



White Paper
by
WAHU's Universal Application Task Force
Spring 2001

The Wisconsin Association of Health Underwriters formed a task force to address the issues concerning the effect of HIPAA regulations on the health insurance application and pricing process. The idea of a Universal Application was formed by WAHU in 1997 and this task force has developed that concept and offers the following White Paper.

The Issue

Health insurance companies develop health insurance programs and rates to attract as many customers as possible. Small employer groups are quoted at the lowest possible rates making the assumption there are no adverse medical conditions. However, when an insurance company receives employee applications indicating adverse health conditions, those proposed rates can be increased by as much 85% based on current law. This makes the original proposal meaningless. It is only after the completion of all employee applications that an employer can receive an accurate rate.

Currently, for an employer to shop the market for accurate proposals for the most competitive health insurance plans, employers and employees must literally complete multiple applications and the employer must provide multiple deposit premiums. This process is administratively burdensome on all employers, and financially unrealistic for many.

The Solution

WAHU would suggest that a process be developed whereby employer groups can obtain competitive health insurance proposals that provide accurate rates, without the need for their employees to fill out multiple insurance applications, and without the need for employers to finance multiple deposit premiums.

This process would include the development and use of a universal application for employees. Insurance companies would participate on a voluntary basis, agreeing to accept the individual universal application for rating and underwriting purposes. The insurance company could still require the completion of their own employer application. This process would require the companies to underwrite and quote the risk upfront from the universal application, and accept the risk at the quoted rate. Additionally, this process would also address the issue of employers providing a full month's premium deposit for each proposal they receive. The deposit required would now be based upon on a fixed fee per enrollee. Attached to this White Paper is a detailed explanation of this process. For additional information, please contact our office at the address above.



WAHU's Universal Application Project

The Wisconsin Association of Health Underwriters (WAHU) has been extremely concerned with the effect that the Health Insurance Portability and Accountability Act (HIPAA) has had on small employers. While this federal regulation, which was passed in to law in 1996, has provided relief to employees relative to portability, job lock and guaranteed access, it has created a nightmare administratively in the enrollment and quoting process for these employees and their employers.

Prior to the implementation of HIPAA, insurance companies attempted to quote prospective employers in a competitive fashion. During the underwriting process, if it was determined by the insurance company that the proposed premiums were insufficient to cover the health risk of the employer group, the insurance company had the option of rejecting the group based upon medical conditions. With the advent of HIPAA, carriers are no longer allowed to reject these groups, regardless of medical conditions. Therefore, while companies must still be competitive in their proposal process, they are protecting themselves from this adverse risk by adjusting the original premium that was quoted. This process is known as "rating up". Wisconsin's current law and regulations allow insurance companies to rate an employer's health risk by +/- 30% from the insurance company's midpoint. Sometimes these rate ups often find the employer group being "max rated" (providing the highest possible increase in premiums originally quoted as allowed by law). In some cases, these increases can be as high as 85% if the original proposal was quoted at 30% below the midpoint. The effect of this is devastating on employers and employees.

As an employer is provided a proposal from different companies and different insurance agents, the employer attempts to choose the most cost competitive and best plan for their employees. After completing the enrollment materials, including the employee application indicating the medical conditions that individual and their family members have, the insurance company then provides the employer with the final rate after underwriting. By the time this process is completed and the employer receives the final rates, it is usually close to the renewal date. If the group was rated up, the employer is left with little option.

Another issue for the employer is their lack of ability to secure real rates from multiple insurance companies. In order for an employer to obtain firm rates, they must have their employees fill out multiple employee applications from the various insurance companies, and then complete multiple employer applications, along with submitting multiple premium deposits with each insurance company. Additionally, the employer must also continue to pay his existing premium with their existing insurer. The process is cost prohibitive.

In 1997, WAHU met to discuss solutions to the very problems being created by the HIPAA regulation. Our conclusion was that a universal application should be created, whereby employers could use a standard application for their employees to complete. Such application would be accepted by insurance companies on a voluntary basis, and would be used for the purposes of providing the employer with a proposal with guaranteed rates. Such proposals could only be adjusted after acceptance by the employer based upon a change in the number of applications being used for enrollment. Additionally, once the employer has made the decision to purchase, only an employer application and final premium deposit would be required, as underwriting would have been accomplished during the quoting process.



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As WAHU worked to seek support for this proposal, underwriting practices by insurance companies made it impractical. Additionally, with HIPAA being so new, there was real hesitancy on accomplishing this on a voluntary basis, and we were not interested in mandating such a practice. We believe it is time to look at this idea once again. The following details outline our suggestions:

Employee Application

A standard, or universal application should be developed which encompasses many of the same questions and format currently utilized by the major insurance companies marketing small group products in Wisconsin. This Application should be accepted by insurance companies when gathering information to quote prospective employer groups from 2 to 50 in size as defined by HIPAA, and to use for underwriting purposes. The design of the application should have input from insurance companies and would need the authorization of the Office of the Commissioner of Insurance.

Currently medical release information and an insurance company's disclosure statement is included in the individual application. This information and disclosure statement within the universal application would need to accommodate the use of multiple insurance companies.

Gathering of Additional & Other Information

In addition to the universal application, the insurance company could request any other information it deemed necessary in order to provide a proposal. Any global information needed on the employer could be requested on an insurance company specific form.

Insurance companies would then have the option of using just the information obtained from the employer and employees to provide the proposal, or could request additional information from specific employees in the form of additional questionnaires, copies of medical records or Attending Physician Statements.

Premium Deposit

In order to address the issue of the first month premium deposit to multiple companies, a much smaller deposit could be required, which would be based upon a per application fee. This smaller deposit would still show the employer's earnestness to change insurance companies, but would not prohibit the employer from comparing several proposals from different insurance companies.

Firm Proposal

At such time as the insurance company is comfortable with releasing a proposal, the insurance company would agree to do so without the ability to adjust the rates once received by the employer. Exceptions to this would include current practices relative to adjustments in the final employee counts, or any other demographical information. However, no adjustment would be allowed for additional review of medical information already provided on the universal application. Insurance companies would also receive the same protections that are currently available relative to misinformation, fraud, false statements, etc.



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Acceptance of Proposal

After the firm proposal is received by the employer group, and if the employer group decides to purchase the insurance plan based upon the proposal received, that employer would be required to complete any and all employer enrollment materials deemed necessary by the insurance company and based upon current practices. The employer would also be required to remit the full first month's premium, less any deposit received by the insurance company from the employer.

Upon receipt of the employer information and premium deposit, the insurance company would then agree to accept the universal applications already received and would complete any additional underwriting required. Based upon current HIPAA regulations, the insurance company would then accept that employer group based upon the terms and conditions of the proposal.

Underwriting Cost Issue

WAHU recognizes the potential for increased costs due to underwriting every employer group that wants a proposal. One possible solution would be to allow insurance companies a +/- 10% rating band adjustment to the final rates. An insurance company could then underwrite the proposal in a much more cost-effective manner. After acceptance by the employer, the insurance company could then utilize more expensive underwriting techniques and if needed, adjust the rates to cover unexpected risk uncovered during the final underwriting processes.

Conclusion

WAHU believes the health insurance marketplace would be vastly improved for consumer if the problems created by HIPAA regulations could be addressed. In our opinion, a universal application would address these problems. While there are still many questions to be answered relative to implementation of a universal application process as described within this White Paper, we believe this concept is long overdue. We further believe that until the industry addresses this problem for consumers, we will continue to see government solutions which often don't understand the marketplace and therefore create negative, unintended consequences.