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HEALTH INSURANCE RENEWAL

Senate Bill 514 (Substitute H-2)
First Analysis (12-9-97)

Sponsor: Sen. Dale L.Shugars
Senate Committee: Health Policy and Senior Citizens
House Committee: Insurance

THE APPARENT PROBLEM:

One element of the Patient's Bill of Rights legislation enacted in 1996 was a requirement that health insurers renew or continue in force a nongroup policy or certificate at the option of the individual and a group policy or certificate at the option of the sponsor of the plan. One objection to this requirement at the time was that it ignored the fact that some people intentionally buy short-term policies that are designed (and priced) not to be renewable. Insurance companies say these policies are purchased by customers who are, for example, between jobs or waiting to become eligible for benefits under a new comprehensive policy. They are intended to provide coverage for a short period of time and are priced lower because they are not renewable. (A customer could, once the period was over, apply to purchase another policy.) Insurance companies who market these policies reportedly stopped selling them as of October 1, 1997, when the new mandatory renewal provision took effect. Legislation has been proposed to grant an exemption to such policies.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code (MCL 500.22136) to provide an exception until July 1, 2001 to the requirement that certain health insurance policies must be renewed or continued in force at the option of the individual insured. The exception would apply to a short-term or one-time limited duration policy or certificate of no longer than six months.

The eligible policies would be an individual policy that met all of the following criteria:

-- It was issued to provide coverage for a period of 185 days or less, except that the health policy could permit a limited extension of benefits after the date the policy ended solely for expenses attributable to a condition for which a covered person incurred expenses during the term of the policy.

-- It was nonrenewable, provided that the insurer could provide coverage for one or more subsequent periods that satisfied the provision above, if the total of the periods of coverage did not exceed a total of 185 days out of any 365-day period, plus any additional days permitted by the policy for a condition for which a covered person incurred expenses during the term of the policy.

-- It did not cover any pre-existing condition.

-- It was available with an immediate effective date, without underwriting, upon receipt by the insurer of a completed application indicating eligibility under the insurer's eligibility requirements, except that coverage that included optional benefits could be offered on a basis that did not meet this requirement.

The bill would specify that in each calendar year, a health insurer could not continue to issue such policies if to do so would mean that the collective earned premiums of such policies would total more than ten percent of the collective earned premiums of all individual expense-incurred hospital, medical, or surgical policies issued in this state either directly by the insurer or through a corporation that owned or was owned by that insurer.

An insurance company issuing, issuing for delivery, or renewing a short-term or limited duration policy would have to provide written reports to the insurance commissioner and the relevant insurance committees in the House and Senate. The first report would be due no later than January 1, 1998, and would have to disclose the gross written premium for short-term or limited duration policies or certificates of no longer than six months written in Michigan during the 1996 calendar year. The later reports would be due not later than March 31 in the years 1998 through 2001 and would have to disclose the gross written premium for such policies or certificates written in the state during the preceding calendar year. The insurance commissioner would be required to maintain copies of the report on file with the annual statements of each reporting insurer.

HOUSE COMMITTEE ACTION:

The House Insurance Committee reported a substitute bill. As passed by the Senate in S-5 form, the bill contained an exemption for individual short-term or one-time limited duration policies or certificates of no longer than six months and required a report to the commissioner by March 31, 1999 and March 31, 2000 disclosing the gross written premium for such policies in the preceding calendar year. It also contained an effective date of October 1, 1997. The House substitute contains a July 1, 2001 sunset; limits the number of such policies to ten percent of an insurer's business; and requires three additional reports.

FISCAL IMPLICATIONS:

There is no information at present. (12-8-97)

ARGUMENTS:

For:

The bill would grant an exemption from the recently enacted requirement that health insurance policies be renewable at the option of the customer for a special set of short-term or limited duration policies marketed to individuals as non-renewable, and priced accordingly. Without this exemption, these policies will no longer be marketed, inconveniencing those individuals and families who need them to cover periods of transition. Reportedly, some 100,000 of these policies were being sold in Michigan annually until the new requirement took effect in October.

Against:

Critics have expressed concerns that an exemption of this sort will mean that commercial insurance companies will shift more of their customers to these short-term policies to avoid the requirement that policies must be renewed at the option of the customer.

Response:

To address such concerns, the bill in its present form contains a limit on the percentage of a company's business that can be devoted to the exempt short-term policies; contains a sunset date; and requires a number of reports to insurance regulators and the legislature.

Rebuttal:

The restrictions are unnecessary. The sunset in particular could be harmful because the uncertainty could discourage companies from entering the short-term policy market in the state. Also, the bill needs to make it clear that it would apply to certificates issued to individuals who purchase this kind of insurance through association-style plans.

POSITIONS:

The Health Insurance Association of America, and American Community Mutual Insurance, support the bill but would prefer a straight exemption, without limitations, reports, and a sunset, like the exemption they say is contained in federal health insurance legislation. (12-8-97)

Golden Rule Insurance Co. supports the bill but has concerns about the sunset and about technical inconsistencies in the bill. (12-8-97)

The Insurance Bureau supported the bill as it passed the Senate and is still reviewing the House substitute. (12-8-97)

Blue Cross and Blue Shield of Michigan was opposed to the bill as it passed the Senate and is still reviewing the House substitute. (12-8-97)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.