

Fixed payment insurance products

Annual report to the Legislature

June 1, 2012



Mike Kreidler - Insurance Commissioner

www.insurance.wa.gov



OFFICE OF
INSURANCE COMMISSIONER

June 1, 2012

Dear Washington State Legislator:

RCW 48.43.650 requires my office to collect and report information regarding fixed payment insurance on June 1 of each year.

This 2012 report – the fourth annual report – is based on data collected in 2011. As noted in previous reports, 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 data collected for 2009, 2010 and 2011. The new data shows that:

- Despite a significant increase by one company in 2011, sales for group policies generally continue to decrease, although at a slower rate than last year.
- Sales for individual policies continue to show a decrease in both the number of policies and the number of individual enrollees.
- Consumer complaints increased significantly for the 2012 survey, with 41 complaints compared to 22 for the 2011 survey.

If you have questions about this report, please contact John Haworth at (360) 725-7223 regarding the data survey, or Donna Dorris at (360) 725-7040 regarding fixed payment insurance policies.

Sincerely,

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

Mike Kreidler
Insurance Commissioner

Enclosure

Executive summary

Fixed payment insurance 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.

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. RCW 48.43.650 requires the Insurance Commissioner to collect and report information regarding fixed payment insurance on June 1 of each year, starting in 2009.

The legislation exempts these products from complying with many mandated benefit requirements that apply to more comprehensive medical insurance.

Group fixed payment policies allow an employee to purchase minimal coverage through an employer. 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. These payments usually cover only a fraction of the actual cost for provider or facility services.

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, resulting in uncovered medical costs or deferred treatment by enrollees.

Because this coverage is not comprehensive health insurance, and the benefit amounts may be significantly less than the cost of care, the legislation required insurers to provide 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 must use a standard disclosure form and file it with the Office of the Insurance Commissioner (OIC) for approval.

Each year since 2009, the Commissioner has surveyed the fixed payment insurance industry and reported the results to the Legislature. The enclosed report for June 1, 2012 is a result of the survey (Appendix B) sent to companies in March of 2012.

Annual reports

Each March, companies must 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 complaints received for fixed payment policies?

2012 annual report - what the data shows

For purposes of this report, fixed payment policies are defined in RCW 48.43.005 (24)(i) and are specified disease or illness-triggered fixed payment insurance, hospital confinement fixed payment insurance, or other fixed payment insurance offered as an independent, non-coordinated benefit.

These policies pay a fixed dollar amount regardless of the amount charged.

For the 2012 survey, 51 companies reported that they sold fixed payment policies. This year's report compares data from 2009, 2010, and 2011.

Complaints reported by companies in this year's survey, while comprising a small percentage of enrollees, increased to 41 compared to 22 last year. That's an increase of 86 percent.

Group market

Group enrollment increased 161 percent from 11,251 to 29,387, even though the number of group policies purchased decreased 46 percent from 2,654 to 1,436. This is still 69 percent less than the significantly larger number enrolled in benefit year 2008, reported in the 2009 survey.

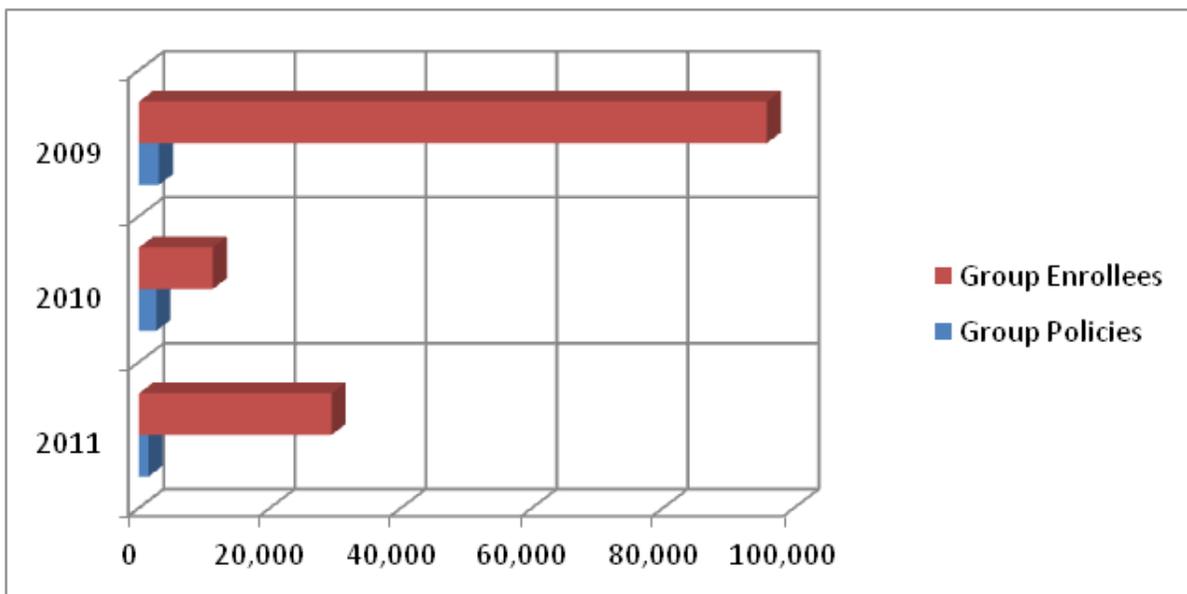


Figure 1: Number of people enrolled under group policies and number of group policies issued.

Source: Company responses to the OIC survey for 2009, 2010, and 2011 benefit years, as surveyed in 2010, 2011 and 2012. Data is reported based on benefit year, not survey year.

- The data for 2011 identified 13 companies reporting new sales of group policies; however, the overall number of new group policies continues to decline.
- For group policies, six companies cover 28,147 group enrollees, representing approximately 96 percent of total group enrollees. Last year, five companies, covering 6,047 enrollees, comprised a little more than half of the market.
- One company, American Income Life Insurance Company, reported sales of eight new group policies with 18,959 group enrollees, accounting for 65 percent of all group enrollees and the largest increase for enrollees in 2011.

Individual market

In 2012, the number of individual enrollees declined by 3 percent – compared to the previous year’s decline of 17 percent – decreasing from 96,843 to 94,117. Individual policies also decreased 2 percent from 55,581 in 2011 to 54,493 in 2012.

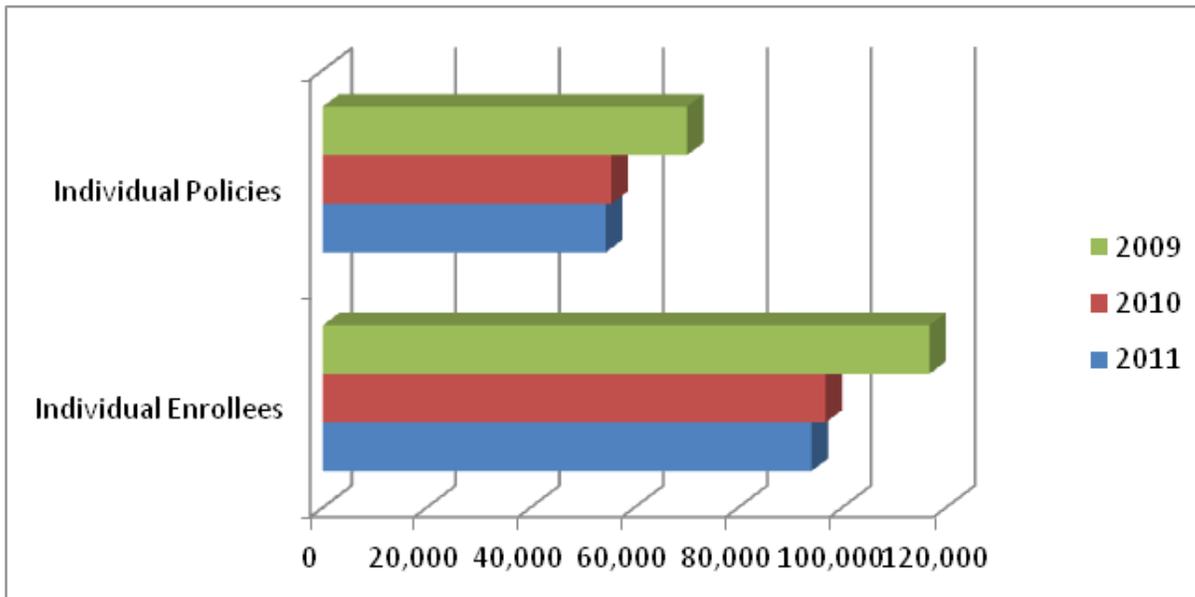


Figure 2: Number of individual policies sold and number of people enrolled under those policies (spouses and dependents may be covered under individual policies). Source: Company responses to the OIC survey for 2009, 2010 and 2011 benefit years, as surveyed in 2010, 2011, and 2012. Data is reported based on benefit year, not survey year.

- The 2011 data identified 31 companies reporting new sales of individual policies; however, the number of individual policies and enrollees continues to decline.
- Seven companies issued approximately 92 percent of the individual policies sold in this state. These individual policies cover 86,935 individual enrollees.
- One company, American Family Life Assurance Company, continues to dominate the market with 66,805 individual enrollees or 71 percent.

Conclusions

New sales of fixed payment insurance policies in the group market have fluctuated dramatically during the last three years. Between 2009 and 2010, National Union Fire Insurance had the largest number of group enrollees in the market. They discontinued marketing hospital indemnity coverage, resulting in a large decrease of group enrollees.

However, for 2011, American Income Life Insurance Company reported eight new groups sold and 18,959 group enrollees, thus accounting for a large increase of total group enrollees.

The majority of group policies appear to have more than 50 members, implying that most group policies are sold through large employer groups.

Companies selling individual fixed payment policies have decreased from 35 in 2009 to 30 in 2011.

Overall since 2009, the market for fixed payment insurance policies is decreasing, for both group and individual policies.

It is important to note that this coverage does not meet the definition of a comprehensive health plan or the requirements under the Affordable Care Act (Pub. L 111-148 (2010)), and is not eligible as coverage that meets the 2014 individual mandate requirement to purchase minimum essential coverage. As a result, it is probable that the market will continue to shrink.

APPENDIX A

Group policies and group enrollees by company for benefit years 2009-2011

Company	2009 Group Policy	2010 Group Policy	2011 Group Policy	2009 Group Enrollees	2010 Group Enrollees	2011 Group Enrollees
AAA LIFE INSURANCE COMPANY	0	1	1	0	4113	4113
AETNA LIFE INSURANCE COMPANY	1	5	2	0	215	57
AMERICAN HERITAGE LIFE INSURANCE COMPANY	80	72	125	138	145	124
AMERICAN INCOME LIFE INSURANCE COMPANY	9	2	8	6462	500	18959
BCS INSURANCE COMPANY	0	1	73	40	20	90
CAPITOL INDEMNITY CORPORATION	6	0	0	3980	0	0
COMPANION LIFE INSURANCE COMPANY	9	2	3	241	158	426
CONTINENTAL AMERICAN INSURANCE COMPANY	0	0	1	0	0	697
KANSAS CITY LIFE INSURANCE COMPANY	43	35	18	8460	1382	448
MONUMENTAL LIFE INSURANCE COMPANY	2	0	0	2	0	0
MUTUAL OF OMAHA INSURANCE COMPANY	2542	2359	1141	3382	3180	1528
NATIONAL UNION FIRE INSURANCE	4	0	0	71737	0	0
NATIONWIDE LIFE INSURANCE COMPANY	0	1	0	0	1	0
PAN-AMERICAN LIFE INSURANCE COMPANY	1	1	1	42	9	75
RELIASTAR LIFE INSURANCE COMPANY	269	148	0	446	198	0
SYMETRA LIFE INSURANCE COMPANY	16	10	13	512	985	2201
TRANSAMERICA LIFE INSURANCE COMPANY	23	19	34	59	344	649
TRUSTMARK INSURANCE COMPANY	18	1	10	21	1	11
UNITED STATES FIRE INSURANCE COMPANY	10	0	0	16	0	0
UNUM LIFE INSURANCE COMPANY OF AMERICA	0	0	1	0	0	2
WASHINGTON NATIONAL INSURANCE	0	0	7	0	0	7
Total	3033	2,657	1,438	95,838	11,251	29,387

Individual Policies and Individual Enrollees by company for benefit years 2009-2011

Company	2009 Individual Policy	2010 Individual Policy	2011 Individual Policy	2009 Individual Enrollees	2010 Individual Enrollees	2011 Individual Enrollees
AAA LIFE INSURANCE COMPANY	1	2	2	2	2	2
AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS	47209	35032	34591	83365	67184	66805
AMERICAN FIDELITY ASSURANCE COMPANY	947	824	815	947	1553	1608
AMERICAN GENERAL LIFE INSURANCE COMPANY	5	2	877	5	2	877
AMERICAN HERITAGE LIFE INSURANCE COMPANY	744	479	451	1282	977	380
AMERICAN INCOME LIFE INSURANCE COMPANY	3793	3875	2963	7890	5883	4314
AMERICAN NATIONAL INSURANCE COMPANY	0	0	2	0	0	4
AMEX ASSURANCE COMPANY	2	0	4	3	0	4
ASSURITY LIFE INSURANCE COMPANY	0	16	3	0	16	16
BANKERS FIDELITY LIFE INSURANCE COMPANY	379	269	197	379	269	197
BANKERS LIFE & CASUALTY COMPANY	27	27	22	29	28	22
COLONIAL LIFE & ACCIDENT INSURANCE COMPANY	4079	3835	5275	4438	4323	6117
CONSECO HEALTH INSURANCE COMPANY	34	0	0	34	0	0
CONSECO INSURANCE COMPANY	91	0	0	85	0	0
COMBINED INSURANCE COMPANY OF AMERICA	4607	3084	1345	6536	5507	2324
COMPANION LIFE INSURANCE COMPANY	0	27	0	0	27	0
EQUITABLE LIFE & CASUALTY INSURANCE COMPANY	28	0	6	31	0	6
FAMILY HERITAGE LIFE INS. COMPANY OF AMERICA	898	788	835	1708	1950	2079
GLOBE LIFE AND ACCIDENT INSURANCE COMPANY	560	505	389	560	505	389
GUARANTEED TRUST LIFE INSURANCE COMPANY	36	170	105	36	170	105
KANAWHA INSURANCE COMPANY	27	0	0	27	0	0
MEDICO INSURANCE COMPANY	24	0	0	38	0	0
MUTUAL OF OMAHA INSURANCE COMPANY	32	11	18	32	11	18

Company	2009 Individual Policy	2010 Individual Policy	2011 Individual Policy	2009 Individual Enrollees	2010 Individual Enrollees	2011 Individual Enrollees
NATIONWIDE LIFE INSURANCE COMPANY	0	1090	1	0	1090	105
OMAHA WOODMEN LIFE INSURANCE SOCIETY	10	12	5	10	12	5
PENNSYLVANIA LIFE INSURANCE COMPANY	3	0	0	3	0	0
PHYSICIANS MUTUAL INSURANCE COMPANY	304	298	22	429	404	23
PROFESSIONAL INSURANCE COMPANY	9	1	0	10	1	0
PROVIDENT LIFE AND ACCIDENT INSURANCE COMPANY	3055	2757	2395	3897	3395	2869
RIVERSOURCE LIFE INSURANCE COMPANY	221	0	0	221	0	0
STATE FARM MUTUAL AUTO INSURANCE COMPANY	1476	962	815	1747	1043	884
STERLING LIFE INSURANCE COMPANY	2	125	87	2	124	87
TRANSAMERICA LIFE INSURANCE COMPANY	2	4	70	5	9	159
TRUSTMARK INSURANCE COMPANY	22	30	98	34	50	158
UNITED AMERICAN INSURANCE COMPANY	310	10	26	455	11	49
UNITED TEACHER ASSOCIATES INSURANCE COMPANY	22	109	79	60	167	119
UNITED TRANSPORTATION UNION INSURANCE ASSOC.	1207	952	1452	2414	1761	2427
USABLE LIFE	5	18	9	5	18	9
WASHINGTON NATIONAL INSURANCE	0	266	610	0	350	812
WESTERN AND SOUTHERN LIFE INSURANCE COMPANY	2	0	0	2	0	0
Total	70,173	55,581	54,493	116,821	96,843	94,117

APPENDIX B

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



OFFICE OF INSURANCE COMMISSIONER

OLYMPIA OFFICE:
INSURANCE BUILDING
P.O. BOX 40255
OLYMPIA, WA 98504-0255
Phone: (360) 725-7000

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, 2012.

In order to meet this deadline, you must file a report with us by April 1st, 2012, 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, 2012.

Field #	Question	Field Type
1	Did you write fixed payment policies in WA in 2011?	Y or N
2	Number of new fixed payment policies issued in 2011 - group	Numeric
3	Number of new fixed payment policies issued in 2011 - individual	Numeric
4	The number of new fixed payment policy group enrollees in 2011	Numeric
5	The number of new individual fixed payment policy enrollees in 2011	Numeric
6	The number of WA insurance department complaints for fixed payment policies received in 2011	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 John Haworth at 360.725.7223. Thank you for your time and cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "John Haworth".

John Haworth, AIE, CPCU, MCM
Chief Market Analyst-Market Conduct Oversight
State of Washington, Office of Insurance Commissioner
Phone: (360)725-7223 | Email: JohnHaw@oic.wa.gov