



**House
Legislative
Analysis
Section**

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CONVERSION TO INDIVIDUAL POLICY

House Bills 4224-4225 (Substitutes H-3)

First Analysis (6-15-88)

RECEIVED

Sponsor: Rep. Perry Bullard

Committee: Insurance

JUL 15 1988

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THE APPARENT PROBLEM:

Insurance specialists are concerned about the hardships caused when employers seek to reduce their costs by replacing group health insurance coverage 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 on, 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 BILL:

Under the bills, a group disability (health) insurance policy would have to allow an individual covered under the policy to convert to an individual policy with the option of receiving coverage substantially similar to the prior coverage. There could be no interruption in coverage. The conversion could be elected for any involuntary event other than termination of employment because of gross misconduct or attainment of limiting age. The bills would not apply to coverage provided pursuant to a collective bargaining agreement or an employer-sponsored (i.e., a single employer self-funded) plan. House Bill 4224 would amend the Insurance Code (MCL 500.3612) to apply to commercial insurance companies selling policies that cover hospital, medical, surgical, or sick care benefits. House Bill 4225 would amend the Nonprofit Health Care Corporation Reform Act (MCL 550.1410a) to apply to Blue Cross and Blue Shield of Michigan. The bills apply to coverage in effect or renewed after December 31, 1988.

A group policyholder would have to notify group members of the option to convert on three kinds of occasions: 1) no later than 30 days prior to the date the group member's policy terminates; 2) upon issuance of any new group policy; and 3) 30 days after the bill's effective date. Each new group member would have to be notified of the conversion option within 30 days after coverage begins. In the case of an expiring group policy, the group member electing to convert would have to notify the group policyholder no later than 30 days after receiving notice of the policy expiration.

House Bill 4225, which 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).

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bills would provide to some people covered under group health insurance policies the right to convert to an individual policy with basically the same coverage. This would be helpful in a number of circumstances, according to insurance specialists, including when a company (or other employer) drops group coverage for its employees and 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 would be no interruption in coverage. This is expected to be useful primarily to employees of small enterprises.

SUGGESTED AMENDMENTS:

An clarifying amendment will be proposed to substitute the words "a single employer self-funded plan" for "an employer-sponsored plan" in both bills. The amendment attempts to clarify which groups are exempt from the bills because they are subject to federal law.

POSITIONS:

The Insurance Bureau supports the bills. (6-14-88)

Blue Cross and Blue Shield does not oppose the substitutes. (6-13-88)

H.B. 4224-4225 (6-15-88)

68-51-161, 6724-3224, H.B.