

**ASSEMBLY BILL**

**No. 1434**

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**Introduced by Assembly Member McCarty**

February 27, 2015

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An act to add Section 1396.6 to, and to repeal Section 1396.5 of, the Health and Safety Code, and to amend Section 742 of the Insurance Code, relating to health insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 1434, as introduced, McCarty. Health insurance: prohibition on health insurance sales: health care service plans.

Existing law, the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene), provides for the licensure and regulation of health care service plans by the Department of Managed Health Care and makes a willful violation of the act a crime. Any person who transacts disability insurance without a valid and unrevoked certificate of authority from the Insurance Commissioner is guilty of a misdemeanor, except as specified. Existing law provides that a nonprofit hospital corporation that substantially indemnified subscribers and enrollees, was operating in 1965 under certain provisions of the Insurance Code, and that is regulated under Knox-Keene shall enjoy the privileges under the act that would have been available to it had it been registered under the Knox-Mills Health Plan Act and had applied for a license under Knox-Keene in 1976.

This bill would repeal the latter provision. The bill would further prohibit an entity licensed under Knox-Keene from offering, marketing, or selling health insurance, whether issued on a group or individual basis, to an existing or new customer. By expanding the scope of an existing crime, the bill would impose a state-mandated local program.

Existing law provides that any person or other entity that provides coverage in this state for medical, surgical, chiropractic, physical therapy, speech pathology, audiology, professional mental health, dental, hospital, or optometric services, whether this coverage is by direct payment, reimbursement, or otherwise, and that enters into an arrangement or contract with, or underwrites, a preferred provider organization or specified arrangement is subject to the jurisdiction of the Department of Insurance. Existing law provides that a person or entity subject to regulation under Knox-Keene is not subject to the jurisdiction of the department.

This bill would delete the provision that a person or entity subject to regulation under Knox-Keene is not subject to the jurisdiction of the department.

Existing law establishes the Medi-Cal program, administered by the State Department of Health Care Services, under which health care services are provided to qualified, low-income persons. The Medi-Cal program is, in part, governed and funded by federal Medicaid program provisions. Under existing law, one of the methods by which Medi-Cal services are provided is pursuant to contracts with various types of managed care plans.

This bill would require the Department of Finance, in consultation with the State Department of Health Care Services, as a part of the annual budget process, to determine if implementation of the bill results in increased revenues under Section 28 of Article XIII of the California Constitution, and the amount of the increase, if any. The bill would declare the intent of the Legislature to appropriate an equivalent amount, if any, to the State Department of Health Care Services in the annual budget act for the purpose of increasing Medi-Cal provider reimbursement rates.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 1396.5 of the Health and Safety Code is  
2 repealed.

3 ~~1396.5. A nonprofit hospital corporation which substantially~~  
4 ~~indemnified subscribers and enrollees and was operating in 1965~~  
5 ~~under Chapter 11A (commencing with Section 11490) of Part 2~~  
6 ~~of Division 2 of the Insurance Code and which is regulated under~~  
7 ~~the Knox-Keene Health Care Service Plan Act shall enjoy the~~  
8 ~~privileges under the act which would have been available to it had~~  
9 ~~it been registered under the Knox-Mills Health Plan Act and~~  
10 ~~applied for a license under the Knox-Keene Health Care Service~~  
11 ~~Plan Act in 1976.~~

12 SEC. 2. Section 1396.6 is added to the Health and Safety Code,  
13 to read:

14 1396.6. An entity licensed under this chapter shall not offer,  
15 market, or sell health insurance, as defined in subdivision (b) of  
16 Section 106 of the Insurance Code, including, but not limited to,  
17 a preferred provider organization or arrangement described in  
18 Section 10133 of the Insurance Code, whether issued on a group  
19 or individual basis, to an existing or new customer.

20 SEC. 3. Section 742 of the Insurance Code is amended to read:

21 742. ~~(a) Any~~ A person or other entity that provides coverage  
22 in this state for medical, surgical, chiropractic, physical therapy,  
23 speech pathology, audiology, professional mental health, dental,  
24 hospital, or optometric services, whether this coverage is by direct  
25 payment, reimbursement, or otherwise, and that enters into an  
26 arrangement or contract with, or underwrites, a preferred provider  
27 organization or arrangement subject to Section 10133 is subject  
28 to the jurisdiction of the Department of Insurance.

29 ~~(b) Any person or entity subject to regulation under Chapter 2.2~~  
30 ~~(commencing with Section 1340) of Division 2 of the Health and~~  
31 ~~Safety Code shall not be subject to this section.~~

32 SEC. 4. As a part of the annual budget process, the Department  
33 of Finance, in consultation with the State Department of Health  
34 Care Services, shall determine if the implementation of this act  
35 has resulted in increased revenues under Section 28 of Article XIII  
36 of the California Constitution, and the amount of the increase, if  
37 any. It is the intent of the Legislature to appropriate an amount  
38 equal to the amount of the increased revenue, if any, to the State

1 Department of Health Care Services, for the purpose of increasing  
2 provider reimbursement rates under the Medi-Cal program.  
3 SEC. 5. No reimbursement is required by this act pursuant to  
4 Section 6 of Article XIII B of the California Constitution because  
5 the only costs that may be incurred by a local agency or school  
6 district will be incurred because this act creates a new crime or  
7 infraction, eliminates a crime or infraction, or changes the penalty  
8 for a crime or infraction, within the meaning of Section 17556 of  
9 the Government Code, or changes the definition of a crime within  
10 the meaning of Section 6 of Article XIII B of the California  
11 Constitution.

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