



**House
Legislative
Analysis
Section**

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GROUP HEALTH: REPLACEMENT COVERAGES

House Bill 5533 (Substitute H-3)
House Bill 5534 (Substitute H-3) **RECEIVED**
First Analysis (6-14-88)

Sponsor: Rep. Ken Sikkema
Committee: Insurance

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H.B. 5533 (6-14-88)

THE APPARENT PROBLEM:

There are reports companies sometimes decide to reduce the cost of providing health care coverage by dropping employees or dependents with certain conditions or by limiting the amount of coverage available to them. This can be accomplished by switching from one group disability (health) insurance policy to another that eliminates people with certain conditions or that provides more restrictive treatment of certain pre-existing conditions. (Pre-existing conditions are conditions a person has at the time he or she begins to be covered by an insurance policy. A policy can deny benefits for such conditions for up to two years under a waiting period known as a pre-existing condition limitation.) In one case reported to insurance regulators, an employee of a small company in western Michigan discovered when her husband, who was disabled, was hospitalized that the new company health policy did not cover any disabled dependents, and so her employee benefits would not pay for her husband's treatment, which would have been covered prior to the change in policies. In another, somewhat different case, a family with a child in need of a liver transplant discovered that they would be subject to a nine-month waiting period before being eligible for transplant coverage under a new group policy of the father's employer. (This kind of problem can occur even when a company is upgrading or improving its insurance coverages.) Obviously, practices such as these can cause severe hardship to employees and their families.

THE CONTENT OF THE BILL:

The bills would prohibit a group disability insurance policy that was replacing other group coverage from including a limitation on a person or from excluding a person who was covered under the coverage being replaced if the person was a member of the class or classes of individuals eligible for coverage under the replacement policy, except as specifically permitted.

The bills would require that when a replacement policy contained a pre-existing condition limitation (i.e., a waiting period), the level of coverage in the new policy for a person covered for that condition under the old policy would have to be at least equal to the lesser of: 1) the benefits of the old coverage or 2) the coverage of the new policy without the waiting period. (For example, if an employer switched from a policy that covered liver transplants up to \$100,000 to a policy that covered transplants up to \$1 million but with a nine-month waiting period, a person would have to be covered under the new plan up to \$100,000 without being subject to the waiting period.)

The bills would not, however, preclude a reduction or limitation of benefits that applied to an entire plan.

House Bill 5533 would amend the Insurance Code (500.3607) to apply to commercial insurance companies. House Bill 5534 would amend the Nonprofit Health Care Corporation Reform Act (550.1401c) to apply to Blue Cross and Blue Shield of Michigan.

FISCAL IMPLICATIONS:

According to the Department of Licensing and Regulation, the bill has no fiscal implications for the state. (6-7-88)

ARGUMENTS:

For:

Insurance regulators say it is unfair and violates the risk-sharing principles of group insurance for companies to eliminate some employees and dependents from coverage because they have certain kinds of health problems or to limit coverage on that basis. Some companies now decide that they can cut costs by eliminating some of the people covered under a group health insurance policy and switch to a new policy to accomplish that. (It could also occur inadvertently.) This can result, unconscionably, in severe economic hardship for those whose benefits are reduced or eliminated. Insurance officials say this happens mostly with small companies and employer trusts because large employer groups are not allowed to discriminate in this manner. The bills would say that new group coverage must treat group members with pre-existing conditions fairly so that people who had been covered for treatment of certain health conditions do not lose that coverage. Employers would not be prevented from reducing or limiting benefits that apply to all group members, but could not discriminate against group members with particular health problems.

Against:

Insurance industry representatives say that this is not an insurance problem as such, but a problem between employers and employees. Yet the bills put the responsibility on insurance companies and limit their activities. Perhaps employers should be required to notify employees of the terms of new policies.

Against:

The bill could result in higher costs for small employers offering group health coverage because they will not be able to drop disabled employees and dependents or restrict benefits of people suffering from certain conditions. This is done now to cut health insurance costs.

POSITIONS:

The Insurance Bureau, within the Department of Licensing and Regulation, supports the bills. (6-7-88)

Blue Cross and Blue Shield of Michigan supports the bills. (6-13-88)

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