF HOW THE APPLICANT WILL COMPLY WITH  
27 SECTION 21135.



1 (P) THE FEE FOR ISSUANCE OF A LICENSE OF AUTHORITY AS  
2 REQUIRED UNDER SECTION 21147.

3 SEC. 21109. (1) THE DIRECTOR WITH THE CONCURRENCE OF THE  
4 COMMISSIONER SHALL ISSUE A LICENSE TO AN APPLICANT PROVIDED ALL  
5 OF THE FOLLOWING CONDITIONS ARE MET:

6 (A) THE FILING REQUIREMENTS OF SECTION 21107 HAVE BEEN MET.

7 (B) THE INDIVIDUALS RESPONSIBLE FOR CONDUCTING THE  
8 APPLICANT'S AFFAIRS ARE COMPETENT, TRUSTWORTHY, AND POSSESS GOOD  
9 REPUTATIONS, AND HAVE HAD APPROPRIATE EXPERIENCE, TRAINING, OR  
10 EDUCATION.

11 (C) THE APPLICANT IS FINANCIALLY RESPONSIBLE AND MAY REASON-  
12 ABLY BE EXPECTED TO MEET ITS OBLIGATIONS TO ENROLLEES AND TO PRO-  
13 SPECTIVE ENROLLEES. IN MAKING THIS DETERMINATION, THE DIRECTOR  
14 AND THE COMMISSIONER MAY CONSIDER ANY OF THE FOLLOWING:

15 (i) THE FINANCIAL SOUNDNESS OF THE APPLICANT'S ARRANGEMENTS  
16 FOR LIMITED HEALTH SERVICES.

17 (ii) THE ADEQUACY OF WORKING CAPITAL, OTHER SOURCES OF FUND-  
18 ING, AND PROVISIONS FOR CONTINGENCIES.

19 (iii) ANY AGREEMENT FOR PAYING THE COST OF LIMITED HEALTH  
20 SERVICES OR FOR ALTERNATIVE COVERAGE IN THE EVENT OF INSOLVENCY  
21 OF THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION.

22 (iv) THE MANNER IN WHICH THE REQUIREMENTS OF SECTION 21135  
23 HAVE BEEN FULFILLED.

24 (D) THE AGREEMENTS WITH PROVIDERS FOR THE PROVISION OF  
25 LIMITED HEALTH SERVICES CONTAIN THE PROVISIONS REQUIRED BY  
26 SECTION 21133.

1 (E) ANY DEFICIENCIES IDENTIFIED BY THE DIRECTOR AND THE  
2 COMMISSIONER HAVE BEEN CORRECTED.

3 (F) THE PROPOSED CONTRACT AND THE CONTRACT'S PROPOSED RATES,  
4 INCLUDING ANY NOMINAL PAYMENTS, BETWEEN THE ORGANIZATION AND ITS  
5 SUBSCRIBERS ARE FAIR, SOUND, AND REASONABLE IN RELATION TO THE  
6 SERVICES PROVIDED, AND DO NOT DISCRIMINATE ON THE BASIS OF RACE,  
7 COLOR, CREED, NATIONAL ORIGIN, RESIDENCE WITHIN THE APPROVED  
8 SERVICE AREA OF THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION,  
9 LAWFUL OCCUPATION, SEX, HANDICAP, OR MARITAL STATUS, EXCEPT THAT  
10 MARITAL STATUS MAY BE USED TO CLASSIFY INDIVIDUALS OR RISKS FOR  
11 INSURING FAMILY UNITS. THE COMMISSIONER MAY APPROVE A RATE DIF-  
12 FERENTIAL BASED ON SEX, AGE, RESIDENCE, HANDICAP, MARITAL STATUS,  
13 OR LAWFUL OCCUPATION, IF THE DIFFERENTIAL IS SUPPORTED BY SOUND  
14 ACTUARIAL PRINCIPLES, A REASONABLE CLASSIFICATION SYSTEM, AND IS  
15 RELATED TO THE ACTUAL AND CREDIBLE LOSS STATISTICS OR REASONABLY  
16 ANTICIPATED EXPERIENCE IN CASE OF NEW COVERAGES.

17 (G) SOLICITATION OF ENROLLMENT SUBSCRIPTIONS WILL NOT WORK A  
18 FRAUD ON THE INDIVIDUAL SOLICITED.

19 (H) THE PERSON PROPOSES TO ESTABLISH AND OPERATE A BONA FIDE  
20 PREPAID LIMITED HEALTH SERVICE ORGANIZATION ABLE TO PROVIDE, AS  
21 APPROPRIATE, SERVICES IN A MANNER THAT ASSURES CONTINUITY AND  
22 IMPARTS QUALITY SERVICES UNDER CONDITIONS THE DEPARTMENT CONSID-  
23 ERS TO BE IN THE PUBLIC INTEREST.

24 (I) WITHIN THE GEOGRAPHIC AREA SERVED BY THE PREPAID LIMITED  
25 HEALTH SERVICE ORGANIZATION, THE SERVICES WILL BE AVAILABLE,  
26 ACCESSIBLE, AND PROVIDED AS PROMPTLY AS APPROPRIATE TO EACH OF  
27 ITS ENROLLEES IN A MANNER THAT ASSURES CONTINUITY.

1 (J) THE ARRANGEMENTS FOR CONTINUING EVALUATION OF THE  
2 QUALITY OF SERVICES ARE ADEQUATE.

3 (K) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS  
4 INCORPORATED AS A DISTINCT LEGAL ENTITY UNDER THE BUSINESS CORPO-  
5 RATION ACT, ACT NO. 284 OF THE PUBLIC ACTS OF 1972, BEING SEC-  
6 TIONS 450.1101 TO 450.2098 OF THE MICHIGAN COMPILED LAWS, OR THE  
7 NONPROFIT CORPORATION ACT, ACT NO. 162 OF THE PUBLIC ACTS OF  
8 1982, BEING SECTIONS 450.2101 TO 450.3192 OF THE MICHIGAN  
9 COMPILED LAWS.

10 (1) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION MAIN-  
11 TAINS FINANCIAL RECORDS FOR ITS ACTIVITIES SEPARATE FROM THE  
12 FINANCIAL RECORDS OF ANY OTHER OPERATION OR ACTIVITY CARRIED ON  
13 BY THE PERSON LICENSED UNDER THIS PART TO OPERATE THE PREPAID  
14 LIMITED HEALTH SERVICE ORGANIZATION.

15 (M) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS A  
16 GOVERNING BODY THAT MEETS THE REQUIREMENTS OF THIS PART.

17 (2) FOLLOWING RECEIPT OF AN APPLICATION FILED PURSUANT TO  
18 SECTION 21107, THE DIRECTOR AND COMMISSIONER SHALL REVIEW THE  
19 APPLICATION AND WITHIN 90 DAYS NOTIFY THE APPLICANT IN WRITING OF  
20 ANY DEFICIENCIES CONTAINED IN THE APPLICATION. WITHIN 30 DAYS  
21 AFTER RECEIPT OF ANY SUBMISSION CURING ANY DEFICIENCIES, THE  
22 DIRECTOR SHALL ISSUE A LICENSE OR NOTIFY THE APPLICANT IN WRITING  
23 OF ANY DEFICIENCIES NOT CURED.

24 (3) IF THE LICENSE IS DENIED, THE DIRECTOR SHALL NOTIFY THE  
25 APPLICANT AND SHALL SPECIFY THE REASONS FOR DENIAL IN THE  
26 NOTICE. THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS 30  
27 DAYS FROM THE DATE OF RECEIPT OF THE NOTICE TO REQUEST A HEARING

1 BEFORE THE DIRECTOR AND THE COMMISSIONER. A HEARING UNDER THIS  
2 SUBSECTION SHALL BE HELD PURSUANT TO THE ADMINISTRATIVE PROCE-  
3 DURES ACT OF 1969.

4 SEC. 21111. A LICENSE ISSUED UNDER SECTION 21042 TO A PRE-  
5 PAID LIMITED HEALTH SERVICE ORGANIZATION ON THE EFFECTIVE DATE OF  
6 THIS PART IS VALID UNTIL THE LICENSE'S NEXT RENEWAL DATE. ON THE  
7 LICENSE'S NEXT RENEWAL DATE, THE DIRECTOR WITH THE CONCURRENCE OF  
8 THE COMMISSIONER SHALL NOT ISSUE A LICENSE TO THE PREPAID LIMITED  
9 HEALTH SERVICE ORGANIZATION UNLESS THE ORGANIZATION HAS SATISFIED  
10 ALL THE REQUIREMENTS OF THIS PART. A LICENSE ISSUED UNDER THIS  
11 PART TO A PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL CON-  
12 TINUE IN EFFECT SO LONG AS THE ORGANIZATION CONTINUES TO COMPLY  
13 WITH THIS PART.

14 SEC. 21113. ANY ENTITY AUTHORIZED TO OPERATE A HEALTH MAIN-  
15 TENANCE ORGANIZATION UNDER THIS ACT, A FRATERNAL BENEFIT SOCIETY  
16 OR MEDICAL DISABILITY INSURANCE COMPANY UNDER THE INSURANCE CODE  
17 OF 1956, ACT NO. 218 OF THE PUBLIC ACTS OF 1956, BEING  
18 SECTIONS 500.100 TO 500.8302 OF THE MICHIGAN COMPILED LAWS, OR A  
19 HEALTH CARE CORPORATION UNDER THE NONPROFIT HEALTH CARE CORPORA-  
20 TION REFORM ACT, ACT NO. 350 OF THE PUBLIC ACTS OF 1980, BEING  
21 SECTIONS 550.1101 TO 550.1704 OF THE MICHIGAN COMPILED LAWS, THAT  
22 IS NOT OTHERWISE AUTHORIZED UNDER THE LAWS OF THIS STATE TO OFFER  
23 LIMITED HEALTH SERVICES ON A PER CAPITA OR FIXED PREPAYMENT BASIS  
24 MAY DO SO BY FILING FOR APPROVAL WITH THE DIRECTOR AND THE COM-  
25 MISSIONER THE INFORMATION REQUESTED BY SECTION 21107(D), (E),  
26 (G), (H), (J), (K), (L), AND (O). IF THE DIRECTOR OR THE

1 COMMISSIONER DISAPPROVES THE FILING, THE PROCEDURES SET FORTH IN  
2 SECTION 21109(3) SHALL BE FOLLOWED.

3 SEC. 21115. (1) A PREPAID LIMITED HEALTH SERVICE ORGANIZA-  
4 TION SHALL FILE WITH THE DIRECTOR AND THE COMMISSIONER PRIOR TO  
5 USE A NOTICE OF ANY MATERIAL MODIFICATION OF ANY MATTER OR DOCU-  
6 MENT FURNISHED PURSUANT TO SECTION 21107(B), (G)(iii) OR (iv), OR  
7 (H) TOGETHER WITH ANY SUPPORTING DOCUMENTS NECESSARY TO FULLY  
8 EXPLAIN THE CHANGE OR MODIFICATION.

9 (2) A PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL FILE  
10 ANY CHANGE TO ANY DOCUMENT FURNISHED PURSUANT TO  
11 SECTION 21107(C), (D), (E), (F), (G)(i) OR (ii), (I), (J), (L),  
12 (M), (N), OR (O). IF THE DIRECTOR AND THE COMMISSIONER DO NOT  
13 DISAPPROVE EACH FILING WITHIN 60 DAYS OF ITS FILING, THE FILING  
14 IS APPROVED.

15 (3) IF A PREPAID LIMITED HEALTH SERVICE ORGANIZATION DESIRES  
16 TO ADD 1 OR MORE LIMITED HEALTH SERVICES, IT SHALL FILE WITH THE  
17 DIRECTOR AND THE COMMISSIONER AN APPLICATION THAT CONTAINS THE  
18 INFORMATION REQUIRED BY SECTION 21107 THAT IS DIFFERENT FROM THAT  
19 FILED WITH THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION'S  
20 APPLICATION, AND SHALL DEMONSTRATE COMPLIANCE WITH  
21 SECTIONS 21133, 21135, AND 21147.

22 (4) IF A FILING IS DISAPPROVED, THE DIRECTOR AND THE COMMIS-  
23 SIONER SHALL NOTIFY IN WRITING THE PREPAID LIMITED HEALTH SERVICE  
24 ORGANIZATION AND SHALL SPECIFY THE REASONS FOR DISAPPROVAL IN THE  
25 NOTICE. THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION MAY  
26 REFILE ANY DISAPPROVED DOCUMENT AS PROVIDED IN SUBSECTIONS (1)  
27 AND (2) OR HAVE 30 DAYS FROM THE DATE OF RECEIPT OF NOTICE TO

1 REQUEST A HEARING BEFORE THE DIRECTOR AND THE COMMISSIONER  
2 PURSUANT TO THE ADMINISTRATIVE PROCEDURES ACT OF 1969.

3 SEC. 21117. (1) EACH SUBSCRIBER SHALL BE ISSUED AN EVIDENCE  
4 OF COVERAGE. THAT EVIDENCE SHALL CONTAIN A CLEAR AND COMPLETE  
5 STATEMENT OF ALL OF THE FOLLOWING:

6 (A) THE LIMITED HEALTH SERVICES TO WHICH EACH ENROLLEE IS  
7 ENTITLED.

8 (B) ANY LIMITATION OF THE SERVICES, KINDS OF SERVICES, OR  
9 BENEFITS TO BE PROVIDED, ALL EXCLUSIONS, AND ANY DEDUCTIBLE,  
10 COPAYMENT, OR OTHER CHARGES.

11 (C) THE LOCATION AND MANNER THAT INFORMATION IS AVAILABLE TO  
12 DETERMINE WHERE AND HOW SERVICES MAY BE OBTAINED.

13 (D) THE METHOD OF RESOLVING COMPLAINTS.

14 (2) ANY AMENDMENT TO THE EVIDENCE OF COVERAGE MAY BE PRO-  
15 VIDED TO THE SUBSCRIBER IN A SEPARATE DOCUMENT.

16 SEC. 21119. (1) A PREPAID LIMITED HEALTH SERVICE ORGANIZA-  
17 TION IS SUBJECT TO CHAPTER 20 OF THE INSURANCE CODE OF 1956, ACT  
18 NO. 218 OF THE PUBLIC ACTS OF 1956, BEING SECTIONS 500.2001 TO  
19 500.2093 OF THE MICHIGAN COMPILED LAWS.

20 (2) EXCEPT AS OTHERWISE PROVIDED IN THIS PART, A PREPAID  
21 LIMITED HEALTH SERVICE ORGANIZATION IS NOT SUBJECT TO THE INSUR-  
22 ANCE CODE OF 1956, ACT NO. 218 OF THE PUBLIC ACTS OF 1956, BEING  
23 SECTIONS 500.100 TO 500.8302 OF THE MICHIGAN COMPILED LAWS.

24 (3) THE PROVISION OF LIMITED HEALTH SERVICES BY A PREPAID  
25 LIMITED HEALTH SERVICE ORGANIZATION OR OTHER ENTITY PURSUANT TO  
26 THIS PART IS NOT THE PRACTICE OF MEDICINE OR OTHER HEALING ARTS.

1 (4) SOLICITATION TO ARRANGE FOR OR PROVIDE LIMITED HEALTH  
2 SERVICES IN ACCORDANCE WITH THIS PART DOES NOT VIOLATE ANY  
3 PROVISION OF LAW RELATING TO SOLICITATION OR ADVERTISING BY  
4 HEALTH PROFESSIONALS.

5 SEC. 21121. NOTWITHSTANDING ANY OTHER STATE LAW, A PREPAID  
6 LIMITED HEALTH SERVICE ORGANIZATION, HEALTH MAINTENANCE ORGANIZA-  
7 TION, FRATERNAL BENEFIT SOCIETY, MEDICAL DISABILITY INSURER, OR  
8 HEALTH CARE CORPORATION MAY EXCLUDE IN ANY CONTRACT, POLICY, OR  
9 CERTIFICATE ISSUED TO A GROUP ANY COVERAGE THAT WOULD DUPLICATE  
10 THE COVERAGE FOR LIMITED HEALTH SERVICES, WHETHER IN THE FORM OF  
11 SERVICES, SUPPLIES, OR REIMBURSEMENT, INSOFAR AS THE COVERAGE FOR  
12 SERVICE IS PROVIDED IN ACCORDANCE WITH THIS PART UNDER A CON-  
13 TRACT, POLICY, OR CERTIFICATE ISSUED TO THE SAME GROUP OR TO A  
14 PART OF THAT GROUP BY A PREPAID LIMITED HEALTH SERVICE ORGANIZA-  
15 TION, HEALTH MAINTENANCE ORGANIZATION, FRATERNAL BENEFIT SOCIETY,  
16 MEDICAL DISABILITY INSURER, OR HEALTH CARE CORPORATION.

17 SEC. 21123. (1) A PREPAID LIMITED HEALTH SERVICE ORGANIZA-  
18 TION SHALL ESTABLISH AN INTERNAL ENROLLEE GRIEVANCE PROCEDURE FOR  
19 APPROVAL BY THE COMMISSIONER, WHICH, AT A MINIMUM, DOES ALL OF  
20 THE FOLLOWING:

21 (A) PROVIDES FOR A DESIGNATED PERSON RESPONSIBLE FOR ADMIN-  
22 ISTERING THE GRIEVANCE SYSTEM.

23 (B) PROVIDES A DESIGNATED PERSON OR TELEPHONE NUMBER FOR  
24 RECEIVING COMPLAINTS.

25 (C) ENSURES FULL INVESTIGATION OF A COMPLAINT.

26 (D) PROVIDES FOR TIMELY NOTIFICATION TO THE ENROLLEE AS TO  
27 THE PROGRESS OF AN INVESTIGATION.

1 (E) PROVIDES AN ENROLLEE THE RIGHT TO APPEAR BEFORE THE  
2 BOARD OF DIRECTORS OR DESIGNATED COMMITTEE TO PRESENT A  
3 GRIEVANCE.

4 (F) PROVIDES FOR NOTIFICATION TO THE ENROLLEE OF THE RESULTS  
5 OF THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION'S INVESTIGA-  
6 TION AND FOR ADVISEMENT OF THE ENROLLEE'S RIGHT TO REVIEW OF THE  
7 GRIEVANCE BY THE DEPARTMENT.

8 (G) PROVIDES SUMMARY DATA ON THE NUMBER AND TYPES OF COM-  
9 PLAINTS FILED.

10 (H) PROVIDES FOR PERIODIC MANAGEMENT AND GOVERNING BODY  
11 REVIEW OF THE DATA TO ASSURE THAT APPROPRIATE ACTIONS HAVE BEEN  
12 TAKEN.

13 (2) COPIES OF ALL COMPLAINTS AND RESPONSES SHALL BE AVAIL-  
14 ABLE AT THE PRINCIPAL OFFICE OF THE PREPAID LIMITED HEALTH SERV-  
15 ICE ORGANIZATION FOR INSPECTION BY THE DIRECTOR OR THE COMMIS-  
16 SIONER FOR 2 YEARS FOLLOWING THE YEAR THE COMPLAINT WAS FILED.

17 (3) THIS SECTION DOES NOT PRECLUDE AN ENROLLEE OR A PROVIDER  
18 FROM FILING A COMPLAINT WITH THE DIRECTOR AND THE COMMISSIONER OR  
19 LIMIT THE DIRECTOR'S AND THE COMMISSIONER'S ABILITY TO INVESTI-  
20 GATE THOSE COMPLAINTS.

21 SEC. 21125. (1) THE COMMISSIONER MAY EXAMINE THE FINANCIAL  
22 AFFAIRS OF ANY PREPAID LIMITED HEALTH SERVICE ORGANIZATION AS  
23 OFTEN AS IS REASONABLY NECESSARY TO PROTECT THE INTEREST OF THE  
24 PEOPLE OF THIS STATE; BUT NOT LESS FREQUENTLY THAN ONCE EVERY 3  
25 YEARS.

26 (2) EVERY PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL  
27 MAKE ITS RELEVANT BOOKS AND RECORDS AVAILABLE FOR EXAMINATIONS



1 UNDER SUBSECTION (1) AND SHALL COOPERATE WITH THE COMMISSIONER TO  
2 FACILITATE EXAMINATIONS.

3 (3) THE COMMISSIONER MAY ACCEPT THE REPORT OF AN EXAMINATION  
4 MADE BY THE COMMISSIONER OF ANOTHER STATE INSTEAD OF CONDUCTING  
5 AN EXAMINATION UNDER SUBSECTION (1).

6 SEC. 21127. (1) THE DIRECTOR MAY EXAMINE THE AFFAIRS OF ANY  
7 PREPAID LIMITED HEALTH SERVICE ORGANIZATION AS OFTEN AS IS REA-  
8 SONABLY NECESSARY TO PROTECT THE INTEREST OF THE PEOPLE OF THIS  
9 STATE, BUT NOT LESS FREQUENTLY THAN ONCE A YEAR. THE EXAMINATION  
10 SHALL INCLUDE ALL OF THE FOLLOWING:

11 (A) REVIEW OF THE PLAN'S MINUTES OF THE BOARD OF DIRECTORS  
12 MEETINGS SINCE THE TIME OF THE LAST REVIEW.

13 (B) BOARD OF DIRECTORS' APPROVED POLICIES AND PROCEDURES.

14 (C) UTILIZATION REVIEW ACTIVITIES.

15 (D) QUALITY ASSURANCE ACTIVITIES.

16 (E) MARKETING AND MEMBER INFORMATION MATERIALS.

17 (F) SITE VISITS TO SELECTED CONTRACTED PROVIDERS.

18 (G) MONITORING THE QUALITY OF SERVICES PROVIDED UNDER THIS  
19 PART.

20 (H) OTHER INFORMATION AND DOCUMENTATION AS REQUESTED BY THE  
21 DEPARTMENT.

22 (2) EVERY PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL  
23 MAKE ITS RELEVANT BOOKS AND RECORDS AVAILABLE FOR EXAMINATIONS AT  
24 ITS PRINCIPAL PLACE OF DOING BUSINESS IN THIS STATE UNDER SUBSEC-  
25 TION (1) AND IN EVERY WAY COOPERATE WITH THE DIRECTOR TO FACILI-  
26 TATE EXAMINATIONS.

1           (3) THE DIRECTOR MAY CHOOSE TO ACCEPT THE REPORT OF AN  
2 EXAMINATION MADE BY THE DIRECTOR OR COMMISSIONER OF ANOTHER STATE  
3 IF THAT EXAMINATION ADDRESSES THE TOPICS REQUIRED UNDER SECTIONS  
4 21123 AND 21125 INSTEAD OF CONDUCTING AN EXAMINATION UNDER SUB-  
5 SECTION (1).

6           (4) THE DIRECTOR MAY CHOOSE TO ACCEPT THE REPORT OF A  
7 NATIONAL ACCREDITING BODY FOR MANAGED CARE ORGANIZATIONS INSTEAD  
8 OF ANY OF THE ITEMS LISTED IN SUBSECTION (1)(A) TO (H).

9           SEC. 21129. THE FUNDS OF A PREPAID LIMITED HEALTH SERVICE  
10 ORGANIZATION SHALL BE INVESTED ONLY IN ACCORDANCE WITH THE GUIDE-  
11 LINES ESTABLISHED BY THE NATIONAL ASSOCIATION OF INSURANCE COM-  
12 MISSIONERS AND APPROVED BY THE COMMISSIONER FOR INVESTMENTS BY  
13 HEALTH MAINTENANCE ORGANIZATIONS.

14          SEC. 21131. EXCEPT FOR EMPLOYEES OF LIMITED HEALTH SERVICE  
15 ORGANIZATIONS, AN INDIVIDUAL SHALL NOT APPLY, PROCURE, NEGOTIATE,  
16 OR PLACE FOR OTHERS ANY POLICY, CERTIFICATE, OR CONTRACT OF A  
17 PREPAID LIMITED HEALTH SERVICE ORGANIZATION UNLESS THAT INDIVID-  
18 UAL HOLDS A LICENSE OR IS OTHERWISE DULY AUTHORIZED TO SELL ACCI-  
19 DENT AND HEALTH INSURANCE POLICIES OR CERTIFICATES, HEALTH CARE  
20 CORPORATION CERTIFICATES, OR HEALTH MAINTENANCE ORGANIZATION  
21 CONTRACTS.

22          SEC. 21133. ALL CONTRACTS WITH PROVIDERS OR WITH ENTITIES  
23 SUBCONTRACTING FOR THE PROVISION OF LIMITED HEALTH SERVICES TO  
24 ENROLLEES ON A PREPAYMENT OR OTHER BASIS SHALL CONTAIN OR SHALL  
25 BE CONSTRUED TO CONTAIN ALL OF THE FOLLOWING TERMS AND  
26 CONDITIONS:

1 (A) THAT IF THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION  
2 FAILS TO PAY FOR LIMITED HEALTH SERVICES FOR ANY REASON  
3 WHATSOEVER, INCLUDING BUT NOT LIMITED TO INSOLVENCY OR BREACH OF  
4 THIS CONTRACT, THE ENROLLEES SHALL NOT BE LIABLE TO THE PROVIDER  
5 FOR ANY SUMS OWED THE PROVIDER FOR COVERED SERVICES UNDER THIS  
6 CONTRACT.

7 (B) THAT A PROVIDER, AGENT, TRUSTEE, OR ASSIGNEE THEREOF  
8 SHALL NOT MAINTAIN AN ACTION AT LAW OR ATTEMPT TO COLLECT FROM  
9 THE ENROLLEE SUMS OWED TO THE PROVIDER BY THE PREPAID LIMITED  
10 HEALTH SERVICE ORGANIZATION.

11 (C) THAT SUBDIVISIONS (A) AND (B) DO NOT PROHIBIT COLLECTION  
12 OF UNCOVERED CHARGES CONSENTED TO BY ENROLLEES OR THE COLLECTION  
13 OF COPAYMENTS FROM ENROLLEES.

14 (D) THAT SUBDIVISIONS (A), (B), AND (C) SURVIVE THE TERMINA-  
15 TION OF THIS CONTRACT REGARDLESS OF THE REASON GIVING RISE TO  
16 TERMINATION.

17 (E) THAT TERMINATION OF THIS CONTRACT DOES NOT RELEASE THE  
18 PROVIDER FROM COMPLETING PROCEDURES IN PROGRESS ON ENROLLEES THEN  
19 RECEIVING TREATMENT FOR A SPECIFIC CONDITION FOR A PERIOD NOT TO  
20 EXCEED 45 DAYS.

21 (F) THAT ANY AMENDMENT TO THE PROVISIONS OF THE CONTRACT  
22 DEALING WITH SUBDIVISIONS (A) TO (E) SHALL BE SUBMITTED TO AND BE  
23 APPROVED BY THE DIRECTOR AND THE COMMISSIONER PRIOR TO BECOMING  
24 EFFECTIVE.

25 SEC. 21135. (1) EXCEPT AS APPROVED UNDER SUBSECTION (7),  
26 EACH PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL HAVE AND

1 MAINTAIN AT ALL TIMES TANGIBLE NET EQUITY EQUAL TO THE GREATER  
2 OF:

3 (A) \$50,000.00.

4 (B) 2% OF THE ORGANIZATION'S ANNUAL GROSS PREMIUM INCOME, UP  
5 TO A MAXIMUM OF:

6 (i) THE REQUIRED CAPITAL AND SURPLUS OF AN ACCIDENT AND  
7 HEALTH INSURER FOR A LIMITED HEALTH SERVICE ORGANIZATION PROVID-  
8 ING OR ARRANGING FOR MENTAL HEALTH SERVICES, SUBSTANCE ABUSE  
9 SERVICES, OR OTHER LIMITED HEALTH SERVICES, WHICH MAY INVOLVE  
10 INSTITUTIONAL OR FACILITY-BASED CARE OR SERVICES.

11 (ii) \$100,000.00 FOR ALL OTHER LIMITED HEALTH SERVICE  
12 ORGANIZATIONS.

13 (2) A PREPAID LIMITED HEALTH SERVICE ORGANIZATION THAT HAS  
14 UNCOVERED EXPENSES IN EXCESS OF \$50,000.00 AS REPORTED ON THE  
15 MOST RECENT ANNUAL FINANCIAL STATEMENT FILED WITH THE COMMIS-  
16 SIONER SHALL MAINTAIN TANGIBLE NET EQUITY EQUAL TO 25% OF THE  
17 UNCOVERED EXPENSES IN EXCESS OF \$50,000.00 IN ADDITION TO THE  
18 TANGIBLE NET EQUITY REQUIRED BY SUBSECTION (1) (A).

19 (3) EACH PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL  
20 DEPOSIT WITH THE COMMISSIONER OR WITH ANY ORGANIZATION OR TRUSTEE  
21 ACCEPTABLE TO THE COMMISSIONER THROUGH WHICH A CUSTODIAL OR CON-  
22 TROLLED ACCOUNT IS UTILIZED, CASH, SECURITIES, OR ANY COMBINATION  
23 OF THESE OR OTHER MEASURES THAT IS ACCEPTABLE TO THE COMMISSIONER  
24 IN AN AMOUNT EQUAL TO \$25,000.00 PLUS 25% OF THE TANGIBLE NET  
25 EQUITY REQUIRED IN SUBSECTION (1) PROVIDED, HOWEVER, THAT THE  
26 DEPOSIT SHALL NOT BE REQUIRED TO EXCEED \$100,000.00.

1 (4) THE DEPOSIT REQUIRED UNDER SUBSECTION (3) SHALL BE AN  
2 ADMITTED ASSET OF THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION  
3 IN THE DETERMINATION OF TANGIBLE NET EQUITY. ALL INCOME FROM  
4 DEPOSITS SHALL BE AN ASSET OF THE PREPAID LIMITED HEALTH SERVICE  
5 ORGANIZATION. A PREPAID LIMITED HEALTH SERVICE ORGANIZATION MAY  
6 WITHDRAW A DEPOSIT OR PART OF A DEPOSIT AFTER MAKING A SUBSTITUTE  
7 DEPOSIT OF EQUAL AMOUNT AND VALUE. ANY SECURITIES SHALL BE  
8 APPROVED BY THE COMMISSIONER BEFORE BEING SUBSTITUTED.

9 (5) THE DEPOSIT REQUIRED UNDER SUBSECTION (3) SHALL BE USED  
10 TO PROTECT THE INTEREST OF THE PREPAID LIMITED HEALTH SERVICE  
11 ORGANIZATION'S ENROLLEES AND TO ASSURE CONTINUATION OF LIMITED  
12 HEALTH CARE SERVICES TO ENROLLEES OF A PREPAID LIMITED HEALTH  
13 SERVICE ORGANIZATION THAT IS IN SUPERVISION OR REHABILITATION.  
14 IF A LIMITED HEALTH SERVICE ORGANIZATION IS PLACED IN RECEIVER-  
15 SHIP OR LIQUIDATION, THE DEPOSIT SHALL BE AN ASSET SUBJECT TO THE  
16 PROVISIONS OF CHAPTER 81 OF THE INSURANCE CODE OF 1956, ACT  
17 NO. 218 OF THE PUBLIC ACTS OF 1956, BEING SECTIONS 500.8101 TO  
18 500.8159 OF THE MICHIGAN COMPILED LAWS.

19 (6) THE COMMISSIONER MAY REDUCE OR ELIMINATE THE DEPOSIT  
20 REQUIREMENT UNDER SUBSECTION (3) IF THE PREPAID LIMITED HEALTH  
21 SERVICE ORGANIZATION HAS MADE AN ACCEPTABLE DEPOSIT WITH THE  
22 STATE OR JURISDICTION OF DOMICILE FOR THE PROTECTION OF ALL  
23 ENROLLEES, WHEREVER LOCATED, AND DELIVERS TO THE COMMISSIONER A  
24 CERTIFICATE TO THAT EFFECT, DULY AUTHENTICATED BY THE APPROPRIATE  
25 STATE OFFICIAL HOLDING THE DEPOSIT.

26 (7) UPON APPLICATION BY A PREPAID LIMITED HEALTH SERVICE  
27 ORGANIZATION, THE COMMISSIONER MAY WAIVE SOME OR ALL OF THE

1 REQUIREMENTS OF SUBSECTIONS (1) AND (2) FOR ANY PERIOD OF TIME  
2 THE COMMISSIONER CONSIDERS PROPER UPON FINDING THAT EITHER THE  
3 PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAD A NET EQUITY OF  
4 AT LEAST \$5,000,000.00 OR AN ENTITY HAVING A NET EQUITY OF AT  
5 LEAST \$5,000,000.00 FURNISHES TO THE COMMISSIONER A WRITTEN COM-  
6 MITMENT THAT IS ACCEPTABLE TO THE COMMISSIONER TO PROVIDE FOR THE  
7 UNCOVERED EXPENSES OF THE PREPAID LIMITED HEALTH SERVICE  
8 ORGANIZATION.

9 SEC. 21137. (1) A PREPAID LIMITED HEALTH SERVICE ORGANIZA-  
10 TION SHALL MAINTAIN IN FORCE A FIDELITY BOND IN ITS OWN NAME ON  
11 ITS OFFICERS AND EMPLOYEES IN AN AMOUNT OF \$50,000.00 OR IN ANY  
12 OTHER LESSER AMOUNT PRESCRIBED BY THE COMMISSIONER. EXCEPT AS  
13 OTHERWISE PROVIDED BY THIS SUBSECTION, THE BOND SHALL BE ISSUED  
14 BY AN INSURANCE COMPANY THAT IS LICENSED TO DO BUSINESS IN THIS  
15 STATE OR, IF THE FIDELITY BOND REQUIRED BY THIS SUBSECTION IS NOT  
16 AVAILABLE FROM AN INSURANCE COMPANY THAT HOLDS A CERTIFICATE OF  
17 AUTHORITY IN THIS STATE, A FIDELITY BOND MAY BE PROCURED FROM A  
18 LICENSED SURPLUS LINES AGENT RESIDENT IN THIS STATE.

19 (2) INSTEAD OF SUBSECTION (1), A PREPAID LIMITED HEALTH  
20 SERVICE ORGANIZATION MAY DEPOSIT WITH THE STATE TREASURER CASH OR  
21 SECURITIES OR OTHER INVESTMENTS OF THE TYPES SET FORTH IN SECTION  
22 21129. THESE DEPOSITS SHALL BE MAINTAINED IN JOINT CUSTODY WITH  
23 THE COMMISSIONER IN THE AMOUNT AND SUBJECT TO THE SAME CONDITIONS  
24 REQUIRED FOR A BOND UNDER SUBSECTION (1).

25 SEC. 21139. (1) EVERY PREPAID LIMITED HEALTH SERVICE ORGAN-  
26 IZATION SHALL FILE WITH THE DIRECTOR AND THE COMMISSIONER

1 ANNUALLY, ON OR BEFORE APRIL 1, A REPORT VERIFIED BY AN OFFICER  
2 OF THE ORGANIZATION COVERING THE PRECEDING CALENDAR YEAR.

3 (2) A REPORT UNDER SUBSECTION (1) SHALL BE ON FORMS PRE-  
4 SCRIBED BY THE DIRECTOR AND THE COMMISSIONER AND SHALL INCLUDE  
5 ALL OF THE FOLLOWING:

6 (A) A FINANCIAL STATEMENT OF THE ORGANIZATION, INCLUDING ITS  
7 BALANCE SHEET, INCOME STATEMENT, AND STATEMENT OF CHANGES IN  
8 FINANCIAL POSITION FOR THE PRECEDING YEAR, CERTIFIED BY AN INDE-  
9 PENDENT PUBLIC ACCOUNTANT OR A CONSOLIDATED AUDITED FINANCIAL  
10 STATEMENT OF ITS PARENT COMPANY CERTIFIED BY AN INDEPENDENT  
11 PUBLIC ACCOUNTANT, ATTACHED TO WHICH SHALL BE CONSOLIDATING  
12 FINANCIAL STATEMENTS OF THE PREPAID LIMITED HEALTH SERVICE  
13 ORGANIZATION.

14 (B) THE NUMBER OF ENROLLEES AT THE BEGINNING OF THE YEAR,  
15 THE NUMBER OF ENROLLEES AS OF THE END OF THE YEAR, AND THE NUMBER  
16 OF ENROLLMENTS TERMINATED DURING THE YEAR.

17 (C) OTHER INFORMATION RELATING TO THE PERFORMANCE OF THE  
18 ORGANIZATION NECESSARY FOR THE DIRECTOR AND THE COMMISSIONER TO  
19 CARRY OUT THEIR DUTIES UNDER THIS PART.

20 (3) THE DIRECTOR AND THE COMMISSIONER MAY REQUIRE MORE FRE-  
21 QUENT REPORTS CONTAINING THAT INFORMATION NECESSARY TO ENABLE THE  
22 COMMISSIONER TO CARRY OUT HIS OR HER DUTIES UNDER THIS PART.

23 (4) THE DIRECTOR AND THE COMMISSIONER MAY ASSESS A FINE OF  
24 UP TO \$100.00 PER DAY FOR EACH DAY ANY REQUIRED REPORT IS LATE,  
25 AND THE DIRECTOR MAY SUSPEND THE ORGANIZATION'S LICENSE PENDING  
26 THE PROPER FILING OF THE REQUIRED REPORT BY THE ORGANIZATION.

1        SEC. 21141. (1) THE DIRECTOR WITH THE CONCURRENCE OF THE  
2 COMMISSIONER MAY SUSPEND OR REVOKE THE LICENSE ISSUED TO A  
3 PREPAID LIMITED HEALTH SERVICE ORGANIZATION PURSUANT TO THIS PART  
4 UPON DETERMINING THAT ANY OF THE FOLLOWING CONDITIONS EXIST:

5        (A) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS OPER-  
6 ATING SIGNIFICANTLY IN CONTRAVENTION OF ITS BASIC ORGANIZATION  
7 DOCUMENT OR IN A MANNER CONTRARY TO THAT DESCRIBED IN AND REASON-  
8 ABLY INFERRED FROM ANY OTHER INFORMATION SUBMITTED PURSUANT TO  
9 SECTION 21107 UNLESS AMENDMENTS TO THOSE SUBMISSIONS HAVE BEEN  
10 FILED AND AUTHORIZED PURSUANT TO SECTION 21115.

11        (B) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION ISSUES  
12 AN EVIDENCE OF COVERAGE THAT DOES NOT COMPLY WITH REQUIREMENTS OF  
13 SECTION 21117.

14        (C) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS  
15 UNABLE TO FULFILL ITS OBLIGATIONS TO FURNISH LIMITED HEALTH  
16 SERVICES.

17        (D) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS NOT  
18 ABLE TO PROVIDE, AS PROMPTLY AS APPROPRIATE, SERVICES REQUIRED  
19 UNDER THIS PART IN A MANNER THAT ASSURES CONTINUITY OR IMPARTS  
20 QUALITY HEALTH CARE UNDER CONDITIONS THE DEPARTMENT CONSIDERS TO  
21 BE IN THE PUBLIC INTEREST.

22        (E) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS NOT  
23 FINANCIALLY RESPONSIBLE AND MAY REASONABLY BE EXPECTED TO BE  
24 UNABLE TO MEET ITS OBLIGATIONS TO ENROLLEES OR PROSPECTIVE  
25 ENROLLEES.

26        (F) THE TANGIBLE NET EQUITY OF THE PREPAID LIMITED HEALTH  
27 SERVICE ORGANIZATION IS LESS THAN THAT REQUIRED BY SECTION 21135



1 OR THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS FAILED TO  
2 CORRECT ANY DEFICIENCY IN ITS TANGIBLE NET EQUITY AS REQUIRED BY  
3 THE DIRECTOR AND THE COMMISSIONER.

4 (G) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS  
5 FAILED TO IMPLEMENT IN A REASONABLE MANNER THE COMPLAINT SYSTEM  
6 REQUIRED BY SECTION 21123.

7 (H) THE CONTINUED OPERATION OF THE PREPAID LIMITED HEALTH  
8 SERVICE ORGANIZATION WOULD BE HAZARDOUS TO ITS ENROLLEES.

9 (I) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS  
10 FAILED TO IMPLEMENT SUFFICIENT QUALITY ASSURANCE AND UTILIZATION  
11 REVIEW PROGRAMS.

12 (J) THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION HAS OTH-  
13 ERWISE FAILED TO COMPLY WITH THIS PART OR RULES PROMULGATED UNDER  
14 THIS PART.

15 (2) IF THE DIRECTOR OR THE COMMISSIONER HAS CAUSE TO BELIEVE  
16 THAT GROUNDS FOR THE SUSPENSION OR REVOCATION OF A LICENSE EXIST,  
17 THE DIRECTOR SHALL NOTIFY THE PREPAID LIMITED HEALTH SERVICE  
18 ORGANIZATION IN WRITING SPECIFICALLY STATING THE GROUNDS FOR SUS-  
19 PENSION OR REVOCATION AND FIXING A TIME NOT MORE THAN 60 DAYS  
20 THEREAFTER FOR HEARING ON THE MATTER IN ACCORDANCE WITH THE  
21 ADMINISTRATIVE PROCEDURES ACT OF 1969. THIS SUBSECTION DOES NOT  
22 PRECLUDE THE PREPAID LIMITED HEALTH SERVICE ORGANIZATION FROM  
23 SUMMARILY MEETING WITH THE DIRECTOR OR THE COMMISSIONER AND REC-  
24 TIFYING ANY PROBLEMS IN LIEU OF A HEARING UNDER THE ADMINISTRA-  
25 TIVE PROCEDURES ACT OF 1969.

26 (3) IF THE LICENSE OF A PREPAID LIMITED HEALTH SERVICE  
27 ORGANIZATION IS REVOKED, THE ORGANIZATION SHALL PROCEED,

1 IMMEDIATELY FOLLOWING THE EFFECTIVE DATE OF THE ORDER OF  
2 REVOCATION, TO CONCLUDE ITS AFFAIRS, SHALL CONDUCT NO FURTHER  
3 BUSINESS EXCEPT AS MAY BE ESSENTIAL TO THE ORDERLY CONCLUSION OF  
4 THE AFFAIRS OF THE ORGANIZATION, AND SHALL ENGAGE IN NO FURTHER  
5 MARKETING OR SOLICITATION WHATSOEVER. THE DIRECTOR MAY, BY WRIT-  
6 TEN ORDER, PERMIT FURTHER OPERATION OF THE ORGANIZATION AS THE  
7 DIRECTOR FINDS IS IN THE BEST INTEREST OF ENROLLEES, TO THE END  
8 THAT SUBSCRIBERS WILL BE AFFORDED THE GREATEST PRACTICAL OPPORTU-  
9 NITY TO OBTAIN CONTINUING LIMITED HEALTH SERVICES.

10 SEC. 21143. (1) INSTEAD OF ANY PENALTY SPECIFIED ELSEWHERE  
11 IN THIS PART, OR IF NO PENALTY IS SPECIFICALLY PROVIDED, IF ANY  
12 PREPAID LIMITED HEALTH SERVICE ORGANIZATION OR OTHER PERSON, COR-  
13 PORATION, PARTNERSHIP, OR ENTITY SUBJECT TO THIS PART HAS BEEN  
14 FOUND PURSUANT TO PROCEDURES SET FORTH IN THE ADMINISTRATIVE PRO-  
15 CEDURES ACT OF 1969 TO HAVE VIOLATED ANY PROVISION OF THIS PART,  
16 THE DIRECTOR WITH THE CONCURRENCE OF THE COMMISSIONER MAY DO THE  
17 FOLLOWING:

18 (A) ISSUE AND CAUSE TO BE SERVED UPON THE ORGANIZATION,  
19 PERSON, OR ENTITY CHARGED WITH THE VIOLATION, A COPY OF THE FIND-  
20 INGS AND AN ORDER REQUIRING THE ORGANIZATION, PERSON, OR ENTITY  
21 TO CEASE AND DESIST FROM ENGAGING IN THE ACT OR PRACTICE THAT  
22 CONSTITUTES THE VIOLATION. UPON RECEIPT OF PROPER NOTIFICATION  
23 AND GIVEN A REASONABLE TIME TO CEASE AND DESIST FROM ENGAGING IN  
24 THE ACT OR PRACTICE THAT CONSTITUTES THE VIOLATION, IF THE ORGAN-  
25 IZATION, PERSON, OR ENTITY FAILS TO COMPLY, THE DIRECTOR WITH THE  
26 CONCURRENCE OF THE COMMISSIONER MAY REVOKE THE PREPAID LIMITED  
27 HEALTH SERVICE ORGANIZATION'S LICENSE.

1 (B) IMPOSE A CIVIL FINE OF NOT MORE THAN \$1,000.00 FOR EACH  
2 VIOLATION, BUT NOT TO EXCEED AN AGGREGATE PENALTY OF \$10,000.00.

3 (2) A PREPAID LIMITED HEALTH SERVICE ORGANIZATION MAY APPEAL  
4 ANY ACTION PURSUANT TO SECTION 21141 WITHIN 30 DAYS FROM THE DATE  
5 OF RECEIPT OF NOTICE, BY REQUESTING A HEARING BEFORE THE DIRECTOR  
6 PURSUANT TO THE ADMINISTRATIVE PROCEDURES ACT OF 1979.

7 SEC. 21145. (1) ANY SUPERVISION, REHABILITATION, OR LIQUI-  
8 DATION OF A PREPAID LIMITED HEALTH SERVICE ORGANIZATION SHALL BE  
9 TREATED IN THE SAME MANNER AS AN INSURER UNDER CHAPTER 81 OF THE  
10 INSURANCE CODE OF 1956, ACT NO. 218 OF THE PUBLIC ACTS OF 1956,  
11 BEING SECTIONS 500.8101 TO 500.8159 OF THE MICHIGAN COMPILED  
12 LAWS, BY THE COMMISSIONER WITH THE CONCURRENCE OF THE DIRECTOR.

13 (2) A PREPAID LIMITED HEALTH SERVICE ORGANIZATION IS NOT  
14 SUBJECT TO THE LAWS AND REGULATIONS GOVERNING INSURANCE INSOL-  
15 VENCY GUARANTY FUNDS AND NO INSURANCE INSOLVENCY GUARANTY FUND  
16 SHALL PROVIDE PROTECTION TO ANY INDIVIDUALS ENTITLED TO RECEIVE  
17 LIMITED HEALTH SERVICES FROM A PREPAID LIMITED HEALTH SERVICE  
18 ORGANIZATION.

19 SEC. 21147. (1) EVERY PREPAID LIMITED HEALTH SERVICE ORGAN-  
20 IZATION SUBJECT TO THIS PART SHALL PAY TO THE DIRECTOR THE FOL-  
21 LOWING FEES:

22 (A) FOR FILING AN INITIAL APPLICATION FOR A LICENSE -  
23 \$5,000.00.

24 (B) FOR FILING A MATERIAL MODIFICATION TO THE LICENSE -  
25 \$1,000.00.

1           (2) PREPAID LIMITED HEALTH SERVICE ORGANIZATIONS NOT  
2 ACTIVELY ENROLLING AND SERVING ENROLLEES SHALL PAY AN ANNUAL  
3 LICENSE MAINTENANCE FEE OF \$500.00.

4           (3) PREPAID LIMITED HEALTH SERVICE ORGANIZATIONS ACTIVELY  
5 ENROLLING AND SERVING ENROLLEES SHALL PAY AN ANNUAL EXAMINATION  
6 FEE OF \$3,000.00. FEES COLLECTED UNDER THIS SUBSECTION SHALL BE  
7 DEPOSITED IN A SEPARATE FUND IN THE STATE TREASURY AND SHALL BE  
8 USED ONLY FOR REGULATORY PURPOSES UNDER THE DIRECTOR'S  
9 AUTHORITY. MONEY IN THIS FUND AT THE END OF THE FISCAL YEAR  
10 SHALL REMAIN IN THE FUND AND SHALL NOT REVERT TO THE GENERAL  
11 FUND.

12           SEC. 21151. A PREPAID LIMITED HEALTH SERVICE ORGANIZATION  
13 IS SUBJECT TO SECTIONS 224(4) THROUGH (13) AND 225 OF THE INSUR-  
14 ANCE CODE OF 1956, ACT NO. 218 OF THE PUBLIC ACTS OF 1956, BEING  
15 SECTIONS 500.224 AND 500.225 OF THE MICHIGAN COMPILED LAWS.

16           SEC. 21153. THE DIRECTOR AND THE COMMISSIONER MAY, AFTER  
17 NOTICE AND HEARING, PROMULGATE RULES PURSUANT TO THE ADMINISTRA-  
18 TIVE PROCEDURES ACT OF 1969 TO CARRY OUT THE PROVISIONS OF THIS  
19 PART.

20           Section 2. This amendatory act shall take effect 90 days  
21 after it is enacted into law.