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Association Group Insurance and Association Health Plans:
They Are Not the Same

One of the most confusing areas of health insurance reform has to do with association group insurance and Association Health Plans (AHPs). There are similarities between the two, but there are also distinct differences.

Association group insurance is available today, and millions of Americans get their health coverage through associations. Before Association Health Plans will be available, by contrast, Congress will have to pass legislation and the president will have to sign it into law.

To make clear the differences between these two association models, we present this comparison.

Association Group Insurance. There are roughly 15,000 active associations in the U.S. today. Many of these associations offer access to or group discounts on a whole range of products and services, including health insurance.

A licensed insurance company operating under state insurance oversight and regulations provides the policy. The association might be professional, such as the local Chamber of Commerce. Or it might be an "affinity" group, i.e., an organization someone chooses to affiliate with because of its benefits, such as AAA.

States Regulate Association Group Insurance. Forty-six states specifically authorize group health insurance offered through associations. The coverage must meet the laws of the states in which it is offered.

In addition, the National Association of Insurance Commissioners (NAIC) provides a model to guide states' oversight of the association group market.

The AARP Model. Purchasing health insurance as well as other products and services through an association is a long-established and well-accepted model. Perhaps the oldest and largest of these associations is the AARP.

In 1947, two decades before the federal government launched Medicare, retired principal Ethel Percy Andrus created the National Retired Teachers Association (NRTA) to provide affordable health insurance and other services to retired teachers. That plan took a different direction when Andrus met Leonard Davis, an insurance broker and an aggressive marketer who put up $50,000 in 1958 to start a parallel organization, the American Association of Retired Persons, which would offer a range of insurance policies through his newly created Colonial Penn Group.

After Medicare became law in 1965, AARP began to offer supplemental coverage, which pays the medical bills that Medicare doesn't pay. Today, some 35 million people, roughly a third of whom are under age 60, pay annual dues to AARP because they believe they get value — including access to affordable health insurance — out of being a member.

Association Health Plans. Legislation to create AHPs has been around for several years. It has strong support from the Bush administration and in the House of Representatives, but less in the Senate.

This legislation would put insurance sold through associations under federal oversight. As a result, states would lose considerable control over the policies and who and what the insurance covers. The plans would have to meet federal standards.

Traditional health insurance companies could provide the health coverage, the legislation also would allow associations to self-insure, just as large companies do now under the Employee Retirement Income Security Act (ERISA). That means that associations could become their own insurers, paying health claims themselves, rather than using an insurer.

In addition, the legislation requires associations to guarantee issue. In other words, everyone applying for coverage must be issued a policy regardless of their individual health status.

Conclusion. Millions of Americans purchase health insurance through their membership in associations. These insurance products are regulated by the states, as are the insurance companies behind them.

Association Health Plans do not yet exist. Legislation is pending in Congress which would permit associations to bypass most existing state insurance laws and regulations. Instead, the AHPs would be regulated by the federal government.

The following side-by-side chart is intended to help you understand the differences between association group coverage and Association Health Plans.

	Association Group Insurance	Association Health Plans
Definition	The NAIC outlines the following requirements for association group insurance: • "[S]hall have at the outset a minimum of 100 persons and have been organized and maintained in good faith for purposes other than that of obtaining health insurance." • "Shall have been in active existence for at least one year; • "And shall have a constitution and by-laws that provide that (i) the association or associations hold regular meetings . . . (ii) . . . collect dues or solicit contributions from members, and (iii) the members have voting privileges and representation on the governing board and committees."	The association offering the coverage would have to meet the following requirements: • Must be "organized in good faith, with a constitution and bylaws specifically stating its purpose and providing for periodic meetings on at least an annual basis, as a bona fide trade, industry, or professional association, or a bona fide chamber of commerce for substantial purposes other than that of obtaining or providing medical care." • Must be permanent and require dues for membership. • Must not condition membership or coverage under plan on the basis of health status-related factors.
Purpose	To provide greater flexibility and buying power to individuals purchasing insurance coverage on their own, as one of several member benefits offered by an association.	To allow small businesses to band together across state lines to purchase health insurance under federal law. To allow more uniform coverage by following federal mandates rather than 50 states' mandated benefits and regulations.
Are they available now?	Yes, in most states, but only to members of an association offering plans.	No. Congress will have to pass and the president sign enabling legislation.
Who insures the plan?	A licensed insurer provides the plans sold to members of the association.	The employer could choose to self-insure or contract with a licensed insurer – the choice is entirely up to the association.
Is the plan regulated	Yes, the licensed insurer is regulated by the state department of insurance. The policies are regulated and in some states the rates are regulated.	AHPs would be regulated by the U.S. Labor Department, just as companies that self-insure under ERISA. However, if an insurance company is used, the company — not the insurance plan sold through the association — would still have to comply with state regulations where it is domiciled.
Are there solvency standards?	Yes, the licensed insurer is subject to state regulations, and oversight is executed by every state department of insurance in which the insurer is licensed.	Yes, however, the solvency standards cap is $2 million.
Do the plans have to offer mandated benefit coverage?	It depends on state laws. Some states impose fewer mandates on association group coverage, which means they can be less expensive than plans that must include all of the mandates.	AHPs would not have to comply with all 50 states' different sets of mandates but would have to comply with any federal mandates imposed by the Labor Department or Congress.
Are the plans guaranteed issue?	Plans can be guaranteed issue or underwritten, depending on state law.	Yes
What are the benefits of such a plan?	Provides individual health insurance coverage that is tailored to fit the needs of the members. This coverage is portable and will remain with individuals even if they change employers. Promotes greater buying power and administrative savings.	Allows nationwide associations to offer insurance coverage across state lines without having to comply with each state's health insurance mandates and regulations. Promotes greater buying power and administrative savings.

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