



**House
Legislative
Analysis
Section**

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GROUP CONVERSION

**House Bill 4695 (Substitute H-3)
House Bill 4696 (Substitute H-2)
First Analysis (5-15-89)**

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**Sponsor: Rep. Ilona Varga
Committee: Insurance**

Mich. State Law Library

THE APPARENT PROBLEM:

Insurance specialists are concerned about the hardships caused when employers seek to reduce their costs by replacing group health insurance coverages with less comprehensive coverage or by dropping health coverage entirely. For example, a new group policy might no longer cover certain kinds of treatment that an employee's family depended upon, and yet the family might not be able to pick up extra insurance coverage even though they were willing to pay because they were covered under a group policy. (Insurers sometimes will not sell individual policies to people with group coverage.) It would be helpful in some cases, it is said, for people to be allowed to choose to convert to an individual policy (at their own expense) that maintained the old level of benefits without any interruption.

THE CONTENT OF THE BILLS:

The bills would, generally speaking, require group health insurance policies renewed or in effect after December 31, 1989, to allow individuals who had been continuously covered for at least three months prior to the discontinuance of group coverage to convert to coverage under an individual policy with coverage substantially similar to the group plan. People could also opt to convert to any other individual coverage offered by the insurer. The new coverage would take place immediately upon termination of the group coverage. The bills, however, would not apply to coverage provided pursuant to a collective bargaining agreement nor to coverage under a single employer self-funded plan. House Bill 4695 would amend the Insurance Code to apply to group disability policies of commercial insurers that include hospital, medical, surgical, or sick-care benefits. House Bill 4696 would amend the Nonprofit Health Care Corporation Reform Act to apply to group certificates of Blue Cross and Blue Shield of Michigan.

The bills would allow a member insured under a group plan and the member's spouse and dependents to convert if a group policy was discontinued entirely or if coverage was discontinued for an insured class. A spouse or dependents who ceased to be qualified family members under a group policy could also elect to convert as could the surviving spouse and dependents upon the death of an individual covered under a group plan. However, a person would not be entitled to convert if termination of group coverage occurred due to failure to pay a required contribution or if discontinued group coverage was replaced by similar group coverage within 31 days. A conversion policy would not have to be issued to a person who already had similar coverage under another policy or plan nor to a person who was eligible for Medicare. The bills require that a converted policy (or certificate) be issued without evidence of insurability and not use conditions pertaining to health as a basis for classification. A policy also could not exclude a preexisting condition that was not

excluded from the group policy; however, the converted policy could provide that hospital, medical, or surgical benefits may be reduced by the amount of any such benefits payable under the terminated group policy. The policy could include provisions so that benefits payable under it, together with benefits payable under the group policy, did not exceed those payable under the group policy, and could allow for reductions of coverage on a person eligible for Medicare or any other similar state or federal benefits.

The initial premium for a converted policy for the first 12 months and subsequent renewal premiums would be determined in accordance with premium rates applicable to individually underwritten standard risks, to the age and class of risk of each individual to be covered under the policy, and to the type and amount of insurance provided. The bills provide that if an insurer experiences incurred losses on a converted policy (or conversion certificate) for a period of two years that exceed earned premiums by more than 20 percent on conversion policies that have been in effect for at least one year, the insurer could file amended renewal rates for the subsequent year with the insurance commissioner that will produce a loss ratio of not less than 120 percent. The bill that applies to Blue Cross and Blue Shield would specify that rates for a group conversion certificate (an individual policy) would be self-supporting and would fall under the "file and use" procedures of the Insurance Code (which means prior approval would not be necessary for a Blues certificate in this single instance).

The bills contain various provisions requiring insurers to notify people of their right to convert and requiring insureds to notify insurers of their intention to convert.

MCL 500.3612 (House Bill 4695) and 550.1410a (House Bill 4696)

FISCAL IMPLICATIONS:

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

ARGUMENTS:

For:

The bills would provide for some people covered under group health insurance policies the right to convert to an individual policy with basically the same coverage in certain circumstances. This would be helpful in a number of cases, according to insurance specialists, including when a company (or other employer) drops group coverage for its employees or when a company switches to a new group health policy with less generous coverage or coverage less useful to an employee. A person could then choose to continue the old level of benefits at his or her own expense from the same insurer. Furthermore, there

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would be no interruption of coverage. This is expected to be particularly useful to employees of small companies.

Against:

The bills have a number of so-called loopholes that could unnecessarily limit its application, and efforts are being made to address those in alternative proposals (such as substitutes). For example, there is some confusion over who is allowed to use the conversion option.

POSITIONS:

The Department of Licensing and Regulation, which houses the Insurance Bureau, supports the bills. (5-9-89)