

Fixed Payment Insurance

Report to the Legislature

June, 2010



Mike Kreidler - State Insurance Commissioner

www.insurance.wa.gov



OFFICE OF
INSURANCE COMMISSIONER

June 1, 2010

Dear Washington State Legislator:

In 2007, the legislature passed Substitute House Bill 1233, now codified as RCW 48.43.650, regarding "fixed payment insurance". The legislation requires my office to collect and report information regarding fixed payment insurance on June 1st of each year.

This 2010 report – the second annual report – is based on data collected in 2009. As noted in last year's report, we refined the data to focus specifically on medical payment products. This resulted in excluding disability-income fixed payment policies and dismemberment fixed payment policies from future data collection.

This report compares the 2009 survey with data collected for the 2010 survey. The new data shows:

- Sales for group policies have increased significantly, as has the number of group enrollees.
- Sales for individual policies show a small increase in both the number of policies and the number of individual enrollees.
- Consumer complaints dropped slightly with 41 complaints for the 2009 survey and 39 complaints for the 2010 survey.

If you have questions about this report, please contact Doug Pennington at (360) 725-7231 regarding the data survey, or Donna Dorris at (360) 725-7040 regarding fixed payment policies.

Sincerely,

A handwritten signature in black ink that reads "Mike Kreidler".

Mike Kreidler
Insurance Commissioner

Enclosure

Executive summary

In 2007, the legislature passed Substitute House Bill 1233, now codified as RCW 48.43.650, regarding “fixed payment insurance.” The legislature modified the definition of “health plan” in RCW 48.43.005 to exclude fixed payment insurance offered as an independent, non-coordinated benefit.

The result of this legislation was to exempt these products from having to comply with many mandated benefit requirements that apply to more comprehensive medical insurance.

Fixed payment policies pay a specific amount to a covered individual if that person receives certain types of medical care or services. This payment is made regardless of the amount actually charged by the provider. The policies are sold either on an individual basis or to employer groups.

Group fixed payment plans allow an employer to purchase minimal coverage for employees. Typical benefit designs include a set dollar amount for a doctor visit (e.g. \$25 per visit), or a daily benefit amount for a hospital confinement (e.g. \$200 per day). There is also a low calendar year maximum. Proponents of the legislation testified that employers wanted to provide this limited coverage to their low-wage and seasonal employees so that they would have some coverage. Opponents expressed concern that some employers would replace comprehensive medical coverage with these very limited plans.

Because this coverage is not comprehensive health insurance, and the benefit amounts may be significantly less than the cost of care, the legislation required a disclosure form designed to help consumers understand that the coverage will not cover the entire cost of most medical expenses or hospital care. The companies are required to use a standard disclosure form and file it with the Office of the Insurance Commissioner (OIC) for approval.

The bill also required the OIC to collect and report information regarding fixed payment insurance yearly, starting in 2009. On June 1, 2009, the OIC submitted the first report to the legislature. The enclosed report for June 1, 2010 is a result of the survey sent to companies in March of 2010.

Annual Reports

Each March, companies are required to complete and submit a survey answering the following questions:

- Did you write fixed payment policies in Washington state?
- What is the number of new fixed payment policies issued for groups?
- What is the number of new fixed payment policies issued for individuals?
- What is the number of new fixed payment policy group enrollees?
- What is the number of new individual fixed payment policy enrollees?
- What is the number of WA insurance department complaints received for fixed payment policies?

2010 Annual Report - What the data shows

In 2009, using data from 2008, we surveyed 681 companies licensed to sell products meeting the definition of fixed payment policies. All the companies responded. Companies submitted information that included disability income policies for the 2009 survey, but since disability income policies typically do not meet the definition of fixed payment policy, these types of policies are not included in the 2010 survey.

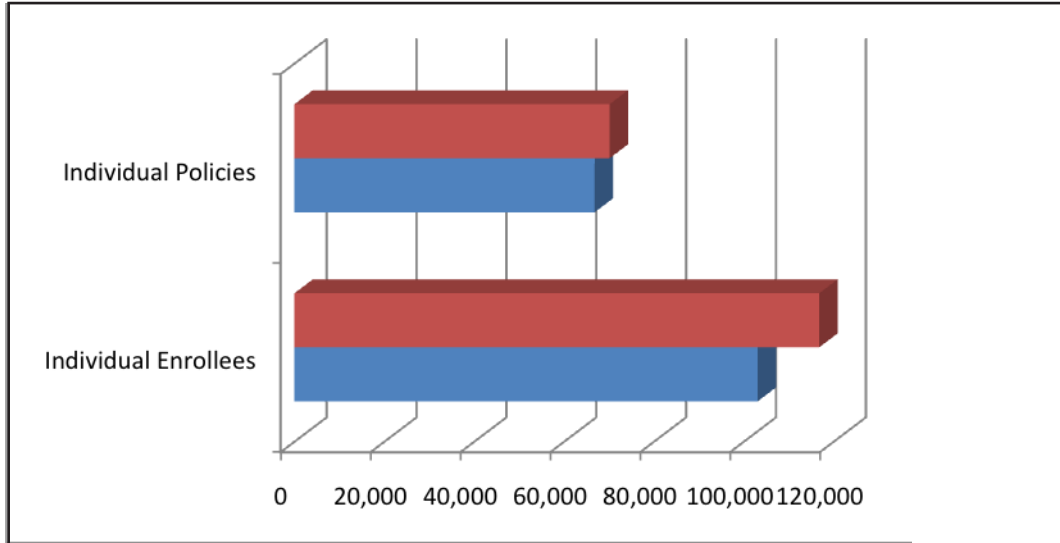
For purposes of this year's 2010 report, the definition of fixed payment policies are illness-triggered fixed payment insurance, hospital confinement fixed payment insurance, or other fixed payment insurance policies where the benefit provided is a fixed dollar amount paid regardless of the amount charged. Fixed payment riders attached to any policy type are not included.

For the year's survey, using data from 2009, we surveyed 75 companies. We limited it to two types of companies:

- Those which had previously acknowledged sales of fixed payment insurance policies, and
- those which had filed policies that our Rates and Forms Division determined met the definition of a fixed payment policy.

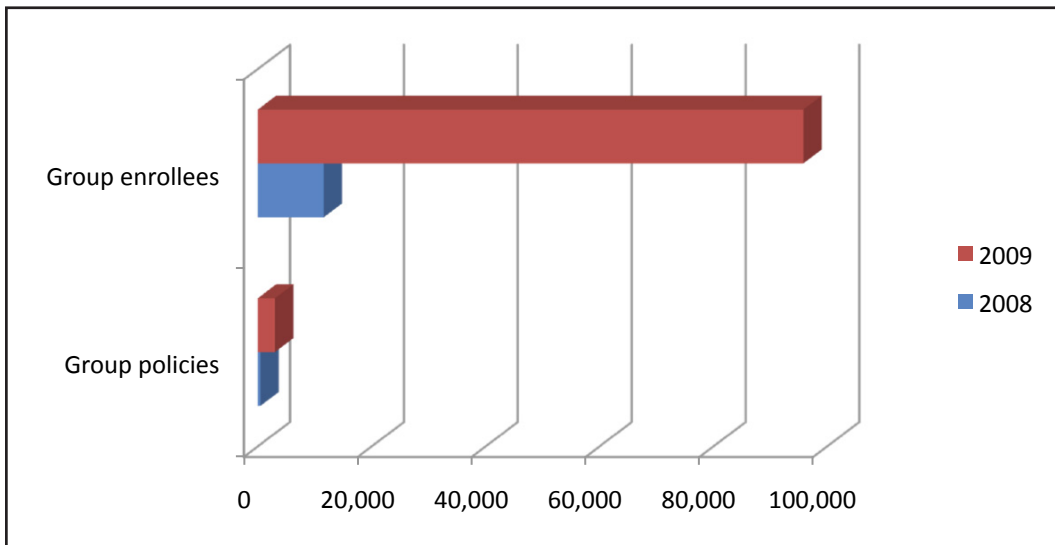
In the 2009 survey, companies reported receiving 41 complaints. In the 2010 survey, companies reported 39 complaints.

Comparisons of the 2009 and 2010 surveys



The number of individual enrollees rose from 103,115 to 116,821 a 13 percent increase. The number of individual policies rose from 66,832 to 70,173, a 5 percent increase.

The number of group enrollees rose from 11,587 to 95,838, an increase of 727 percent. The number of group policies rose from 459 to 3,032, a 561 percent increase.



Conclusions and Assumptions

Some of the possible reasons for the increase in sales of fixed payment policies for the 2010 survey are:

- The law modifying the definition of “health plan” in RCW 48.32.005 changed on July 22, 2007. The new definition excluded fixed payment products from being part of a health plan. This change allowed sales of fixed payment products to employer groups after July 22, 2007.
- When a company enters a new market, it takes time for products to be filed and approved, marketed and sold. A review of the Insurance Commissioner’s Office filing database shows the majority of companies filed policy forms and received approval in the second half of 2008. This means that there was only a six-month window during the initial reporting period in 2008 compared to an entire year for the 2009 reporting period.
- Most companies use an October/November open enrollment period, and policies become effective January 1st of the next calendar year. This means the majority of enrollees would increase on January 1, 2009 and be included in the 2010 survey.
- Testimony presented during the 2007 legislative session for HB 1233 included statements that employees who were uninsured because they are seasonal, temporary or hourly workers and typically don’t qualify for employer coverage are most likely to purchase these type of products. The fixed payment statute (RCW 48.43.650) requires that companies report aggregated data for each calendar year. The aggregated data for this report does not differentiate between uninsured employees purchasing fixed payment products and employees purchasing fixed payment products to supplement employer-offered insurance or substitute for it.



OFFICE OF
INSURANCE COMMISSIONER

Washington State Authorized Disability Carrier:

RCW 48.43.650 requires the Office of Insurance Commissioner (OIC) to file a report with the legislature annually showing specific aggregate information about fixed payment policies, as defined in RCWs 48.20.555 and 48.21.375. The next report is due June 1, 2010.

In order to meet this deadline, you must file a report with us by April 1st, 2010, giving us the aggregate information we need to report to the legislature. The data required is to be sent to us electronically as an EXCEL spreadsheet utilizing the template provided by our agency.

For purposes of this report, fixed payment policies are defined as illness-triggered fixed payment insurance, hospital confinement fixed payment insurance, or other fixed payment insurance policies where the benefit provided is a fixed dollar amount that is paid regardless of the amount charged. Fixed payment riders attached to any policy type are not included, nor are policies typically defined as disability income policies.

To file this report, we need the following information sent to us by April 1st, 2010.

Field #	Question	Field Type
1	Did you write fixed payment policies in WA in 2010?	Y or N
2	Number of new fixed payment policies issued in 2010 - group	Numeric
3	Number of new fixed payment policies issued in 2010 - individual	Numeric
4	The number of new fixed payment policy group enrollees in 2010	Numeric
5	The number of new individual fixed payment policy enrollees in 2010	Numeric
6	The number of WA insurance department complaints for fixed payment policies received in 2010	Numeric

This information should be emailed to Market.ConductOversight@oic.wa.gov. Include the name, email address, and phone number of the designated company contact person for this report. Future requests will be sent to this contact person. If this information changes, please notify us at the email address listed above.

You are receiving this request as our records indicate that you have either previously sold this type of product, were planning to sell this type of product or have this type of product filed in Washington State.

If you have any questions, you can email them to the email address previously listed or you may call Doug Pennington at 360.725.7231. Thank you for your time and cooperation.

Sincerely,

Handwritten signature of Douglas A. Pennington in blue ink.

Doug Pennington, CIE, MCM, CPCU, FLMI
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State of Washington, Office of Insurance Commissioner
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