The Self-Employed Shuffle

by Bill Randell, CLU, ChFC
Advantage Benefits Group
Worcester, MA

I read an insightful story in the March issue of *HIU* by Conrad Meier titled "Making Things Worse: Guaranteed Issue and Community Rating." Conrad made some great points and I would like to elaborate on one item. I refer to it as "The Self-Employed Shuffle."

Your typical group has to consider eligibility, date of hire and waiting periods in order for an employee to be enrolled in the group plan. Employees who have waived coverage for one reason or another do not have an opportunity to enroll again until the next anniversary, unless there is a qualifying event. Yet that is not the case with self-employed persons.

Insurance companies have adopted requirements and stipulations such as waiting periods and open enrollments in an effort to avoid adverse selection. If insurance companies did not have these checks and balances, many employees would not elect to participate in the group health plan until they learned of a possible health problem. However, these easily understood insurance requirements are not present in a "guaranteed issue" environment, especially when it comes to the self-employed individual marketplace.

All of the technical contract language that home-office lawyers use cannot protect an insurance company from a self-employed individual with the availability of guaranteed issue health insurance. Here is where The Self-Employed Shuffle begins. Let me give you a real-life example.

A self-employed friend of mine calls me saying he really needs health insurance. I, of course, ask what medical problem he was recently diagnosed with. Sure enough, he has discovered he needs a nasal procedure costing approximately $7,000. I proceed to help him out and enroll him in a local HMO. Right away he is calling for ID cards asking questions like "How soon can I have the operation done?"

In the guaranteed-issue world, he had the operation done within 30 days of enrolling and, in the end, paid a total of two months premium to the HMO. By the way, he thought the premiums were "a rip off" and for my headaches, I grossed $20 in commissions.

This is why we are all paying outrageous premiums! To top it off, he has done it again since then, but with a different HMO. However, I learned my lesson: The second time he called, I politely gave him a phone number to call and told him that I do not want to be his broker on another two-month health plan. As of today, he is without health insurance again. In the past three years, he has secured coverage with two different insurance companies, paying a total of four months of premiums, and has had two minor surgeries performed. Not a bad deal, if you can get it.

Obviously, in the case of an emergency he would be out of luck. But just how much out of luck and for how long? Let's say he had a heart attack on June 30. There is nothing to stop him from getting enrolled in another guaranteed issue plan on July 1. This is just one self-employed person I know. Imagine how many times this must be happening throughout the market.

So what's the answer? I don't know. But I do know that the intent of guaranteed issue was not for this to happen. Many self-employed people ask me for a high-deductible plan between $2,000 and $5,000, which they would self-insure. My answer, in the Commonwealth of Massachusetts since the advent of guaranteed issue, has been "No." Why should they pay the piper if they can dance to the music for free?

I am hoping that with the passage of the new legislation that permits HSAs, my answer will be "Yes" and guys like my friend will stop performing The Self-Employed Shuffle. I will then be able to show high-deductible major medical plans again. ■

Bill Randell is the co-owner of Advantage Benefits Group. He has been in the insurance business since 1986, focusing on group benefits. If you have any questions or comments, send them to bill@advantagebenefits.com.