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MEDICARE SUPPLEMENTAL MARKETING

House Bills 4330-4331 (Substitutes H-2)
First Analysis (5-4-89)

Sponsor: Rep. Sharon Gire
Committee: Insurance

THE APPARENT PROBLEM:

Advocates of the interests of senior citizens charge that there have been instances of unscrupulous insurance agents inducing unsuspecting seniors to exchange one Medicare supplemental policy for another merely for the purpose of generating greater commissions for the agents and without there being any benefit (and sometimes disadvantages) to the customer. This practice ought to be stopped.

THE CONTENT OF THE BILLS:

Generally speaking, the bills would prohibit people in the insurance business from inducing a customer to cancel or otherwise terminate an individual Medicare supplemental policy (or certificate) and replace it with another unless there was a substantial difference in cost or benefits favorable to the customer or the customer had previously demonstrated dissatisfaction with the service being received under the old policy. Further, a company or agent could only replace an individual Medicare supplemental policy with another with fewer aggregate benefits if the customer signed a form acknowledging that there will be fewer benefits. In the event of a violation, the company involved would have to provide to the customer the benefits he or she was entitled to under the old policy or the new policy, whichever were greater.

House Bill 4330 would amend the Nonprofit Health Care Corporation Reform Act (MCL 550.1402), which regulates Blue Cross and Blue Shield of Michigan. House Bill 4331 would amend the section of the Insurance Code dealing with unfair methods of competition and unfair or deceptive act or practices (MCL 500.2005a), and would apply to commercial insurance companies.

FISCAL IMPLICATIONS:

The Department of Licensing and Regulation reports that the bills have no revenue or budgetary implications for the state. (3-13-89)

ARGUMENTS:

For:

The bill would prohibit insurance agents from inducing senior citizens to switch Medicare supplemental policies merely for the purpose of generating more income for the agents. Since commissions in the early years of a policy are usually higher, it is to an agent's advantage to keep replacing old policies with new ones. The bills would say policies could only be replaced when it was to the benefit of the customer.

Against:

Some people believe a more effective approach would be to impose some kind of limit on the size of agent commissions in the early years of a policy. If the commissions paid to agents were spread more evenly, the incentive to replace one policy with another would disappear. The approach taken in these bills will be difficult for regulators to enforce.

Response: Proposals to limit the size of the first-year commission for agents selling Medicare supplemental (and possibly other) policies are being discussed by the House Insurance Committee and would not conflict in any way with these bills. These bills would make a repugnant practice clearly illegal.

POSITIONS:

The Insurance Bureau does not object to the bills. (3-13-89)

H.B. 4330 & 4331 (5-4-89)