

H .B. NO. 3094

A BILL FOR AN ACT

RELATING TO MUTUAL BENEFIT SOCIETIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 432:1-303, Hawaii Revised Statutes, is
2 amended by amending subsection (c) to read as follows:

3 "(c) If the society does not offer or promise to pay any
4 death benefits in excess of \$25 upon the death of a member, but
5 merely offers or promises to pay disability benefits by reason of
6 sickness or injury, or to pay any other benefits, with or without
7 provision of death benefit in excess of \$25, the society shall,
8 before receiving a certificate of compliance with law from the
9 commissioner, prove to the commissioner that at least one hundred
10 members have each paid in, in cash, at least six regular monthly
11 payments to the disability fund[~~—Such~~]; provided that payments
12 in the aggregate shall:

13 (1) Amount to at least twenty times the maximum amount of
14 disability or other benefits offered or promised to be
15 paid to any one member during or within a period of
16 thirty days[~~—~~];

17 (2) Be credited to [the] disability, sick, or other
18 [~~benefit fund,~~] benefits; and

1 (3) During the period of organization of the society, be
2 held in trust to be returned to the applicants or
3 members who have made payment of the same, if and in
4 case the organization of the society is not completed
5 within one year."

6 SECTION 2. Section 432:1-304, Hawaii Revised Statutes, is
7 amended to read as follows:

8 "**§432:1-304 Authority to offer death, sick, disability, or**
9 **other benefits; special deposit and control of certain funds.**

10 Except as provided in this section and section 432:1-305, all
11 regular payments received for account of death benefit, accident
12 and health or sickness, or other [~~benefit funds,~~] benefits,
13 during the period of organization of a society, shall not be
14 used for the payment of any expenses of the society, but shall
15 be placed on deposit or in trust in some bank or trust company
16 approved by the commissioner, payable to the society but under
17 the joint control with the commissioner. In case the
18 organization of the society is not completed within one year,
19 the funds shall be returned to the applicants or members who
20 made payments of the respective amounts. If, however, the
21 organization is completed and the commissioner issues a
22 certificate of compliance with the law, the funds so deposited

1 in trust, together with interest, if any, shall be released by
2 the commissioner in favor of the society."

3 SECTION 3. Section 432:1-305, Hawaii Revised Statutes, is
4 amended by amending subsection (a) to read as follows:

5 "(a) At no time shall the society, except as provided in
6 subsection (c), use more than twenty-five per cent of the
7 payments up to \$100,000 and seven per cent of the payments in
8 excess of \$100,000, received from its members or applicants in
9 the form of admission fees, dues, contributions, or assessments
10 of any nature for expenses other than taxes, in connection with
11 the management or operation of the death benefit, sick,
12 disability, or other [~~benefit funds.~~] benefits."

13 SECTION 4. Section 432:1-306, Hawaii Revised Statutes, is
14 amended by amending subsection (a) to read as follows:

15 "(a) [~~After the organization of the society is completed,~~
16 ~~and before a certificate of compliance is granted by the~~
17 ~~commissioner, the]~~ The society shall deposit with the
18 commissioner [~~one half the maximum amount required to be~~
19 ~~maintained in its death benefit and disability, or sick, or other~~
20 ~~benefit fund, as provided in section 432:1-401,~~] fifty per cent
21 of the minimum net worth requirement as provided in section
22 432:1-407(a)(2), either in cash or in securities approved by the

1 commissioner[-]; provided that the deposit shall be not less than
2 \$1,000,000 and shall not exceed \$20,000,000."

3 SECTION 5. Section 432:1-401, Hawaii Revised Statutes, is
4 repealed.

5 [~~"§432:1-401 Benefit funds. Each society shall at all~~
6 ~~times maintain:~~

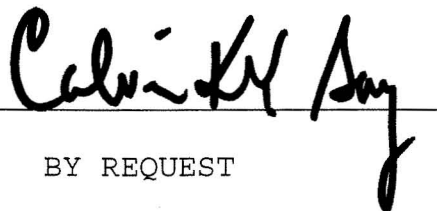
7 ~~(1) In its death benefit fund, at least five times the~~
8 ~~maximum amount of death benefit offered or promised to~~
9 ~~be paid to any one member, and~~

10 ~~(2) In its sick, disability or other benefit fund, at least~~
11 ~~twenty times the maximum amount of sick, disability or~~
12 ~~other benefits, whichever maximum amount is greater,~~
13 ~~offered or promised to be paid to any one member during~~
14 ~~or within a period of thirty days."]~~

15 SECTION 6. Statutory material to be repealed is bracketed
16 and stricken. New statutory material is underscored.

17 SECTION 7. This Act shall take effect upon its approval.

18
19 INTRODUCED BY:



BY REQUEST

JAN 22 2008

Report Title:

Mutual Benefit Societies

Description:

Maintains competition and consumer choice by deleting requirements that pose obstacles to smaller health plans. Deletes requirement that health plans must maintain a fund equal to "one half of twenty times the maximum benefits paid in 30 days" and caps the deposit requirement at \$20 million.

JUSTIFICATION SHEET

DEPARTMENT: Commerce and Consumer Affairs

TITLE: A BILL FOR AN ACT RELATING TO MUTUAL BENEFIT SOCIETIES.

PURPOSE: (1) To cap the deposit required to operate a mutual benefit society at not more than \$20,000,000 and delete the benefit fund requirement; and

(2) To delete references to the benefit fund from chapter 432, Hawaii Revised Statutes (HRS).

MEANS: Amend sections 432:1-303(c), 432:1-304, 432:1-305(a), and 432:1-306(a), HRS, and repeal section 432:1-401, HRS.

JUSTIFICATION: Small mutual benefit societies are having difficulty complying with the "one-half of twenty times the maximum benefit payable in thirty days" deposit requirement in the current law. This bill amends the maximum benefit fund provision by redefining the deposit to be a percentage of minimum net worth. This bill also sets minimum/maximum requirements and caps the deposit at a reasonable amount.

Impact on the public: Deposits by mutual benefit societies protect the public in the event of insolvency; however, tying up unnecessarily large sums in deposits deprives the insurer of funds that could be used to defer premium increases. Making the deposit requirement relative to the size of the mutual benefit society is fairer and removes a barrier to entry for new mutual benefit societies, thus allowing for a more competitive market.

Impact on the department and other agencies:
None.

GENERAL FUND: None.
OTHER FUNDS: None.
PPBS PROGRAM
DESIGNATION: CCA-106.
OTHER AFFECTED
AGENCIES: None.
EFFECTIVE DATE: Upon approval.