

17:48E-1 to 17:48E-44

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NJSA: 17:48E-1 to 17:48E-44

(Hospital Service Corporation and Medical Service Corporation (Blue Cross and Blue Shield--allow merger)

LAWS OF: 1985

CHAPTER: 236

Bill No: A2885

Sponsor(s): Adubato and others

Date Introduced: November 19, 1984

Committee: Assembly: ~~Labor~~ Banking and Insurance

Senate: Labor, Industry and Professions

Amended during passage: Yes      Amendments during passage denoted by asterisks. *SENATE FLOOR AMENDMENTS DELETED ALL OF ORIGINAL BILL--SEE P. 1-38 OF OCR--AND ADDED WORKING ON P. 38-64.*

Date of Passage: Assembly: December 17, 1984  
Senate: June 27, 1985

Date of Approval: July 15, 1985

Following statements are attached if available:

Sponsor statement: Yes      Attached: Senate amendments, adopted 6-27-85 (with statement)

Committee Statement: Assembly: Yes  
Senate: Yes

Fiscal Note: No

Veto Message: No

Message on signing: Yes

Following were printed:

Reports: No

Hearings: No

See newspaper clipping file, "NJ--Insurance, Health-1984--" in New Jersey Reference Department  
KBG/SLJ

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## ASSEMBLY, No. 2885

## STATE OF NEW JERSEY

INTRODUCED NOVEMBER 19, 1984

By Assemblymen M. ADUBATO, LAROCCA, KOSCO, LOVEYS  
and DEVERIN

AN ACT **\*\*[concerning]\*\*** *providing for* **\*\*the establishment of nonprofit health service corporations\*\***, *including the merging of a medical service corporation* **\*\*and\*\*** **\*\*[the regulation of]\*\*** **\*\*a\*\*** hospital service **\*\*[corporations and medical service corporations, and amending]\*\*** *corporation to qualify as a health service corporation, supplementing* P. L. 1938, c. 366 **\*\*[.]\*\*** *(C. 17:48-1 et seq.) and* P. L. 1940, c. 74 **\*\*[.]\*\*** P. L. 1964, c. 104 and P. L. 1964, c. 105 **\*\*[.]\*\*** *(C. 17:48-1 et seq.)\*\** *and supplementing Title 17 of the Revised Statutes\*.*

1 BE IT ENACTED by the Senate and General Assembly of the State  
2 of New Jersey:

1 **\*\*[\*1. (New section) General definitions. As used in sections 1**  
2 through 30a of this act:

3 a. "Commissioner" means the Commissioner of Insurance.

4 b. "Health service corporation" means a corporation organized,  
5 without capital stock and not for profit, for the purpose of (1)  
6 establishing, maintaining and operating a health service plan and  
7 (2) supplying services in connection with (a) the providing of  
8 health care or (b) conducting the business of insurance.

9 c. "Health service plan" means a plan under which contracts  
10 are issued providing complete or partial prepayment or post-  
11 payment of health care services and supplies eligible under the  
12 contracts for a given period to persons covered under the contracts  
13 where arrangements are made for payment for health care services  
14 and supplies directly to the provider thereof or to a covered person  
15 under those contracts.

16 d. "Provider" means a provider of health care services and shall  
17 include but not be limited to:

18 (1) A health service corporation, medical service corporation or  
19 hospital service corporation; (2) a hospital or health care **\*\*[.]\*\***

**EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.**

**Matter printed in italics thus is new matter.**

**Matter enclosed in asterisks or stars has been adopted as follows:**

**\*—Senate committee amendments adopted February 25, 1985.**

**\*\*—Senate amendments adopted June 27, 1985.**

20 \*\*[facility under contract with either a health service corporation  
 21 or a hospital service corporation to provide health care services or  
 22 supplies to persons who become subscribers under contracts with  
 23 corporations; (3) a hospital or health care facility which is main-  
 24 tained by a state or any of its political subdivisions; (4) a hospital  
 25 or health care facility licensed by the Department of Health; (5)  
 26 other hospitals or health care facilities as designated by the Depart-  
 27 ment of Health to provide health care services; (6) a registered  
 28 nursing home providing convalescent care; (7) a nonprofit visiting  
 29 nurse organization providing health care services other than in a  
 30 hospital; (8) hospitals or other health care facilities located in other  
 31 states, which are subject to the supervision of those states, which,  
 32 if located in this State, would be eligible to be licensed by the  
 33 Department of Health; (9) nonprofit hospital, medical or health  
 34 service plans of other states approved by the commissioner; (10)  
 35 physicians licensed to practice medicine and surgery; (11) licensed  
 36 chiropractors; (12) licensed dentists; (13) licensed optometrists;  
 37 (14) licensed pharmacists; (15) licensed chiropractors; (16) regis-  
 38 tered bio-analytical laboratories; (17) licensed psychologists; (18)  
 39 registered physical therapists; (19) certified nurse-midwives; (20)  
 40 registered professional nurses; and (21) licensed health mainte-  
 41 nance organizations.

42 e. "Subscriber" means a person to whom a subscription certifi-  
 43 cate is issued by a health service corporation, or its subsidiaries or  
 44 affiliates, and includes "policyholder" under a group contract where  
 45 the context so requires.

46 f. "Group policy" means a group contract or individual group  
 47 certificate delivered or issued for delivery by a health service  
 48 corporation.

49 g. "Insurer" means the health service corporation issuing a group  
 50 contract or an individual group certificate.

51 h. "Insurance," "Insurers" and "Insured" refer to coverage  
 52 under a group contract or individual group certificate on a premium-  
 53 paying basis.

54 i. "Premium" means a premium or other consideration payable  
 55 for coverage under a group contract or individual group certificate.

56 j. "Medicare" means health services benefits received pursuant  
 57 to Subchapter XVIII of the United States Social Security Act  
 58 Pub. L. 89-97 (42 U. S. C., § 1395 et seq.).

59 k. "Total disability of an employee or member" exists only  
 60 while the employee or member (a) is not engaged in any gainful  
 61 occupation, and (b) is completely unable, due to sickness or in-]\*\*

62 \*\*[jury or both, to engage in any and every gainful occupation for  
63 which the person is reasonably fitted by education, training, or  
63A experience.

64 1. "Elective surgical procedure" means any nonemergency surgi-  
65 cal procedure which may be scheduled at the convenience of the  
66 patient or the surgeon without jeopardizing the patient's life or  
67 causing serious impairment to the patient's bodily functions.

68 m. "Second surgical opinion" means an opinion of an eligible  
69 physician based on that physician's examination of a person for the  
70 purpose of evaluating the medical advisability of that person under-  
71 going an elective surgical procedure. The examination must be  
72 performed after another physician licensed to practice medicine  
73 and surgery has recommended a surgical procedure, but prior to  
74 the performance of the surgical procedure.

75 n. "Eligible physician" means a physician licensed to practice  
76 medicine and surgery who holds the rank of Diplomate of an  
77 American Board (M.D.) or Certified Specialist (D.O.) in the  
78 surgical or medical specialty for which surgery is proposed. The  
79 program may be limited to eligible physicians who have agreed to  
80 participate in the corporation's second surgical opinion program.

1 2. (New section) Operation as nonprofit corporation; who may  
2 operate health service plan; certificate of authority.

3 a. No health service corporation shall be converted into a cor-  
4 poration organized for pecuniary profit. Every health service  
5 corporation shall be operated for the benefit of its subscribers.

6 b. No person, firm, association or corporation, other than a  
7 health service corporation or an insurance company authorized to  
8 transact life or health insurance business in accordance with Title  
9 17B of the New Jersey Statutes or the kinds of insurance specified  
10 in subsection d. of R. S. 17:17-1, shall establish, maintain or operate  
11 a health service plan. No person, firm, association or corporation  
12 other than a health service corporation, a hospital service corpora-  
13 tion to the extent permitted by P. L. 1938, c. 366 (C. 17:48-1 et seq.),  
14 a medical service corporation to the extent permitted by P. L. 1940,  
15 c. 74 (C. 17:48A-1 et seq.), a dental service corporation to the  
16 extent permitted by P. L. 1968, c. 305 (C. 17:48C-1 et seq.), or an  
17 insurance company authorized to transact life or health insurance  
18 business or the kinds of insurance specified in subsection d. of  
19 R. S. 17:17-1, shall otherwise contract in this State with persons  
20 to pay or to provide for health services on the basis of premiums or  
21 other valuable considerations to be collected by the person, firm,  
22 association or corporation from any persons for the issuance of the  
23 contracts. This section shall not be construed as preventing the  
24 exercise of any authority or privilege granted to any corporation]\*\*

25 \*\*[by a certificate of authority issued by the commissioner pursuant  
 26 to any law of this State, or as preventing any person, firm, associ-  
 27 ation or corporation from furnishing health services required  
 28 under any worker's compensation law, or law pertaining to health  
 29 maintenance organizations, or as otherwise provided by law.

30 c. A health service corporation shall have the power to reinsure  
 31 any risks taken or assumed by a hospital service corporation or a  
 32 medical service corporation and, in connection therewith, to accept  
 33 and take over all or any part of the reserves, surplus and other  
 34 assets of a hospital service corporation or medical service cor-  
 35 poration. In addition, a health service corporation may make  
 36 surplus loans to a hospital service corporation or medical service  
 37 corporation.

38 d. Notwithstanding any other provision of law, a health service  
 39 corporation shall possess and may exercise all the powers and  
 40 enjoy all the rights and privileges heretofore or hereafter granted  
 41 to hospital service corporations, medical service corporations,  
 42 dental service corporations or health maintenance organizations  
 43 by any law of this State, and may control and operate one or more  
 44 of these corporations in accordance with the laws applicable thereto.  
 45 This control and operation by a health service corporation (1)  
 46 may be accomplished through agreements which (a) set forth the  
 47 terms, conditions, limitations and restrictions upon which the  
 48 corporation so controlled and operated relinquishes authority over  
 49 management, operations and administration to the health service  
 50 corporation or (b) limit the powers of a health service corporation;  
 51 and (2) shall not be deemed an unfair or unlawful trade practice or  
 52 discrimination under chapter 30 of Title 17B of the New Jersey  
 53 Statutes (N. J. S. 17B:30-1 et seq.).

54 e. No health service corporation shall have the power, directly  
 55 or through a subsidiary or affiliate, to underwrite life insurance  
 56 as defined in Title 17B of the New Jersey Statutes.

57 f. No health service corporation shall solicit subscribers or enter  
 58 into any contract with any subscriber until it has received from  
 59 the commissioner a certificate of authority to do so.

1 3. (New section) Issuance of certificate of authority; conditions  
 2 and requirements; filing copy of certificate of incorporation; quali-  
 3 fication and selection of directors.

4 a. A health service corporation of this State seeking a certificate  
 5 of authority shall file in the Department of Insurance a certified  
 6 copy of its certificate of incorporation, a copy of its bylaws and a  
 7 statement of its financial condition in the form and detail required  
 8 by the commissioner, signed and sworn to by its president and]\*\*

9 \*\*[secretary or other proper officers. The certificate of authority  
10 shall be issued when the commissioner is satisfied, on the basis of ex-  
11 amination or otherwise, that the health service corporation has  
12 complied with the requirements of this act that its condition or  
13 methods of operation are not such as would render its operations  
14 hazardous to the public or to its subscribers, and that the issuance  
15 of the certificate of authority would not be contrary to the public  
16 interest. No change in, amendment to, alteration in, addition to,  
17 or substitution for any document, instrument or other paper so  
18 filed shall become operative or effective until it shall also have been  
19 filed in a similar manner. No certificate of authority shall be issued  
20 to a health service corporation not incorporated under the laws  
21 of this State.

22 b. No certificate of authority shall be issued to any health service  
23 corporation except on receipt of evidence by the commissioner that  
24 the corporation is in possession of unencumbered funds of not less  
25 than \$100,000.00 to be held in cash or in a bank to the credit of the  
26 corporation.

27 c. No certificate of authority shall be issued to any health service  
28 corporation unless the bylaws provide that the board of directors  
29 of the health service corporation shall be composed of persons  
30 reasonably representative of the participating hospitals and other  
31 providers of health care services of the corporation, its subscribers  
32 and the general public, as follows:

33 (1) Not more than one-third of the directors of a health service  
34 corporation shall be persons who are trustees, directors or em-  
35 ployees of a corporation organized for hospital purposes, or are  
36 participating providers of health care services, other than physi-  
37 cians employed on a full-time basis in the fields of public health,  
38 public welfare, medical research or medical education.

39 (2) Of the directors not included in the classification set forth  
40 in paragraph (1), one-half in number, as nearly as possible, shall  
41 be persons (a) who have coverage under a contract or contracts  
42 issued by the health service corporation, its subsidiaries or affil-  
43 iates, (b) who are generally representative of broad segments of  
44 the subscribers covered under contracts issued by the corporations  
45 and (c) who, or whose spouse or minor children, are not officers,  
46 directors or owners of more than 10% of the stock of a corporation  
47 whose aggregate sales to hospitals, other health care facilities or  
48 other providers of health care services exceed 5% of its total sales;  
49 and one-half in number, as nearly as possible, shall be persons  
50 whose background and experience indicate that they are qualified  
51 to act in the broad public interest, who may or may not have]\*\*

52 \*\*[coverage under a contract or contracts issued by the health  
53 service corporation, and who, or whose spouse or minor children, are  
54 not officers, directors or owners of more than 10% of the stock of a  
55 corporation whose aggregate sales to hospitals, other health care  
56 facilities or other providers of health care services exceed 5% of  
57 its total sales.

58 In addition to the aforementioned persons, the board of directors  
59 of a health service corporation shall also be composed of three  
60 public members, one of whom shall be appointed by the Governor,  
61 one shall be appointed by the Speaker of the General Assembly  
62 and one shall be appointed by the President of the Senate. The  
63 three public members shall be appointed for four year terms.  
64 Vacancies for unexpired terms shall be filled in the same manner  
65 as the original appointments for the remainder of the terms only.

66 d. Each health service corporation shall have an executive com-  
67 mittee the members of which shall be composed, as nearly as  
68 practicable, of an equal number of (1) representatives of the  
69 participating hospitals and other providers of health care services  
70 of the corporation, (2) its subscribers and (3) the general public.

71 e. Any health service corporation which is organized by an exist-  
72 ing hospital service corporation and an existing medical service  
73 corporation, both operating under certificates of authority issued  
74 pursuant to section 3 of P. L. 1938, c. 366 (C. 17:48-3) and section  
75 3 of P. L. 1940, c. 74 (C. 17:48A-3), respectively, shall have a board  
76 of directors satisfying the requirements of subsection c. of this  
77 section composed of (1) the number of directors specified in its  
78 certificate of incorporation or bylaws, of whom two-thirds shall be  
79 selected by the hospital service corporation and one-third shall be  
80 selected by the medical service corporation, each group of which  
81 shall as nearly as practicable satisfy the requirements of subsection  
82 c. of this section, and (2) three public members as provided in  
83 that subsection c. If the hospital service corporation or medical  
84 service corporation shall not be in existence at the time it becomes  
85 necessary to select directors of the health service corporation, then  
86 the selection shall be made in accordance with the bylaws of the  
87 health service corporation. Except in the case of the three public  
88 members, the board of the health service corporation shall be  
89 notified within seven days of the nomination of any person as a  
90 candidate for the board of directors of either the hospital service  
91 corporation or the medical service corporation which organized  
92 the health service corporation, and may within 30 days of receipt  
93 of notice disapprove the nomination of that candidate. Any candi-  
94 date nominated for either of those boards who is disapproved by]\*\*

95 \*\*[the board of the health service corporation pursuant to this sec-  
 96 tion shall not stand for election to the board of directors for which  
 97 he or she was nominated, and a new candidate shall be nominated  
 98 within 30 days and approved in accordance with the provisions of  
 99 this subsection.

100 f. Compliance with the provisions of this section shall be under  
 101 the supervision of the commissioner. Within 10 days after a va-  
 102 cancy in the board of directors of a health service corporation  
 103 shall occur, the corporation shall notify the commissioner in writing  
 104 that a vacancy exists. If the board of the health service corpora-  
 105 tion has been constituted pursuant to the provisions of subsection  
 106 e. of this section, the vacancy in the board of directors shall be filled  
 107 by the hospital service corporation or medical service corporation,  
 108 as the case may be, which selected the director whose seat on the  
 109 board has been vacated. If the hospital service corporation or  
 110 medical service corporation is not in existence at the time it be-  
 111 comes necessary to fill the vacancy, the vacancy shall be filled in  
 112 accordance with the bylaws of the health service corporation. Not  
 113 more than 10 days after the selection of a person as a director of  
 114 a health service corporation, the corporation shall furnish, in writ-  
 115 ing, the following information to the commissioner: the name and  
 116 address of the person so elected; whether the person is repre-  
 117 sentative of the participating providers of health care services of  
 118 the corporation, or its subscribers or the general public, and is  
 119 qualified to serve under the provisions of this section; and a bio-  
 120 graphical statement on the person. If the commissioner finds after  
 121 hearing, that the composition of the board of directors of health  
 122 service corporation is not in compliance with the provisions of this  
 123 section, he may direct that the board of directors be reconstituted  
 124 in accordance with his findings.

1 4. (New section) Provisions applicable to group contracts. The  
 2 provisions of this act shall apply to group contracts except that  
 3 sections 5 and 16 of this act shall not apply.

1 5. (New section) Individual contracts; certificates; contents.

2 a. Every individual contract made by a health service corporation  
 3 shall provide coverage for a specified period. The contract may  
 4 provide that it shall be automatically renewed from year to year  
 5 unless there shall have been at least 30 days prior written notice  
 6 of termination by either the subscriber or the health service corpo-  
 7 ration. In the absence of fraud or material misrepresentation  
 8 in the application for a contract or for reinstatement, no contract  
 9 with an individual subscriber shall be terminated by the health  
 10 service corporation unless all contracts of the same type, in the]\*\*



11 **\*\*[same group or covering the same classification of persons are**  
12 **terminated under the same conditions.**

13 b. No contract between any health service corporation and a  
14 subscriber shall entitle more than one person to coverage, except  
15 that a contract issued as a family contract may provide that  
16 coverage will be furnished to a husband and wife, or husband,  
17 wife and their dependent child or children, or the subscriber and  
18 his, or her, dependent child or children. An adult dependent of a  
19 subscriber may also be included for coverage under the contract of  
20 the subscriber.

21 c. Whenever, pursuant to the provisions of an individual contract  
22 issued by a health service corporation, the former spouse of a  
23 named subscriber under a contract is no longer entitled to coverage  
24 as an eligible dependent by reason of divorce, separate coverage  
25 for the former spouse shall be made available by the health service  
26 corporation on an individual basis under the following conditions:

27 (1) Application for coverage shall be made to the health service  
28 corporation by or on behalf of a former spouse no later than 31  
29 days following the date his or her coverage under the prior contract  
30 terminated.

31 (2) No new evidence of insurability shall be required in con-  
32 nection with the application for coverage but any health exception,  
33 limitation or exclusion applicable to the former spouse under the  
34 prior coverage may, at the option of the health service corporation,  
35 be carried over to the new coverage.

36 (3) The effective date of the new coverage shall be the day  
37 following the date on which the former spouse's coverage under the  
38 prior contract terminated.

39 (4) The benefits provided under the coverage offered to the  
40 former spouse shall be at least equal to the basic benefits provided  
41 in contracts then being offered by the health service corporation to  
42 new individual applicants of the same age and family status.

43 d. Family type contracts shall provide that the services appli-  
44 cable for children shall be payable with respect to a newly-born  
45 child of the subscriber, or his or her spouse from the moment of  
46 birth. Coverage for newly-born children shall consist of coverage of  
47 injury or sickness including the necessary care and treatment of  
48 medically diagnosed congenital defects and abnormalities. If a  
49 subscription payment is required to provide coverage for a child,  
50 the contract may require that notification of birth of a newly-born  
51 child and the required payment must be furnished to the health  
52 service corporation within 31 days after the date of birth in order  
53 to have the coverage continue beyond such 31-day period. ]\*\*

54     \*\*[e. Nonfamily type contracts which provide for services to the  
 55 subscriber but not to family members or dependents of that sub-  
 56 scriber shall also provide coverage to newly-born children of the  
 57 subscriber which shall commence with the moment of birth of each  
 58 child and shall consist of coverage of injury or sickness, including  
 59 the necessary care and treatment of medically diagnosed congenital  
 60 defects and abnormalities, if application therefor and payment of  
 61 the required subscription amount are made to include in the contract  
 62 the coverage described in subsection d. of this section within 31  
 63 days from the date of birth of a newborn child.

64     f. Coverage of an unmarried child, covered by the contract prior  
 65 to attainment of age 19, who is incapable of self-sustaining employ-  
 66 ment by reason of mental retardation or physical handicap and who  
 67 became so incapable prior to attainment of age 19 and who is  
 68 chiefly dependent upon such subscriber for support and mainte-  
 69 nance, shall not terminate while the contract remains in force and  
 70 the dependent remains in that condition, if the subscriber has within  
 71 31 days of the dependent's attainment of the termination age sub-  
 72 mitted proof of the dependent's incapacity as described herein. The  
 73 provisions of this subsection shall not apply retrospectively or  
 74 prospectively to require a health service corporation to insure as a  
 75 covered dependent any mentally retarded or physically handicapped  
 76 child of the applicant where the contract is underwritten on evi-  
 77 dence of insurability based on health factors required to be set forth  
 78 in the application. A contract heretofore or hereafter issued may,  
 79 however, specifically exclude a mentally retarded or physically  
 80 handicapped child from coverage.

81     g. Every individual contract entered into between a health  
 82 service corporation and a subscriber shall be in writing and a  
 83 certificate stating the terms and conditions thereof shall be fur-  
 84 nished to the subscriber to be kept by him. No subscription  
 85 certificate shall be made, issued or delivered in this State unless it  
 86 contains the following provisions:

87     (1) A statement of the contract rate, or amount payable to the  
 88 health service corporation by or on behalf of the subscriber for the  
 89 period of coverage and of the time or times at which, and the  
 90 manner in which, the amount is to be paid, and a provision requir-  
 91 ing 30 days written notice to the subscriber before any change in  
 92 the contract, including a change in the amount of the subscription  
 93 rate, shall take effect;

94     (2) A statement of the nature of the health services to be  
 95 furnished or paid for and the period during which they will be  
 96 furnished or paid for, and, if there are any services to be ex-]\*\*

97 \*\*[pected, or for which benefits are limited, a detailed statement of  
98 the exceptions printed as hereinafter specified;

99 (3) A statement of the terms and conditions, if any, upon which  
100 the contract may be amended on approval of the commissioner or  
101 cancelled, or otherwise terminated at the option of either party.  
102 Any notice to the subscriber shall be sent by mail to the subscriber's  
103 address as shown at the time on the health service plan's record,  
104 except that, in the case of persons for whom payment under their  
105 contracts is made through a remitting agent, notice may be sent  
106 to the remitting agent, in which case it shall be the responsibility  
107 of the remitting agent to notify the subscriber. The notice herein  
108 required shall be sent at least 30 days before the amendment,  
109 cancellation or termination of the contract takes effect. A rider or  
110 endorsement accompanying the notice, and amending the rates or  
111 other provisions of the contract, shall be deemed to be a part of  
112 the contract as of the effective date of the rider or endorsement;

113 (4) A statement that the contract includes the endorsements  
114 thereon and attached papers, if any, and contains the entire  
115 contract;

116 (5) A statement that no statement by the subscriber in his  
117 application for a contract shall avoid the contract or be used in  
118 any legal proceeding thereunder, unless the application, or an  
119 exact copy thereof is included in, or attached to, the contract, and  
120 that no agent or representative of the health service corporation,  
121 other than an officer or officers designated therein, is authorized to  
122 change the contract or waive any of its provisions;

123 (6) A statement that if the subscriber defaults in making any  
124 payment under the contract, the subsequent acceptance of a pay-  
125 ment by the health service corporation or by one of its duly au-  
126 thorized agents shall reinstate the contract, but with respect to  
127 sickness and injury may cover only a sickness first manifested more  
128 than 10 days after the date of the acceptance;

129 (7) A statement of the period of grace allowed the subscriber  
130 for making any payment due under the contract. Such period shall  
131 be not less than 10 days.

132 h. A contract may contain a provision that all health services  
133 furnished or paid for by a health service corporation shall be in  
134 accordance with the accepted medical practices in the community  
135 at the time, but the health service corporation shall not be liable  
136 for injuries resulting from negligence, misfeasance, malfeasance,  
137 nonfeasance or malpractice on the part of any officer or employee  
138 or on the part of any provider of health care services in the course  
139 of rendering such health care services to subscribers. ]\*\*

140 **\*\*[i. In every contract made, issued or delivered in this State:**

141 (1) All printed portions shall be plainly printed in type of which  
142 the face is not smaller than 10 point;

143 (2) There shall be a brief description of the contract on its first  
144 page and on its filing back in type of which the face is not smaller  
145 than 14 point;

146 (3) The exceptions of the contract shall appear with the same  
147 prominence as the benefits to which they apply; and

148 (4) If the contract contains any provision purporting to make  
149 any portion of the articles, constitutions or bylaws of the corpora-  
150 tion a part of the contract, that portion shall be set forth in full.

1 6. (New section) Benefits for treatment of alcoholism. No group  
2 or individual contract providing health service coverage shall be  
3 delivered, issued, executed or renewed in this State, or approved  
4 for issuance or renewal in this State by the commissioner, unless  
5 the contract provides benefits to any subscriber or other person  
6 covered thereunder for expenses incurred in connection with the  
7 treatment of alcoholism when prescribed by a doctor of medicine.  
8 Benefits shall be provided to the same extent as for any other sick-  
9 ness under the contract.

10 Every contract shall include benefits for the treatment of alco-  
11 holism as are hereinafter set forth:

12 a. Inpatient or outpatient care in a health care facility licensed  
13 pursuant to P. L. 1971, c. 136 (C. 26:2H-1 et seq.);

14 b. Treatment at a detoxification facility licensed pursuant to  
15 section 8 of P. L. 1975, c. 305 (C. 26:2B-14);

16 c. Confinement as an inpatient or outpatient at a licensed,  
17 certified, or State approved residential treatment facility, under a  
18 program which meets minimum standards of care equivalent to  
19 those prescribed by the Joint Commission on Hospital Accredita-  
20 tion.

21 Treatment or confinement at any facility shall not preclude  
22 further or additional treatment at any other eligible facility, if  
23 the benefit days used do not exceed the total number of benefit days  
24 provided for any other sickness under the contract.

1 6a. (New section) Benefits for reconstructive breast surgery. No  
2 group or individual contract providing health service coverage shall  
3 be delivered, issued, executed or renewed in this State, or approved  
4 for issuance or renewal in this State by the commissioner, unless  
5 the contract provides benefits to any subscriber or other person  
6 covered thereunder for reconstructive breast surgery, including but  
7 not limited to: the cost of prostheses and, under any contract pro-  
8 viding out-of-hospital or outpatient X-ray or radiation therapy,]\*\*

9 ~~\*\*[benefits for out-of-hospital or outpatient chemotherapy follow-~~  
 10 ~~ing surgical procedures in connection with the treatment of breast~~  
 11 ~~cancer shall be included as a part of the out-of-hospital or outpatient~~  
 12 ~~X-ray or radiation therapy benefit. These benefits shall be provided~~  
 13 ~~to the same extent as for any other sickness under the contract.~~

1 7. (New section) Second surgical opinion program. A health  
 2 service corporation issuing a group or individual contract in  
 3 accordance with this act which provides payment for surgical  
 4 services rendered to a person while confined in a hospital as an  
 5 inpatient, shall make available benefits for a second surgical opinion  
 6 for elective surgical procedures, which would require an inpatient  
 7 admission to a hospital. In the case of a group contract, benefits  
 8 for a second surgical opinion shall be available only if requested by  
 9 the group policyholder.

1 8. (New section) Payment for second surgical opinion. A second  
 2 surgical opinion program shall provide for payment for the second  
 3 surgical opinion of an eligible physician and for essential laboratory  
 4 and X-ray services incidental thereto.

1 9. (New section) Third surgical opinion. If a second surgical  
 2 opinion does not confirm that the proposed elective surgical pro-  
 3 cedure is medically advisable, the program shall cover a third  
 4 surgical opinion in the same manner as the second opinion.

1 10. (New section) Exclusion of benefits. A second surgical  
 2 opinion program may exclude benefits a. while a patient is confined  
 3 in a hospital as an inpatient for any surgical procedure not covered  
 4 by the group or individual contract, and b. for surgical procedures  
 5 in the following categories: cosmetic surgery, pregnancy-related  
 6 surgery, dental surgery, podiatric surgery, and sterilizations.

1 11. (New section) Physicians furnishing opinion and performing  
 2 surgical procedure; payment. If a physician who furnishes a second  
 3 or third surgical opinion also performs the surgical procedure, the  
 4 second surgical opinion program need not provide payment for the  
 5 second or third opinion services.

1 12. (New section) Group contracts; issuance; description; bene-  
 2 fits; employees defined. a. A health service corporation may issue  
 3 to a policyholder a group contract, covering at least two employees  
 4 or members at the date of issue, if it conforms to the following  
 5 description:

6 (1) A contract issued to an employer or to the trustees of a fund  
 7 established by one or more employers, or issued to a labor union or  
 8 to an association formed for purposes other than obtaining a group  
 9 contract, or issued to the trustees of a fund established by one or  
 10 more labor unions, or by one or more employers and one or more]\*\*

11 \*\*[labor unions, covering the employees or members of associations  
12 or labor unions; or

13 (2) A contract issued to cover any other group which the commis-  
14 sioner determines may be covered in accordance with sound under-  
15 writing principles.

16 b. Benefits may be provided for one or more members of the  
17 families or one or more dependents of persons who may be covered  
18 under a group contract referred to in paragraph (1) or (2) of sub-  
19 section a. of this section.

20 c. Family type coverage shall provide that the coverage appli-  
21 cable for children shall be payable with respect to a newly-born  
22 child of the subscriber, or his or her spouse from the moment of  
23 birth. The coverage for newly-born children shall consist of cover-  
24 age of injury or sickness including the necessary care and treat-  
25 ment of medically diagnosed congenital defects and abnormalities.  
26 If a subscription payment is required to obtain coverage for a child,  
27 the contract may require that notification of birth of a newly-  
28 born child and the required payment shall be furnished to the health  
29 service corporation within 31 days after the date of birth in order  
30 to have the coverage continue beyond that 31-day period.

31-32 d. Non-family type coverage, other than under contracts which  
33 provide no dependent coverage whatsoever for the subscriber's  
34 class, shall also provide coverage for newly-born children of the  
35 subscriber, which coverage shall commence with the moment of  
36 birth of each child and shall consist of coverage of injury or sick-  
37 ness, including the necessary care and treatment of medically  
38 diagnosed congenital defects and abnormalities, if application  
39 therefor and payment of the required subscription amount are made  
40 to include in the contract the coverage described in subsection c.  
41 of this section within 31 days from the date of birth of a newborn  
42 child.

43 e. Coverage of an unmarried child, covered by the contract prior  
44 to attainment of age 19, who is incapable of self-sustaining employ-  
45 ment by reason of mental retardation or physical handicap and who  
46 became so incapable prior to attainment of age 19 and who is chiefly  
47 dependent upon the covered employee or member for support and  
48 maintenance, shall not terminate while the coverage of the employee  
49 or member remains in force and the dependent remains in that  
50 condition, if the employee or member has within 31 days of the  
51 dependent's attainment of the termination age submitted proof of  
52 the dependent's incapacity as described herein. The provisions of  
53 this subsection shall not apply retrospectively or prospectively to re-  
54 quire a health service corporation to insure as a covered depen-]\*\*

55 \*\*[dent any mentally retarded or physically handicapped child of  
 56 the applicant where the contract is underwritten on evidence of in-  
 57 surability based on health factors required to be set forth in the  
 58 application. Any contract heretofore or hereafter issued may,  
 59 however, specifically exclude a mentally retarded or physically  
 60 handicapped child from coverage.

61 f. Any group contract which contains provisions for the payment  
 62 by the insurer of benefits for members of the family or dependents  
 63 of a person in the insured group shall provide that, subject to pay-  
 64 ment of the appropriate premium, family members or dependents  
 65 are permitted to have coverage continued for at least 180 days  
 66 after the death of the person in the insured group.

67 g. The contract may provide that the term "employees" shall  
 68 include as employees of a single employer the employees of one or  
 69 more subsidiary corporations and the employees, individual  
 70 proprietors and partners of affiliated corporations, proprietor-  
 71 ships and partnerships if the business of the employer and those  
 72 corporations, proprietorships or partnerships is under common  
 73 control through stock ownership, contract or otherwise. The  
 74 contract may provide that the term "employees" shall include the  
 75 individual proprietor or partners of an individual proprietorship  
 76 or a partnership. The contract may provide that the term "em-  
 77 ployees" shall include retired employees. A contract issued to  
 78 trustees may provide that the term "employees" shall include the  
 79 trustees or their employees, or both, if their duties are principally  
 80 connected with the trusteeship. A contract issued to the trustees  
 81 of a fund established by the members of an association of employers  
 82 may provide that the term "employees" shall include the employees  
 83 of the association.

1 13. (New section) Group contract form. Every group contract  
 2 entered into by a health service corporation with a policyholder  
 3 shall be in writing and a contract form stating the terms and condi-  
 4 tions thereof shall be furnished to the policyholder to be kept by  
 5 him. No group contract form shall be used unless it contains the  
 6 following provisions:

7 a. A statement of the contract rate payable to the health service  
 8 corporation by or on behalf of the policyholder for the original  
 9 period of coverage, the time or times at which, and the manner in  
 10 which, the contract rate due is to be paid, and the basis, if any, on  
 11 which the rate may subsequently be adjusted;

12 b. A provision that all contract rates due under the contract shall  
 13 be paid by the policyholder, or by the designated representative of  
 14 the policyholder, to the health service corporation on or before]\*\*

15 \*\*[the due date thereof or within the period of grace as may be  
16 specified therein;

17 c. A statement of the nature of the coverage to be provided and  
18 the period during which it will be provided, and, if there are any  
19 exclusions from coverage, a detailed statement of exclusions;

20 d. A provision that the contract, any endorsements or riders  
21 thereto, the application of the policyholder in whose name the  
22 contract is issued, a copy of which shall be attached to the contract,  
23 and the individual applications, if any, of the employees or mem-  
24 bers shall constitute the entire contract between the parties and  
25 that all statements contained in any application for coverage shall  
26 be deemed representations and not warranties;

27 e. A provision that there shall be issued to the policyholder, for  
28 delivery to the employee or member, a certificate or other document  
29 which sets forth or summarizes the essential features of the cover-  
30 age including the time, place and method for making claims for  
31 benefits;

32 f. A provision that all new employees or new members, as the  
33 case may be, in the groups or classes eligible for the coverage shall  
34 be added to the eligible groups or classes; and

35 g. A statement of the terms and conditions, if any, upon which  
36 the contract may be terminated or amended. Any notice to the  
37 policyholder shall be effective if sent by mail to the policyholder's  
38 address as shown at the time on the corporation's records. The  
39 notice to the policyholder as herein required shall be sent at least  
40 30 days before the termination or amendment of the contract takes  
41 effect.

42 h. Any group contract may contain a provision that all services  
43 covered by a health service corporation shall be in accordance with  
44 the accepted medical practices in the community at the time, but  
45 the health service corporation shall not be liable for injuries result-  
46 ing from negligence, misfeasance, malfeasance, nonfeasance or  
47 malpractice on the part of any officer or employee or on the part  
48 of any health care provider in the course of rendering health care  
49 services to covered persons.

1 14. (New section) Joint agreements and combined contracts. A  
2 health service corporation of this State may, with the partici-  
3 pation of any other corporation, including but not limited to a  
4 hospital service corporation or a medical service corporation,  
5 a. jointly issue individual or group contracts for health care and  
6 other benefits, including complete employee welfare and employee  
7 benefit programs, or b. jointly enter into contracts to provide or  
8 receive services in connection with the providing of health care]\*\*



9 **\*\*[**For conducting the business of insurance, including entering into  
 10 service contracts only with automobile insurers concerning medical  
 11 expense benefits coverage provided in accordance with section 4 of  
 12 P. L. 1972, c. 70 (C. 39:6A-4). Agreements between a health service  
 13 corporation and other corporations pursuant to this section may  
 14 provide for experience rating, for a sharing, except with respect to  
 15 life insurance as defined in N. J. S. 17B:17-3, of the premiums,  
 16 claims, and expenses by the participating corporations; or, subject  
 17 to regulation by the commissioner, for acceptance or ceding of the  
 18 whole or portions of risks on a reinsurance basis, except that a  
 19 health service corporation may not accept risks on a reinsurance  
 20 basis which it may not accept on a primary basis pursuant to its  
 21 powers as a health service corporation, and may not under any  
 22 circumstances act as reinsurer of life insurance. Agreements made  
 23 pursuant to this section shall be filed with and approved by the  
 24 commissioner before becoming effective. Any corporation which is  
 25 a party to an agreement made pursuant to this section may act as an  
 26 agent for another party to the agreement without being required to  
 27 obtain a license as an agent. "Automobile" means an automobile as  
 28 defined in section 2 of P. L. 1972, c. 70 (C. 39:6A-2).

1 15. (New section) Adjustment of rates; rating formulas.

2 a. A group contract, covering at least 50 employees or members,  
 3 may provide for the adjustment of the rate of premium at the end  
 4 of the first year or any subsequent year of insurance thereunder  
 5 based on the experience thereunder both past and contemplated.  
 6 No health service corporation shall use any form of experience  
 7 rating plan until it shall have filed with the commissioner the  
 8 formulas to be used and the classes of groups to which they are  
 9 to apply. The commissioner may disapprove the formulas or classes  
 10 at any time if he finds that the rates produced thereby are excessive,  
 11 inadequate or unfarily discriminatory or that the formulas or  
 12 classes are such as to prejudice the interests of persons who are  
 13 eligible for coverage under contracts with the health service cor-  
 14 poration and who are not subject to experience rating.

15 b. Excluding those rating formulas applicable to groups the  
 16 employees or members of which are located in more than one state  
 17 and which are underwritten in participation with other corpora-  
 18 tions of other states, no rating formula shall be approved by the  
 19 commissioner, unless it provides that the experience rated groups  
 20 will be assessed a reasonable community charge. A rating formula  
 21 may provide for the allowance of an equitable discount in the event  
 22 the policyholder agrees to perform certain administrative and  
 23 record keeping functions in connection with the routine mainte-]\*\*

24 \*\*[nance of the group account.

25 c. Nothing in this section shall preclude the health service  
26 corporation from incorporating in the rate formula those claim  
27 cost and utilization trend factors as it deems necessary in its  
28 discretion so long as the rates produced are self-supporting and  
29 the formulas for classes do not prejudice the interests of persons  
30 who are eligible for coverage under contracts with the health  
31 service corporation which are not subject to experience rating.

32 d. For experience rated groups of 50 to 99 employees or mem-  
33 bers, the commissioner shall have the authority to determine that  
34 rates charged depart from community rates in such a way as to  
35 assure continuity of rating principles with the community rated  
36 and experience rated groups of 100 or more.

1 16. (New section) Review of rates. No health service corporation  
2 shall issue contracts which are not experience rated until it shall  
3 have filed with the commissioner a full schedule of the rates which  
4 are to apply to those contracts. The commissioner may disapprove  
5 the schedule at anytime, if he finds that rates are excessive, in-  
6 adequate or unfairly discriminatory.

1 17. (New section) Group contract or individual group certificate;  
2 total disability of employee or member; continuation of cover-  
3 age; conditions. A group contract or individual group certificate  
4 delivered or issued for delivery in this State which covers em-  
5 ployees or members and their dependents for health services on  
6 an expense incurred or service basis, other than for specific diseases  
7 or for accidental injuries only, shall provide that employees or  
8 members whose coverage under the group contract or individual  
9 group certificate would otherwise terminate because of termination  
10 of employment or membership due to total disability of the em-  
11 ployee or member, shall be entitled to continue their health services  
12 coverage under that group contract or individual group certificate  
13 for themselves and their eligible dependents, subject to all of the  
14 group contract's or individual group certificate's terms and condi-  
15 tions applicable to that coverage and subject to the following con-  
16 ditions:

17 a. Continuation shall only be available to an employee or member  
18 who has been continuously covered under the group contract  
19 or individual group certificate during the entire three month period  
20 ending with the termination.

21 b. Continuation shall be available for a person who is covered by  
22 or eligible for Medicare, subject to any nonduplication of benefits  
23 provisions of the group contract or individual group certificate. ]\*\*

24   \*\*[c. In addition to hospital, medical-surgical, or major medical  
25 benefits, continuation shall include any other health care expense  
26 benefit, including dental, vision care, or prescription drug benefits  
27 available through the insured group.

28   d. An employee or member electing continuation shall pay to the  
29 group contract holder or his employer, on a monthly basis in ad-  
30 vance, the amount of contribution required by the contract holder  
31 or employer, but not more than the group rate for the coverage  
32 being continued under the group contract or individual group  
33 certificate on the due date of each payment. The employee's or  
34 member's written election for continuation, together with the first  
35 contribution required to establish contributions on a monthly basis  
36 in advance, shall be given to the contract holder or employer within  
37 31 days of the date the employee's or member's coverage would  
38 otherwise terminate.

39   e. Continuation of coverage under the group contract or indi-  
40 vidual group certificate for any person shall terminate at the first  
41 to occur of the following:

42   (1) Failure of the former employee or member to make timely  
43 payment of a required contribution. Termination shall occur at the  
44 end of the period for which contributions were made.

45   (2) The date the employee again becomes employed and eligible  
46 for benefits under another group plan providing health services  
47 benefits, or in the case of a qualified eligible dependent, the date  
48 the dependent becomes employed and eligible for those benefits.

49   (3) The date on which the group contract or individual group  
50 certificate is terminated or, in the case of an employee, the date  
51 his employer terminates participation under the group contract or  
52 individual group certificate, except that:

53       (a) The employee or member shall have the right to become  
54 covered under any new group contract or individual group  
55 certificate contracted for by the employer, for the balance of  
56 the period that he would have remained covered under the  
57 prior group contract or individual group certificate in accor-  
58 dance with this act had a termination of a group not occurred;

59       (b) The minimum level of benefits to be provided by the  
60 other group contract or individual group certificate shall be  
61 the applicable level of benefits of the prior group contract or  
62 individual group certificate reduced by any benefits payable  
63 under that prior group contract or individual group certificate;  
64 and

65       (c) The prior group contract or individual group certificate  
66 shall continue to provide benefits to the extent of its accrued.]\*\*

67       \*\*[liabilities and extension of benefits, but only when replace-  
68       ment occurred.

69       f. Whenever, pursuant to the provisions of a group contract  
70 issued by a health service corporation, the former spouse of an  
71 employee or member of a policyholder under the group contract  
72 is no longer entitled to coverage as an eligible dependent by reason  
73 of divorce, separate coverage for the former spouse shall be made  
74 available by the health service corporation on an individual non-  
75 group basis under the following conditions:

76       (1) Application for nongroup coverage shall be made to the  
77 health service corporation by or on behalf of the former spouse  
78 no later than 31 days following the date his or her coverage under  
79 the prior group contract terminated.

80       (2) No new evidence of insurability shall be required in con-  
81 nection with the application for nongroup coverage but any health  
82 exception, limitation or exclusion applicable to the former spouse  
83 under the prior coverage may, at the option of the health service  
84 corporation, be carried over to the new nongroup coverage.

85       (3) The effective date of the new coverage shall be the day  
86 following the date on which the former spouse's coverage under  
87 the prior group contract terminated.

88       (4) The benefits provided under the nongroup coverage issued  
89 to such former spouse shall be at least equal to the basic benefits  
90 provided in contracts then being issued by the health service cor-  
91 poration to new nongroup applicants of the same age and family  
92 status.

93       g. A notification of the continuation privilege shall be included  
94 in any individual group certificate or employee booklet.

1       18. (New section) Participating providers of health care ser-  
2 vices; approval of rates of payment to hospitals.

3       a. A health care service corporation may enter into agreements  
4 with providers of health care services whereby the providers be-  
5 come participating providers of health care services of that health  
6 service plan. Every such agreement shall provide for coverage  
7 of eligible health care services rendered to subscribers and covered  
8 dependents to the end of the subscription certificate year; that 30  
9 days written notice of termination of the agreement may be given  
10 to the health service corporation at any time by any participating  
11 provider of health care services, but shall not apply to a subscrip-  
12 tion certificate in force at the time of notice until the first date  
13 thereafter when the subscription certificate may properly be ter-  
14 minated by the health service corporation, and that the agreement  
15 of the provider of health care services to render services to the\*\*

16 \*\*[End of any certificate year shall not be affected by cessation of  
 17 the transaction of business by reason of appropriate resolution of  
 18 the board of trustees, or directors of the health service corporation,  
 19 injunction issued by a court of competent authority, legislative act  
 20 or by any other exercise of judicial, administrative or legislative  
 21 authority. This requirement shall not apply to any subscription  
 22 certificate which is not maintained in force by the payment of pre-  
 23 miums required thereby.

24 b. A participating provider of health care services is one who  
 25 agrees in writing to render health care services to or for persons  
 26 covered by a contract or contracts issued by a health service  
 27 corporation in return for which a health care service corporation  
 28 agrees to make payment directly to the participating provider.  
 29 No person or facility shall become a participating provider of  
 30 health care services unless he shall be legally authorized to provide  
 31 health care services or supplies in this State.

32 c. A health service corporation may enter into agreements with  
 33 other corporations licensed under the laws of other states to pro-  
 34 vide for reciprocal payment for health care services to their re-  
 35 spective subscribers rendered in the area served by the other cor-  
 36 poration.

37 d. A health service corporation may select providers of health  
 38 care services as it may desire with which to contract, and may  
 39 establish its own contracting criteria for the providers as it shall  
 40 determine, but contractual rates of payment to any hospital or  
 41 health care facility shall be approved as to reasonableness by the  
 42 Hospital Rate Setting Commission pursuant to section 18 of P. L.  
 43 1971, c. 136 (C. 26:2H-18).

1 19. (New section) Filing of copy of contract or certificate and  
 2 applications, etc., with commissioner; disapproval. No health ser-  
 3 vice corporation shall enter into any contract with a subscriber  
 4 unless and until it shall have filed with the commissioner a copy  
 5 of the contract or certificate and of all applications, riders and  
 6 endorsements for use in connection with the issuance or renewal  
 7 thereof. If the commissioner shall at any time notify the corpora-  
 8 tion of his disapproval of any form as contrary to law, or as being  
 9 oppressive or calculated to mislead the public, specifying particu-  
 10 lars, it shall be unlawful for the corporation thereafter to issue  
 11 the form so disapproved.

1 20. (New section) Solicitation and administrative expenses; in-  
 2 vestment of funds; supplying administrative services only; surplus.

3 a. No health service corporation shall during any one year dis-  
 4 burse more than 10% of the aggregate amount of the payments]\*\*

5 \*\*[received from subscribers during that year as expenditures for  
6 the soliciting of subscribers, except that during the first year after  
7 the issuance of a certificate of authority a health service corpora-  
8 tion may so disburse not more than 20% of that amount and during  
9 the second year not more than 15%.

10 b. No health service corporation shall, during one year, dis-  
11 burse a sum greater than 20% of the payments received from  
12 subscribers during that year as administrative expenses. The term  
13 "administrative expenses," as used in this section, shall include all  
14 expenditures for nonprofessional services and in general all ex-  
15 penses not directly connected with the furnishing of services or  
16 benefits, but not including expenses of soliciting subscribers.

17 c. The funds of any health service corporation may be invested  
18 to the fullest extent now or hereafter permitted by law for the  
19 investment of funds of domestic life insurance companies, including  
20 specifically investments in for-profit subsidiaries such as insurance  
21 agencies, suppliers of administrative services only, or other sub-  
22 sidiaries pursuant to N. J. S. 17B:20-4, and for the purpose of  
23 engaging in any aspect of its business directly or through one or  
24 more subsidiaries or affiliates, except that a health service corpo-  
25 ration may not invest in a subsidiary authorized to insure risks  
26 which the health service corporation may not insure directly pur-  
27 suant to its powers as a health service corporation.

28 d. A health service corporation may not directly supply admin-  
29 istrative services only, but may supply administrative services  
30 through a subsidiary or affiliate, except that no health service cor-  
31 poration may directly or indirectly, through a subsidiary or affili-  
32 ate or otherwise, make available any provider differential under  
33 an agreement to supply administrative services only.

34 e. Every health service corporation after the first full calendar  
35 year of doing business shall accumulate and maintain a special  
36 contingent surplus over and above its reserves and liabilities at  
37 the rate of 2% annually of its net premium income until that sur-  
38 plus shall be not less than \$100,000.00. Thereafter, for any subse-  
39 quent calendar year, the special contingent surplus shall be main-  
40 tained at 5% of the net premium income received during that year  
41 as determined by reference to the statement of financial condition  
42 filed pursuant to section 21 of this act. The special contingent sur-  
43 plus shall be contributed by each of the following two categories:  
44 (1) community rated, excluding open enrollment and conversion  
45 groups; and (2) experience rated subscribers, in the ratio that the  
46 net premium income of each category bears to the total net premium  
47 income of the health service corporation and by contributions]\*\*

48 \*\*[from the category that gives rise to a diminution of the surplus  
49 required to be maintained under this section. Whenever the special  
50 contingent surplus has deviated from the amount required to be  
51 maintained by more than 2% of the aggregate amount of the net  
52 premium income received during that year, the commissioner shall  
53 approve and promulgate a plan reasonably calculated to return  
54 the special contingent surplus to the amount required to be main-  
55 tained, within two years from the date of implementation of the  
56 plan specified above. Approval and promulgation of the plan by  
57 the commissioner shall not abrogate the responsibilities of corpo-  
58 rate officers with regard to the reporting of financial condition  
59 pursuant to section 21 of this act.

60 Nothing in subsection e. of this section or any other provision  
61 of sections 1 through 30 of this act shall be construed to limit the  
62 authority of the commissioner to require compliance with statutory  
63 capital, surplus or reserve requirements for a subsidiary or affiliate  
64 of a health service corporation, or for any reinsurance activities  
65 to be undertaken by a health service corporation.

1 21. (New section) Statement of financial condition; inquiries by  
2 commissioner; penalties.

3 a. Every health service corporation transacting business in this  
4 State shall annually on or before the first day of March file in the  
5 Department of Insurance a statement, subscribed and sworn to by  
6 its president and secretary, or in their absence, by two of its princi-  
7 pal officers, showing its financial condition at the close of business  
8 on the thirty-first day of December of the year last preceding, and  
9 its business for that year, which statement shall be in that form  
10 and contain those matters as the commissioner shall prescribe. The  
11 commissioner may also address inquiries to any health service  
12 corporation or its officers in relation to its condition or affairs, or  
13 any matter connected with its transactions, and it shall be the duty  
14 of the officers of the corporation to promptly reply in writing to  
15 all inquiries. For good cause shown, the commissioner may extend  
16 the time within which a statement must be filed.

17 b. Any health service corporation neglecting to make and file  
18 its annual statement in the form and within the time provided by  
19 subsection a. of this section or neglecting to reply in writing to  
20 inquiries of the commissioner within a reasonable time, as specified  
21 by the commissioner, shall forfeit \$25.00 for each day's neglect, to  
22 be recovered in a civil action, and upon notice by the commissioner  
23 to that effect, its authority to do new business in this State shall  
24 cease while the default continues.]\*\*

1     \*\*[22. (New section) Examination of assets and liabilities and  
2 affairs; expenses; duty to exhibit books, records and accounts.

3     a. The commissioner shall have the power, whenever he deems it  
4 expedient, to make or cause to be made an examination of the  
5 assets and liabilities, method of conducting business and all other  
6 affairs of every health service corporation authorized or which  
7 has made application for authority to transact business under the  
8 provisions of this act. For the purpose of the examination the  
9 commissioner may authorize and employ persons to conduct the  
10 same or to assist therein as he deems advisable, which examination  
11 may be conducted in any state in which the corporation examined  
12 has an office, agent or place of business.

13     b. The reasonable expense of the examination shall be fixed and  
14 determined by the commissioner, and he shall collect the amount  
15 expended from the health service corporation examined, which  
16 shall make payment on presentation of a detailed account of the  
17 expense. If health service corporation, after examination, shall be  
18 adjudged by the Superior Court to be insolvent, the expense of the  
19 examination, if unpaid, shall be ordered paid out of the assets of  
20 the health service corporation. No health service corporation shall,  
21 either directly or indirectly, pay, by way of gift, credit or other-  
22 wise, any other or further sum to the commissioner or to any per-  
23 son in the employ of the Department of Insurance, for extra service  
24 or for purposes of legislation, or for any purpose whatsoever.

25     c. It shall be the duty of the officers, agents and employees of a  
26 health service corporation to exhibit all its books, records and  
27 accounts for the purpose of the examination, and otherwise to  
28 facilitate the examination so far as it may be in their power to do  
29 so, and for that purpose the commissioner, and his deputies, assis-  
30 tants and employees shall have the power to examine, under oath,  
31 the officers, agents and employees of the health service corporation  
32 relative to its business and affairs.

1     23. (New section) Insolvency and other acts; action to enjoin  
2 further business or disposal of property; receiver; powers and  
3 duties. Whenever any health service corporation shall become in-  
4 solvent or shall suspend its ordinary business for want of funds to  
5 carry on the same, or whenever the commissioner shall ascertain,  
6 as a result of examination as authorized by this act, or in any other  
7 manner, that any corporation is exceeding its powers or violating  
8 the law or that its condition or methods of business are such as to  
9 render the continuance of its operations hazardous to the public  
10 or its members or that the assets of the corporation are less than  
11 its liabilities or that the number of subscribers to its service has]\*\*



12 \*\*[decreased to less than one hundred persons, the commissioner  
13 may institute an action in the Superior Court to enjoin the health  
14 service corporation from the transaction of any further business, or  
15 the transfer or disposal of its property in any manner whatsoever.  
16 The court may proceed in the action in a summary manner or  
17 otherwise. It may grant injunctive relief and appoint a receiver,  
18 with power to sue for, collect, receive and take into his possession  
19 all the goods and chattels, rights, and credits, moneys and effects,  
20 lands and tenements, books, papers, choses in action, bills, notes and  
21 property of every description belonging to the health service  
22 corporation and sell and convey and assign the same, and hold  
23 and dispose of the proceeds thereof under the direction of the  
24 court. A health service corporation may be deemed insolvent when-  
25 ever it is presently or prospectively unable to fulfill its outstanding  
26 contracts and to maintain the reserves required pursuant to this  
27 act.

1 24. (New section) Fees. A health service corporation shall pay  
2 the following fees to the commissioner for enforcement of the pro-  
3 visions of this act: a. for filing its application and charter, \$10.00;  
4 b. for filing each annual statement, \$20.00; c. for each copy of any  
5 paper filed in the Department of Insurance, \$0.20 a sheet or folio  
6 of 100 words and \$1.00 for certifying the same. In addition, a health  
7 service corporation shall pay on April 1 of each year a general  
8 supervisory fee to the commissioner of \$0.02 per subscriber covered  
9 under individual contracts, other than group contracts, at the end  
10 of the preceding year, plus \$0.02 per member or employee covered  
11 under group contracts at the end of the preceding year, and the  
12 first general supervisory fee shall be due as of December 31, 1985,  
13 payable April 1, 1986.

1 25. (New section) Corporation as charitable and benevolent  
2 institution; exemption from taxation. A health service corporation  
3 subject to the provisions of this act is hereby declared to be a  
4 charitable and benevolent institution and all of its funds shall be  
5 exempt from every State, county, district, municipal and school tax  
6 other than taxes on real estate and equipment.

1 26. (New section) Particular providers of health care services;  
2 services performed by. In any contract entered into by a health  
3 service corporation including coverage for health care services  
4 provided by a physician, coverage shall be deemed to include health  
5 care services provided by a registered bioanalytic laboratory or  
6 physical therapist, a certified nurse-midwife, a registered profes-  
7 sional nurse, or a licensed chiropractor, dentist, optometrist, psy-  
8 chologist or chiropractor when the provider performs an eligible]\*\*

9 \*\*[service within the scope of his practice and for which he is not  
 10 being compensated by a hospital or other health care facility. The  
 11 practices of the providers of health care services shall be deemed  
 12 to be within the provisions of this act and the providers shall have  
 13 the privileges and benefits in the scope of their practice under this  
 14 act afforded hereunder to other approved providers of health care  
 15 services in the scope of their practices. A health service corpora-  
 16 tion under this act may issue separate contracts covering the health  
 17 care services of providers.

1 27. (New section) Application of act. The provisions of this act  
 2 shall not apply to any corporation carrying on the business of life,  
 3 health or accident insurance, for profit or gain, nor to fraternal  
 4 beneficiary associations as defined in section 1 of P. L. 1959, c. 167  
 5 (C. 17:44A-1). A health service corporation authorized to trans-  
 6 act business pursuant to this act shall be exempt from all other  
 7 provisions of Title 17B of the New Jersey Statutes, except as  
 8 herein specified, and the unfair trade practices provisions of N. J. S.  
 9 17B:30-1 et seq. shall apply to health service corporations except  
 10 to the extent a. expressly excepted in this act, or b. the commis-  
 11 sioner determines that any provisions of N. J. S. 17B:30-1 et seq.  
 12 are inappropriate as applied to health service corporations.

1 28. (New section) Disputes between health service corporations  
 2 and providers of health care services; review. Any dispute arising  
 3 between a health service corporation and any provider of health  
 4 care services with which a health service corporation has a con-  
 5 tract may be submitted to the commissioner for his determination  
 6 with respect thereto, which determination shall be subject to re-  
 7 view by the Superior Court in a proceeding in lieu of prerogative  
 8 writ pursuant to section 29 of this act.

1 29. (New section) Review of determinations of commissioner.  
 2 All determinations of the commissioner made under the provisions  
 3 of this act shall be subject to review by the Superior Court in a  
 4 proceeding in lieu of prerogative writ.

1 30. (New section) Violations of act: penalties; enforcement. Any  
 2 health service corporation of this or any other state, country or  
 3 province which shall have violated any of the provisions of, or  
 4 shall have neglected, failed or refused to comply with any of the  
 5 requirements of this act, except the failure to file an annual state-  
 6 ment, shall be liable to a penalty of \$500.00, to be sued for and  
 7 collected by the commissioner in a civil action in the name of the  
 8 State. The penalties when recovered shall be paid by the com-  
 9 missioner into the State treasury for the use of the State. Any  
 10 officer, agent, employee or member of any corporation doing]\*\*

11 \*\*[business in this State who shall issue, circulate or cause or  
 12 permit to be circulated, any estimate, illustration, or circular of any  
 13 sort misrepresenting the terms of any contract issued by the health  
 14 service corporation, or misrepresent the benefits or advantages  
 15 promised thereby, or use any name or title of any contract or class  
 16 of contracts misrepresenting the true nature thereof, or who shall  
 17 solicit, negotiate or effect the issue of any contract of any health  
 18 service corporation which shall have neglected, failed or refused  
 19 to procure a certificate of authority as provided for by the provi-  
 20 sions of this act, or who shall accept any premiums, dues, deposits,  
 21 contributions, fees, assessments or thing of value of any kind in  
 22 consideration for a contract or certificate on behalf of the health  
 23 service corporation, shall be guilty of a crime of the fourth degree.

1 30a. (New section) The commissioner, pursuant to the "Admin-  
 2 istrative Procedure Act," P. L. 1968, c. 410 (C. 52:14B-1 et seq.),  
 3 shall promulgate the rules and regulations necessary to implement  
 4 the provisions of sections 1 through 30 of this act.

1 31. Section 2 of P. L. 1938, c. 366 (C. 17:48-2) is amended to  
 2 read as follows:

3 2. No hospital service corporation shall be converted into a cor-  
 4 poration organized for pecuniary profit. Every such corporation  
 5 shall be operated for the benefit of the subscribers with whom it  
 6 has contracted to provide hospital service. No person, firm, asso-  
 7 ciation or corporation, other than a hospital service corporation,  
 8 or an insurance company authorized to transact the kinds of insur-  
 9 ance specified in [subdivisions c. or d. of section 17:17-1 of the  
 10 Revised Statutes] *Title 17B of the New Jersey Statutes or sub-*  
 11 *section d. of R. S. 17:17-1, or a health service corporation estab-*  
 12 *lished pursuant to P. L. . . . , c. . . . (C. . . . .) (now pending*  
 13 *before the Legislature as this bill)* shall establish, maintain or  
 14 operate a hospital service plan or otherwise contract in this State  
 16 with persons to furnish hospital service. *A hospital service cor-*  
 17 *poration may, alone or in combination with a medical service cor-*  
 18 *poration established pursuant to P. L. 1940, c. 74 (C. 17:48A-1 et*  
 19 *seq.), organize a health service corporation.* No hospital service  
 20 corporation shall solicit subscribers or enter into any contract with  
 21 any subscriber until it has received from the Commissioner of  
 22 [Banking and] Insurance a certificate of authority to do so.

1 32. Section 7 of P. L. 1964, c. 104 (C. 17:48-6.6) is amended to  
 2 read as follows:

3 7. A hospital service corporation and a medical service corpora-  
 4 tion authorized to do business in this State may issue a combined  
 5 contract providing for hospital care and medical care but no one]\*\*

6 **\*\***[of such corporations shall issue any such combined contract. A  
 7 *hospital service corporation or a medical service corporation*  
 8 *authorized to do business in this State may, with a health service*  
 9 *corporation, issue combined contracts for hospital, medical or*  
 10 *health care services and may provide those services pursuant to*  
 11 *the combined contract to the fullest extent permitted a health*  
 12 *service corporation pursuant to P. L. . . . ., c. . . . . (C. . . . .)*  
 13 *(now pending before the Legislature as this bill). Any one of such*  
 14 corporations may act as agent for the other without being required  
 15 to obtain a license as an agent.

1 33. Section 6 of P. L. 1964, c. 105 (C. 17:48A-7.6) is amended to  
 2 read as follows:

3 6. A medical service corporation and a hospital service corpora-  
 4 tion authorized to do business in this State may issue a combined  
 5 contract providing for medical care and hospital care but no one of  
 6 such corporations shall issue any such combined contract. A  
 7 *medical service corporation or a hospital service corporation au-*  
 8 *thorized to do business in this State may, with a health service*  
 9 *corporation, issue combined contracts for medical, hospital or*  
 10 *health care services and may provide those services pursuant to*  
 11 *the combined contract to the fullest extent permitted a health*  
 12 *service corporation pursuant to P. L. . . . ., c. . . . . (C. . . . .)*  
 13 *(now pending before the Legislature as this bill). Any one of such*  
 14 corporations may act as agent for the other without being required  
 15 to obtain a license as an agent.\*

1 **\*[1.]\*** **\*34.\*** Section 6 of P. L. 1938, c. 366 (C. 17:48-6) is  
 2 amended to read as follows:

3 6. Every individual contract made by a corporation subject to  
 4 the provisions of this chapter to furnish services to a subscriber  
 5 shall provide for the furnishing of services for a period of 12  
 6 months, and no contract shall be made providing for the inception  
 7 of such services at a date later than one year after the actual date  
 8 of the making of such contract. Any such contract may provide  
 9 that it shall be automatically renewed from year to year unless there  
 10 shall have been at least 30 days' prior written notice of termination  
 11 by either the subscriber or the corporation. In the absence of fraud  
 12 or material misrepresentation in the application for a contract  
 13 or for reinstatement, no contract with an individual subscriber shall  
 14 be terminated by the corporation unless all contracts of the same  
 15 type, in the same group or covering the same classification of per-  
 16 sons are terminated under the same conditions.

17 No contract between any such corporation and a subscriber shall  
 18 entitle more than one person to services, except that a contract **]\*\***

19 \*\*[issued as a family contract may provide that services will be fur-  
20 nished to a husband and wife, or husband, wife and their dependent  
21 child or children, or the subscriber and his (or her) dependent child  
22 or children. Adult dependent(s) of a subscriber may also be in-  
23 cluded for coverage under the contract of such subscriber.

24 Whenever, pursuant to the provisions of a subscription certifi-  
25 cate or group contract issued by a corporation, the former spouse  
26 of a named subscriber under such a certificate or contract is no  
27 longer entitled to coverage as an eligible dependent by reason of  
28 divorce, separate coverage for such former spouse shall be made  
29 available by the corporation on an individual nongroup basis  
30 under the following conditions:

31 (a) Application for such nongroup coverage shall be made to  
32 the corporation by or on behalf of such former spouse no later  
33 than 31 days following the date his or her coverage under the prior  
34 certificate or contract terminated.

35 (b) No new evidence of insurability shall be required in con-  
36 nection with the application for such nongroup coverage but any  
37 health exception, limitation or exclusion applicable to said former  
38 spouse under the prior coverage may, at the option of the corpo-  
39 ration, be carried over to the new nongroup coverage.

40 (c) The effective date of the new coverage shall be the day fol-  
41 lowing the date on which such former spouse's coverage under the  
42 prior certificate or contract terminated.

43 (d) The benefits provided under the nongroup coverage issued  
44 to such former spouse shall be at least equal to the basic benefits  
45 provided in contracts then being issued by the corporation to new  
46 nongroup applicants of the same age and family status.

47 Family type contracts shall provide that the services applicable  
48 for children shall be payable with respect to a newly-born child of  
49 the subscriber, or his or her spouse from the moment of birth.  
50 The services for newly-born children shall consist of coverage of  
51 injury or sickness including the necessary care and treatment of  
52 medically diagnosed congenital defects and abnormalities. If a  
53 subscription payment is required to provide services for a child,  
54 the contract may require that notification of birth of a newly-born  
55 child and the required payment must be furnished to the service  
56 corporation within 31 days after the date of birth in order to have  
57 the coverage continue beyond such 31-day period.

58 Nonfamily type contracts which provide for services to the  
59 subscriber but not to family members or dependents of that sub-  
60 scriber, shall also provide services to newly-born children of the  
61 subscriber which shall commence with the moment of birth of]\*\*

62 \*\***[**each child and shall consist of coverage of injury or sickness in-  
 63 cluding the necessary care and treatment of medically diagnosed  
 64 congenital defects and abnormalities, provided that application  
 65 therefor and payment of the required subscription amount are made  
 66 to include in said contract the coverage described in the preceding  
 67 paragraph of this section within 31 days from the date of birth of a  
 68 newborn child.

69 **[**A contract under which coverage of a dependent of a subscriber  
 70 terminates at a specified age shall, with respect to**]** *Coverage of*  
 71 an unmarried child, covered by the contract prior to attainment of  
 72 age 19, who is incapable of self-sustaining employment by reason  
 73 of mental retardation or physical handicap and who became so  
 74 incapable prior to attainment of age 19 and who is chiefly dependent  
 75 upon such subscriber for support and maintenance, *shall not* **[so]**  
 76 terminate while the contract remains in force and the dependent  
 77 remains in such condition, if the subscriber has within 31 days of  
 78 such dependent's attainment of the termination age submitted  
 79 proof of such dependent's incapacity as described herein. The fore-  
 80 going provisions of this paragraph shall not apply retrospectively  
 81 or prospectively to require a hospital service corporation to insure  
 82 as a covered dependent any mentally retarded or physically handi-  
 83 capped child of the applicant where the contract is underwritten  
 84 on evidence of insurability based on health factors required to be  
 85 set forth in the application. In such cases any contract heretofore  
 86 or hereafter issued may specifically exclude such mentally retarded  
 87 or physically handicapped child from coverage.

88 Every individual contract entered into by any such corporation  
 89 with any subscriber thereto shall be in writing and a certificate  
 90 stating the terms and conditions thereof shall be furnished to the  
 91 subscriber to be kept by him. No such certificate form shall be  
 92 made, issued or delivered in this State unless it contains the follow-  
 93 ing provisions:

94 (a) A statement of the contract rate, or amount payable to the  
 95 corporation by or on behalf of the subscriber for the original  
 96 quarter-annual period of coverage and of the time or times at  
 97 which, and the manner in which, such amount is to be paid; and a  
 98 provision requiring 30 days' written notice to the subscriber before  
 99 any change in the contract, including a change in the amount of  
 100 subscription rate, shall take effect;

101 (b) A statement of the nature of the services to be furnished  
 102 and the period during which they will be furnished; and if there  
 103 are any services to be excepted, a detailed statement of such  
 104 exceptions printed as hereinafter specified;**]**\*\*

105   \*\*[(c) A statement of the terms and conditions, if any, upon  
106 which the contract may be amended on approval of the commissioner  
107 or canceled or otherwise terminated at the option of either party.  
108 Any notice to the subscriber shall be [effective if] sent by mail to  
109 the subscriber's address as shown at the time on the plan's record,  
110 except that, in the case of persons for whom payment [of the con-  
111 tract] *under their contracts* is made through a remitting agent,  
112 [any such] notice [to the subscriber shall also be effective if a  
113 personalized notice is] *may be* sent to the remitting agent [for  
114 delivery to the subscriber], in which case it shall be the responsi-  
115 bility of the remitting agent to [make such delivery] *notify the*  
116 *subscriber*. The notice [to the subscriber as] herein required shall  
117 be sent at least 30 days before the amendment, cancellation or  
118 termination of the contract takes effect. Any rider or endorsement  
119 accompanying such notice, and amending the rates or other provi-  
120 sions of the contract, shall be deemed to be a part of the contract  
121 as of the effective date of such rider or endorsement;

122   (d) A statement that the contract includes the endorsements  
123 thereon and attached papers, if any, and contains the entire con-  
124 tract for services;

125   (e) A statement that no statement by the subscriber in his appli-  
126 cation for a contract shall avoid the contract or be used in any legal  
127 proceeding thereunder, unless such application or an exact copy  
128 thereof is included in or attached to such contract, and that no  
129 agent or representative of such corporation, other than an officer or  
130 officers designated therein, is authorized to change the contract  
131 or waive any of its provisions;

132   (f) A statement that if the subscriber defaults in making any  
133 payment under the contract, the subsequent acceptance of a pay-  
134 ment by the corporation or by one of its duly authorized agents  
135 shall reinstate the contract, but with respect to sickness and injury  
136 may cover such sickness as may be first manifested more than 10  
137 days after the date of such acceptance;

138   (g) A statement of the period of grace which will be allowed the  
139 subscriber for making any payment due under the contract. Such  
140 period shall be not less than 10 days.

141   In every such contract made, issued or delivered in this State:

142   (a) All printed portions shall be plainly printed in type of which  
143 the face is not smaller than 10 point;

144   (b) There shall be a brief description of the contract on its first  
145 page and on its filing back in type of which the face is not smaller  
146 than 14 point;]\*\*

147 \*\*[(c) The exceptions of the contract shall appear with the same  
148 prominence as the benefits to which they apply; and

149 (d) If the contract contains any provision purporting to make  
150 any portion of the articles, constitution or bylaws of the corpora-  
151 tion a part of the contract, such portion shall be set forth in full.

1 \***[2.]**\* \*35.\* Section 2 of P. L. 1964, c. 104 (C. 17:48-6.1) is  
2 amended to read as follows:

3 2. A hospital service corporation may issue to a policyholder a  
4 group contract, covering at least **[10]** *two* employees or members  
5 at the date of issue, if it conforms to the following description:

6 (a) A contract issued to an employer or to the trustees of a fund  
7 established by one or more employers, or issued to a labor union,  
8 or issued to an association formed for purposes other than obtain-  
9 ing such contract, or issued to the trustees of a fund established  
10 by one or more labor unions, or by one or more employers and one  
11 or more labor unions, covering employees and members of associa-  
12 tions or labor unions.

13 (b) A contract issued to cover any other group which the Com-  
14 missioner of Insurance determines may be covered in accordance  
15 with sound underwriting principles.

16 Benefits may be provided for one or more members of the  
17 families or one or more dependents of persons who may be covered  
18 under a group contract referred to in (a) or (b) above.

19 Family type contracts shall provide that the services applicable  
20 for children shall be payable with respect to a newly-born child  
21 of the subscriber, or his or her spouse from the moment of birth.  
22 The services for newly-born children shall consist of coverage of  
23 injury or sickness including the necessary care and treatment of  
24 medically diagnosed congenital defects and abnormalities. If a  
25 subscription payment is required to provide services for a child,  
26 the contract may require that notification of birth of a newly-born  
27 child and the required payment must be furnished to the service  
28 corporation within 31 days after the date of birth in order to have  
29 the coverage continue beyond such 31-day period. Group contracts  
30 which provide for services to the subscriber but not to family  
31 members or dependents of that subscriber, other than contracts  
32 which provide no dependent coverage whatsoever for the sub-  
33 scriber's class, shall also provide services to newly-born children of  
34 the subscriber which shall commence with the moment of birth of  
35 each child and shall consist of coverage of injury or sickness includ-  
36 ing the necessary care and treatment of medically diagnosed con-  
37 genital defects and abnormalities, provided that application there-  
38 for and payment of the required subscription amount are made]\*\*



39 \*\*~~to include in said contract the coverage described in the preced-~~  
40 ~~ing paragraph of this section within 31 days from the date of birth~~  
41 ~~of a newborn child.~~

42 ~~[A contract under which coverage of such a dependent terminates~~  
43 ~~at a specified age shall, with respect to] *Coverage of an unmarried*~~  
44 ~~child, covered by the contract prior to attainment of age 19, who~~  
45 ~~is incapable of self-sustaining employment by reason of mental~~  
46 ~~retardation or physical handicap and who became so incapable prior~~  
47 ~~to attainment of age 19 and who is chiefly dependent upon the~~  
48 ~~covered employee or member for support and maintenance, shall~~  
49 ~~not [so] terminate while the coverage of the employee or member~~  
50 ~~remains in force and the dependent remains in such conditions, if~~  
51 ~~the employee or member has within 31 days of such dependent's~~  
52 ~~attainment of the termination age submitted proof of such depen-~~  
53 ~~dent's incapacity as described herein. The foregoing provisions of~~  
54 ~~this paragraph shall not apply retrospectively or prospectively to~~  
55 ~~require a hospital service corporation to insure as a covered depen-~~  
56 ~~dent any mentally retarded or physically handicapped child of the~~  
57 ~~applicant where the contract is underwritten on evidence of in-~~  
58 ~~surability based on health factors required to be set forth in the~~  
59 ~~application. In such cases any contract heretofore or hereafter~~  
60 ~~issued may specifically exclude such mentally retarded or physically~~  
61 ~~handicapped child from coverage.~~

62 Any group contract which contains provisions for the payment  
63 by the insurer of benefits for members of the family or dependents  
64 of a person in the insured group shall provide that, subject to pay-  
65 ment of the appropriate premium, such family members or depen-  
66 dents be permitted to have coverage continued for at least 180 days  
67 after the death of the person in the insured group.

68 The contract may provide that the term "employees" shall  
69 include as employees of a single employer the employees of one  
70 or more subsidiary corporations and the employees, individual pro-  
71 prietors and partners of affiliated corporations, proprietorships  
72 and partnerships if the business of the employer and such corpora-  
73 tions, proprietorships or partnerships is under common control  
74 through stock ownership, contract or otherwise. The contract may  
75 provide that the term "employees" shall include the individual  
76 proprietor or partners of an individual proprietorship or a part-  
77 nership. The contract may provide that the term "employees"  
78 shall include retired employees. A contract issued to trustees may  
79 provide that the term "employees" shall include the trustees or  
80 their employees, or both, if their duties are principally connected  
81 with such trusteeship. A contract issued to the trustees of a fund]\*\*

82 \*\*~~Established~~ by the members of an association of employers may  
83 provide that the term "employees" shall include the employees of  
84 the association.

1 \*~~3.~~\* \*36.\* Section 2 of P. L. 1940, c. 74 (C. 17:48A-2) is  
2 amended to read as follows:

3 2. No medical service corporation shall be converted into a  
4 corporation organized for pecuniary profit. Every such corporation  
5 shall be operated for the benefit of the subscribers. ~~No person shall~~  
6 be elected a trustee of any medical service corporation unless his  
7 nomination has been approved by a recognized medical society or  
8 professional medical organization having not less than 2,000 mem-  
9 bers holding licenses to practice medicine and surgery pursuant to  
10 chapter 9, Title 45, of the Revised Statutes, and which has been  
11 incorporated for a period of not less than 10 years. ~~No medical~~  
12 service corporation shall impose any restrictions on physicians who  
13 administer to its subscribers as to methods of diagnosis or treat-  
14 ment. The private relationship of physician and patient shall be  
15 maintained and the subscriber shall at all times be free to choose  
16 either a doctor of medicine, doctor of chiropractic or any other  
17 participating physician. No person, firm, association or corpora-  
18 tion other than a medical service corporation *or a health service*  
19 *corporation established pursuant to P. L. . . . , c. . . . (C. . . . .)*  
20 *(now pending before the Legislature as \*~~Assembly Bill No. 2883~~*  
21 *of 1984*\*) ~~this bill~~\*) shall establish, maintain or operate a medical  
22 service plan or any other means, agency or device for contracting  
23 with persons to pay for or to provide for medical services on the  
24 basis of premiums or other valuable considerations to be collected  
25 by such person, firm, association or corporation from such persons  
26 for the issue of such contracts; provided, that this section shall not  
27 be construed as preventing the exercise of any authority or privi-  
28 lege granted to any corporation by any certificate of authority  
29 issued by the Commissioner of Insurance pursuant to any law of  
30 this State; and provided further, that this section shall not be con-  
31 strued as preventing any person, firm, association or corporation  
32 from furnishing medical services required under any ~~workmen's~~  
33 *workers' compensation law or \*~~statute~~\* ~~law~~ pertaining to*  
34 *health maintenance organizations\**, or as otherwise provided by  
35 *law*\*. A medical service corporation may organize, alone or in  
36 combination with a hospital service corporation, a health service  
37 corporation. No medical service corporation shall solicit sub-  
38 scribers or enter into any contract with any subscriber until it has  
39 received from the Commissioner of Insurance a certificate of au-  
40 thority to do so. ~~]~~\*\*

1     \*\*[[4.]]\* \*37.\* Section 6 of P. L. 1940, c. 74 (C. 17:48A-6) is  
2 amended to read as follows:

3     6. Every individual contract entered into by any such corporation  
4 with any subscriber shall be in writing and a certificate stating  
5 the terms and conditions thereof shall be furnished to the sub-  
6 scriber. No such subscription certificate shall be issued or delivered  
7 by any medical service corporation of this State unless it contains  
8 the following provisions:

9     (a) A statement of the amounts payable to the corporation by  
10 the subscriber and the times at which and the manner in which  
11 such amounts shall be paid; and a provision requiring one month's  
12 written notice to the subscriber before termination or cancellation  
13 of the contract or any change in the contract, including a change of  
14 subscription rate, shall take effect;

15     (b) A statement of the nature of the medical services to be paid  
16 for and the period during which the certificate is effective; and if  
17 there are any types of medical services to be excepted, or for which  
18 benefits are limited, a detailed statement of such exceptions and  
19 limitations printed as hereinafter specified;

20     (c) A statement of the terms or conditions, if any, upon which  
21 the certificate may be canceled or otherwise terminated at the  
22 option of either party. Any notice to the subscriber shall be [effec-  
23 tive if] sent by mail to the subscriber's address as shown at the  
24 time on the plan's records, except that, in the case of persons for  
25 whom payment is made through a remitting agent, [any such]  
26 notice [to the subscriber shall also be effective if a personalized  
27 notice is] *may be* sent to the remitting agent [for delivery to the  
28 subscriber], in which case it shall be the responsibility of the re-  
29 mitting agent to [make such delivery] *notify the subscriber*. The  
30 notice [to the subscriber as] herein required shall be sent at least  
31 30 days before the amendment, cancellation or termination of the  
32 contract takes effect. Any rider or endorsement accompanying  
33 such notice, and amending the rates or other provisions of the con-  
34 tract, shall be deemed to be a part of the contract as of the effective  
35 date of such rider or endorsement;

36     (d) A statement that the subscription certificate constitutes the  
37 contract between the corporation and the subscriber and includes  
38 the endorsements thereon and attached papers, if any, and contains  
39 the entire contract;

40     (e) A statement that no statement by the subscriber in his appli-  
41 cation for a certificate shall avoid the contract or be used in any  
42 legal proceeding thereunder, unless such application or an exact  
43 copy thereof is included in or attached to the certificate, and that]\*\*

44 \*\*[no agent or representative of such corporation, other than an  
 45 officer or officers designated in the certificate, is authorized to change  
 46 the contract or waive any of its provisions;

47 (f) A statement that if the subscriber defaults in making any  
 48 payment under the certificate, the subsequent acceptance of a pay-  
 49 ment by the corporation or by one of its duly authorized agents  
 50 shall reinstate the certificate, but with respect to sickness and injury  
 51 may cover only such sickness and injury as may be first manifested  
 52 more than a specified number of days, not exceeding 10, after the  
 53 date of such acceptance;

54 (g) A statement of a period of grace which will be allowed the  
 55 subscriber for making any payment due under the contract. Such  
 56 period shall not be less than 10 days;

57 (h) A statement that indemnity in the form of cash will not be  
 58 paid to any subscriber except in payment for medical services for  
 59 which the corporation was liable at the time of such payment.

60 Any such subscription certificate may contain a provision that  
 61 all medical services paid for by a medical service corporation shall  
 62 be in accordance with the accepted medical practices in the com-  
 63 munity at the time, but the corporation shall not be liable for  
 64 injuries resulting from negligence, misfeasance, malfeasance- non,  
 65 feasance or malpractice on the part of any officer or employee or  
 66 on the part of any physician in the course of rendering medical  
 67 services to subscribers.

68 Any medical service corporation may classify subscribers whereby  
 69 under specified circumstances a subscriber or covered depen-  
 70 dents may pay a participating physician for medical services an  
 71 amount in addition to that payable by the corporation for medical  
 72 services and the subscription certificate issued to any subscriber  
 73 affected thereby shall contain the provisions thereof and shall  
 74 specify such circumstances.

1 \***[5.]**\* \*38.\* Section 1 of P. L. 1964, c. 105 (C. 17:48A-7.1) is  
 2 amended to read as follows:

3 1. A medical service corporation may issue to a policyholder  
 4 a group contract, covering at least **[10]** *two* employees or members  
 5 at the date of issue, if it conforms to the following description:

6 (a) A contract issued to an employer or to the trustees of a fund  
 7 established by one or more employers, or issued to a labor union,  
 8 or issued to an association formed for purposes other than obtain-  
 9 ing such contract, or issued to the trustees of a fund established by  
 10 one or more labor unions or by one or more employers and one or  
 11 more labor unions, covering employees and members of associations  
 12 or labor unions.]\*\*

13     \*\*[(b) A contract issued to cover any other group which the Com-  
14 missioner of Insurance (hereinafter called the commissioner)  
15 determines may be covered in accordance with sound underwriting  
16 principles.

17     Benefits may be provided for one or more members of the  
18 families or one or more dependents of persons who may be covered  
19 under a group contract referred to in (a) or (b) above.

20     Family type contracts shall provide that the services applicable  
21 for children shall be payable with respect to a newly-born child of  
22 the subscriber, or his or her spouse from the moment of birth. The  
23 services for newly-born children shall consist of coverage of injury  
24 or sickness including the necessary care and treatment of medically  
25 diagnosed congenital defects and abnormalities. If a subscription  
26 payment is required to provide services for a child, the contract  
27 may require that notification of birth of a newly-born child and the  
28 required payment must be furnished to the service corporation  
29 within 31 days after the date of birth in order to have the coverage  
30 continue beyond such 31-day period.

31     Group contracts which provide for services to the subscriber  
32 but not to family members or dependents of that subscriber, other  
33 than contracts which provide no dependent coverage whatsoever  
34 for the subscriber's class, shall also provide services to newly-born  
35 children of the subscriber which shall commence with the moment  
36 of birth of each child and shall consist of coverage of injury or  
37 sickness including the necessary care and treatment of medically  
38 diagnosed congenital defects and abnormalities, provided that  
39 application therefor and payment of the required subscription  
40 amount are made to include in said contract the coverage described  
41 in the preceding paragraph of this section within 31 days from the  
42 date of birth of a newborn child.

43     [A contract under which coverage of such a dependent terminates  
44 at a specified age shall, with respect to] *Coverage of an unmarried*  
45 *child, covered by the contract prior to attainment of the age 19,*  
46 *who is incapable of self-sustaining employment by reason of mental*  
47 *retardation or physical handicap and who became so incapable prior*  
48 *to attainment of age 19 and who is chiefly dependent upon the*  
49 *covered employee or member for support and maintenance, shall*  
50 *not [so] terminate while the coverage of the employee or member*  
51 *remains in force and the dependent remains in such condition, if*  
52 *the employee or member has within 31 days of such dependent's*  
53 *attainment of the termination age submitted proof of such depen-*  
54 *dent's incapacity as described herein. The foregoing provisions*  
55-56 *of this paragraph shall apply retrospectively or prospectively]\*\**

57 \*\*[to require a medical service corporation to insure as a covered  
 58 dependent any mentally retarded or physically handicapped child of  
 59 the applicant where the contract is underwritten on evidence of in-  
 60 surability based on health factors required to be set forth in the  
 61 application. In such cases any contract heretofore or hereafter  
 62 issued may specifically exclude such mentally retarded or physically  
 63 handicapped child from coverage.

64 Any group contract which contains provisions for the payment  
 65 by the insurer of benefits for members of the family or dependents  
 66 of a person in the insured group shall, subject to payment of the  
 67 appropriate premium, provide that such family members or depen-  
 68 dents be permitted to have coverage continued for at least 180 days  
 69 after the death of the person in the insured group.

70 The contract may provide that the term "employees" shall in-  
 71 clude as employees of a single employer the employees of one or  
 72 more subsidiary corporations and the employees, individual pro-  
 73 prietors and partners of affiliated corporations, proprietorships  
 74 and partnerships if the business of the employer and such corpora-  
 75 tions, proprietorships or partnerships is under common control  
 76 through stock ownership, contract or otherwise. The contract may  
 77 provide that the term "employees" shall include the individual  
 78 proprietor or partners of an individual proprietorship or a partner-  
 79 ship. The contract may provide that the term "employees" shall  
 80 include retired employees. A contract issued to trustees may pro-  
 81 vide that the term "employees" shall include the trustees or their  
 82 employees, or both, if their duties are principally connected with  
 83 such trusteeship. A contract issued to the trustees of a fund  
 84 established by the members of an association of employers may  
 85 provide that the term "employees" shall include the employees  
 86 of the association.

1 \***[6.]**\* \*39.\* Section 14 of P. L. 1940, c. 74 (C. 17:48A-14) is  
 2 amended to read as follows:

3 14. The funds of any medical service corporation may be invested  
 4 only in accordance with the requirements now or hereafter pro-  
 5 vided by law for the investment of funds of life insurance com-  
 6 panies. Every medical service corporation after thte first full  
 7 calendar year of doing business after the effective date of this  
 8 chapter, shall accumulate and maintain a special contingent surplus  
 9 over and above its reserves and liabilities at the rate of two  
 10 per centum (2%) annually of its net premium income until such  
 11 surplus shall be not less than one hundred thousand dollars  
 12 (\$100,000.00) [except that no such corporation shall be required to  
 13 maintain a special contingent surplus exceeding fifty-five per]\*\*

14 **\*\*[centum (55%) of its average annual premium income for the**  
 15 **previous five years].** *Thereafter for any subsequent calendar year,*  
 16 *a special contingent surplus shall be maintained at 2½% of the net*  
 17 *premium income received during that year as determined by refer-*  
 18 *ence to the statement of financial condition filed pursuant to section*  
 19 *15 of P. L. 1940, c. 74 (C. 17:48A-15). The special contingent surplus*  
 20 *as herein provided shall be contributed to by each of the following*  
 21 *two categories: (a) community rated, excluding open enrollment*  
 22 *and conversion groups; and (b) experience rated subscribers, in*  
 23 *ratio that the net premium income of each category bears to the*  
 24 *total net premium income of the corporation and by contri-*  
 25 *butions from the category that gives rise to a diminution of the*  
 26 *surplus required to be maintained under this act. Whenever it shall*  
 27 *appear that the special contingent surplus has deviated from the*  
 28 *amount required to be maintained by more than 2% of the ag-*  
 29 *gregate amount of the net premium income received during that*  
 30 *year, the commissioner shall approve and promulgate a plan rea-*  
 31 *sonably calculated to return the special contingent surplus to the*  
 32 *amount required to be maintained within two years from the date*  
 33 *of implementation of the plan specified above. Approval and pro-*  
 34 *mulgation of the plan by the commissioner shall not abrogate the*  
 35 *responsibilities of corporate officers with regard to the reporting*  
 36 *of financial condition pursuant to section 15 of (C. 17:48A-15).]\*\**

1 *\*\*1. As used in this act:*

2 *a. "Commissioner" means the Commissioner of Insurance.*

3 *b. "Board" and "board of directors" means the board of directors*  
 4 *of the health service corporation.*

5 *c. "Elective surgical procedure" means any nonemergency*  
 6 *surgical procedure which may be scheduled at the convenience of*  
 7 *the patient or the surgeon without jeopardizing the patient's life*  
 8 *or causing serious impairment to the patient's bodily functions.*

9 *d. "Eligible physician" means a physician licensed to practice*  
 10 *medicine and surgery who holds the rank of Diplomate of an*  
 11 *American Board (M. D.) or Certified Specialist (D. O.) in the*  
 12 *surgical or medical specialty for which surgery is proposed.*

13 *e. "Health service corporation" means a health service corpora-*  
 14 *tion established pursuant to the provisions of this act which is*  
 15 *organized, without capital stock and not for profit, for the purpose*  
 16 *of (1) establishing, maintaining and operating a nonprofit health*  
 17 *service plan and (2) supplying services in connection with (a) the*  
 18 *providing of health care or (b) conducting the business of insurance*  
 19 *as provided for in this act.*

20 *f. "Health service plan" means a plan under which contracts are*

21 issued providing complete or partial prepayment or postpayment of  
22 health care services and supplies eligible under the contracts for a  
23 given period to persons covered under the contract where arrange-  
24 ments are made for payment for health care services and supplies  
25 directly to the provider thereof or to a covered person under those  
26 contracts.

27 g. "Hospital service corporation" means a hospital service  
28 corporation established pursuant to the provisions of P. L. 1938,  
29 c. 366 (C. 17:48-1 et seq.).

30 h. "Medical service corporation" means a medical service  
31 corporation established pursuant to the provisions of P. L. 1940,  
32 c. 74 (C. 17:48A-1 et seq.).

33 i. "Provider of health care services" shall include, but not be  
34 limited to (1) a health service corporation, a hospital service  
35 corporation or medical service corporation; (2) a hospital or health  
36 care facility under contract with a health service corporation to  
37 provide health care services or supplies to persons who become  
38 subscribers under contracts with the health service corporation;  
39 (3) a hospital or health care facility which is maintained by a state  
40 or any of its political subdivisions; (4) a hospital or health care  
41 facility licensed by the Department of Health; (5) other hospitals  
42 or health care facilities, as designated by the Department of Health  
43 to provide health care services; (6) a registered nursing home  
44 providing convalescent care; (7) a nonprofit voluntary visiting  
45 nurse organization providing health care services other than in  
46 a hospital; (8) hospitals or other health care facilities located in  
47 other states, which are subject to the supervision of those states,  
48 which if located in this State, would be eligible to be licensed or  
49 designated by the Department of Health; (9) nonprofit hospital,  
50 medical or health service plans of other states approved by the  
51 commissioner; (10) physicians licensed to practice medicine and  
52 surgery; (11) licensed chiropractors; (12) licensed dentists; (13)  
53 licensed optometrists; (14) licensed pharmacists; (15) licensed  
54 chiropodists; (16) registered bio-analytical laboratories; (17)  
55 licensed psychologists; (18) registered physical therapists; (19)  
56 certified nurse-midwives; (20) registered professional nurses; (21)  
57 licensed health maintenance organizations; and (22) providers of  
58 other similar health care services or supplies as are approved by  
59 the commissioner.

60 j. "Second surgical opinion" means an opinion of an eligible  
61 physician based on that physician's examination of a person for the  
62 purpose of evaluating the medical advisability of that person under-



63 going an elective surgical procedure, but prior to the performance  
64 of the surgical procedure.

65 k. "Subscriber" means a person to whom a subscription certificate  
66 is issued by a health service corporation, and the term shall also  
67 include "policyholder," "member," or "employer" under a group  
68 contract where the context requires.

1 2. a. A health service corporation may be established:

2 (1) By incorporating and obtaining a certificate of authority in  
3 accordance with the provisions of this act; or

4 (2) By the merger of a hospital service corporation and a  
5 medical service corporation.

6 b. A health service corporation shall be incorporated under and  
7 shall conduct its business pursuant to the provisions of Title 15A  
8 of the New Jersey Statutes, except that where the provisions of  
9 that title are inconsistent with the provisions of this act, the pro-  
10 visions of this act shall govern.

1 3. a. No health service corporation shall be established as a  
2 corporation organized for pecuniary profit. Every health service  
3 corporation established pursuant to the provisions of this act shall  
4 be operated for the benefit of its subscribers.

5 b. No person, firm, association or corporation, other than a health  
6 service corporation or an insurance company authorized to transact  
7 life or health insurance in accordance with Title 17B of the New  
8 Jersey Statutes shall establish, maintain or operate a health  
9 service plan. No person, firm, association or corporation other  
10 than a hospital service corporation, a medical service corporation,  
11 a dental service corporation to the extent permitted by P. L. 1968,  
12 c. 305 (C. 17:48C-1 et seq.), or an insurance company authorized to  
13 transact life or health insurance business or the kinds of insurance  
14 specified in subsection (d) of R. S. 17:17-1, shall otherwise contract  
15 in this State with persons to pay for or to provide for health services  
16 on the basis of premiums or other valuable considerations to be  
17 collected by the person, firm, association or corporation from any  
18 persons for the issuance of the contracts. This section shall not  
19 be construed as preventing the exercise of any authority or privilege  
20 granted to any corporation by a certificate of authority issued by  
21 the commissioner pursuant to any law of this State, or as prevent-  
22 ing any person, firm, association or corporation from furnishing  
23 health services required under any workers' compensation law, or  
24 law pertaining to health maintenance organizations, or as otherwise  
25 provided by law.

26 c. A health service corporation shall, unless prohibited by the  
27 commissioner, offer as an option medical-surgical contracts and

28 dental subscriber contracts which afford subscribers prepaid or  
29 postpaid benefits pursuant to which payment is made to participat-  
30 ing providers for medical-surgical and dental services rendered by  
31 a participating provider network with agreements granting an  
32 aggregate differential allowance or discount on charges, as well  
33 as a limit on total allowances which may or may not be related to  
34 the subscriber's income level, where the aggregate differential or  
35 discount on charges and limit on total allowances may be achieved  
36 by payment of either the individual provider's actual charge or the  
37 health service corporation's allowance on the charge, whichever is  
38 less.

39 d. A health service corporation shall, unless the commissioner  
40 otherwise directs, maintain a continuous open enrollment period,  
41 providing coverage to persons who are otherwise unable to obtain  
42 hospital, medical-surgical, or major medical coverage.

43 e. No health service corporation shall have the power, directly or  
44 through a subsidiary or affiliate, to underwrite life insurance as  
45 defined in Title 17B of the New Jersey Statutes.

46 f. No health service corporation shall solicit subscribers or enter  
47 into any contract with any subscriber until it has received from the  
48 commissioner a certificate of authority to do so, but if a health  
49 service corporation is established by means of the merger of a  
50 medical service corporation into a hospital service corporation,  
51 which hospital service corporation possesses a valid certificate of  
52 authority issued prior to the effective date of this act, the health  
53 service corporation thus established need not reapply for a new  
54 certificate of authority, but the corporation shall file in the Depart-  
55 ment of Insurance any documents relating to the merger which the  
56 commissioner may require.

57 g. Nothing in this act shall be deemed to prohibit a health service  
58 corporation from contracting with, or paying commissions to, any  
59 duly licensed affiliated or independent insurance agent or broker,  
60 to the extent permitted by the laws applicable to those agents or  
61 brokers.

1 4. a. A health service corporation, other than a health service  
2 corporation which is formed as the result of a merger of a medical  
3 service corporation and a hospital service corporation, which seeks  
4 a certificate of authority shall file in the Department of Insurance  
5 a certified copy of its certificate of incorporation, a copy of its  
6 bylaws and a statement of its financial condition in the form and  
7 detail required by the commissioner, signed and sworn to by its  
8 president and secretary or other proper officers. The certificate of  
9 authority shall be issued if the commissioner is satisfied, on the

10 *basis of examination or otherwise, that the health service corpora-*  
11 *tion has complied with the requirements of this act, that its condi-*  
12 *tion or methods of operation are not such as would render its opera-*  
13 *tions hazardous to the public or to its subscribers, and that the*  
14 *issuance of the certificate of authority would not be contrary to the*  
15 *public interest. No change in, amendment to, alteration in, addition*  
16 *to, or substitution for any document, instrument, or other paper so*  
17 *filed shall become operative or effective until it shall also have been*  
18 *filed in the manner required by this section. No certificate of au-*  
19 *thority shall be issued to any health service corporation not in-*  
20 *corporated under the laws of this State.*

21 *b. No certificate of authority shall be issued to any health service*  
22 *corporation except on receipt of evidence by the commissioner that*  
23 *the corporation is in possession of unencumbered funds of not less*  
24 *than \$1,250,000.00 to be held in cash or in a federally insured*  
25 *depository institution to the credit of the corporation.*

26 *c. No certificate of authority shall be issued to any health service*  
27 *corporation and no health service corporation which is established*  
28 *as a result of a merger of a hospital service corporation and a*  
29 *medical service corporation shall commence business unless the*  
30 *board of directors of the corporation is constituted in accordance*  
31 *with the provisions of this act.*

1 *5. Upon the merger of a medical service corporation into a*  
2 *hospital service corporation, the surviving corporation shall qualify*  
3 *as a health service corporation, and the surviving corporation need*  
4 *not obtain a new charter or certificate of authority to act as a health*  
5 *service corporation, provided that:*

6 *a. The board of directors of the surviving corporation is con-*  
7 *stituted pursuant to the provisions of section 6 of this act; and*

8 *b. The certificate of incorporation of the hospital service corpora-*  
9 *tion is amended, within 30 days of the merger, in accordance with*  
10 *the provisions of this act; and*

11 *c. The bylaws of the hospital service corporation are amended,*  
12 *within 30 days of the merger, in accordance with the provisions of*  
13 *this act; and*

14 *d. Evidence of compliance with subsections a., b., and c. of this*  
15 *section is filed with the Commissioner of Insurance.*

1 *6. The board of a health service corporation which is formed as*  
2 *the result of a merger between a medical service corporation and a*  
3 *hospital service corporation shall be composed of 32 members.*  
4 *Initially, after the merger has been effected, the board shall be con-*  
5 *stituted as follows:*

6 *a. Eight members of the board shall be public members, who*

7 shall be appointed by the Governor. The public members so  
8 appointed shall be persons whose background and experience in-  
9 dicate that they are qualified to act in the broad public interest,  
10 who may or may not have coverage under a contract or contracts  
11 issued by the corporation, its subsidiaries or affiliates, and who, or  
12 whose spouse or minor children, are not officers, directors or owners  
13 of more than 10% of the stock of a corporation whose aggregate  
14 sales to hospitals, other health care facilities or other providers of  
15 health care services exceed 5% of its total sales. Of the remaining  
16 members, seventeen shall be selected by the board of directors of  
17 the merging hospital service corporation from among its members,  
18 and seven shall be selected by the board of directors of the merging  
19 medical service corporation from among its members.

20 b. Of the initial members of the board, as provided for in sub-  
21 section a. of this section, two members appointed by the Governor,  
22 five members of the board of the merging hospital service corpora-  
23 tion, and two members of the board of the merging medical service  
24 corporation shall serve for a term of one year; three members  
25 appointed by the Governor, five members of the board of the merg-  
26 ing hospital service corporation and two members of the board of  
27 the merging medical service corporation shall serve for a term of  
28 two years; and three members appointed by the Governor, seven  
29 members of the board of the merging hospital service corporation  
30 and three members of the board of the merging medical service  
31 corporation shall serve for a term of three years. Thereafter, all  
32 members of the board shall serve for a term of three years, and  
33 shall hold office until their successors are elected and qualified.

34 c. After the constitution of the initial board as provided in sub-  
35 section b. of this section, and as the initial terms expire as provided  
36 for in that section, the board shall be constituted as follows:

37 (1) All of the public members of the board shall be appointed by  
38 the Governor;

39 (2) Twenty-four of the members shall be elected by the board  
40 of directors, as provided in the bylaws.

41 d. The provisions of subsection c. of this section shall not be con-  
42 strued to preclude the reappointment or reelection of any member  
43 appointed or elected pursuant to subsection a. of this section.

1 7. The board of directors of a health service corporation which is  
2 established in accordance with paragraph (1) of subsection a. of  
3 section 2 of this act shall have eight public members appointed by  
4 the Governor and 24 members elected as provided in the bylaws.

1 8. Within 10 days after a vacancy in the board of directors of a  
2 health service corporation has occurred, the corporation shall notify

3 the commissioner in writing that a vacancy exists. If the vacancy  
4 is in one of the positions on the board which has been appointed by  
5 the Governor, the commissioner shall so notify the Governor, who  
6 shall appoint a candidate to serve for the remaining term. If the  
7 vacancy occurs in a position which is elected by the board, the  
8 vacancy shall be filled in accordance with the bylaws. Not more  
9 than 10 days after the selection of a person by the board to fill the  
10 vacancy, the corporation shall furnish, in writing, the following  
11 information to the commissioner: the name and address of the  
12 person so elected; whether the person is representative of the  
13 participating providers of health care services of the corporation,  
14 and is qualified to serve under the provisions of this act. If the  
15 commissioner finds, after a hearing, that the composition of the  
16 board of directors of the health service corporation, with respect  
17 to the members elected by the board, is not in compliance with the  
18 provisions of this act, he may direct that the board be reconstituted  
19 in accordance with his findings.

1 9. The board of directors of a health service corporation may, by  
2 resolution, elect an executive committee of the board, one fourth of  
3 which shall be members appointed by the Governor. Vacancies in  
4 the executive committee shall be filled by the board of directors in  
5 accordance with the bylaws.

6 To the extent provided in the resolution of the board, or in the  
7 bylaws, the executive committee shall have and may exercise all the  
8 authority of the board, except that no executive committee shall:

9 a. Make, alter or repeal any bylaw of the corporation;

10 b. Elect or appoint any director, or remove any officer or  
11 director;

12 c. Submit to members any action that requires members' ap-  
13 proval; or

14 d. Amend or repeal any resolution previously adopted by the  
15 board.

1 10. a. A health service corporation may enter into agreements  
2 with providers of health care services whereby the providers be-  
3 come participating providers of health care services of that health  
4 service plan. Copies of agreements proposed to be entered into  
5 with participating physicians shall be filed with the commissioner.  
6 Every agreement shall provide: (1) for coverage of eligible health  
7 care services rendered to subscribers and covered dependents to the  
8 end of the subscription certificate year; (2) that 30 days' written  
9 notice of termination of the agreement may be given to the health  
10 service corporation at any time by any participating provider of  
11 health care services, but shall not apply to any subscription

12 *certificate in force at the time of notice until the first date there-*  
13 *after when the subscription certificate may properly be terminated*  
14 *by the health service corporation; and (3) that the agreement of the*  
15 *provider of health care services to render services to the end of*  
16 *any certificate year shall not be affected by cessation of the transac-*  
17 *tion of business by the health service corporation. This require-*  
18 *ment shall not apply to any subscription certificate which is not*  
19 *maintained in force by the payment of premiums required thereby.*

20 *b. A participating provider of health care services is one who*  
21 *agrees in writing to render health care services to or for persons*  
22 *covered by a contract or contracts issued by a health service*  
23 *corporation in return for which the health service corporation*  
24 *agrees to make payment directly to the participating provider. No*  
25 *person or facility shall become a participating provider of health*  
26 *care services unless he or it shall be legally authorized to provide*  
27 *health care services or supplies in this State. The board shall*  
28 *approve reimbursement rates paid to physicians.*

29 *c. A health service corporation may enter into agreements with*  
30 *other similar nonprofit health service corporations, hospital service*  
31 *corporations, or medical service corporations licensed under the*  
32 *laws of other states to provide for reciprocal payment of health*  
33 *care services to their respective subscribers and covered dependents*  
34 *rendered in the area served by the other corporation, provided that*  
35 *payments to participating physicians shall be at a rate not exceed-*  
36 *ing the same rate paid participating physicians under the certificate*  
37 *of the subscriber.*

38 *d. A health service corporation may establish criteria and*  
39 *standards for providers of health care services with which it desires*  
40 *to contract, and may establish its own contracting criteria for the*  
41 *providers as it shall determine, but contractual rates of payment to*  
42 *any hospital or health care facility shall be approved as to reason-*  
43 *ableness by the Hospital Rate Setting Commission pursuant to sec-*  
44 *tion 18 of P. L. 1971, c. 136 (C. 26:2H-18). The maximum rate of*  
45 *payment to eligible hospitals and institutions not under contract*  
46 *with the health service corporation shall not exceed those hospitals'*  
47 *or institutions' regular charges to the general public for the same*  
48 *services and shall be set forth in the certificate issued by the health*  
49 *service corporation to any subscriber. The basis and extent of pay-*  
50 *ment, if any, by the health service corporation under agreement*  
51 *with nonprofit hospital service, medical service, or health service*  
52 *plans of other states shall be subject to the approval of the com-*  
53 *missioner.*

54 *e. Any dispute arising between a health service corporation and*

55 any provider of health care services with which the health service  
56 corporation has a contract for provision of health care services may  
57 be submitted to the commissioner for his determination with  
58 respect thereto, which determination shall be subject to review by  
59 the Superior Court in a proceeding in lieu of prerogative writ pur-  
60 suant to section 43 of this act.

1 11. a. There is created a Professional Advisory Committee which  
2 shall be elected by the directors in a manner provided by the  
3 bylaws, which shall advise and make recommendations to the board  
4 with respect to professional practice and health care issues, includ-  
5 ing, but not limited to, (1) the eligibility of and reimbursement for  
6 medical, surgical, or other health care procedures or services; and  
7 (2) the establishing of guidelines for the utilization of health care  
8 services and procedures.

9 b. The advisory committee created pursuant to subsection a. of  
10 this section shall be composed of at least five physicians, of whom  
11 not less than two shall also be directors, and all of whom shall be  
12 participating providers. In the case of a merger of a hospital  
13 service corporation and a medical service corporation, the initial  
14 advisory committee shall be elected by the board of the merging  
15 medical service corporation. Thereafter, all members of the  
16 advisory committee shall be elected by the directors, in a manner  
17 provided by the bylaws.

1 12. In any contract entered into by a health service corporation,  
2 which includes coverage for health care services provided by a  
3 physician, coverage shall be deemed to include health care services  
4 provided by a registered bio-analytic laboratory or physical ther-  
5 apist, a certified nurse-midwife, a registered professional nurse, or  
6 a licensed chiropractor, dentist, optometrist, psychologist or  
7 chiropractor when the provider performs an eligible service within  
8 the scope of his practice and for which he is not being compensated  
9 by a hospital or other health care facility. The practices of the pro-  
10 viders of health care services shall be deemed to be within the  
11 provisions of this act and the providers shall have the privileges  
12 and benefits in the scope of their practice under this act afforded  
13 hereunder to other approved providers of health care services in  
14 the scope of their practices.

1 13. No health service corporation shall enter into any contract  
2 with a subscriber unless it has filed with the commissioner a copy  
3 of the contract or certificate and copies of all applications, riders,  
4 and endorsements for use in connection with the issuance or  
5 renewal thereof. If the commissioner at any time notifies the  
6 corporation of his disapproval of any form as being contrary to

7 law, or as being oppressive or calculated to mislead the public,  
 8 specifying particulars, it shall be unlawful for the corporation there-  
 9 after to issue the form which has been disapproved.

1 14. In every individual contract made, issued or delivered in this  
 2 State:

3 a. All printed portions shall be plainly printed in type of which  
 4 the face is not smaller than 10 point;

5 b. There shall be a brief description of the contract on its first  
 6 page and on its filing back in type of which the face is not smaller  
 7 than 14 point;

8 c. The exceptions of the contract shall appear with the same  
 9 prominence as the benefits to which they apply; and

10 d. If the contract contains any provision purporting to make any  
 11 portion of the articles, constitution or bylaws of the corporation  
 12 a part of the contract, that portion shall be set forth in full.

1 15. A health service corporation may classify subscribers where-  
 2 by under specified circumstances a subscriber or covered depen-  
 3 dents may pay a participating provider of health care services an  
 4 amount in addition to that payable by the corporation for those  
 5 services, and the subscription certificate issued to any subscriber  
 6 affected thereby shall contain the provisions thereof and shall  
 7 specify the circumstances.

1 16. a. A health service corporation of this State may, (1) with  
 2 the participation of any other corporation licensed pursuant to  
 3 Title 17 of the Revised Statutes, Title 17B of the New Jersey  
 4 Statutes, or P. L. 1973, c. 337 (C. 26:2J-1 et seq.), or licensed pur-  
 5 suant to similar statutes of other states, jointly issue individual or  
 6 group contracts for health care and other benefits, including com-  
 7 plete employee welfare and other employee benefit programs, or  
 8 (2) with the participation of any other corporation, jointly enter  
 9 into contracts to provide or receive services in connection with the  
 10 providing of health care or conducting the business of insurance  
 11 in accordance with the provisions of this act or as permitted by the  
 12 commissioner. The commissioner may establish any nonforfeiture  
 13 requirements or reserve requirements as he deems necessary.  
 14 Agreements between a health service corporation and other  
 15 corporations pursuant to this section may provide for experience  
 16 rating, if the experience rating is done on an equitable basis  
 17 between the health service corporation and the other corporations;  
 18 or for a sharing, except with respect to life insurance as defined in  
 19 N. J. S. 17B:17-3, of the premium, claims, and expenses by the  
 20 participating corporations; or subject to regulation by the commis-  
 21 sioner, for acceptance or ceding of the whole or portions of risks



22 *on a reinsurance basis, except that a health service corporation may*  
23 *not accept risks on a reinsurance basis which it may not accept on a*  
24 *primary basis pursuant to its powers as a health service corpora-*  
25 *tion, and may not, under any circumstances, act as a reinsurer of*  
26 *life insurance. Agreements made pursuant to this section shall be*  
27 *filed with and approved by the commissioner before becoming effec-*  
28 *tive.*

29 *b. In the case of any joint venture for the sale of insurance with*  
30 *other than an insurer or hospital or medical service corporation*  
31 *licensed to do business in this or any other state, the other partner*  
32 *or partners in the venture shall be licensed to sell insurance as*  
33 *agents pursuant to Title 17B of the New Jersey Statutes.*

1 *17. a. No health service corporation shall during any one year*  
2 *disburse more than 10% of the aggregate amount of the payments*  
3 *received from subscribers during that year as expenditures for the*  
4 *soliciting of subscribers, except that during the first year after the*  
5 *issuance of a certificate of authority a health service corporation*  
6 *may so disburse not more than 20% of that amount and during the*  
7 *second year not more than 15%.*

8 *b. No health service corporation shall, during any one year,*  
9 *disburse a sum greater than 20% of the payments received from*  
10 *subscribers during that year as administrative expenses. The term*  
11 *"administrative expenses," as used in this section shall include all*  
12 *expenditures for nonprofessional services and in general all ex-*  
13 *penses not directly connected with the furnishing of services or*  
14 *benefits, but not including expenses of soliciting subscribers.*

15 *c. The funds of any health service corporation may be invested*  
16 *to the same extent now or hereafter permitted by law for the in-*  
17 *vestment of funds of domestic life insurance companies, including*  
18 *investments in for-profit subsidiaries such as insurance agencies,*  
19 *suppliers of administrative services only, or any other subsidiaries*  
20 *permitted pursuant to N. J. S. 17B:20-4, and for the purpose of*  
21 *engaging in any aspect of its business directly or through one or*  
22 *more subsidiaries or affiliates, except that a health service corpora-*  
23 *tion may not invest in a subsidiary authorized to insure risks which*  
24 *the health service corporation may not insure directly pursuant to*  
25 *its powers as a health service corporation.*

26 *d. A health service corporation may not directly supply admin-*  
27 *istrative services only, but may supply administrative services*  
28 *through a subsidiary or affiliate, except that no health service*  
29 *corporation may directly or indirectly, through a subsidiary or*  
30 *affiliate or otherwise, make available any provider differential under*  
31 *an agreement to supply administrative services only.*

32 e. Every health service corporation, after the first full calendar  
33 year of doing business as a health service corporation, shall accu-  
34 mulate and maintain a special contingent surplus over and above its  
35 reserves and liabilities at the rate of 2% annually of its net premium  
36 income until that surplus is not less than \$1,250,000.00. Thereafter,  
37 for any subsequent calendar year, the special contingent surplus  
38 shall be maintained at an amount not less than 2½% of the net  
39 premium income received during that year as determined by refer-  
40 ence to the statement of financial condition filed pursuant to section  
41 36 of this act. The commissioner may increase the amount of special  
42 contingent surplus which shall be maintained pursuant to this sub-  
43 section to an amount not exceeding 5% of the net premium income  
44 received during the preceding year. This special contingent  
45 surplus shall be contributed by each of the following two categories:

46 (1) Community rated, excluding open enrollment and conversion  
47 groups; and

48 (2) Experience rated subscribers, in the ratio that the net pre-  
49 mium income of each category bears to the total net premium  
50 income of the health service corporation and by contributions from  
51 the category that gives rise to a diminution of the surplus required  
52 to be maintained under this section. Whenever it appears that the  
53 special contingent surplus has deviated from the amount required  
54 to be maintained by more than 2% of the aggregate amount of the  
55 net premium income received during that year, the commissioner  
56 shall approve and promulgate a plan reasonably calculated to  
57 return the special contingent surplus to the amount required to be  
58 maintained, within two years from the date of implementation of  
59 the plan specified above. Approval and promulgation of the plan  
60 by the commissioner shall not abrogate the responsibilities of  
61 corporate officers with regard to the reporting of financial condition  
62 pursuant to section 36 of this act.

63 f. Nothing in subsection e. of this section or any other provision  
64 of this act shall be construed to limit the authority of the com-  
65 missioner to require compliance with statutory capital, surplus or  
66 reserve requirements for a subsidiary or affiliate of a health service  
67 corporation, or for any reinsurance activities to be undertaken by a  
68 health service corporation.

1 18. a. Every individual contract made by a health service  
2 corporation shall provide coverage for a specified period of not  
3 less than one year, and no contract shall be made providing for the  
4 inception of coverage at a date later than one year after the actual  
5 date of the making of the contract without the prior approval of the  
6 commissioner. The contract may provide that it shall be auto-

7 *matically renewed from year to year unless there shall have been at*  
8 *least 30 days' prior written notice of termination by either the sub-*  
9 *scriber or the health service corporation. In the absence of fraud*  
10 *or material misrepresentation in the application for a contract or*  
11 *for reinstatement, no contract with an individual subscriber shall be*  
12 *terminated by the health service corporation unless all contracts of*  
13 *the same type, in the same group or covering the same classification*  
14 *of persons are terminated under the same conditions.*

15 *b. No contract between a health service corporation and a sub-*  
16 *scriber shall entitle more than one person to coverage, except that a*  
17 *contract issued as a family contract may provide that coverage will*  
18 *be furnished to a husband and wife, or husband, wife and their*  
19 *dependent child or children, or the subscriber and his, or her,*  
20 *dependent child or children. Adult dependents of a subscriber may*  
21 *also be included for coverage under the contract of the subscriber.*

1 *19. Every individual contract entered into between a health*  
2 *service corporation and a subscriber shall be in writing and a*  
3 *certificate stating the terms and conditions thereof shall be*  
4 *furnished to the subscriber to be kept by him. No subscription*  
5 *certificate shall be made, issued or delivered in this State unless*  
6 *it contains the following provisions:*

7 *a. A statement of the contract rate, or amount payable to the*  
8 *health service corporation by or on behalf of the subscriber for the*  
9 *period of coverage and of the time or times at which, and the manner*  
10 *in which, the amount is to be paid; and a provision requiring 30*  
11 *days' written notice to the subscriber before any change in the*  
12 *contract, including a change in the amount of the subscription rate,*  
13 *shall take effect;*

14 *b. A statement of the nature of the health services to be furnished*  
15 *or paid for and the period during which they will be furnished or*  
16 *paid for; and, if there are any services to be excepted, or any*  
17 *benefits to be limited, a detailed statement of the exceptions or*  
18 *limitations printed as hereinafter specified;*

19 *c. A statement of the terms and conditions, if any, upon which*  
20 *the contract may be amended on approval of the commissioner or*  
21 *canceled, or otherwise terminated, at the option of either party.*  
22 *Any notice to the subscriber shall be sent by mail to the subscriber's*  
23 *address as shown at the time on the health service plan's record,*  
24 *except that, in the case of persons for whom payment under their*  
25 *contracts is made through a remitting agent, notice may be sent to*  
26 *the remitting agent, in which case it shall be the responsibility of*  
27 *the remitting agent to notify the subscriber. The notice shall be*  
28 *sent at least 30 days before the amendment, cancellation or termina-*

29 tion of the contract takes effect. A rider or endorsement accompany-  
30 ing the notice, and amending the rates or other provisions of the  
31 contract, shall be deemed to be a part of the contract as of the  
32 effective date of the rider or endorsement;

33 d. A statement that the contract includes the endorsements  
34 thereon and attached papers, if any, and contains the entire  
35 contract;

36 e. A statement that no statement by the subscriber in his applica-  
37 tion for a contract shall avoid the contract or be used in any legal  
38 proceeding thereunder, unless the application, or an exact copy  
39 thereof is included in or attached to the contract, and that no agent  
40 or representative of the health service corporation, other than an  
41 officer or officers designated therein, is authorized to change the  
42 contract or waive any of its provisions;

43 f. A statement that if the subscriber defaults in making any pay-  
44 ment under the contract, the subsequent acceptance of a payment  
45 by the health service corporation or by one of its duly authorized  
46 agents shall reinstate the contract, but with respect to sickness and  
47 injury may cover any sickness as may be first manifested more than  
48 10 days after the date of the acceptance;

49 g. A statement of the period of grace, which shall not be less  
50 than 10 days, allowed the subscriber for making any payment due  
51 under the contract; and

52 h. A contract may contain a provision that all health services  
53 furnished or paid for by a hospital service corporation shall be in  
54 accordance with the accepted medical practices in the community  
55 at the time, but the health service corporation shall not be liable for  
56 injuries resulting from negligence, misfeasance, malfeasance, non-  
57 feasance or malpractice on the part of any provider of health care  
58 services in the course of rendering health care services to sub-  
59 sscribers.

1 20. a. Family type individual contracts shall provide that the  
2 coverage applicable for children shall be payable with respect to a  
3 newly-born child of the subscriber, or his or her spouse from the  
4 moment of birth. Coverage for newly-born children shall consist of  
5 coverage of injury or sickness, including the necessary care and  
6 treatment of medically diagnosed congenital defects and abnor-  
7 malities. If a subscription payment is required to provide coverage  
8 for a child, the contract may require that notification of birth of a  
9 newly-born child and the required payment must be furnished to the  
10 health service corporation within 31 days after the date of birth in  
11 order to have the coverage continue beyond such 31-day period.

12 b. Nonfamily type individual contracts which provide for cover-

13 age to the subscriber but not to family members or dependents of  
14 that subscriber shall also provide coverage to newly-born children  
15 of the subscriber which shall commence with the moment of birth  
16 of each child and shall consist of coverage of injury or sickness in-  
17 cluding the necessary care and treatment of medically diagnosed  
18 congenital abnormalities, if application therefor and payment of  
19 the required subscription amount are made to include in the contract  
20 the coverage described in subsection a. of this section within 31 days  
21 from the date of birth of a newborn child.

1 21. Whenever, pursuant to the provisions of an individual con-  
2 tract issued by a health service corporation, the former spouse of a  
3 named subscriber under a contract is no longer entitled to coverage  
4 as an eligible dependent by reason of divorce, separate coverage  
5 for the former spouse shall be made available by the health service  
6 corporation on an individual basis under the following conditions:

7 a. Application for coverage shall be made to the health service  
8 corporation by or on behalf of the former spouse no later than 31  
9 days following the date his or her coverage under the prior contract  
10 terminated.

11 b. No new evidence of insurability shall be required in connec-  
12 tion with the application for coverage but any health exception,  
13 limitation or exclusion applicable to the former spouse under the  
14 prior coverage may, at the option of the health service corporation,  
15 be carried over to the new coverage.

16 c. The effective date of the new coverage shall be the day follow-  
17 ing the date on which the former spouse's coverage under the prior  
18 contract terminated.

19 d. The benefits provided under the coverage offered to the  
20 former spouse shall be at least equal to the basic benefits provided  
21 in contracts then being offered by the health service corporation to  
22 new individual non-group applicants of the same age and family  
23 status.

1 22. Coverage of an unmarried child, covered prior to attainment  
2 of age 19 by an individual contract under which coverage terminates  
3 at a specified age, who is incapable of self-sustaining employment  
4 by reason of mental retardation or physical handicap and who  
5 became so incapable prior to attainment of age 19 and who is chiefly  
6 dependent upon the subscriber for support and maintenance, shall  
7 not terminate while the contract remains in force and the depen-  
8 dent remains in that condition, if the subscriber has within 31 days  
9 of the dependent's attainment of the termination age submitted  
10 proof of the dependent's incapacity as described herein. The pro-  
11 visions of this section shall not apply retrospectively or prospec-

12 *tively to require a health service corporation to insure as a covered*  
 13 *dependent any mentally retarded or physically handicapped child*  
 14 *of the applicant where the contract is underwritten on evidence of*  
 15 *insurability based on health factors required to be set forth in the*  
 16 *application. A contract heretofore or hereafter issued may, how-*  
 17 *ever, specifically exclude such mentally retarded or physically*  
 18 *handicapped child from coverage.*

1 *23. a. A health service corporation may issue to a policyholder a*  
 2 *group contract, covering at least two employees or members at the*  
 3 *date of issue, if it conforms to the following description:*

4 *(1) A contract issued to an employer or to the trustees of a fund*  
 5 *established by one or more employers, or issued to a labor union or*  
 6 *to an association formed for purposes other than obtaining a group*  
 7 *contract, or issued to the trustees of a fund established by one or*  
 8 *more labor unions, or by one or more employers and one or more*  
 9 *labor unions, covering employees and members of associations and*  
 10 *labor unions; or*

11 *(2) A contract issued to cover any other group which the commis-*  
 12 *sioner determines may be covered in accordance with sound under-*  
 13 *writing principles.*

14 *b. Benefits may be provided for one or more members of the*  
 15 *families or one or more dependents of persons who may be covered*  
 16 *under a group contract referred to in subsections (1) or (2) of*  
 17 *subsection a. of this section.*

1 *24. a. Every group contract entered into by a health service*  
 2 *corporation with any policyholder shall be in writing and a contract*  
 3 *form stating the terms and conditions thereof shall be furnished to*  
 4 *the policyholder to be kept by him. No group contract form shall*  
 5 *be used unless it contains the following provisions:*

6 *(1) A statement of the contract rate payable to the health service*  
 7 *corporation by or on behalf of the policyholder for the original*  
 8 *period of coverage, the time or times at which, and the manner in*  
 9 *which, the contract rate due is to be paid, and the basis, if any, on*  
 10 *which the rate may subsequently be adjusted;*

11 *(2) A provision that all contract rates due under the contract*  
 12 *shall be paid by the policyholder, or by the designated representa-*  
 13 *tive of the policyholder, to the health service corporation on or*  
 14 *before the due date thereof or within a period of grace as may be*  
 15 *specified therein;*

16 *(3) A statement of the nature of the coverage to be provided and*  
 17 *the period during which it will be provided, and, if there are any*  
 18 *exclusions from coverage, a detailed statement of these exclusions;*

19 *(4) A provision that the contract, any endorsements or riders*

20 *thereto, the application of the policyholder in whose name the con-*  
21 *tract is issued, a copy of which shall be attached to the contract, and*  
22 *the individual applications, if any, of the employees or members*  
23 *shall constitute the entire contract between the parties and that all*  
24 *statements contained in any application for coverage shall be*  
25 *deemed representations and not warranties;*

26 *(5) A provision that there shall be issued to the policyholder, for*  
27 *delivery to the employee or member, a certificate or other document*  
28 *which sets forth or summarizes the essential features of the cover-*  
29 *age including the time, place and method for making claims for*  
30 *benefits;*

31 *(6) A provision that all new employees or new members, as the*  
32 *case may be, in the groups or classes eligible for the coverage shall*  
33 *be added to the eligible groups or classes; and*

34 *(7) A statement of the terms and conditions, if any, upon which*  
35 *the contract may be terminated or amended. Any notice to the*  
36 *policyholder shall be effective if sent by mail to the policyholder's*  
37 *address as shown at the time on the corporation's records. The*  
38 *notice to the policyholder as herein required shall be sent at least*  
39 *30 days before the termination or amendment of the contract takes*  
40 *effect.*

41 *b. A group contract may contain a provision that all health*  
42 *services furnished or paid for by a health service corporation shall*  
43 *be in accordance with the accepted medical practices in the com-*  
44 *munity at the time, but the health service corporation shall not be*  
45 *liable for injuries resulting from negligence, misfeasance, mal-*  
46 *feasance, nonfeasance or malpractice on the part of any provider*  
47 *of health care services in the course of rendering health care*  
48 *services to covered persons.*

49 *c. A health service corporation may classify employees or mem-*  
50 *bers under a group contract whereby under specified circumstances*  
51 *the employee or member or their covered dependents may pay a*  
52 *participating provider of health care services an amount in addition*  
53 *to that payable by the corporation for those services, and the group*  
54 *contract issued to the policyholder whose employees or members*  
55 *are affected thereby shall contain the provisions thereof and shall*  
56 *specify the circumstances.*

1 *25. The group contract may provide that the term "employee"*  
2 *shall include as employees of a single employer the employees of*  
3 *one or more subsidiary corporations and the employees, individual*  
4 *proprietors and partners of affiliated corporations, proprietorships*  
5 *and partnerships if the business of the employer and those corpora-*  
6 *tions, proprietorships or partnerships is under common control*

7 through stock ownership, contract or otherwise. The contract may  
8 provide that the term "employees" includes the individual pro-  
9 prietor or partners of an individual proprietorship or a partnership.  
10 The contract may provide that the term "employees" shall include  
11 retired employees. A contract issued to trustees may provide that  
12 the term "employees" shall include the trustees or their employees,  
13 or both, if their duties are principally connected with the trustee-  
14 ship. A contract issued to the trustees of a fund established by the  
15 members of an association of employers may provide that the term  
16 "employees" shall include the employees of the association.

1 26. a. A group contract, covering at least 50 employees or  
2 members, may provide for the adjustment of the rate of premium  
3 at the end of the first year or any subsequent year of insurance  
4 thereunder based on the experience thereunder both past and  
5 contemplated. No health service corporation shall use any form  
6 of experience rating plan until it shall have filed with the commis-  
7 sioner the formulas to be used and the classes or groups to which  
8 they are to apply. The commissioner may disapprove the formulas  
9 or classes at any time if he finds that the rates produced thereby are  
10 excessive, inadequate or unfairly discriminatory or that the  
11 formulas or classes are such as to prejudice the interests of persons  
12 who are eligible for coverage under contracts with the health  
13 service corporation which are not subject to experience rating.

14 b. Except for those rating formulas applicable to groups the  
15 employees of members of which are located in more than one state  
16 and which are underwritten in participation with other corpora-  
17 tions of other states, no rating formula shall be approved by the  
18 commissioner, unless it provides that the experience rated groups  
19 will be assessed a reasonable community charge. A rating formula  
20 may provide for the allowance of an equitable discount in the event  
21 that the policyholder agrees to perform certain administrative and  
22 record keeping functions in connection with the routine maintenance  
23 of the group account.

24 c. Nothing in this section shall preclude a health service corpora-  
25 tion from incorporating in the rate formula those claim cost and  
26 utilization trend factors which it deems necessary in its discretion,  
27 so long as the rates produced are self-supporting and the formulas  
28 for classes do not prejudice the interests of persons who are eligible  
29 for coverage under contracts with the health service corporation  
30 which are not subject to experience rating.

31 d. For experience rated groups of 50 to 99 employees or members,  
32 the commissioner shall have the authority to determine that rates  
33 charged depart from community rates in such a way as to assure



34 continuity of rating principles with the community rated and ex-  
35 perience rated groups of 100 or more.

1 27. No health service corporation shall issue individual or group  
2 contracts which are not experience rated until it has filed with the  
3 commissioner a full schedule of rates which are to apply to those  
4 contracts. The commissioner may disapprove the schedule at any  
5 time if he finds that the rates are excessive, inadequate or unfairly  
6 discriminatory, and it shall be unlawful for any corporation to  
7 effect any contract according to those rates thereafter.

1 28. a. Family type group coverage shall provide that the cover-  
2 age applicable for children shall be payable with respect to a newly-  
3 born child of the subscriber, or his or her spouse from the moment  
4 of birth. The coverage for newly-born children shall consist of  
5 coverage of injury or sickness including the necessary care and  
6 treatment of medically diagnosed congenital defects and abnor-  
7 malities. If a subscription payment is required to obtain coverage  
8 for a child, the contract may require that notification of birth of a  
9 newly-born child and the required payment shall be furnished to  
10 the health service corporation within 31 days after the date of  
11 birth in order to have the coverage continue beyond that 31-day  
12 period.

13 b. Non-family type group coverage, other than under contracts  
14 which provide no dependent coverage whatsoever for the sub-  
15 scriber's class, shall also provide coverage for newly-born children  
16 of the subscriber, which coverage shall commence with the moment  
17 of birth of each child and shall consist of coverage of injury or  
18 sickness, including the necessary care and treatment of medically  
19 diagnosed congenital defects and abnormalities, if application  
20 therefor and payment of the required subscription amount are  
21 made to include in the contract the coverage described in subsection  
22 a. of this section within 31 days from the date of birth of a newborn  
23 child.

1 29. Whenever, pursuant to the provisions of a group contract  
2 issued by a health service corporation, the former spouse of an  
3 employee or member of a policyholder under a group contract is no  
4 longer entitled to coverage as an eligible dependent by reason of  
5 divorce, separate coverage for the former spouse shall be made  
6 available by the health service corporation on an individual non-  
7 group basis under the following conditions:

8 a. Application for the non-group coverage shall be made to the  
9 health service corporation by or on behalf of the former spouse no  
10 later than 31 days following the date his or her coverage under the  
11 prior group contract terminated.

12     *b. No new evidence of insurability shall be required in connection*  
13 *with the application for the nongroup coverage but any health*  
14 *exception, limitation or exclusion applicable to the former spouse*  
15 *under the prior coverage may, at the option of the health service*  
16 *corporation, be carried over to the new nongroup coverage.*

17     *c. The effective date of the new coverage shall be the day follow-*  
18 *ing the date on which the former spouse's coverage under the prior*  
19 *group contract terminated.*

20     *d. The benefits provided under the nongroup coverage issued to*  
21 *the former spouse shall be at least equal to the basic benefits pro-*  
22 *vided in contracts then being issued by the health service corpora-*  
23 *tion to new nongroup applicants of the same age and family*  
24 *status.*

1     30. *Coverage of an unmarried child, covered prior to attainment*  
2 *of age 19 by a group contract under which coverage terminates at*  
3 *a specified age, who is incapable of self-sustaining employment by*  
4 *reason of mental retardation or physical handicap and who became*  
5 *so incapable prior to attainment of age 19 and who is chiefly*  
6 *dependent upon the covered employee or member for support and*  
7 *maintenance, shall not terminate while the coverage of the em-*  
8 *ployee or member remains in force and the dependent remains in*  
9 *that condition, if the employee or member has within 31 days of*  
10 *the dependent's attainment of the termination age submitted proof*  
11 *of the dependent's incapacity as described herein. The provisions*  
12 *of this section shall not apply retrospectively or prospectively to*  
13 *require a health service corporation to insure as a covered depen-*  
14 *dent any mentally retarded or physically handicapped child of the*  
15 *applicant where the contract is underwritten on evidence of in-*  
16 *surability based on health factors required to be set forth in the*  
17 *application. Any contract heretofore or hereafter issued may,*  
18 *however, specifically exclude a mentally retarded or physically*  
19 *handicapped child from coverage.*

1     31. *Any group contract which contains provisions for the pay-*  
2 *ment by the insurer of benefits for members of the family or*  
3 *dependents of a person in the insured group shall provide that,*  
4 *subject to payment of the appropriate premium, family members*  
5 *or dependents are permitted to have coverage continued for at least*  
6 *180 days after the death of the person in the insured group.*

1     32. *A group contract or individual group certificate delivered or*  
2 *issued for delivery in this State which covers employees or mem-*  
3 *bers and their dependents for health services on an expense in-*  
4 *curred or service basis, other than for specific diseases or for*  
5 *accidental injuries only, shall provide that employees or members*

6 whose coverage under the group contract or individual group  
7 certificate would otherwise terminate because of termination of em-  
8 ployment or membership due to total disability of the employee or  
9 member, shall be entitled to continue their health services coverage  
10 under that group contract or individual group certificate for them-  
11 selves and their eligible dependents, subject to all of the group  
12 contract's or individual group certificate's terms and conditions  
13 applicable to that coverage and subject to the following conditions:

14 a. Continuation shall only be available to any employee or mem-  
15 ber who has been continuously covered under the group contract or  
16 individual group certificate during the entire three month period  
17 ending with the termination.

18 b. Continuation shall be available for any person who is covered  
19 by or eligible for Medicare, subject to any nonduplication of bene-  
20 fits provisions of the group contract or individual group certificate.

21 c. In addition to hospital, medical-surgical, or major medical  
22 benefits, continuation shall include any other health care expense  
23 benefit, including dental, vision care, or prescription drug benefits  
24 available through the insured group.

25 d. An employee or member electing continuation shall pay to the  
26 group contract holder or his employer, on a monthly basis in  
27 advance, the amount of contribution required by the contract holder  
28 or employer, but not more than the group rate for the coverage  
29 being continued under the group contract or individual group  
30 certificate on the due date of each payment. The employee's or  
31 member's written election for continuation, together with the first  
32 contribution required to establish contributions on a monthly basis  
33 in advance, shall be given to the contract holder or employer within  
34 31 days of the date the employee's or member's coverage would  
35 otherwise terminate.

36 e. Continuation of coverage under the group contract or in-  
37 dividual group certificate for any person shall terminate at the  
38 first to occur of the following:

39 (1) Failure of the former employee or member to make timely  
40 payment of a required contribution. Termination shall occur at the  
41 end of the period for which contributions were made.

42 (2) The date the employee again becomes employed and eligible  
43 for benefits under another group plan providing health care ex-  
44 pense benefits, or in the case of a qualified eligible dependent, the  
45 date the dependent becomes employed and eligible for those bene-  
46 fits.

47 (3) The date on which the group contract or individual group  
48 certificate is terminated or, in the case of any employee, the date

49 his employer terminates participation under the group contract or  
50 individual group certificate; except that:

51 (a) the employee or member shall have the right to become  
52 covered under any new group contract or individual group certifi-  
53 cate contracted for by the employer, for the balance of the period  
54 that he would have remained covered under the prior group certifi-  
55 cate in accordance with this act had a termination of a group not  
56 occurred;

57 (b) the minimum level of benefits to be provided by the other  
58 group contract or individual group certificate shall be the applica-  
59 ble level of benefits of the prior group contract or individual group  
60 certificate reduced by any benefits payable under that prior group  
61 contract or individual group certificate, and

62 (c) the prior group contract or individual group certificate shall  
63 continue to provide benefits to the extent of its accrued liability  
64 and extension of benefits, but only when replacement occurred.

65 f. A notification of the continuation privilege shall be included  
66 in any individual group certificate or employee booklet.

67 g. For the purposes of this section, "total disability of an em-  
68 ployee or member" exists only while the employee or member (1)  
69 is not engaged in and (2) is completely unable, due to sickness or  
70 injury or both, to engage in any and every gainful occupation for  
71 which the person is reasonably fitted by education, training or ex-  
72 perience.

1 33. a. A health service corporation issuing a group or individual  
2 contract in accordance with this act which provides payment for  
3 surgical services rendered to a person while confined in a hospital  
4 as an inpatient, shall make available benefits for a second surgical  
5 opinion for elective surgical procedures which would require an  
6 inpatient admission to a hospital. In the case of a group contract,  
7 benefits for a second surgical opinion shall be available only if re-  
8 quested by the group policyholder.

9 b. A second surgical opinion program shall provide for payment  
10 for the second surgical opinion of an eligible physician and for  
11 essential laboratory and x-ray services incidental thereto.

12 c. If a second surgical opinion does not confirm that the proposed  
13 elective surgical procedure is medically advisable, the program  
14 shall cover a third surgical opinion in the same manner as the second  
15 opinion.

16 d. A second surgical opinion program may exclude benefits (1)  
17 while a patient is confined in a hospital as an inpatient for any  
18 surgical procedure not covered by the group or individual contract,  
19 and (2) for surgical procedures in the following categories: cos-

20 *metic surgery, pregnancy-related surgery, dental surgery, podia-*  
 21 *tric surgery, and sterilizations.*

22 *e. If a physician who furnishes a second or third surgical opinion*  
 23 *also performs the surgical procedure, the second surgical opinion*  
 24 *program need not provide payment for the second or third opinion*  
 25 *services.*

1 *34. No group or individual contract providing health service*  
 2 *coverage shall be delivered, issued, executed, or renewed in this*  
 3 *State, or approved for issuance or renewal in this State by the*  
 4 *commissioner, unless the contract provides benefits to any sub-*  
 5 *scriber or other person covered thereunder for expenses incurred*  
 6 *in connection with the treatment of alcoholism when the treatment*  
 7 *is prescribed by a doctor of medicine. Benefits shall be provided*  
 8 *to the same extent as for any other sickness under the contract.*

9 *Every contract shall include benefits for the treatment of alco-*  
 10 *holism as follows:*

11 *a. Inpatient or outpatient care in a health care facility licensed*  
 12 *pursuant to P. L. 1971, c. 136 (C. 26:2H-1 et seq.);*

13 *b. Treatment at a detoxification facility licensed pursuant to*  
 14 *section 8 of P. L. 1975, c. 305 (C. 26:2B-14);*

15 *c. Confinement as an inpatient or outpatient at a licensed, certi-*  
 16 *fied, or State approved residential treatment facility, under a pro-*  
 17 *gram which meets minimum standards of care equivalent to those*  
 18 *prescribed by the Joint Commission on Hospital Accreditation.*

19 *Treatment or confinement at any facility shall not preclude fur-*  
 20 *ther or additional treatment at any other eligible facility, if the*  
 21 *benefit days used do not exceed the total number of benefit days*  
 22 *provided for any other sickness under the contract.*

1 *35. Every subscription certificate and group and individual con-*  
 2 *tract providing health service coverage delivered, issued, executed*  
 3 *or renewed in this State, or approved for issuance or renewal in*  
 4 *this State by the commissioner on or after the effective date of*  
 5 *this act, shall provide benefits for reconstructive breast surgery,*  
 6 *including, but not limited to: the cost of prostheses and, under any*  
 7 *contract providing outpatient x-ray or radiation therapy, benefits*  
 8 *for outpatient chemotherapy following surgical procedures in con-*  
 9 *nection with the treatment of breast cancer which shall be included*  
 10 *as a part of the outpatient x-ray or radiation therapy benefit. The*  
 11 *provisions of this section shall apply to all contracts in which the*  
 12 *health service corporation has reserved the right to change the*  
 13 *premium. These benefits shall be provided to the same extent as*  
 14 *for any other sickness under the contract.*

1 *36. a. Every health service corporation transacting business in*

2 *this State shall annually on or before the first day of March file*  
3 *in the Department of Insurance a statement, subscribed and sworn*  
4 *to by its principal officers, showing its financial condition at the*  
5 *close of business on the thirty-first day of December of the year last*  
6 *preceding, and its business for that year, which statement shall be*  
7 *in that form and contain those matters as the commissioner pre-*  
8 *scribes. The commissioner may also address inquiries to any health*  
9 *service corporation or its officers in relation to its condition of*  
10 *affairs, or any matter connected with its transactions, and it shall*  
11 *be the duty of the officers of the corporation to promptly reply in*  
12 *writing to all inquiries. For good cause shown, the commissioner*  
13 *may extend the time within which a statement shall be filed.*

14 *b. A health service corporation neglecting to make and file its*  
15 *annual statement in the form and within the time provided by sub-*  
16 *section a. of this section or neglecting to reply in writing in in-*  
17 *quiries of the commissioner within a reasonable time, as specified*  
18 *by the commissioner, shall forfeit \$100.00 for each day's neglect,*  
19 *to be recovered in a civil or administrative proceeding, and upon*  
20 *notice by the commissioner to that effect, its authority to do new*  
21 *business in this State shall cease while the default continues.*

1 *37. a. The commissioner shall have the power, whenever he*  
2 *deems it expedient, to make or cause to be made an examination of*  
3 *the assets and liabilities, method of conducting business and all*  
4 *other affairs of every health service corporation authorized or*  
5 *which has made application for authority to transact business under*  
6 *the provisions of this act. For the purposes of the examination,*  
7 *the commissioner may authorize and employ persons to conduct*  
8 *the examination or to assist therein as he deems advisable, which*  
9 *examination may be conducted in any state in which the corpora-*  
10 *tion examined has an office, agent, or place of business.*

11 *b. The reasonable expense of the examination shall be fixed and*  
12 *determined by the commissioner, and he shall recover that expense*  
13 *from the health service corporation examined, which shall make*  
14 *payment on presentation of a detailed account of the expense. If*  
15 *any health service corporation, after examination, shall be ad-*  
16 *judged by the Superior Court to be insolvent, the expense of the*  
17 *examination, if unpaid, shall be ordered paid out of the assets of*  
18 *the health service corporation. No health service corporation shall,*  
19 *either directly or indirectly, pay, by way of gift, credit, or other-*  
20 *wise, any other or further sum to the commissioner or to any*  
21 *person in the employ of the Department of Insurance, for extra*  
22 *service or for the purposes of legislation, or for any purpose what-*  
23 *ever.*

24 c. It shall be the duty of the officers, agents and employees of a  
25 health service corporation to exhibit all its books, records and  
26 accounts for the purpose of the examination, and otherwise to  
27 facilitate the examination so far as it may be in their power to do  
28 so, and for that purpose the commissioner and his deputies, assis-  
29 tants and employees shall have the power to examine, under oath,  
30 the officers, agents and employees of the health service corporation  
31 relative to its business and affairs.

1 38. A health service corporation shall pay the following fees to  
2 the commissioner for enforcement of the provisions of this act:

3 a. For filing its application and charter, \$10.00;

4 b. For filing each annual statement, \$20.00;

5 c. For each copy of any paper filed in the Department of Insur-  
6 ance, \$0.20 a sheet or folio of 100 words and \$1.00 for certifying  
7 the same.

8 In addition, a health service corporation shall pay on April 1 of  
9 each year a general supervisory fee to the commissioner of \$0.02  
10 per subscriber or member covered under individual or group con-  
11 tracts for hospital coverage; a general supervisory fee of \$0.02 per  
12 subscriber or member covered under individual or group contracts  
13 for medical coverage; and a general supervisory fee of \$0.04 per  
14 subscriber or member covered under individual or group contracts  
15 for both hospital and medical coverage; and the first general super-  
16 visory fees shall be due as of December 31, 1985, payable April 1,  
17 1986. The provisions of this section shall not be construed to pre-  
18 clude, in the case of a joint venture, any insurer from owing any  
19 premium tax due pursuant to P. L. 1945, c. 182 (C. 54:18A-1 et  
20 seq.).

1 39. Any health service corporation of this or any other state,  
2 country or province which shall have violated any of the provisions  
3 of, or shall have neglected, failed or refused to comply with any  
4 of the requirements of, this act, except the failure to file an annual  
5 statement, shall be liable to a penalty of \$500.00, to be sued for  
6 and collected by the commissioner in a summary manner in a civil  
7 action in the name of the State. The penalties when recovered shall  
8 be paid by the commissioner into the State treasury for the use of  
9 the State. Any officer, agent, employee or member of any health  
10 service corporation doing business in this State who shall issue,  
11 circulate or cause or permit to be circulated, any estimate, illus-  
12 tration, or circular of any sort misrepresenting the terms of any  
13 contract issued by the health service corporation or any other such  
14 corporation, or misrepresent the benefits or advantages promised  
15 thereby, or use any name or title of any contract or class of con-

16 *tracts misrepresenting the true nature thereof, or who shall solicit,*  
 17 *negotiate or effect the issue of any contract of any health service*  
 18 *corporation which has neglected, failed, or refused to procure a*  
 19 *certificate of authority as provided for by this act, or who accepts*  
 20 *any premiums, dues, deposits, contributions, fees, assessments or*  
 21 *thing of value of any kind in consideration for a contract or certifi-*  
 22 *cate on behalf of the health service corporation, shall be guilty of*  
 23 *a crime of the fourth degree. The provisions of this section shall*  
 24 *not preclude enforcement of chapter 30 of Title 17B of the New*  
 25 *Jersey Statutes, concerning unfair trade practices and discrimina-*  
 26 *tions.*

1 *40. Health service corporations shall be subject to the uniform*  
 2 *insurers liquidation act, P. L. 1975, c. 113 (C. 17:30C-1 et seq.),*  
 3 *and rehabilitation and liquidation of health service corporations*  
 4 *shall be accomplished in accordance with that act, provided that*  
 5 *it shall be an additional ground for rehabilitation as set forth in*  
 6 *section 6 of P. L. 1975, c. 113 (C. 17:30C-6) if a health service*  
 7 *corporation's subscribers decline to fewer than 100 in number.*

1 *41. A health service corporation subject to the provisions of this*  
 2 *act is hereby declared to be a charitable and benevolent institution*  
 3 *and all of its funds shall be exempt from every State, county, dis-*  
 4 *trict, municipal and school tax other than taxes on real estate and*  
 5 *equipment.*

1 *42. The provisions of this act shall not apply to any corporation*  
 2 *carrying on the business of life, health or accident insurance, for*  
 3 *profit or gain, nor to fraternal beneficiary associations as defined*  
 4 *in section 1 of P. L. 1959, c. 167 (C. 17:44A-1). A health service*  
 5 *corporation authorized to transact business pursuant to this act*  
 6 *shall be exempt from all other provisions of Title 17B of the New*  
 7 *Jersey Statutes, except as herein specified, but the unfair trade*  
 8 *practices provisions of N. J. S. 17B:30-1 et seq. shall apply to*  
 9 *health service corporations except to the extent: a. expressly ex-*  
 10 *cepted in this act, or b. the commissioner determines that any pro-*  
 11 *visions of N. J. S. 17B:30-1 et seq. are inappropriate as applied to*  
 12 *health service corporations.*

1 *43. All determinations of the commissioner made under the pro-*  
 2 *visions of this act shall be subject to review by the Superior Court*  
 3 *in a proceeding in lieu of prerogative writ.*

1 *44. The commissioner, pursuant to the "Administrative Pro-*  
 2 *cedure Act," P. L. 1968, c. 410 (C. 52:14B-1 et seq.), shall promul-*  
 3 *gate rules and regulations as are necessary to effectuate the pro-*  
 4 *visions of this act.*



1 45. P. L. 1938, c. 366 (C. 17:48-1 et seq.) is supplemented as  
2 follows:

3 A hospital service corporation established pursuant to the pro-  
4 visions of P. L. 1938, c. 366 (C. 17:48-1 et seq.) may merge with a  
5 medical service corporation established pursuant to the provisions  
6 of P. L. 1940, c. 74 (C. 17:48A-1 et seq.) pursuant to the provisions  
7 of P. L. . . . ., c. . . . . (C. . . . .) (now pending in the Legis-  
8 lature as this bill), provided that the boards of directors of the  
9 hospital service corporation execute a merger agreement, which  
10 shall be filed with the commissioner, and which shall provide that  
11 the board of the directors of the survivor corporation be consti-  
12 tuted in the manner provided for in section 6 of P. L. . . . ., c. . . . .  
13 (C. . . . .) (now pending in the Legislature as this bill).

1 46. P. L. 1940, c. 74 (C. 17:48A-1 et seq.) is supplemented as  
2 follows:

3 A medical service corporation established pursuant to the pro-  
4 visions of P. L. 1940, c. 74 (C. 17:48A-1 et seq.) may merge with  
5 a hospital service corporation established pursuant to P. L. 1938,  
6 c. 366 (C. 17:48-1 et seq.), pursuant to the provisions of P. L. . . . .,  
7 c. . . . . (C. . . . .) (now pending in the Legislature as this  
8 bill), provided that the boards of directors of the hospital service  
9 corporation execute a merger agreement, which shall be filed with  
10 the commissioner, and which shall provide that the board of di-  
11 rectors of the survivor corporation be constituted in the manner  
12 provided for in section 6 of P. L. . . . ., c. . . . . (C. . . . .)  
13 (now pending in the Legislature as this bill).\*\*

1 \***[7.]**\* \*\***[\*40.\*]**\*\* \*\*47.\*\* This act shall take effect immedi-  
2 ately.

---

18 *the statement of financial condition filed pursuant to section 15 of*  
19 *P. L. 1940, c. 74 (C. 17:48A-15). The special contingent surplus as*  
20 *herein provided shall be contributed to by each of the following*  
21 *two categories: (a) community rated, excluding open enrollment*  
22 *and conversion groups; and (b) experience rated subscribers, in*  
23 *ratio that the net premium income of each category bears to the*  
24 *total net premium income of the corporation and by contri-*  
25 *butions from the category that gives rise to a diminution of the*  
26 *surplus required to be maintained under this act. Whenever it shall*  
27 *appear that the special contingent surplus has deviated from the*  
28 *amount required to be maintained by more than 2% of the ag-*  
29 *gregate amount of the net premium income received during that*  
30 *year, the commissioner shall approve and promulgate a plan rea-*  
31 *sonably calculated to return the special contingent surplus to the*  
32 *amount required to be maintained within two years from the date*  
33 *of implementation of the plan specified above. Approval and pro-*  
34 *mulgation of the plan by the commissioner shall not abrogate the*  
35 *responsibilities of corporate officers with regard to the reporting*  
36 *of financial condition pursuant to section 15 of (C. 17:48A-15).*

1 7. This act shall take effect immediately.

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#### STATEMENT

This bill amends the hospital service corporations and medical service corporation acts. The primary substantive changes are:

(1) Hospital service and medical service corporations may write group contracts for as few as two employees or other group members;

(2) The statutory reserve requirements for a medical service corporation shall be the same as those for a hospital service corporation.

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ASSEMBLY BANKING AND INSURANCE COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2885

STATE OF NEW JERSEY

DATED: DECEMBER 6, 1984

Assembly Bill No. 2885 amends the hospital and medical service corporation laws. The principal changes are as follows:

(1) Hospital and medical service corporations are authorized to write group contracts for as few as two employees or other group members (sections 2 and 5);

(2) Remitting agents, if any, are responsible for providing notice of contract changes or termination to hospital and medical service subscribers (sections 1 and 4);

(3) The requirement that medical service corporation trustees be approved by a medical society or organization is rescinded (section 3);

(4) The statutory surplus requirements for medical service corporation are increased so as to conform to that of a hospital service corporation (section 6).

As this bill is a companion measure to Assembly Bill No. 2883, and as both bills amend some of the same sections of law, the overlapping sections in this bill are drafted to incorporate changes effected by Assembly Bill No. 2883.

**CORRECTED COPY**  
**SENATE LABOR, INDUSTRY AND PROFESSIONS**  
**COMMITTEE**

STATEMENT TO  
**ASSEMBLY, No. 2885**

with Senate committee amendments

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**STATE OF NEW JERSEY**

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DATED: FEBRUARY 25, 1985

This bill, as amended, authorizes the establishment of nonprofit health service corporations and defines their functions and powers. Health service corporations are defined as nonprofit corporations organized for the purpose of operating health service plans and for supplying services in connection with the providing of health care or conducting the business of insurance. A health service corporation may not be converted into a corporation organized for pecuniary profit. Only a health service corporation or an insurance company authorized to transact life or health insurance business in accordance with Title 17B of the New Jersey Statutes or the kinds of insurance specified in subsection d. of R. S. 17:17-1 may operate a health service plan.

A health service corporation may exercise all of the rights and privileges of a hospital service corporation, medical service corporation, dental service corporation or health maintenance organization as provided by law, as well as exercise those specific powers granted under this bill to health service corporations. It may also operate or control any of the foregoing corporations; reinsure risks of hospital service corporations or medical service corporations; enter into joint contracts with other corporations to provide health care and other benefits, including complete employee welfare and employee benefit programs, and to provide or receive services in connection with the providing of health care or the conducting of the business of insurance, which joint agreements shall be subject to prior approval of the Governor and create nonprofit or for profit subsidiaries or affiliates in carrying out its authorized activities. However, no health service corporation shall have the power, directly or through a subsidiary or affiliate, to underwrite life insurance.

Except for those specific powers not presently enjoyed by hospital service corporations or medical service corporations, the provisions of this bill generally track the current enabling legislation for hospital and medical service corporations with respect to: issuance of a certificate of authority, the requirements of individual and group contracts, rate schedules, rating formulas and classes, continuation privileges, partici-

pating providers, solicitation and administrative expenses, financial condition and financial examinations, and insolvency. However, a health service corporation's surplus requirements have been increased to 5% of the annual net premium income; a health service corporation may issue a group contract covering at least two employees or members, instead of at least 10 employees or members; the board of directors of a health service corporation will consist of a membership consistent with that of a hospital service corporation, except for the addition of three public members, one appointed by the Commissioner of Insurance, one appointed by the Speaker of the General Assembly and one appointed by the President of the Senate; and the provisions of the unfair practices provisions of N. J. S. 17B:30-1 et seq. will apply to the activities of a health service corporation and its subsidiaries, with certain exceptions.

This bill also authorizes a hospital service corporation or a medical service corporation, individually or jointly, to organize a health service corporation in accordance with law, or to enter into contracts with a health service corporation to provide combined health care services.

This bill also amends various sections of the laws concerning hospital service corporations and medical service corporations. It provides that:

a. Hospital service corporations and medical service corporations are authorized to write group contracts for as few as two employees or other group members;

b. Hospital service corporations and medical service corporations shall notify subscribers by mail of any contract changes or termination, but they may, if a remitting agent is involved, notify the remitting agent of such changes or termination and he would be responsible for notifying the subscribers; and

c. The statutory surplus requirements for medical service corporations are increased.

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Senate Amendments

to

Assembly Bill No. 2885

Amend:

Page	Sec.	Line
38	40	1

agreement, which shall be filed with the commissioner, and which shall provide that the board of the directors of the survivor corporation be constituted in the manner provided for in section of 6 P. L. , c. (C. ) (now pending in the Legislature as this bill).

~~47. This act shall take effect immediately.~~  
 omit "40," insert "47,"

STATEMENT

These amendments provide for the establishment of health service corporations and for the merger of hospital service corporations and medical service corporations to form health service corporations. Initially, the board of a health service corporation which is the product of a merger would consist of 17 directors from the hospital service corporation, 7 directors from the medical service corporation, and 8 public members appointed by the Governor. At the end of the first three year term of the directors, the board would be constituted of 8 public members appointed by the Governor and 24 other directors.



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## OFFICE OF THE GOVERNOR NEWS RELEASE

CN-001  
Contact:

PAUL WOLCOTT  
292-8956

TRENTON, N.J. 08625

Release: MON., JULY 15, 1985

Governor Thomas H. Kean has signed legislation which will make possible a merger between Blue Cross and Blue Shield and permit the new health services corporation that would be created by such a merger to provide new health care services.

The bill, A-2885, was sponsored by Assemblyman Michael F. Adubato, D-Essex.

"This important legislation will make possible a new, greater degree of stability for institutions which provide health care insurance to a large number of New Jerseyans," Kean said.

"Clearly, such important institutions must have the benefit of the best available management, and need the ability to meet the diverse needs of our modern society. I believe this bill will accomplish those goals," he added.

The bill contains a plan which provides for a board of directors for the new corporation which would consist of 17 current members of the Blue Cross Board Directors, seven current members of the Blue Shield Board, and eight public members to be appointed by the Governor.

The legislation will allow the newly created entity to offer new insurance products such as employee welfare and benefit programs beyond those now offered and to obtain reinsurance from other carriers on products for which the new company could provide primary insurance.

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