



**House
Legislative
Analysis
Section**

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CONVERT WHEN GROUP COVERAGE ENDS

House Bill 4695 (Substitute H-5)
House Bill 4696 (Substitute H-4)
Second Analysis (11-14-89)

Sponsor: Rep. Ilona Varga
Committee: Insurance

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THE APPARENT PROBLEM:

Insurance specialists are concerned about the hardships caused when people lose their group health insurance coverage because they have lost or left a job (or because a family member has), because an employer has dropped health coverage entirely or for dependents, because the family member with coverage dies, or for some other reason. It can be difficult for people in such circumstances to find new coverage, particularly if the family has health problems. Even if coverage is available, families often must wait six months or longer before certain pre-existing conditions are covered. One way to address this problem is to require insurers to offer people who lose coverage under a group policy an individual policy (at the insured's own expense) without any interruption in coverage.

THE CONTENT OF THE BILLS:

The bills would, generally speaking, require that group health insurance policies issued or renewed after December 31, 1990, allow individuals to elect coverage under an individual conversion policy upon termination of group coverage if they had been continuously covered for the three months immediately prior to termination. The new coverage would take effect immediately upon termination of the group coverage. House Bill 4695 would amend the Insurance Code to apply to expense-incurred hospital, medical, surgical, or sick-care group disability policies or certificates of commercial insurers. 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. House Bill 4696 also contains a provision to permit BCBSM to have an interest in a domestic, foreign, or alien insurer if the activity has been determined to be lawful by the attorney general, has been approved in writing by the insurance commissioner, and would not result in the corporation's owning ten percent or more of the voting securities of the insurer.

The following events would qualify as termination of group coverage: the discontinuance of a group policy in its entirety or with respect to an entire class; voluntary or involuntary termination of employment, except termination because of gross misconduct; for a surviving spouse or dependent, death of the covered member; or an event that caused a spouse or dependent to cease being a qualified family member under a policy.

An insurer would not be required to issue a conversion policy if an individual was covered for similar benefits and to a similar extent by another policy, contract, plan or program; if the individual was eligible for Medicare; or if group coverage terminated because it was replaced by new group coverage, or because the individual failed to pay a required contribution or acted to defraud the insurer.

An individual conversion policy, under the bills, would be issued without evidence of insurability, could not use health conditions as a basis for classification, and could not

exclude a preexisting condition not excluded by the group coverage solely because it was a preexisting condition. The policy could provide that benefits may be reduced by the amount of benefits paid for a specific covered service under the terminated group coverage. The premium for the conversion policy would be determined using the aggregate experience for all such policies issued in the state by the insurer and in accordance with premium rates applicable to the age, class of risk, and type or amount of coverage. An individual's rate would not be based on his or her experience under the conversion policy.

Group policies would have to contain a notification of the conversion privilege. Group policyholders (e.g., employers) would be required to give written notice of the option to elect conversion coverage within 14 days after the discontinuance of group coverage or termination of employment. An individual would be required to notify the insurer of an election to convert no later than 30 days after termination of group coverage. The first premium would be paid at the time of the election to convert.

MCL 500.3612 (House Bill 4695) and 550.1207 and 1410a (House Bill 4696)

FISCAL IMPLICATIONS:

The Department of Licensing and Regulation says the bills have no budgetary or revenue implications. (10-8-89)

ARGUMENTS:

For:

The bills would allow some people who lose their group health insurance coverage to convert to an individual policy with the same insurer without evidence of insurability or any break in coverage. Insurance specialists say this will be particularly important for people with pre-existing conditions who cannot get other coverage except by enduring a six-month waiting period for the pre-existing conditions. The conversion option would be available to group members (such as employees) and their spouses and dependents when group coverage ended, either because a job ended, an employer dropped group coverage, or for some other reason. (Rates for coverage would be based not on the individual's experience or the experience of the old group but on the experience of all such conversion policies.)

Against:

Representatives of small businesses have expressed some concerns about these bills and the issue of employer-provided health care benefits generally. Employers see any movement toward mandated health benefits as a threat. The cost of health care is a growing concern and increased costs will result in putting companies out of business or inducing companies to drop employee health care benefits. Specifically on these bills, small business representatives

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are concerned that employers do not have the resources to keep up with notification requirements and are worried about the effect on their rates of the experience of individuals covered by conversion policies. Small business representatives advocate an exemption for small employers (paralleling the federal standard of 20 or fewer employees) or a sunset provision so that the requirement can be re-evaluated.

Response: The bill does not mandate continued coverage for individuals who lose group coverage. It requires that insurers offer to those individuals the opportunity to purchase an individual policy (and does not specify what kind of coverage the policy must include). The rates for such policies would not be based on the experience of the former group but on the experience of individuals covered under all conversion policies.

For:

The bill would help settle a lawsuit between Blue Cross and Blue Shield of Michigan and the attorney general by allowing BCBSM to continue to have an interest in BCS Financial, a company owned by various Blue Cross-Blue Shield plans. The company provides such insurance services as organ transplant reinsurance and other reinsurance and officers and directors insurance. The provision has the approval of the attorney general and insurance commissioner. (An agreement has reportedly been reached that includes the end of BCBSM's interest in certain other insurance ventures, including offshore insurance companies.)

POSITIONS:

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

The Health Insurance Association of America is not opposed to the bills. (11-14-89)

The National Federation of Independent Business (NFIB) has issued a statement in which it says it does not currently support the bills. (11-9-89)

Blue Cross and Blue Shield of Michigan supports the bills. (11-13-89)