

JAMES W. NEWMAN, JR.  
COMMISSIONER OF INSURANCE

G. FLOURNOY  
FIRST DEPUTY COMMISSIONER



BOX 1157  
RICHMOND, VA. 23131  
TELEPHONE (804) 786-1111

STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

March 23, 1981

Administrative letter 1981-2

MEMORANDUM

TO: Insurance Companies and Fraternal Benefit Societies Licensed to  
Transact Accident and Sickness Insurance in Virginia  
  
Prepaid Hospital, Medical and Surgical Service Plans  
Licensed in Virginia

FROM: James W. Newman, Jr. *JWN*  
Commissioner of Insurance

SUBJECT: Deductible and Coinsurance Options

URGENT—EFFECTIVE IMMEDIATELY

On the reverse side of this page is a copy of Chapter 322 of the laws of Virginia, which took effect when it was signed by the Governor on March 18, 1981. This new law repeals Section 38.1-348.12 of the Code of Virginia and enacts in its place Section 38.1-348.12:1.

The section of law that was repealed required that insurance companies and prepaid health plans selling expense incurred policies or contracts make available three specific deductible and coinsurance options. Because this proved to be too inflexible, the section was rewritten to require that an insurance company or prepaid plan make available one or more of four options. The fourth option, which was added to the original list of three options, permits a greater deductible, coinsurance, or cost-sharing provision so long as this option is consistent with the standards established pursuant to Section 38.1-362.14 of the Code of Virginia. These standards are the Minimum Standards for Individual Health Insurance Policies as set forth in Insurance Regulation No. 19, which became effective on January 1, 1981. However, in the context of Section 38.1-348.12:1, these standards will apply to both individual and group health insurance policies and contracts.

Please note that the language in paragraph B of Section 38.1-348.12:1 has been modified to make more clear the definition of the term "make available". This new language is designed to permit insurance companies and prepaid plans to make the required option or options available through the use of a single policy or contract or a set of policies or contracts. The important point is that the option or options must be made available to potential insureds or contract holders "at the same time and in the same manner" as the insurer or prepaid plan disseminates information about and makes other policies or contracts and coverage options available. Please refer to the specific wording in paragraph B on this point.

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Section 38.1-348.12:1 should achieve the objective of the Virginia General Assembly, which is to insure that potential insureds or contract holders have available to them deductible and coinsurance options so that they will have a direct economic interest in holding down health care costs, while at the same time permitting health insurers and prepaid health plans sufficient flexibility to accomplish this result in an efficient manner.

JWNjr:dj

## CHAPTER 322

*An Act to amend the Code of Virginia by adding a section numbered 38.1-348.12:1, and to repeal § 38.1-348.12 of the Code of Virginia, regulating the issue of certain prepaid health plan policies.*

[S 750]

Approved March 18, 1981

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 38.1-348.12:1 as follows:

*§ 38.1-348.12:1. Deductibles and coinsurance options required.—A. An insurer issuing accident and sickness insurance on an expense incurred basis or a prepaid hospital, medical, or surgical service plan shall make available in offering such coverage or contract to the potential insured or contract holder one or more of the following options under which the individual insured or group certificate holder pays for:*

*1. The first one hundred dollars of the cost of the services covered or benefits payable by the policy or contract during a twelve-month period;*

*2. Twenty percent of the first one thousand dollars of the cost of the services covered or benefits payable by the policy or contract during a twelve-month period;*

*3. The first one hundred dollars and twenty percent of the next one thousand dollars of the cost of the services covered or benefits payable by the policy or contract during a twelve-month period; or*

*4. Any other option containing a greater deductible, coinsurance, or cost-sharing provision; however, such option shall not be inconsistent with standards established with respect to deductibles, coinsurances, or cost-sharing pursuant to § 38.1-362.14.*

*B. For the purposes of this section "make available" means that the insurer or prepaid service plan shall disseminate information concerning such option or options and make a policy or contract containing such option or options available to potential insureds or contract holders at the same time and in the same manner as the insurer or prepaid service plan disseminates information concerning other policies or contracts and coverage options and makes other policies or contracts and coverage options available.*

*C. This section shall apply to policies or contracts delivered or issued for delivery in this Commonwealth on or after the effective date of this act, and to group policies or contracts issued prior to that date at the first renewal thereof; but shall not apply to short-term travel, accident only, limited or specified disease, or individual conversion policies or contracts, nor to policies or contracts designed for issuance to persons eligible for coverage under Title XVIII of the United States Social Security Act or any other similar coverage under State or federal government plans.*

2. That § 38.1-348.12 of the Code of Virginia is repealed.

3. That an emergency exists and this act is in force from its passage.