

THE GENERAL ASSEMBLY OF PENNSYLVANIA

**HOUSE BILL**  
**No. 2171** Session of  
1972

INTRODUCED BY FINEMAN, IRVIS, S. A. ANDERSON, BERKES, NEEDHAM,  
LUTTY and LAUDADIO, MAY 16, 1972

REFERRED TO HEALTH and WELFARE, MAY 16, 1972

AN ACT

1 Providing for the establishment of nonprofit corporations having  
2 the purpose of establishing, maintaining and operating a  
3 health service plan; providing for supervision and certain  
4 regulations by the Insurance Department and the Department of  
5 Health; giving the Insurance Commissioner and the Secretary  
6 of Health certain powers and duties; exempting the nonprofit  
7 corporations from certain taxes and providing penalties.

8 The General Assembly of the Commonwealth of Pennsylvania  
9 hereby enacts as follows:

10 Section 1. Short Title.--This act shall be known and may be  
11 cited as the "Voluntary Nonprofit Health Service Act of 1972."

12 Section 2. Definitions.--As used in this act:

13 (1) "Court" means the Commonwealth Court of Pennsylvania.

14 (2) "Commissioner" means the Insurance Commissioner of the  
15 Commonwealth of Pennsylvania.

16 (3) "Secretary" means the Secretary of Health of the  
17 Commonwealth of Pennsylvania.

18 Section 3. Services Which May be Provided.--(a) Any law to  
19 the contrary notwithstanding, corporations not for profit  
20 organized under the laws of the Commonwealth of Pennsylvania,

1 upon compliance with section 14 of Article I of the act of May  
2 5, 1933 (P.L.289), known as the "Nonprofit Corporation Law," may  
3 establish, maintain and operate voluntary nonprofit health  
4 service plans by which health services are provided at the  
5 expense of such corporations or through facilities, appliances,  
6 medicines, or supplies owned, operated or furnished by such  
7 corporations to such persons who become subscribers to such  
8 plans under contracts which entitle the subscribers to certain  
9 medical, dental, hospital or other services related thereto.

10 (b) Such contracts may:

11 (1) Provide either directly or through arrangements with  
12 others, health services to individuals enrolled;

13 (2) Provide either directly or through arrangements with  
14 other persons, corporations, institutions, associations or  
15 entities, all those health services which a defined population  
16 might reasonably require in order to be maintained in good  
17 health, including as a minimum, but not limited to, emergency  
18 care, inpatient hospital and physician care, ambulatory  
19 physician care, and outpatient preventive medical services; and

20 (3) Provide physicians' services (i) directly through  
21 physicians who are employes of such organization, or (ii) under  
22 arrangements with one or more groups of physicians (organized on  
23 a group practice or individual practice basis) under which each  
24 such group is reimbursed for its services primarily on the basis  
25 of an aggregate fixed sum or on a per capita basis, regardless  
26 of whether the individual physician members of any such group  
27 are paid on a fee-for-service or other basis.

28 Section 4. Incorporation; Approval of Charter.--(a) Whenever  
29 articles of incorporation for the incorporation of any  
30 corporation, having for its purpose the establishing,

1 maintaining and operating of a nonprofit health service plan,  
2 whereby health services may be provided to the subscriber to  
3 such plan under the provisions of this act, and specifically  
4 setting forth therein the limits of the geographical area in  
5 which it will operate, are filed with the Department of State,  
6 the Department of State shall forthwith transmit copies of such  
7 articles of incorporation to the commissioner and secretary.  
8 Thereupon the commissioner and secretary shall make separate  
9 investigations of the proposed corporation and plan under which  
10 it proposes to operate, to ascertain whether such services are  
11 consistent with the public interest within the geographical area  
12 described in the articles of incorporation. Within sixty days of  
13 receipt of such articles of incorporation, the commissioner and  
14 secretary shall either (i) certify upon the copy of the articles  
15 or incorporation that the proposed corporation is consistent  
16 with the public welfare; or (ii) within such sixty-day period  
17 notify the incorporators of such proposed corporation  
18 specifically wherein it fails to comply.

19 (b) Within ten days the proposed corporation may amend its  
20 articles of incorporation to meet the specific objections of the  
21 commissioner and/or secretary or may within thirty days after  
22 the receipt of such notice, petition the Commonwealth Court for  
23 a rule to show cause why the action of the commissioner and/or  
24 secretary should not be set aside and the application approved.  
25 The said court is hereby given jurisdiction and authority to  
26 entertain and determine any such proceeding.

27 (c) The Department of State shall not approve such  
28 application unless and until the articles of incorporation are  
29 returned and certified by the commissioner and the secretary or  
30 until the expiration of sixty days from the date of filing of

1 the articles of incorporation with the Department of State,  
2 whichever shall first occur.

3 (d) The commissioner and the secretary, in approving or  
4 disapproving the articles of incorporation, shall be guided in  
5 their separate determinations related to the public interest and  
6 may approve articles of incorporation under this act  
7 notwithstanding the fact that other nonprofit health service  
8 plans authorized or permitted by this act or any other law shall  
9 be operating in the same part of the same geographical area.

10 Section 5. Board of Directors.--A majority of the board of  
11 directors of any corporation organized under this act shall be  
12 subscribers or representatives of groups of subscribers. No more  
13 than ten per cent of the membership of the board of directors  
14 may be providers of health care services or professional  
15 employes of any hospital or other agency which is a provider of  
16 health care services, and such provider members of the board  
17 shall not constitute a majority of the membership of any  
18 committee appointed by the board. The board of directors shall  
19 be elected in the manner stated in the corporation's charter or  
20 bylaws. Such board shall serve without compensation, but may be  
21 reimbursed for actual expenses incurred in carrying out their  
22 duties as members of the board of directors. Members of the  
23 board of directors shall be residents of the Commonwealth of  
24 Pennsylvania. The corporation may provide in its bylaws for the  
25 creation of a medical advisory board.

26 Section 6. Contracts with Professional Personnel and  
27 Hospitals.--Contracts enabling the corporation to provide the  
28 services authorized under section 3 of this act made with  
29 hospitals and practitioners of medical, dental and related  
30 services shall be on terms mutually agreeable to the corporation

1 and the hospitals and said practitioners concerned and shall be  
2 filed with and remain subject to the continuing supervision of  
3 the commissioner and the secretary. Such hospitals and  
4 practitioners when so required by law shall be duly licensed or  
5 approved.

6 Section 7. Right to Serve or Benefits When Outside the  
7 State.--If a subscriber entitled to services provided by the  
8 corporation necessarily incurs expenses for such services while  
9 outside the service area, the voluntary nonprofit health service  
10 corporation to which the person is a subscriber may, in its  
11 discretion and if satisfied both as to the necessity for such  
12 services and that it was such as the subscriber would have been  
13 entitled to under similar circumstances in the service area,  
14 reimburse the subscriber or pay on his behalf all or part of the  
15 reasonable expenses incurred for such services. Such decision  
16 for reimbursement shall be subject to review by the commissioner  
17 at the request of a subscriber.

18 Section 8. Supervision.--(a) The corporation shall be  
19 subject to supervision by the commissioner and the secretary as  
20 provided by this act. It shall not be subject to the laws of  
21 this State now in force relating to insurance corporations  
22 engaged in the business of insurance nor to any law hereafter  
23 enacted relating to insurance and corporations engaged in the  
24 business of insurance, unless such law specifically and in exact  
25 terms applies to such voluntary nonprofit health services  
26 corporations.

27 (b) All rates charged subscribers or groups of subscribers  
28 by the corporation and the form and content of all contracts  
29 between the corporation and its subscribers or groups of  
30 subscribers, all rates of payments to hospitals made by such

1 corporation pursuant to the contracts provided for in this act,  
2 budgeted acquisition costs in connection with the solicitation  
3 of subscribers to such hospital plans, the reserves to be  
4 maintained by such corporation, and the certificates issued by  
5 such corporation representing their subscribers' agreements  
6 shall, at all times, be subject to the prior approval of the  
7 commissioner. Applications for such approval shall be made to  
8 the commissioner in such form, and shall set forth such  
9 information as the commissioner may require. Rates shall not be  
10 excessive, inadequate or unfairly discriminatory in relation to  
11 the services offered. Upon the review at any time by the  
12 commissioner of an application, he shall, before issuing an  
13 order of disapproval hold a hearing upon not less than ten days'  
14 written notice, specifying the matters to be considered at such  
15 hearing, to the corporation which made such application, and if,  
16 after such hearing, he finds that such application or a part  
17 thereof does not meet the requirements of this act he shall  
18 issue an order specifying in what respects he finds that it so  
19 fails and notice thereof shall forthwith be served on the  
20 applicant, either personally or by mail. Within thirty days from  
21 the date of such notice, the applicant may apply to the  
22 Commonwealth Court by petition and a rule to show cause why the  
23 action of the commissioner should not be set aside and the  
24 application approved. For purposes of this section, the  
25 Administrative Agency Law shall be applicable.

26 (c) Solicitors or agents compensated directly or indirectly  
27 by any corporation subject to the provisions of this act shall  
28 meet such prerequisites as the commissioner by regulation shall  
29 require.

30 Section 9. Financial Report.--The corporation shall, on or

1 before the first of March of every year, file with the  
2 commissioner a statement verified by at least two of the  
3 principal officers of the corporation summarizing its financial  
4 activities during the calendar or fiscal year immediately  
5 preceding, and showing its financial condition at the close of  
6 business on December 31 of that year, or the corporation's  
7 fiscal year. Such statement shall be in such form and shall  
8 contain such matter as the commissioner prescribes. The  
9 financial affairs and status of every such corporation shall be  
10 examined by the commissioner or his agents not less frequently  
11 than once in every three years and for this purpose the  
12 commissioner and his agents shall be entitled to the aid and  
13 cooperation of the officers and employes of the corporation and  
14 shall have convenient access to all books, records, papers, and  
15 documents that relate to the business of the corporation. They  
16 shall have authority to examine under oath or affirmation the  
17 officers, agents, employes and subscribers for the health  
18 services of the corporation, and all other persons having or  
19 having had substantial part in the work of the corporation in  
20 relation to its affairs, transactions and financial condition.  
21 The Insurance Commissioner may at any time, without making such  
22 examination, call on any such corporation for a written report  
23 authenticated by at least two of its principal officers  
24 concerning the financial affairs and status of the corporation.

25       Section 10. Contracts to Provide Medical Care.--A nonprofit  
26 health service plan established pursuant to this act may receive  
27 and accept from governmental or private agencies payments  
28 covering all or part of the cost of subscriptions to provide its  
29 services, facilities, appliances, medicines or supplies.

30       Section 11. Exemption from Taxation.--Every voluntary

1 nonprofit health services corporation is hereby declared to be a  
2 charitable and benevolent institution and all its income, funds,  
3 investments and property shall be exempt from all taxation of  
4 the State or its political subdivisions.

5 Section 12. Rules and Regulations.--The commissioner and the  
6 secretary are authorized and directed to promulgate such  
7 reasonable rules and regulations as deemed necessary for the  
8 proper administration of this act.

9 Section 13. Penalty.--(a) Upon satisfactory evidence that a  
10 person, partnership, association, common law trust or  
11 corporation or any agent or officer thereof has violated any  
12 provision of this act or has made any false statement with  
13 respect to any report or statement required by this act or  
14 required by the commissioner or secretary under this act, or has  
15 hindered or prevented the commissioner or secretary in the  
16 performance of any duty imposed on them by this act, or has  
17 fraudulently procured or has fraudulently attempted to procure  
18 any personal benefit under this act, the commissioner may, in  
19 his discretion, pursue any one or more of the following courses  
20 of action:

21 (1) Suspend or revoke the articles of incorporation or the  
22 right of a person to engage in the transactions of a corporation  
23 or similar entity of such offending party or parties.

24 (2) Impose a penalty of not more than one thousand dollars  
25 (\$1,000) for each and every unlawful act committed by such party  
26 or parties.

27 (b) Before the commissioner shall take any action as above  
28 set forth, he shall give written notice to the person,  
29 partnership, association, common law trust or corporation,  
30 accused of violating the law, stating specifically the nature of



1 such alleged violation and fixing a time and place, at least ten  
2 days thereafter, when a hearing of the matter shall be held.  
3 After such hearing or upon failure of the accused to appear at  
4 such hearing, the commissioner shall impose such of the above  
5 penalties as he deems advisable.

6 (c) When the commissioner shall take action in any or all of  
7 the ways above recited, the party aggrieved may appeal from said  
8 action to the Commonwealth Court.

9 Section 14. Effect of Act on Other Plans.--This act shall  
10 not apply to the following plans, programs or services so long  
11 as no substantial changes in operation are made other than the  
12 expansion of benefits similar in nature to those presently being  
13 provided:

14 (1) Corporations organized and existing in accordance with  
15 and pursuant to the act of May 5, 1933 (P.L.289), known as the  
16 "Nonprofit Corporation Law," and pursuant to the act of June 21,  
17 1937 (P.L.1948), known as the "Nonprofit Hospital Plan Act."

18 (2) Corporations organized and existing in accordance with  
19 and pursuant to the act of June 27, 1939 (P.L.1125), known as  
20 the "Nonprofit Medical, Osteopathic, Dental and Podiatry Service  
21 Corporation Act."

22 (3) Corporations organized and existing in accordance with  
23 and pursuant to the act of December 9, 1955 (P.L.819), known as  
24 the "Nonprofit Dental Service Corporation Act."

25 (4) Any person for the prevention of disease among his  
26 employees.

27 (5) Any person when required under the act of June 2, 1915  
28 (P.L.736), known as "The Pennsylvania Workmen's Compensation  
29 Act," and related legislation when the employee is not charged  
30 for such service.

1       (6) Any insurance company or other corporation or society  
2 which is subject to the supervision of the Insurance Department  
3 in accordance with the laws governing insurance companies or  
4 such corporations or societies.

5       (7) Any medical or health service plan in existence and  
6 functioning for at least two years prior to the effective date  
7 of this act.

8       Section 15. Deductions from Salary.--(a) An employe of the  
9 State, of any political subdivision, or of any institution  
10 supported in whole or in part by the State may authorize the  
11 deduction from his salary or wages of the amount of his  
12 subscription payments to any corporation provided for in this  
13 act. Such authorization shall be evidenced by approval of the  
14 head of the department, division, office or institution in which  
15 such employe is employed.

16       (b) In case of employes of the State, such authorization  
17 shall be directed to and filed with the Auditor General. In the  
18 case of employes of a county, city, borough, township or other  
19 political subdivision, such authorization shall be directed to  
20 and filed with the auditor or other fiscal officer of such  
21 county, city, borough, township, or other political subdivision.  
22 In the case of employes of any institution supported in whole or  
23 in part by the State, such authorization shall be directed to  
24 and filed with the auditor or other fiscal officer of such  
25 institution.

26       (c) Upon the filing with him of such authorization, such  
27 auditor or fiscal officer shall draw a warrant, in favor of the  
28 health care corporation referred to in such authorization, for  
29 the amount covering the sum of the deductions thereby  
30 authorized.

1       Section 16.   Effective Date.--This act shall take effect  
2 immediately.