



CORPORATE HEALTH SYSTEMS, INC.

[Benefit Communication Solutions]

2007 Minnesota Legislative Summary

June 24, 2007

The state legislature adjourned its 2007 legislative session on Monday May 21, its constitutionally dictated day of adjournment, with the regular flurry of last minute activity. However, this session was anything but regular. A dispute between the Governor and House and Senate DFL leaders over state spending levels brought the specter of a special session. Without a budget agreement, the legislature passed four scaled-back spending bills, of which earlier versions had been vetoed by the Governor, and went home for the year, leaving the fate of the session in the hands of the Governor. When Pawlenty decided to use line-time vetoes instead of vetoing entire bills, the need for a special session vanished.

The 2007 session will be most remembered for Governor Pawlenty's abundant use of his veto pin. The Governor vetoed twelve bills sent to him from the legislature and line-itemed provisions in six more. For a Governor who had just squeaked by a reelection campaign by less than one percent of the vote and whose party had lost the House of Representatives, he looked pretty good at the end of the day. Through his plentiful and effective use of vetoes, Pawlenty was able to shape the legislative session to his liking.

The Governor and his veto power played a significant role in a couple significant insurance issues, the statewide teacher's health insurance pool and the bad faith claims bill. The Governor was also the force behind the Minnesota Health Insurance Exchange. The following is a brief synopsis of these issues and other insurance issues of interest that were acted upon this year.

Health Insurance Exchange: Proposed by Governor Pawlenty, the Exchange was modeled after the Massachusetts Health Connector signed into law last year by Governor Mitt Romney and which received national attention. Governor Pawlenty was intrigued by this concept and believed a similar proposal could put Minnesota on the health care reform map. He included \$12 million for the Minnesota Health Insurance Exchange in the budget recommendations he submitted to the state legislature in February.

Under the Minnesota Health Insurance Exchange, employees of small employers could enroll in individual health insurance products and through the use of 125 plans gain the tax advantages of currently limited to group policies. The Exchange would also have underwritten all individual health insurance products sold in the State.

It called for a private market response to increased health care coverage and was viewed as a better approach than the expansion of government programs that was being proposed

by the DFL controlled legislature. The Insurance Exchange did not receive favorable reaction in the legislature, particularly in the Senate.

The Health Insurance Exchange was actually included in first health and human services appropriation bill passed by the legislature and funded at \$6 million, half of the amount requested by the Governor. The Governor vetoed this bill, not over the reduction in funding for the Exchange, but because the bill exceeded his spending targets.

The second scaled-back health and human services appropriation bill forwarded to the Governor did not include the Insurance Exchange. Instead it directed the commissioner of human services to study and make recommendations on a health insurance exchange that would provide individuals greater access, choice, portability and affordability of health insurance products. The report will be presented to the legislature by February 1, 2008.

Statewide Teachers Health Insurance Pool: Once again Education Minnesota, the state teacher's union, sponsored legislation to create a mandatory statewide health program for teachers and school district employees. For eight years, Education Minnesota had trouble getting the bill out of the House of Representatives. Now after the recent election, with Democrats in charge of the House, the bill finally made it to a vote on the House floor where it easily passed by an 83-51 vote.

Action was taken by numerous education, business and health groups opposed to this legislation to try to make the bill more acceptable. Language was added to the bill to require commerce department regulatory oversight and approval of plan reserves. On the Senate floor, language was added that made the pool optional for school districts.

Supporters of the statewide pool were not happy with these amendments and sent the bill to a House and Senate conference committee. There the bill was put back basically into its original version as supported by Education Minnesota. It was then passed by the House and Senate. Governor Pawlenty ultimately vetoed the bill.

Bad Faith Claims. Sponsored by the DFL leadership and Minnesota Trial Lawyers Association, they introduced legislation that would allow policyholders to sue their own insurance company. The so called "bad faith claims" bill would have established a new cause of action against an insurer for failing to act in good faith when settling an insurance claim. The trial lawyers claim that 46 other states have some form of bad faith claims laws. The Insurance Federation of Minnesota contends that they need to delay some claims to investigate suspected fraud or arson and that passage of this bill would raise insurance premiums 11-19 percent.

The language from the bad faith claims bill was added to a public safety finance bill. Governor Pawlenty told legislative leaders that he would veto the bill if the bad faith language was included in this important funding bill. The bad faith language was then stripped from the bill. Attempts to bring up bad faith as a separate bill later, including those last hectic hours of the session, were unsuccessful.

The authors of the bill have already indicated they will be back with this proposal next year.

Dependent Coverage. The state legislature proposed to change current group insurance laws to allow unmarried dependents under 25 to continue to be covered under their parents' health insurance policy regardless of their student status. Current law cuts off dependent coverage at age 19 unless the dependent is a full-time student under the age of 25. Nearly 100,000 of the state's uninsured are young adults who are likely working in positions without health insurance, who fail to see the need for coverage or have difficulty affording insurance. Keeping these young adults on their parents' coverage will reduce the ranks of the uninsured.

The state legislature included in the health and human services appropriation bill and signed into law, effective for policies sold, issued or renewed after January 1, 2008. Dependent is defined as "an unmarried child who is under the age of 25, dependent child of any age who is disabled or any other person whom state or federal law requires to be treated as a dependent for purposes of health plans".

This will not affect self-insured groups subject to ERISA or life insurance policies.

Regulatory Modernization III: This is legislation to modernize the commerce department's regulation of the industry. This year's bill repeals the current Minnesota life insurance interest rate disclosure. The interest rate disclosure law was enacted in the mid-80s to respond to the advertisement of exorbitant interest rates and never really worked well with life insurance products.

The new law also adopts NAIC model language relating to the acceleration of life insurance benefits. The NAIC model is more specific about accelerated benefits in the anticipation of death and ties these benefits to a medical condition that would, in the absence of extensive or extraordinary medical treatment, result in a drastically limited life span. The new law changes the commercial property and liability insurance policy notice of renewal with altered rates. It changes the required notice of new terms, rates or rating plan from 60 days to 30 days.

Mandated Health Insurance Benefits. While the legislature didn't pass a new mandated health insurance benefit, it did extend coverage under two already existing mandates. The law requiring coverage of hearing aids for children less than 18 years of age was amended to remove the requirement that the hearing loss was due to a functional congenital malformation of the ear. Effective August 1, health plans must cover hearing aids prescribed by a physician.

At the request of the American Cancer Society, the legislature also clarified the current cancer screening benefit by adding language to make sure that colorectal cancer screening for both men and women is covered. Most health plans already are covering this cancer screening procedures and this bill was not opposed.

Airbag Replacement: A new law will require motor vehicle collision repair shops to replace a deployed or missing air bag when repairing a damaged vehicle. A person who fails to replace an air bag can be guilty of a misdemeanor. This law does not apply to a motor vehicle with a model year more than seven years prior to the repair date. Effective August 1, 2007.

Auto Repair Parts: Auto insurers may not adjust a disputed damage appraisal of a repair shop without first conducting a physical inspection of the vehicle. Insurers may not require the use of a particular vendor for the procurement of parts or other materials necessary for the repair of the vehicle. The law does not require the insurer to pay more than the reasonable market price for parts. Effective August 1, 2007.

Rental Car Coverage: This new law requires that rental car companies provide notice that economic loss, residual liability and uninsured and underinsured motorist coverage of a renter's private passenger auto insurance policy extends to the rental vehicle. The new law changes the priority of coverage to make the private passenger policy of the renter primary to the rental car company's policy. The rental car company's policy applies whenever the renter is not covered by a personal policy. Effective August 1, 2007.

Auto Theft Grants: The commissioner of public safety will make available grants to victims of auto theft. The grants will help pay fees incurred due to the towing and storage of a recovered stolen vehicle. In order to receive a grant, the individual must provide proof of insurance coverage at the time of the theft. The maximum amount of a grant is \$300.