House Legislative Analysis Section

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LEVEL COMMISSIONS: SENIOR HEALTH INS.

House Bill 4146 as enrolled
House Bill 4369 as enrolled
Second Analysis (6-19-89)

Sponsor: Rep. William J. Runco
House Committee: Insurance
Senate Committee: Commerce & Technology

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 senior consumer because pre-existing conditions are not covered for six months; thus gaps in coverage occur. 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 would remove the incentive for agents to keep replacing old policies with new ones.

THE CONTENT OF THE BILL:

The bills would add two activities to the list of acts and practices insurance companies are prohibited from engaging in. Companies could not:

- provide a commission or compensation to an agent, representative, or employee for the sale or service of disability 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 two subsequent, consecutive annual renewal periods.

- issue a disability policy or rider to an individual eligible for Medicare that provides for a new preexisting condition limitation waiting period if coverage was being converted to or replaced by a new or similar kind of coverage with the same insurer or an affiliate of the insurer. If the waiting period in the policy being replaced had not expired, the new policy could include the remaining term of the waiting period. (This prohibition does not apply in cases where an increase in benefits has been voluntarily selected by the individual.)

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 when a new policy carries with it a new waiting period before certain kinds of health problems (preexisting conditions) are covered. The bills also provide that no new waiting period can be imposed when a Medicare-eligible person switches from one policy to another offered by the same company.