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LEVEL COMMISSIONS: SENIOR HEALTH INS.

House Bill 4146 (Substitute H-1)
House Bill 4369 (Substitute H-1)
First Analysis (5-11-89)

Sponsor: Rep. William J. Runco
Committee: Insurance

THE APPARENT PROBLEM:

Advocates for senior citizens decry the practice by some unscrupulous insurance agents of replacing or adding Medicare supplemental policies, long-term care policies, and similar products, without any benefit to the customer simply to generate greater commissions for the agents. Sometimes trading one policy for another hurts the consumer because pre-existing conditions are not covered for six months. The practice can be profitable for agents because some companies pay very high commissions in the first year of a policy and lower commissions in later years. Thus, an agent who keeps convincing customers to replace existing policies with new policies will earn more. Insurance regulators say that requiring commissions be level over several years or for the life of a policy would remove the incentive to keep replacing policies.

THE CONTENT OF THE BILL:

The bills would, generally speaking, prohibit insurers from providing a commission or compensation to an agent, representative, or employee for the sale or service of health insurance coverage issued to a person eligible for Medicare that was higher in the first year of the policy (or certificate) than that paid in each of the subsequent, consecutive renewal periods.

House Bill 4146 would amend the section of the Insurance Code dealing with unfair methods of competition and unfair or deceptive acts or practices (MCL 500.2011), and would apply to disability policies and riders of commercial insurance companies. House Bill 4369 would amend the Nonprofit Health Care Corporation Act (MCL 550.1402), to apply to health care benefits certificates of Blue Cross and Blue Shield of Michigan.

FISCAL IMPLICATIONS:

The Department of Licensing and Regulation says the bills have no budgetary or revenue implications. (5-9-89)

ARGUMENTS:

For:

The bills would take away the incentive for unscrupulous agents to convince senior citizens to replace existing health coverage with new coverage, even though there is no advantage to the customer from such a replacement. Insurance regulators say that some companies pay commissions of 50 to 60 percent in the first year of a policy, while paying renewal commissions of 5 to 15 percent. Thus, some agents attempt to generate more income for themselves by constantly replacing one policy with another. This can result in gaps in coverage for senior citizens.

POSITIONS:

The Insurance Bureau strongly supports the bills. (5-9-89)

The Professional Insurance Agents of Michigan support the bills. (5-10-89)