

**GENERAL ASSEMBLY OF NORTH CAROLINA**  
**SESSION 2007**

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**D**

**HOUSE DRH50240-LT-49A\* (2/28)**

Short Title: Revise Life and Health Insurance Laws.-AB (Public)

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Sponsors: Representatives Goforth and Holliman (Primary Sponsors).

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Referred to:

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1 A BILL TO BE ENTITLED  
2 AN ACT TO PROTECT CONSUMERS PURCHASING ANNUITY PRODUCTS;  
3 ADDRESS PORTABILITY IN ACCIDENT AND HEALTH AND LIFE  
4 INSURANCE; MAKE MINOR CHANGES IN THE LAWS ON MANAGED  
5 CARE EXTERNAL REVIEWS; CLARIFY DEFINITIONS IN LONG-TERM  
6 CARE INSURANCE; ADDRESS SMALL EMPLOYER CARRIER PLAN  
7 ELECTIONS; DEFINE "CRITICAL PERIOD CONVERSION RATIO" FOR  
8 CREDIT INSURANCE; MAKE MISCELLANEOUS AMENDMENTS TO  
9 OTHER PROVISIONS RELATED TO LIFE AND HEALTH INSURANCE; AND  
10 MAKE TECHNICAL CORRECTIONS IN INSURANCE CODE REFERENCES  
11 TO THE TEACHERS' AND STATE EMPLOYEES' MAJOR MEDICAL PLAN.

12 The General Assembly of North Carolina enacts:

13  
14 **PART I. SUITABILITY IN ANNUITY TRANSACTIONS.**

15 **SECTION 1.1.** Article 60 of Chapter 58 of the General Statutes is amended  
16 by adding a new Part to read:

17 "Part 4. Suitability in Annuity Transactions.

18 **"§ 58-60-150. Title and reference.**

19 This Part may be cited as the "Suitability in Annuity Transactions Act".

20 **"§ 58-60-155. Purpose; scope.**

21 (a) The purpose of this Part is to set forth standards and procedures for  
22 recommendations to consumers that result in a transaction involving annuity products so  
23 that the insurance needs and financial objectives of consumers at the time of the  
24 transaction are appropriately addressed.

25 (b) Nothing in this Part shall be construed to create or imply a private cause of  
26 action for a violation of this Part.

1       (c) This Part shall apply to any recommendation to purchase or exchange an  
2 annuity made to a consumer by an insurance producer, or an insurer where no producer  
3 is involved, that results in the purchase or exchange recommended.

4 **"§ 58-60-160. Exemptions.**

5       Unless otherwise specifically included, this Part does not apply to recommendations  
6 involving any of the following:

7       (1) Direct response solicitations where there is no recommendation based  
8 on information collected from the consumer pursuant to this Part.

9       (2) Contracts used to fund any of the following:

10       a. An employee pension or welfare benefit plan that is covered by  
11 the Employee Retirement and Income Security Act (ERISA).

12       b. A plan described by section 401(a), 401(k), 403(b), 408(k), or  
13 408(p) of the Internal Revenue Code if established or  
14 maintained by an employer.

15       c. A government or church plan defined in section 414 of the  
16 Internal Revenue Code, a government or church welfare benefit  
17 plan, or a deferred compensation plan of a state or local  
18 government or tax exempt organization under section 457 of the  
19 Internal Revenue Code.

20       d. A nonqualified deferred compensation arrangement established  
21 or maintained by an employer or plan sponsor.

22       e. Settlements of or assumptions of liabilities associated with  
23 personal injury litigation or any dispute or claim resolution  
24 process.

25       f. Formal prepaid funeral contracts.

26 **"§ 58-60-165. Definitions.**

27       As used in this Part:

28       (1) "Annuity" means a fixed annuity or variable annuity that is  
29 individually solicited, whether the product is classified as an individual  
30 or group annuity.

31       (2) "Insurance producer" has the same meaning as in G.S. 58-33-10(7).

32       (3) "Recommendation" means advice provided by an insurance producer,  
33 or an insurer where no producer is involved, to an individual consumer  
34 that results in a purchase or exchange of an annuity in accordance with  
35 that advice.

36 **"§ 58-60-170. Duties of insurers and insurance producers.**

37       (a) In recommending to a consumer the purchase of an annuity or the exchange  
38 of an annuity that results in another insurance transaction or series of insurance  
39 transactions, the insurance producer, or the insurer where no producer is involved, shall  
40 have reasonable grounds for believing that the recommendation is suitable for the  
41 consumer on the basis of the facts disclosed by the consumer as to the consumer's  
42 investments and other insurance products and as to the consumer's financial situation  
43 and needs.

1       **(b)** Before the execution of a purchase or exchange of an annuity resulting from a  
2 recommendation, the insurance producer, or the insurer where no producer is involved,  
3 shall make reasonable efforts to obtain information about:

4           **(1)** The consumer's financial status.

5           **(2)** The consumer's tax status.

6           **(3)** The consumer's investment objectives.

7           **(4)** Any other information used or considered to be reasonable by the  
8 insurance producer, or the insurer where no producer is involved, in  
9 making recommendations to the consumer.

10       **(c)** Except as provided under subdivision (1) of this subsection, neither an  
11 insurance producer, nor an insurer where no producer is involved, shall have any  
12 obligation to a consumer under subsection (a) of this section related to any  
13 recommendation if a consumer does any of the following:

14           **(1)** Refuses to provide relevant information requested by the insurer or  
15 insurance producer. An insurer or insurance producer's  
16 recommendation subject to this subdivision shall be reasonable under  
17 all the circumstances actually known to the insurer or insurance  
18 producer at the time of the recommendation.

19           **(2)** Decides to enter into an insurance transaction that is not based on a  
20 recommendation of the insurer or insurance producer.

21           **(3)** Fails to provide complete or accurate information.

22       **(d)** An insurer either shall assure that a system to supervise recommendations  
23 that is reasonably designed to achieve compliance with this Part is established and  
24 maintained by complying with subsections (e), (f), and (g) of this section, or shall  
25 establish and maintain such a system, including:

26           **(1)** Maintaining written procedures.

27           **(2)** Conducting periodic reviews of its records that are reasonably  
28 designed to assist in detecting and preventing violations of this Part.

29       **(e)** A general agent and independent agency either shall adopt a system  
30 established by an insurer to supervise recommendations of its insurance producers that  
31 is reasonably designed to achieve compliance with this Part, or shall establish and  
32 maintain such a system, including:

33           **(1)** Maintaining written procedures.

34           **(2)** Conducting periodic reviews of records that are reasonably designed to  
35 assist in detecting and preventing violations of this Part.

36       **(f)** An insurer may contract with a third party, including a general agent or  
37 independent agency, to establish and maintain a system of supervision as required by  
38 subsection (d) of this section with respect to insurance producers under contract with, or  
39 employed by, the third party. An insurer shall make reasonable inquiry to assure that the  
40 third party contracting under this subsection is performing the functions required under  
41 subsection (d) of this section and shall take any action that is reasonable under the  
42 circumstances to enforce the contractual obligation to perform the functions. An insurer  
43 may comply with its obligation to make reasonable inquiry by doing all of the  
44 following:

1           (1) The insurer annually obtains a certification from a third-party senior  
2 manager who has responsibility for the delegated functions that the  
3 manager has a reasonable basis to represent, and does represent, that  
4 the third party is performing the required functions. No person may  
5 provide a certification under this subdivision unless (i) the person is a  
6 senior manager with responsibility for the delegated functions; and (ii)  
7 the person has a reasonable basis for making the certification.

8           (2) The insurer, based on reasonable selection criteria, periodically selects  
9 third parties contracting under this subsection for a review to  
10 determine whether the third parties are performing the required  
11 functions. The insurer shall perform those procedures to conduct the  
12 review that are reasonable under the circumstances.

13 An insurer that contracts with a third party, and that complies with the requirements  
14 to supervise the third party pursuant to this subsection, shall have fulfilled its  
15 responsibilities under subsection (d) of this section.

16 A general agent or independent agency contracting with an insurer shall promptly,  
17 when requested by the insurer pursuant to this subsection, give a certification as  
18 described in this subsection or give a clear statement that it is unable to meet the  
19 certification criteria.

20 (g) An insurer, general agent, or independent agency is not required by  
21 subsections (d) or (e) of this section to:

22           (1) Review, or provide for review of, all insurance producer solicited  
23 transactions; or

24           (2) Include in its system of supervision an insurance producer's  
25 recommendations to consumers of products other than the annuities  
26 offered by the insurer, general agent or independent agency.

27 (h) Compliance with the National Association of Securities Dealers Conduct  
28 Rules pertaining to suitability shall satisfy the requirements under this section for the  
29 recommendation of variable annuities. However, nothing in this subsection limits the  
30 Commissioner's ability to enforce the provisions of this Part.

31 **"§ 58-60-175. Mitigation of responsibility.**

32           (a) The Commissioner may order:

33           (1) An insurer to take reasonably appropriate corrective action for any  
34 consumer harmed by the insurer's, or by its insurance producer's,  
35 violation of this Part.

36           (2) An insurance producer to take reasonably appropriate corrective action  
37 for any consumer harmed by the insurance producer's violation of this  
38 Part.

39           (3) A general agency or independent agency that employs or contracts  
40 with an insurance producer to sell, or solicit the sale, of annuities to  
41 consumers, to take reasonably appropriate corrective action for any  
42 consumer harmed by the insurance producer's violation of this Part.

1 (b) Any applicable penalty under G.S. 58-2-70 for a violation of subsection (a) or  
 2 (b) of G.S. 58-60-170 may be reduced or eliminated if corrective action for the  
 3 consumer was taken promptly after a violation was discovered.

4 **"§ 58-60-180. Record keeping.**

5 (a) Insurers, general agents, independent agencies, and insurance producers shall  
 6 maintain or be able to make available to the Commissioner records of the information  
 7 collected from the consumer and other information used in making the  
 8 recommendations that were the basis for insurance transactions for five years after the  
 9 insurance transaction is completed by the insurer. An insurer is permitted, but shall not  
 10 be required, to maintain documentation on behalf of an insurance producer.

11 (b) Records required to be maintained by this Part may be maintained in paper,  
 12 photographic, microprocess, magnetic, mechanical, or electronic media or by any  
 13 process that accurately reproduces the actual document."

14 **SECTION 1.2.** Article 58 of Chapter 58 of the General Statutes is amended  
 15 by adding two new sections to read:

16 **"§ 58-58-146. Application for annuities required.**

17 Each individual annuity contract shall be issued only upon application of the  
 18 applicant. Any application or enrollment form is subject to G.S. 58-3-150, and if taken  
 19 by an agent, shall include the certificate of the agent that the agent has truly and  
 20 accurately recorded on the application or enrollment form the information provided by  
 21 the applicant. Every annuity contract subject to this section shall contain as part of the  
 22 contract the original or reproduction of the application required by this section.

23 **"§ 58-58-147. Surrender fees on death benefits.**

24 No authorized insurer shall deliver or issue for delivery in this State any deferred  
 25 annuity contract that contains a provision that reduces the death benefit of the contract  
 26 by a surrender fee when death occurs during the surrender period."  
 27

28 **PART II. PORTABILITY IN ACCIDENT AND HEALTH AND LIFE**  
 29 **INSURANCE.**

30 **SECTION 2.1.** G.S. 58-51-15(a)(2)b. reads as rewritten:

31 "(2) A provision in the substance of the following language:

32 **TIME LIMIT ON CERTAIN DEFENSES:**

33 ...

34 b. This policy contains a provision limiting coverage for  
 35 preexisting conditions. Preexisting conditions are covered under  
 36 this policy \_\_\_\_ (insert number of months or days, not to  
 37 exceed one year) after the effective date of coverage.  
 38 Preexisting conditions mean "those conditions for which  
 39 medical advice, diagnosis, care, or treatment was received or  
 40 recommended within the one-year period immediately  
 41 preceding the effective date of the person's coverage." ~~Except~~  
 42 ~~for the excepted benefits described in G.S. 58-68-25(b), credit~~  
 43 Credit for having satisfied some or all of the preexisting  
 44 condition waiting periods under previous health benefits

1 coverage shall be given in accordance with ~~G.S. 58-68-30-~~  
2 G.S. 58-51-17. The excepted benefits described in  
3 G.S. 58-68-25(b) are not subject to this requirement for giving  
4 credit."

5 **SECTION 2.2.** Article 51 of Chapter 58 of the General Statutes is amended  
6 by adding a new section to read:

7 **"§ 58-51-17. Portability for accident and health insurance.**

8 (a) Rules Relating to Crediting Previous Coverage. –

9 (1) Creditable coverage defined. – For the purposes of this section,  
10 "creditable coverage" means, with respect to an individual, coverage of  
11 the individual under any of the following:

- 12 a. A self-funded employer group health plan under the Employee  
13 Retirement Income Security Act of 1974.  
14 b. Group or individual health insurance coverage.  
15 c. Part A or part B of title XVIII of the Social Security Act.  
16 d. Title XIX of the Social Security Act, other than coverage  
17 consisting solely of benefits under section 1928.  
18 e. Chapter 55 of title 10, United States Code.  
19 f. A medical care program of the Indian Health Service or of a  
20 tribal organization.  
21 g. A State health benefits risk pool.  
22 h. A health plan offered under chapter 89 of title 5, United States  
23 Code.  
24 i. A public health plan (as defined in federal regulations).  
25 j. A health benefit plan under section 5(e) of the Peace Corps Act  
26 (22 U.S.C. § 2504(e)).  
27 k. Title XXI of the Social Security Act (State Children's Health  
28 Insurance Program).

29 "Creditable coverage" does not include coverage consisting solely of  
30 coverage of excepted benefits as described in G.S. 58-68-25(b).  
31 However, short-term limited-duration health insurance coverage shall  
32 be considered creditable coverage for purposes of this section.

33 (2) Not counting periods before significant breaks in coverage. –

- 34 a. In general. – A period of creditable coverage shall not be  
35 counted, with respect to enrollment of an individual under an  
36 individual health insurance plan, if, after the period and before  
37 the enrollment date, there was a 63-day period during all of  
38 which the individual was not covered under any creditable  
39 coverage.  
40 b. Waiting period not treated as a break in coverage. – For the  
41 purposes of sub-subdivision a. of this subdivision and  
42 subdivision (b)(3) of this subsection, any period that an  
43 individual is in a waiting period, as defined in  
44 G.S. 58-68-30(b)(4)c., for any coverage under an individual

- 1 health insurance plan shall not be taken into account in  
2 determining the continuous period under sub-subdivision a. of  
3 this subdivision.
- 4 c. For an individual who elects COBRA continuation coverage  
5 during the second election period provided under the Trade Act  
6 of 2002, the days between the date the individual lost group  
7 health plan coverage and the first day of the second COBRA  
8 election period shall not be considered when determining  
9 whether a significant break in coverage has occurred.
- 10 (3) Method of crediting coverage. – An individual health insurer shall  
11 count a period of creditable coverage without regard to the specific  
12 benefits covered during the period.
- 13 (4) Establishment of period. – Periods of creditable coverage for an  
14 individual shall be established through presentation of certifications  
15 described in subsection (c) of this section or in another manner that is  
16 specified in regulations.
- 17 (5) Determination of creditable coverage. –
- 18 a. Determination within reasonable time. – If an individual health  
19 insurer receives creditable coverage information under  
20 subsection (c) of this section, the insurer shall, within a  
21 reasonable time following receipt of the information, make a  
22 determination regarding the amount of the individual's  
23 creditable coverage and the length of any exclusion that  
24 remains. Whether this determination is made within a  
25 reasonable time depends on the relevant facts and  
26 circumstances. Relevant facts and circumstances include  
27 whether a plan's application of a preexisting condition exclusion  
28 would prevent an individual from having access to urgent  
29 medical care.
- 30 b. No time limit on presenting evidence of creditable coverage. –  
31 An individual health insurer shall not impose any limit on the  
32 amount of time that an individual has to present a certificate or  
33 other evidence of creditable coverage.
- 34 (b) Exceptions. –
- 35 (1) Exclusion not applicable to certain newborns. – Subject to subdivision  
36 (3) of this subsection, an individual health insurer shall not impose any  
37 preexisting condition exclusion in the case of an individual who, as of  
38 the last day of the 30-day period beginning with the individual's date  
39 of birth, is covered under creditable coverage.
- 40 (2) Exclusion not applicable to certain adopted children. – Subject to  
41 subdivision (3) of this subsection, a group health insurer shall not  
42 impose any preexisting condition exclusion in the case of a child who  
43 is adopted or placed for adoption before attaining 18 years of age and  
44 who, as of the last day of the 30-day period beginning on the date of

1           the adoption or placement for adoption, is covered under creditable  
2           coverage. The previous sentence does not apply to coverage before the  
3           date of the adoption or placement for adoption.

4           (3) Loss if break in coverage. – Subdivisions (1) and (2) of this subsection  
5           shall no longer apply to an individual after the end of the first 63-day  
6           period during all of which the individual was not covered under any  
7           creditable coverage.

8           (c) Certifications and Disclosure of Coverage. –

9           (1) In general. – An individual health insurer shall provide the certification  
10           described in this subdivision (i) at the time an individual ceases to be  
11           covered under the plan, and (ii) on the request on behalf of an  
12           individual made not later than 24 months after the date of cessation of  
13           the coverage described in clause (i) of this subdivision, whichever is  
14           later.

15           (2) Certification. – The certification described in this subdivision is a  
16           written certification of (i) the period of creditable coverage of the  
17           individual under the plan and (ii) any waiting period and affiliation  
18           period, if applicable, imposed with respect to the individual for any  
19           coverage under the plan."

20           **SECTION 2.3.** G.S. 58-68-30(c) reads as rewritten:

21           "(c) Rules Relating to Crediting Previous Coverage. –

22           (1) Creditable coverage defined. – For the purposes of this Article,  
23           "creditable coverage" means, with respect to an individual, coverage of  
24           the individual under any of the following:

- 25           a. A self-funded employer group health plan under the Employee  
26           Retirement Income Security Act of 1974.
- 27           b. Group or individual health insurance coverage.
- 28           c. Part A or part B of title XVIII of the Social Security Act.
- 29           d. Title XIX of the Social Security Act, other than coverage  
30           consisting solely of benefits under section 1928.
- 31           e. Chapter 55 of title 10, United States Code.
- 32           f. A medical care program of the Indian Health Service or of a  
33           tribal organization.
- 34           g. A State health benefits risk pool.
- 35           h. A health plan offered under chapter 89 of title 5, United States  
36           Code.
- 37           i. A public health plan (as defined in federal regulations).
- 38           j. A health benefit plan under section 5(e) of the Peace Corps Act  
39           (22 U.S.C. § 2504(e)).
- 40           k. Title XXI of the Social Security Act (State Children's Health  
41           Insurance Program).

42           "Creditable coverage" does not include coverage consisting solely of  
43           coverage of excepted benefits. However, short-term limited-duration



1 health insurance coverage shall be considered creditable coverage for  
2 purposes of this section and G.S. 58-51-15(a)(2)b.

3 (2) Not counting periods before significant breaks in coverage. –

4 a. In general. – A period of creditable coverage shall not be  
5 counted, with respect to enrollment of an individual under a  
6 group health insurance plan, if, after the period and before the  
7 enrollment date, there was a 63-day period during all of which  
8 the individual was not covered under any creditable coverage.

9 b. Waiting period not treated as a break in coverage. – For the  
10 purposes of sub-subdivision a. of this subdivision and  
11 subdivision (d)(4) of this subsection, any period that an  
12 individual is in a waiting period for any coverage under a group  
13 health insurance plan or is in an affiliation period shall not be  
14 taken into account in determining the continuous period under  
15 sub-subdivision a. of this subdivision.

16 c. Time spent on short term limited duration health insurance not  
17 treated as a break in coverage. – For the purposes of  
18 sub-subdivision a. of this subdivision, any period that an  
19 individual is enrolled on a short term limited duration health  
20 insurance policy shall not be taken into account in determining  
21 the continuous period under sub-subdivision a. of this  
22 subdivision so long as the period of time spent on the short term  
23 limited duration health insurance policy or policies does not  
24 exceed 12 months.

25 d. For an individual who elects COBRA continuation coverage  
26 during the second election period provided under the Trade Act  
27 of 2002, the days between the date the individual lost group  
28 health plan coverage and the first day of the second COBRA  
29 election period shall not be considered when determining  
30 whether a significant break in coverage has occurred.

31 (3) Method of crediting coverage. –

32 a. Standard method. – Except as otherwise provided under  
33 sub-subdivision b. of this subdivision for the purposes of  
34 applying subdivision (a)(3) of this subsection, a group health  
35 insurer shall count a period of creditable coverage without  
36 regard to the specific benefits covered during the period.

37 b. Election of alternative method. – A group health insurer may  
38 elect to apply subdivision (a)(3) of this subsection based on  
39 coverage of benefits within each of several classes or categories  
40 of benefits specified in federal regulations rather than as  
41 provided under sub-subdivision a. of this subdivision. This  
42 election shall be made on a uniform basis for all participants  
43 and beneficiaries. Under this election a group health insurer  
44 shall count a period of creditable coverage with respect to any

1 class or category of benefits if any level of benefits is covered  
 2 within the class or category.

3 c. Health insurer notice. – In the case of an election under  
 4 sub-subdivision b. of this subdivision with respect to health  
 5 insurance coverage in the small or large group market, the  
 6 health insurer: (i) shall prominently state in any disclosure  
 7 statements concerning the coverage, and to each employer at  
 8 the time of the offer or sale of the coverage, that the health  
 9 insurer has made the election, and (ii) shall include in the  
 10 statements a description of the effect of the election.

11 (4) Establishment of period. – Periods of creditable coverage for an  
 12 individual shall be established through presentation of certifications  
 13 described in subsection (e) of this section or in another manner that is  
 14 specified in federal regulations.

15 (5) Determination of creditable coverage. –

16 a. Determination within reasonable time. – If a group health  
 17 insurer receives creditable coverage information under  
 18 subsection (e) of this section, the group health insurer shall,  
 19 within a reasonable time following receipt of the information,  
 20 make a determination regarding the amount of the individual's  
 21 creditable coverage and the length of any exclusion that  
 22 remains. Whether this determination is made within a  
 23 reasonable time depends on the relevant facts and  
 24 circumstances. Relevant facts and circumstances include  
 25 whether a plan's application of a preexisting condition exclusion  
 26 would prevent an individual from having access to urgent  
 27 medical care.

28 b. No time limit on presenting evidence of creditable coverage. –  
 29 A group health insurer shall not impose any limit on the amount  
 30 of time that an individual has to present a certificate or other  
 31 evidence of creditable coverage."

32 **SECTION 2.4.** G.S. 58-68-30(f) reads as rewritten:

33 "(f) Special Enrollment Periods. –

34 (1) Individuals losing other coverage. – A group health insurer shall  
 35 permit an employee who is eligible, but not enrolled, for coverage  
 36 under the terms of the plan (or a dependent of the employee if the  
 37 dependent is eligible, but not enrolled, for coverage under the terms) to  
 38 enroll for coverage under the terms of the plan if each of the following  
 39 conditions is met:

40 a. The employee or dependent was covered under an ERISA  
 41 group health plan or had health insurance coverage at the time  
 42 coverage was previously offered to the employee or dependent.

43 b. The employee stated in writing at the time that coverage under  
 44 the group health plan or health insurance coverage was the

1 reason for declining enrollment, but only if the health insurer  
2 required the statement at the time and provided the employee  
3 with notice of the requirement and the consequences of the  
4 requirement at the time.

5 c. With respect to the employee's or dependent's coverage  
6 described in sub-subdivision a. of this subsection: (i) the  
7 coverage was under a COBRA continuation provision and the  
8 coverage under the provision was exhausted; (ii) the coverage  
9 was not under that provision and either the coverage was  
10 terminated because of loss of eligibility for the coverage,  
11 including legal separation, divorce, cessation of dependent  
12 status (such as attaining the maximum age to be eligible as a  
13 dependent child under the plan), death of an employee,  
14 termination of employment, reduction in the number of hours of  
15 employment, and any loss of eligibility for coverage after a  
16 period that is measured by reference to any of the foregoing;  
17 (iii) employer contributions toward the coverage were  
18 terminated; (iv) in the case of coverage offered through an  
19 arrangement that does not provide benefits to individuals who  
20 no longer reside, live, or work in a service area, there has been  
21 loss of coverage because an individual no longer resides, lives,  
22 or works in the service area (whether or not within the choice of  
23 the individual), and no other benefit package is available to the  
24 individual; (v) an individual incurs a claim that would meet or  
25 exceed a lifetime limit on all benefits; or (vi) a plan no longer  
26 offers any benefits to the class of similarly situated individuals  
27 that includes the individual; or (vii) the health insurer  
28 terminated coverage under G.S. 58-68-45(c)(2).

29 d. Under the terms of the plan, the employee requests the  
30 enrollment not later than 30 days after the date of the applicable  
31 event described in sub-subdivision c. of this subdivision.

32 (2) For dependent beneficiaries. –

33 a. In general. – If: (i) a group health insurance plan makes  
34 coverage available with respect to a dependent of an individual,  
35 (ii) the individual is a participant under the plan (or has met any  
36 waiting period applicable to becoming a participant under the  
37 plan and is eligible to be enrolled under the plan but for a  
38 failure to enroll during a previous enrollment period), and (iii) a  
39 person becomes the dependent of the individual through  
40 marriage, birth, or adoption or placement for adoption.

41 The plan shall provide for a dependent special enrollment period  
42 described in sub-subdivision b. of this subdivision during which the  
43 person (or, if not otherwise enrolled, the individual) may be enrolled  
44 under the plan as a dependent of the individual, and in the case of the

1 birth or adoption of a child, the spouse of the individual may be  
2 enrolled as a dependent of the individual if the spouse is otherwise  
3 eligible for coverage.

4 b. Dependent special enrollment period. – A dependent special  
5 enrollment period under this sub-subdivision shall be a period  
6 of not less than 30 days and shall begin on the later of: (i) the  
7 date dependent coverage is made available, or (ii) the date of  
8 the marriage, birth, or adoption or placement for adoption  
9 described in sub-subdivision a.(iii) of this subdivision.

10 c. No waiting period. – If an individual seeks to enroll a  
11 dependent during the first 30 days of the dependent's special  
12 enrollment period, the coverage of the dependent shall become  
13 effective: (i) in the case of marriage, not later than the first day  
14 of the first month beginning after the date the completed request  
15 for enrollment is received; (ii) in the case of a dependent's birth,  
16 as of the date of the birth; or (iii) in the case of a dependent's  
17 adoption or placement for adoption, the date of the adoption or  
18 placement for adoption.

19 (3) Treatment of special enrollees. –

20 a. If an individual requests enrollment while the individual is  
21 entitled to special enrollment under this subsection, the  
22 individual is a special enrollee, even if the request for  
23 enrollment coincides with a late enrollment opportunity under  
24 the plan. Therefore, the individual cannot be considered a late  
25 enrollee.

26 b. Special enrollees shall be offered all of the benefit packages  
27 available to similarly situated individuals who enroll when first  
28 eligible. For this purpose, any difference in benefits or  
29 cost-sharing requirements for different individuals constitutes a  
30 different benefit package. In addition, a special enrollee cannot  
31 be required to pay more for coverage than a similarly situated  
32 individual who enrolls in the same coverage when first eligible.  
33 The length of any preexisting condition exclusion that may be  
34 applied to a special enrollee cannot exceed the length of any  
35 preexisting condition exclusion that is applied to similarly  
36 situated individuals who enroll when first eligible."

37 **SECTION 2.5.** G.S. 58-68-30 is amended by adding the following new  
38 subsections to read:

39 "(h) General Notice of Preexisting Condition Exclusion. – A group health insurer  
40 offering group health insurance coverage subject to a preexisting condition exclusion  
41 shall provide a written general notice of preexisting condition exclusion to participants  
42 under the plan; and shall not impose a preexisting condition exclusion with respect to a  
43 participant or a dependent of the participant until the notice is provided.

1 A group health insurer shall provide the general notice of preexisting condition  
2 exclusion as part of any written application materials distributed by the insurer for  
3 enrollment. If the insurer does not distribute these materials, the notice shall be provided  
4 by the earliest date following a request for enrollment that the insurer, acting in a  
5 reasonable and prompt fashion, can provide the notice.

6 The general notice of preexisting condition exclusion shall notify participants of the  
7 following:

- 8 (1) The existence and terms of any preexisting condition exclusion under  
9 the plan. This description includes the length of the plan's look-back  
10 period, which shall not exceed six months under subdivision (a)(1) of  
11 this section; the maximum preexisting condition exclusion period  
12 under the plan, which shall not exceed 12 months (18 months for late  
13 enrollees) under subdivision (a)(2) of this section; and how the plan  
14 will reduce the maximum preexisting condition exclusion period by  
15 creditable coverage, as described in subsection (c) of this section.
- 16 (2) A description of the rights of individuals to demonstrate creditable  
17 coverage, and any applicable waiting periods, through a certificate of  
18 creditable coverage, as required by subsection (e) of this section, or  
19 through other means as described in federal regulations. This shall  
20 include a description of the right of the individual to request a  
21 certificate from a prior insurer, if necessary, and a statement that the  
22 current insurer will assist in obtaining a certificate from any prior plan  
23 or insurer, if necessary.
- 24 (3) A person to contact, including an address or telephone number for  
25 obtaining additional information or assistance about the preexisting  
26 condition exclusion.

27 Nothing in this subsection affects a group health insurer's responsibility under this  
28 section to fully disclose in the master group policy, the certificate or evidence of  
29 coverage, and the member handbook the plan's preexisting condition limitation, the  
30 rules relating to creditable coverage, including how an individual may provide proof of  
31 creditable coverage, and the methods of counting and crediting coverage.

32 (i) Individual Notice of Period of Preexisting Condition Exclusion. – After an  
33 individual has presented evidence of creditable coverage and the group health insurer  
34 has made a determination of creditable coverage under subdivision (c)(5) of this section,  
35 the group health insurer shall provide the individual a written notice of the length of  
36 preexisting condition exclusion that remains after offsetting for prior creditable  
37 coverage. In the notice, the insurer is not required to identify any medical conditions  
38 specific to the individual that could be subject to the exclusion. A group health insurer is  
39 not required to provide this notice if the plan does not impose any preexisting condition  
40 exclusion on the individual or if the plan's preexisting condition exclusion is completely  
41 offset by the individual's prior creditable coverage.

42 The individual notice must be provided by the earliest date following a  
43 determination that the group health insurer, acting in a reasonable and prompt fashion,  
44 can provide the notice.

1        A group health insurer shall disclose:

- 2            (1)    Its determination of any preexisting condition exclusion period that  
3            applies to the individual, including the last day on which the  
4            preexisting condition exclusion applies.  
5            (2)    The basis for that determination, including the source and substance of  
6            any information on which the plan or insurer relied.  
7            (3)    An explanation of the individual's right to submit additional evidence  
8            of creditable coverage.  
9            (4)    A description of any applicable appeal procedures established by the  
10           group health insurer.

11        (j)    Determination Modification. – Nothing in this section prevents a plan or  
12        insurer from modifying an initial determination of creditable coverage if it determines  
13        that the individual did not have the claimed creditable coverage, provided that:

- 14            (1)    A notice of the new determination, consistent with the requirements of  
15            subsection (i) of this section, is provided to the individual; and  
16            (2)    Until the notice of the new determination is provided, the group health  
17            insurer, for purposes of approving access to medical services (such as  
18            a presurgery authorization), acts in a manner consistent with the initial  
19            determination.

20        (k)    Notice Form and Content. – Any notices required under this section shall be  
21        in the form and content and be delivered as prescribed by, in accordance with, or as  
22        specified in federal regulations, unless otherwise provided in this Chapter."

23        **SECTION 2.6.** Article 58 of Chapter 58 of the General Statutes is amended  
24 by adding a new section to read:

25        **"§ 58-58-141. Portability of group life insurance.**

26        (a)    Definition. – For purposes of this section, "portability" means the prerogative  
27        to continue existing group life insurance coverage, or access alternate group life  
28        insurance coverage, that may be provided by a group life insurance policy to an  
29        individual insured after the individual's affiliation with the initial group terminates.

30        (b)    Applicability. – This section applies to all certificates issued under group  
31        policies that are used in this State. This section also applies to a certificate issued under  
32        a policy issued and delivered to a trust or to an association outside of this State and  
33        covering persons residing in this State.

34        (c)    Prohibitions. – The use of health questions, underwriting, or eligibility  
35        requirements that pertain to health status is prohibited when an individual insured elects  
36        to access a portability option provided by a group life insurance policy."

37  
38        **PART III. EXTERNAL REVIEW.**

39        **SECTION 3.1.** G.S. 58-50-82(b)(1) reads as rewritten:

40        "(b) Within three business days of receiving a request for an expedited external  
41 review, the Commissioner shall complete all of the following:

- 42            (1)    Notify the insurer that made the noncertification, noncertification  
43            appeal decision, or second-level grievance review decision which is  
44            the subject of the request that the request has been received and

1 provide a copy of the request or verbally convey all of the information  
2 included in the request. The Commissioner shall also request any  
3 information from the insurer necessary to make the preliminary review  
4 set forth in G.S. 58-50-80(b)(2) and require the insurer to deliver the  
5 information not later than one business day after the request was made.

6 ...."

7 **SECTION 3.2.** G.S. 58-50-82(c) reads as rewritten:

8 "(c) As soon as possible, but within the same business day of receiving notice  
9 under subdivision (b)(2) of this section that the request has been assigned to a review  
10 organization, the insurer or its designee utilization review organization shall provide or  
11 transmit all documents and information considered in making the noncertification  
12 appeal decision or the second-level grievance review decision to the assigned review  
13 organization electronically or by telephone or facsimile or any other available  
14 expeditious method. A copy of the same information shall be sent by the same means or  
15 other expeditious means to the covered person or the covered person's representative  
16 who made the request for expedited external review."

17 **SECTION 3.3.** G.S. 58-50-95 reads as rewritten:

18 **"§ 58-50-95. Report by Commissioner.**

19 The Commissioner shall report ~~semiannually~~ annually to the Joint Legislative  
20 Health Care Oversight Committee regarding the nature and appropriateness of reviews  
21 conducted under this Part. The report, which shall be provided to the public upon  
22 request, should include the number of reviews, underlying issues in dispute, character of  
23 the reviews, dollar amounts in question, whether the review was decided in favor of the  
24 covered person or the health benefit plan, the cost of review, and any other information  
25 relevant to the evaluation of the effectiveness of this Part."

#### 26 27 **PART IV. LONG-TERM CARE INSURANCE.**

28 **SECTION 4.** G.S. 58-55-20(4) reads as rewritten:

29 "(4) "Long-term care insurance" means any policy or certificate advertised,  
30 marketed, offered, or designed to provide coverage for not less than 12  
31 consecutive months for each covered person on an expense incurred,  
32 indemnity, prepaid, or other basis, for one or more necessary or  
33 medically necessary diagnostic, preventive, therapeutic, rehabilitative,  
34 maintenance, or personal care services, provided in a setting other than  
35 an acute care unit of a hospital. "Long-term care insurance" ~~includes~~  
36 group includes:

- 37 a. Group and individual annuities and life insurance policies or  
38 riders that supplement or directly provide long-term care  
39 insurance.  
40 b. A policy or rider that provides for payment of benefits based  
41 upon cognitive impairment or the loss of functional capacity.  
42 c. Qualified long-term care insurance contracts.  
43 d. Group and individual policies whether issued by insurers,  
44 fraternal benefit societies, nonprofit health, hospital, and

1 medical service corporations prepaid health plans, health  
2 maintenance organizations, or any similar organization.  
3 "Long-term care insurance" does not include any policy that is  
4 offered primarily to provide basic Medicare supplement  
5 coverage, basic hospital expense coverage, basic  
6 medical-surgical expense coverage, hospital confinement  
7 indemnity coverage, major medical expense coverage, disability  
8 income protection coverage, accident only coverage, specified  
9 disease or specified accident coverage, or limited benefit health  
10 coverage.

11 With regard to life insurance, "long-term care insurance" does not  
12 include life insurance policies that accelerate the death benefit  
13 specifically for one or more of the qualifying events of terminal  
14 illness, medical conditions requiring extraordinary medical  
15 intervention or permanent institutional confinement, and that provide  
16 the option of a lump-sum payment for those benefits and where neither  
17 the benefits nor the eligibility for the benefits is conditioned upon the  
18 receipt of long-term care."  
19

## 20 PART V. SMALL EMPLOYER GROUP HEALTH INSURANCE.

21 **SECTION 5.1.** G.S. 58-50-126(d) reads as rewritten:

22 "(d) Election. – The small employer carrier elections of the policies to be offered  
23 under this section shall apply uniformly to all small employers in this State for that  
24 small employer carrier. The election shall be effective for a period of not less than two  
25 years. An election under this section shall be made in accordance with G.S. 58-50-127."

26 **SECTION 5.2.** Article 50 of Chapter 58 of the General Statutes is amended  
27 by adding a new section to read:

28 **"§ 58-50-127. Small employer carrier plan elections.**

29 A small employer carrier shall submit, in a format prescribed by the Commissioner,  
30 an election pursuant to G.S. 58-50-125(d) pertaining to the offering of at least one basic  
31 and standard health care plan or the alternative health care plans as provided in  
32 G.S. 58-50-126. The election shall be effective for a period of not less than two years.  
33 The election shall be submitted with policy forms when they are submitted for approval,  
34 or if the policy forms have been previously approved, then no later than February 1 of  
35 the year in which the small employer carrier wishes the election to begin. If a small  
36 employer carrier does not make a new election, or if the new election is not approved if  
37 applicable, the existing election at the end of the two-year election period shall continue  
38 to apply for another two-year period."  
39

## 40 PART VI. CREDIT INSURANCE.

41 **SECTION 6.1.** G.S. 58-57-5 is amended by adding a new subdivision after  
42 G.S. 58-57-5(4b) to read:

43 "(4c) "Critical period conversion ratio" means the ratio of the benefit value  
44 of the critical period divided by the benefit value of the full term."



1           **SECTION 6.2.** G.S. 58-57-35 is amended by adding a new subsection to  
2 read:

3           "(d) Premium rates for benefits provided on a critical period basis shall be  
4 adjusted by a critical period conversion ratio that reduces the rates giving recognition to  
5 the shorter benefit period provided."

6  
7 **PART VII. MISCELLANEOUS PROVISIONS.**

8           **SECTION 7.1.** G.S. 58-3-35 reads as rewritten:

9 **"§ 58-3-35. Stipulations as to jurisdiction and limitation of actions.**

10          (a) No insurer, self-insurer, service corporation, HMO, ~~or MEWA~~ continuing  
11 care provider, viatical settlement provider, or professional employer organization  
12 licensed under this Chapter shall make any condition or stipulation in its ~~insurance~~  
13 ~~contracts or policies~~ concerning the court or jurisdiction in which any suit or action on  
14 the contract may be brought.

15          (b) No insurer, self-insurer, service corporation, HMO, ~~or MEWA~~ continuing  
16 care provider, viatical settlement provider, or professional employer organization  
17 licensed under this Chapter shall limit the time within which any suit or action referred  
18 to in subsection (a) of this section may be commenced to less than the period prescribed  
19 by law.

20          (c) All conditions and stipulations forbidden by this section are ~~void~~. void ab  
21 initio."

22           **SECTION 7.2.** G.S. 58-3-167(a)(1) reads as rewritten:

23           "(1) "Health benefit plan" means an accident and health insurance policy or  
24 certificate; a nonprofit hospital or medical service corporation  
25 contract; a health maintenance organization subscriber contract; a plan  
26 provided by a multiple employer welfare arrangement; or a plan  
27 provided by another benefit arrangement, to the extent permitted by  
28 the Employee Retirement Income Security Act of 1974, as amended,  
29 or by any waiver of or other exception to that act provided under  
30 federal law or regulation. "Health benefit plan" does not mean any  
31 plan implemented or administered by the North Carolina or United  
32 States Department of Health and Human Services, or any successor  
33 agency, or its representatives. "Health benefit plan" does not mean any  
34 of the following kinds of insurance:

- 35           a. ~~Accident.~~  
36           b. ~~Credit.~~  
37           c. ~~Disability income.~~  
38           d. ~~Long term or nursing home care.~~  
39           e. ~~Medicare supplement.~~  
40           f. ~~Specified disease.~~  
41           g. ~~Dental or vision.~~  
42           h. ~~Coverage issued as a supplement to liability insurance.~~  
43           i. ~~Workers' compensation.~~  
44           j. ~~Medical payments under automobile or homeowners.~~

- 1 k. ~~Hospital income or indemnity.~~  
2 l. ~~Insurance under which benefits are payable with or without~~  
3 ~~regard to fault and that is statutorily required to be contained in~~  
4 ~~any liability policy or equivalent self-insurance.~~  
5 m. ~~Short-term limited duration health insurance policies as defined~~  
6 ~~in Part 144 of Title 45 of the Code of Federal Regulations.~~  
7 plan consisting of one or more of any combination of benefits  
8 described in G.S. 58-68-25(b)."

9 **SECTION 7.3.** G.S. 58-10-35(c) reads as rewritten:

10 "(c) After no fewer than 24 months after the mailing of the initial notice of  
11 transfer required under G.S. 58-10-30, if positive consent to, or rejection of, the transfer  
12 and assumption has not been received or consent has not been deemed to have occurred  
13 under subsection (b) of this section, the transferring insurer shall send to the  
14 policyholder a second and final notice of transfer as specified in G.S. 58-10-30. If the  
15 policyholder does not accept or reject the transfer during the one-month period  
16 immediately after the date on which the transferring insurer mailed the second and final  
17 notice of transfer, the policyholder's consent and novation of the contract will occur.  
18 With respect to the home service business, or any other business not using premium  
19 notices, the 24-month and one-month periods shall be measured from the date of  
20 delivery of the notice of transfer under G.S. 58-10-30."

21 **SECTION 7.4.** G.S. 58-56-51(a) reads as rewritten:

22 "(a) No person shall act as, offer to act as, or hold himself or herself out as a TPA  
23 in this State without a valid TPA license issued by the Commissioner. Licenses shall be  
24 renewed annually. Failure to submit a complete renewal application shall result in the  
25 expiration of the license of the TPA as a matter of law; provided, however, the  
26 Commissioner may grant the TPA an extension of time for good cause."

27 **SECTION 7.5.** G.S. 58-56-51(f) reads as rewritten:

28 "(f) A person is not required to be licensed as a TPA in this State if the person  
29 provides services exclusively to one or more bona fide employee benefit plans each of  
30 which is established by an employer, an employee organization, or both, and for which  
31 the insurance laws of this State are preempted pursuant to the Employee Retirement  
32 Income Security Act of 1974. Persons who are not required to be licensed shall register  
33 with the Commissioner annually, verifying their status as described in this subsection.  
34 Failure to submit an annual verification shall result in the expiration of the registration  
35 of the TPA as a matter of law; provided, however, the Commissioner may grant the  
36 TPA an extension of time for good cause."

37 **SECTION 7.6.** G.S. 58-58-135(1)c. is repealed.

38 **SECTION 7.7.** G.S. 58-58-205(12) reads as rewritten:

39 "(12) "Viatical settlement provider" or "provider" means a person, other than  
40 a viator, that enters into or effectuates a viatical settlement ~~contract.~~  
41 contract on residents of this State or residents of another state from  
42 offices within this State. ~~Viatical settlement provider~~ "Viatical  
43 settlement provider" or "provider" does not include:

- 1 a. A bank, savings bank, savings and loan association, credit  
2 union, or other licensed lending institution that takes an  
3 assignment of a life insurance policy as collateral for a loan;  
4 b. The issuer of a life insurance policy providing accelerated  
5 benefits under rules adopted by the Commissioner and under  
6 the contract;  
7 c. An authorized or eligible insurer that provides stop-loss  
8 coverage to a viatical settlement provider, purchaser, financing  
9 entity, special purpose entity, or related provider trust;  
10 d. A natural person who enters into or effectuates no more than  
11 one agreement in a calendar year for the transfer of life  
12 insurance policies for any value less than the expected death  
13 benefit;  
14 e. A financing entity;  
15 f. A special purpose entity;  
16 g. A related provider trust;  
17 h. A viatical settlement purchaser; or  
18 i. An accredited investor or qualified institutional buyer as  
19 defined respectively in Regulation D, Rule 501 or Rule 144A of  
20 the Federal Securities Act of 1933, as amended, and who  
21 purchases a viaticated policy from a viatical settlement  
22 provider."  
23

24 **PART VIII. TEACHERS' AND STATE EMPLOYEES' MAJOR MEDICAL**  
25 **PLAN TECHNICAL CORRECTIONS.**

26 **SECTION 8.1.** G.S. 58-2-161(a)(1)m. reads as rewritten:

27 "m. The Teachers' and State Employees' Comprehensive Major  
28 Medical Plan and any optional plans or programs operating  
29 under Part 2 of Article 3 of Chapter 135 of the General  
30 Statutes."

31 **SECTION 8.2.** G.S. 58-3-171(c) reads as rewritten:

32 "(c) For purposes of this section, "health benefit plans" means accident and health  
33 insurance policies or certificates; nonprofit hospital or medical service corporation  
34 contracts; health maintenance organization (HMO) subscriber contracts and other plans  
35 provided by managed-care organizations; plans provided by a MEWA or plans provided  
36 by other benefit arrangements, to the extent permitted by ERISA; the Teachers' and  
37 State Employees' Comprehensive Major Medical ~~Plan~~; Plan and any optional plans or  
38 programs operating under Part 2 of Article 3 of Chapter 135 of the General Statutes; and  
39 medical payment coverages under homeowners and automobile insurance policies."

40 **SECTION 8.3.** G.S. 58-3-172(b) reads as rewritten:

41 "(b) For purposes of this section, "health benefit plans" means accident and health  
42 insurance policies or certificates; nonprofit hospital or medical service corporation  
43 contracts; health, hospital, or medical service corporation plan contracts; health  
44 maintenance organization (HMO) subscriber contracts and other plans provided by

1 managed-care organizations; plans provided by a MEWA or plans provided by other  
2 benefit arrangements, to the extent permitted by ERISA; and the Teachers' and State  
3 Employees' Comprehensive Major Medical ~~Plan~~. Plan and any optional plans or  
4 programs operating under Part 2 of Article 3 of Chapter 135 of the General Statutes."

5 **SECTION 8.4.** G.S. 58-3-175(a) reads as rewritten:

6 "(a) As used in this section, "health benefit plan" has the same meaning as in  
7 G.S. 58-50-110(11) and includes the Teachers' and State Employees' Comprehensive  
8 Major Medical ~~Plan~~. Plan and any optional plans or programs operating under Part 2 of  
9 Article 3 of Chapter 135 of the General Statutes."

10 **SECTION 8.5.** G.S. 58-50-75(b) reads as rewritten:

11 "(b) This Part applies to all insurers that offer a health benefit plan and that  
12 provide or perform utilization review pursuant to G.S. 58-50-61, the Teachers' and State  
13 Employees' Comprehensive Major Medical Plan, any optional plans or programs  
14 operating under Part 2 of Article 3 of Chapter 135 of the General Statutes, and the  
15 Health Insurance Program for Children. With respect to second-level grievance review  
16 decisions, this Part applies only to second-level grievance review decisions involving  
17 noncertification decisions."

18 **SECTION 8.6.** G.S. 58-51-115(a) reads as rewritten:

19 "(a) As used in this section and in G.S. 58-51-120 and G.S. 58-51-125:

20 (1) "Health benefit plan" means any accident and health insurance policy  
21 or certificate; a nonprofit hospital or medical service corporation  
22 contract; a health maintenance organization subscriber contract; a plan  
23 provided by a multiple employer welfare arrangement; the Teachers'  
24 and State Employees' Comprehensive Major Medical Plan and any  
25 optional plans or programs operating under Part 2 of Article 3 of  
26 Chapter 135 of the General Statutes; or a plan provided by another  
27 benefit arrangement. "Health benefit plan" does not mean a Medicare  
28 supplement policy as defined in G.S. 58-54-1(5).

29 (2) "Health insurer" means any health insurance company subject to  
30 Articles 1 through 63 of this Chapter, including a multiple employee  
31 welfare arrangement, and any corporation subject to Articles 65 and 67  
32 of this Chapter; a group health plan, as defined in section 607(1) of the  
33 Employee Retirement Income Security Act of 1974; and the Teachers'  
34 and State Employees' Comprehensive Major Medical Plan and any  
35 optional plans or programs operating under Part 2 of Article 3 of  
36 Chapter 135 of the General Statutes."

37 **PART IX. EFFECT OF HEADINGS.**

38 **SECTION 9.** The headings to the parts of this act are a convenience to the  
39 reader and are for reference only. The headings do not expand, limit, or define the text  
40 of this act.

41 **PART X. EFFECTIVE DATES.**

42 **SECTION 10.** Part I of this act becomes effective January 1, 2008. Part IV  
43 of this act becomes effective October 1, 2007. The remainder of this act is effective  
44 when it becomes law.