

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 592 (as reported without amendment)
Sponsor: Senator Bill Bullard, Jr.
Committee: Financial Services

Date Completed: 10-8-01

RATIONALE

Some large Michigan employers hire a third party administrator (TPA) to process employee benefit claims. Many TPAs are based out-of-State; however, Michigan's Third Party Administrator Act requires all TPAs to employ at least one State-licensed administrative service manager (ASM). This requirement evidently can create complications for TPAs administering multistate employee benefit plans. Nonresident TPAs who cannot find or retain a Michigan ASM are prohibited from conducting business with Michigan employers. While there are benefits to retaining an ASM who is knowledgeable of Michigan health care laws, the Office of Financial and Insurance Services (OFIS) believes that the ASM employment and licensing requirements are more detrimental than beneficial.

CONTENT

The bill would amend the Third Party Administrator Act to eliminate the requirement that a third party administrator employ at least one licensed administrative service manager. The bill also would delete language pertaining to the licensing requirements of the ASM.

Under current law, every TPA must hire at least one licensed ASM who is responsible for conducting the organization's daily operations. In order to receive a license in the State, the ASM must pass a written examination given by the Commissioner of the Office of Financial and Insurance Services. The exam tests the applicant's professional capabilities and understanding of the laws governing health care benefits. The bill would eliminate the required exam fee and the license application filing fee, which are \$10 each.

In addition, the bill would repeal a section of the Act that specifies the effective date and application of the Act.

As defined in the Act, "third party administrator" means "a person who processes claims pursuant to a service contract and who may also provide 1 or more other administrative services pursuant to a service contract, other than under a worker's compensation self-insurance program... Third party administrator does not include a carrier or employer sponsoring a plan."

MCL 550.914 et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The current requirements for ASMs are not effective. While ASMs may be licensed, they do not have to meet continuing education requirements or renew their licenses. There might be no contact, therefore, between the OFIS and an ASM for years; this defeats the purpose of ensuring that ASMs are up to date in their knowledge of Michigan law. Furthermore, if an ASM leaves the business, he or she might not be replaced by the TPA, and the OFIS may not discover the vacancy for a year or more. Also, according to the OFIS, Michigan is the only state that requires TPAs to hire an administrative service manager. This makes it impossible for Michigan to have reciprocal, nonresident TPA licensing. If the requirement were lifted, a number of benefits could result: Michigan

could have reciprocal licensing with other states, TPA applicants would be processed faster, and Michigan would be in line with the National Association of Insurance Commissioners, which advocates nationwide uniform standards. In addition, eliminating the delayed licensing of both ASMs and TPAs would save significant OFIS staff time.

Opposing Argument

If the bill were enacted, not all TPAs would have a representative with knowledge of current Michigan law. Ideally, new TPA legislation should be drafted to protect the public. This new legislation should require a State-licensed ASM to work on-site at the local TPA, meet continuing education requirements, and file license renewals so the OFIS could collect fees and remain in contact with the ASM.

Response: This type of regulation would be too costly to put in place. Employing local ASMs would mean hiring many more personnel, an expensive prospect for TPAs. Also, developing and administering regular exams would be a costly and time-consuming project for the OFIS. Economic realities do not encourage this type of legislation.

Legislative Analyst: C. Layman

FISCAL IMPACT

The bill would eliminate the exam and application fees for these administrators, which would result in a loss of revenue to the Bureau. The number of applications and exam fees paid annually are not presently available.

Fiscal Analyst: M. Tyszkiewicz

A0102\592a

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.