



**House  
Legislative  
Analysis  
Section**

Manufacturer's Bank Building, 12th Floor  
Lansing, Michigan 48909  
Phone: 517/373-6466

**House Bill 4697 (Substitute H-3)**  
**First Analysis (9-25-90)**

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

***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 coverage 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. Public Acts 259 and 260 of 1989 imposed that requirement on insurance companies and Blue Cross and Blue Shield of Michigan. The same requirement should be imposed on health maintenance organizations or HMOs.

***THE CONTENT OF THE BILLS:***

The bill would require that health maintenance organization (HMO) contracts offered through a group issued or renewed after December 31, 1991, allow individuals to elect coverage under an individual conversion contract 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.

The following events would qualify as termination of group coverage: the discontinuance of a group contract 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 HMO would not be required to issue a conversion contract 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.

An individual conversion contract, under the bill, 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 contract would be determined using the aggregate experience for all such contracts issued in the state by the HMO and in accordance with premium rates applicable to the age, class of risk, and type and amount

of coverage. An individual's rate would not be based on his or her experience under the conversion contract.

Group contracts would have to contain a notification of the conversion privilege. Group sponsors (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 HMO 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. A conversion contract could be terminated only as permitted in the contract, as approved by the insurance commissioner.

MCL 333.21087

***FISCAL IMPLICATIONS:***

The Department of Licensing and Regulation says the bill has no budgetary or revenue implications. (9-18-90)

***ARGUMENTS:***

***For:***

The bill would allow some people who lose their group HMO coverage to convert to an individual contract with the same HMO 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.) The provisions of the bill are nearly identical to those that already apply to insurance companies and Blue Cross and Blue Shield of Michigan.

***Against:***

Representatives of small businesses have expressed some concerns about bills of this kind 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. Also, small business representatives 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 and contracts.

***Response:*** The bill does not mandate continued

H.B. 4697 (9-25-90)

coverage for individuals who lose group coverage. It requires that HMOs 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 (or affect) the experience of the former group but on the experience of individuals covered under all conversion contracts of the issuing HMO.

***POSITIONS:***

The Department of Licensing and Regulation, which houses the Insurance Bureau, supports the bill. (9-18-90)

The Association of HMOs is not in support of the bill at this time. (9-21-90)