Individual Health Insurance Policy General Provisions

By now, you should have a good understanding of health insurance basics. This section will discuss different provisions and riders available in health insurance. Provisions stipulate the rights and obligations of an insurance contract and are fairly universal from one policy to the next. Some provisions are mandatory, and must be included in all policies, while others are optional, and can be included at the discretion of the insurer. In addition, this section will examine the options available to the insurance company and the insured for canceling or renewing coverage. Part of your duty as a producer is to be able to explain the different policy provisions and riders to your clients. The knowledge that you will share with prospective customers will help them make informed decisions about their health insurance coverage.

TERMS TO KNOW

Cancellation — termination of an in-force insurance policy, by either the insured or the insurer, prior to the expiration date shown in the policy
Claim — a request filed with an insurance company asking for payment according to the terms of an insurance policy
Expense-incurred basis — policy pays health policy benefits as a reimbursement of actual expenses
Guaranteed renewable — a policy that is written on a noncancellable basis with the right to renew guaranteed
Irrevocable beneficiary — a beneficiary who has a vested interest in the policy and therefore, the policyowner may not exercise certain rights without the consent of the beneficiary
Lapse — policy termination due to nonpayment of premium
Provision — a legal clause in an insurance contract spelling out duties and rights of the insured and the insurer
Reinstatement — returning a lapsed policy to active status
Statute — a formal written law enacted by legislature; insurance statutes can be found in the state Insurance Code

A. Uniform Required Provisions

The **Uniform Individual Accident and Sickness Policy Provisions Law**, which was developed by the National Association of Insurance Commissioners (NAIC), has been adopted in all states. This law established standard provisions that are to be included in all individual health insurance policies. Although the wording may differ from one insurer to another, the basic provisions are the same. Some of these provisions are similar to life insurance policy provisions.

The purpose of these provisions is to define the rights and duties of both the insurer and the policyholder. Any of the provisions may be reworded by the insurer, so long as modification does not make the provision less favorable to the policyholder or beneficiary.

Know This! Insurers must include in individual health insurance policies the standard provisions established under the NAIC's Uniform Individual Accident and Sickness Policy Provision Law.

1. Entire Contract; Changes

The entire contract provision states that the health insurance policy, together with a copy of the signed application and attached riders and amendments, constitutes the **entire contract**. No changes may be made to the policy without the express written agreement of both parties, and any changes must also be made a part of the contract. Only an executive officer of the company, not an agent, has authority to make any changes to the policy.

Know This! An insurer is prohibited from making changes to a health insurance policy without an insured's consent.

2. Time Limit on Certain Defenses

The Time Limit on Certain Defenses provision is similar to the Incontestability provision found in life insurance policies. No statement or misstatement (except fraudulent misstatements) made in the application at the time of issue will be used to void a policy or deny a claim after the policy has been in force for **3 years**.

3. Grace Period

The grace period is the period of time after the premium due date in which premiums may still be paid before the policy lapses for nonpayment of the premium. Although the grace period may differ according to individual state laws, in most cases the grace period cannot be shorter than **7 days for weekly premium policies** (industrial policies), **10 days for monthly premium policies**, and **31 days for all other modes**. Coverage will continue in force during the grace period.

Know This! An accident and health insurance policy's grace period is directly tied to the premium payment mode.

4. Reinstatement

If the premium has not been paid by the end of the policy’s grace period, the policy will lapse (terminate). This provision stipulates under what conditions the insured may reinstate coverage. Reinstatement is automatic if the company or an authorized representative accepts the policy premium and does not require a reinstatement application. However, if a reinstatement application is required and a conditional receipt is issued for the payment of the policy premium, the company may approve or disapprove the reinstatement application. Coverage is automatically reinstated if not refused within **45 days** from the date the conditional receipt was issued. Accidents will be covered immediately following the reinstatement; however, sickness is covered only after **10 days**. This helps to protect the insurer from *adverse selection.*

5. Claim Procedures

The **notice of claim** provision spells out the insured's duty to provide the insurer with reasonable notice in the event of a loss. Notice is required within 20 days of the loss, or as soon as reasonably possible. Notice to the agent equals notice to the insurer.

Upon receipt of a notice of claim, the company must supply **claims forms** to the insured within a specified number of days *(usually 15, but may vary from state to state)*. If forms are not furnished, the claimant is deemed to have complied with the requirements of the policy by submitting written proof of the occurrence, nature of the loss, and extent of loss to the insurer.

After a loss occurs, the claimant must submit **proof of loss** within 90 days of the loss or as soon as reasonably possible, but not to exceed **one year**. However, the 1-year limit does not apply if the claimant is not legally competent to comply with this provision.

The **time of payment of claims** provision specifies that claims are to be paid immediately upon written proof of loss. The time of payment for claims is usually specified in different policies as 60 days, 45 days, or 30 days. However, if the claim involves *disability income benefits*, the benefits must be paid not less frequently than monthly.

Know This! A notice of claim and proof of loss are the insured's duties; claims forms and the time of payment of claim are the responsibilities of the insurer.

The **payment of claims** provision specifies to whom claims payments are to be made. All benefits are payable to the insured while the insured is living. If the insured is deceased, claims that are pending are paid to the beneficiary. If there is no beneficiary, benefits will be paid to the deceased's estate, unless the insured has assigned the benefits to be paid directly to a hospital or doctor who has rendered services.

Some policies allow a provision that gives the insurer the right to expedite payments of urgently needed claim funds and pay up to a specified limit in benefits to a relative or individual who is considered to be equitably entitled to payment, called facility of payment clause.

6. Physical Examinations and Autopsy

The physical exam and autopsy provision gives the insurer the right to examine the insured, at its own expense, as often as may be reasonably necessary while a claim is pending. The insurer also usually has the right to conduct an autopsy, if not forbidden by a state law.

7. Legal Actions

The insured must wait **60 days** after proof of loss is filed with the insurer before legal action can be brought against the company. Legal action time period lasts 3 years.

8. Change of Beneficiary

The change of beneficiary provision stipulates that the policyowner may change the beneficiary at any time by providing a written request to the insurer. The consent of the beneficiary is not required. However, if the beneficiary designation is irrevocable, the policyholder must first obtain the permission of the beneficiary before any change can be made.

B. Uniform Optional Provisions

In addition to the mandatory provisions discussed above, the **insurance company has the option** of including any of the following optional provisions.

An insurance company may change the wording of the optional policy provisions as long as the rewording is not less favorable to the policyholder.

1. Change of Occupation

Because the occupation of the insured is an important underwriting consideration, particularly for disability income insurance, health insurance policies usually include a provision that allows the insurer to **adjust benefits if the insured changes occupations**. If the insured makes a change to a more hazardous occupation, upon claim, benefits will be reduced to that which premiums paid would have purchased assuming the more hazardous occupation. If the change is to a less hazardous occupation, the insured is entitled to apply to the insurer for a rate reduction.

2. Misstatement of Age and Sex

If an insurer discovers a misstatement of age on an insurance application, the benefits paid under the policy would be **adjusted** to what the premium paid would have purchased at the correct age.

Know This! In response to a misstatement of age on an insurance application, benefits are adjusted per the current premium.

3. Other Insurance in this Insurer

When an insured purchases several policies with the same insurance company and overinsures, this provision will apply. This provision provides for a pro rata benefit reduction and return of premium in the event of multiple policies with the same company when the benefits exceed a stated maximum.

Know This! Pro rata benefit reduction ensures that insureds or beneficiaries do not profit from losses.

4. Insurance with Other Insurers

Expense-incurred Basis

If the insured has 2 or more policies from different companies that provide benefits on an expense-incurred basis, and the policies cover the same expenses, and if the insurance companies were not notified that the other coverage existed, then each insurer will pay a proportionate share of any claim.

Other Benefits

The same principle applies when the policy pays specific benefits rather than paying on an expense-incurred basis.

5. Unpaid Premium

Upon payment of a claim, any past due premiums will be deducted from the claim and the policyholder will be paid the net amount.

6. Cancellation

Since premiums are paid in advance, cancellation by either party triggers a refund of unearned premium. The **insurance company** may cancel the policy by giving a notice of at least 5 days to the insured, if it is not in conflict with the minimum notice of cancellation of the state's statute, and premium refunded on a **pro rata basis**.

On the other hand, if the **insured** initiates the cancellation, it will be handled on a **short rate basis** which incorporates a cancellation fee before the refund.

7. Conformity with State Statutes

This provision states that any provision of the policy which, on its effective date, is in conflict with the statutes of the state in which the insured resides on that date, is **automatically amended** to conform to the minimum requirement of the statutes. Although this is an optional provision, most states require that it be included in every health insurance contract issued.

8. Illegal Occupation

This provision states that liability will be denied if the insured is injured while committing an **illegal act** or is engaged in an **illegal occupation**.

9. Intoxicants and Narcotics

The insurer is not liable for any claims that result while the insured is intoxicated or under the influence of drugs (unless administered by a physician). Treatment for substance abuse is usually a covered benefit under health insurance policies. This provision simply excludes any injury or sickness that results from the insured's intoxication.

C. Other General Provisions

All individual health insurance policies are required to include certain standard provisions, called Uniform Mandatory Provisions. In addition to these mandatory provisions, some provisions are required in individual policies, while other provisions are required in both individual and group contracts. Insurers may use additional provisions that are not in conflict with the uniform provisions, as long as they are approved (allowed) by the state where the policy is delivered. Although it is impossible to catalog all of the provisions used by insurers, the following are the more commonly used.

1. Right to Examine (Free Look)

The **free-look** or **right to examine** provision allows the insured a period of several days to look over the policy, and if dissatisfied for any reason, return it for a full refund. It is commonly **10 days** from the date the policy is delivered, but may vary for different types of policies. This provision is mandated for individual policies in most states.

Health insurance policies issued in this state must have imprinted on the face of the policy the following: *"Notice of Insured's Right to Examine Policy for 10 Days."*

2. Insuring Clause

The insuring agreement or clause is usually located on the first page of the policy. It is simply a general statement that identifies the basic agreement between the insurance company and the insured. It **identifies the insured** and the **insurance company** and states what **kind of loss (peril) is covered**.

Know This! The insuring clause defines the scope of coverage, as well as identifies the rights and duties of each party of the contract.

3. Consideration Clause

The **consideration clause**, which is usually located on the first page of the policy, makes it clear that both parties to the contract must give some valuable consideration. The payment of the premium and the statements in the application are the consideration given by the applicant. The insurer's consideration is the promise to pay in accordance with the contract terms.

4. Renewability Clause

The face page of the individual health insurance contract must clearly state under what conditions the policy may be renewed. If the insurer reserves the right to refuse renewal, the insurer must deliver or mail to the policyholder's last known address a written notice of its intention not to renew the policy beyond the period for which the premium has been accepted.

Since individual health insurance policies provide coverage for a specified term, the absence of a cancellation provision does not guarantee continuing protection. Even when the insurer cannot cancel a policy, the insurer may retain the right to refuse to renew the policy.

Each policy should be carefully examined to determine which renewal provision it contains, as these are extremely important provisions.

Noncancellable

The insurance company cannot cancel a noncancellable policy, nor can the premium be increased beyond what is stated in the policy (note that the policy may call for an increase in a certain year, such as "age 65," but that must be stated in the original contract). The insured has the right to renew the policy for the life of the contract; the insurer cannot increase the premium above the amount for which the policy was originally issued. However, the guarantee to renew coverage usually only applies until the insured reaches age 65, at which time the insured is usually eligible for Medicare. For disability income insurance, the policy will be renewed beyond the insured's age 65 only if the insured can provide evidence of continuing to work in a full-time job.

Know This! The insured may cancel an insurance policy at any time.

Guaranteed Renewable

The **guaranteed renewable** provision is similar to the noncancellable provision, with the exception that the insurer can increase the policy premium on the policy anniversary date. The insured, however, has the unilateral right to renew the policy for the life of the contract. The insurer may increase premiums on a **class basis only** and not on an individual policy. As with the noncancellable policy, coverage generally is not renewable beyond the insured's age 65. **Medicare Supplements and long-term care policies must be written as guaranteed renewable** contracts, and cannot be cancelled by the company at the insured's age 65.

Know This! A guaranteed renewable policy requires the insurer to continue coverage, as long as premiums are paid.

Conditionally Renewable

With a conditionally renewable policy, the insurer may terminate the contract only at renewal for certain conditions that are stipulated in the contract. *For example,* one condition may be that the insured must be employed to collect disability payments. In addition, the policy premiums may be increased. The company **may not** deny renewal due to claims experience.

Renewable at Option of Insurer

Optional renewability is similar to conditional renewability, except that the insurer may cancel the policy for any reason, on certain homogeneous classes (not individuals within a class). Renewability is at the option of the insurer. The insurer can only decide not to renew a policy on the policy anniversary or premium due date (renewal date). If the insurer elects to renew coverage, it may also increase the policy premium.

Nonrenewable (Cancellable, Term)

In some cases, an individual may need health insurance for a specified period of time. Coverage is then considered a term health policy, which is not renewable. When the term expires, the insured must purchase another policy. These policies are also called **period of time** policies as they are only effective for a specific period of time, and will be cancelled by the company at the end of the term.

Examples of term health policies are travel accident policies, short term health plans, or accident only policies. Policies which cover specific events, such as school functions, summer camp, or athletic events, are other examples. Once the event is over, coverage is no longer in place.

5. Coinsurance

Most major medical policies include a **coinsurance** provision that provides for the sharing of expenses between the insured and the insurance company. After the insured satisfies the policy deductible, the insurance company will usually pay the majority of the expenses, typically **80%,** with the insured paying the remaining **20%.** Other coinsurance arrangements exist such as 90/10; 75/25; or 50/50. The larger the percentage that is paid by the insured, the lower the required premium will be. The purpose of the coinsurance provision is for the insurance company to control costs and discourage overutilization of the policy.

6. Probationary Period

The **probationary period** provision states that a period of time must lapse before coverage for specified conditions goes into effect. This provision is most commonly found in disability income policies. The probationary period also applies to new employees who must wait a certain period of time before they can enroll in the group plan. The purpose of this provision is to avoid unnecessary administrative expenses in cases of employee turnover.

7. Elimination Period

The **elimination period** is a type of deductible that is commonly found in disability income policies. It is a period of days which must expire after the onset of an illness or occurrence of an accident before benefits will be payable. The longer the elimination period, the lower the cost of coverage.

8. Exclusions

Exclusions specify for what the insurer will not pay. These are causes of loss that are specifically excluded from coverage. **Reductions** are a decrease in benefits because of certain specified conditions. The most common exclusions in health insurance policies are injury or loss that results from any of the following:

- War;
- Military duty;
- Self-inflicted injury;
- Dental expense;
- Cosmetic medical expenses;
- Eye refractions; or
- Care in government facilities.

In addition, most policies will temporarily suspend coverage while an insured resides in a foreign country or while serving in the military.

Mental and Emotional Disorders — Usually the lifetime benefit for major medical coverage limits the amount payable for mental or emotional disorders. The benefit is usually expressed as a separate lifetime benefit and there is frequently a limit on the number of outpatient visits per year. The benefit may also pay a maximum limit per visit. These limitations usually do not apply to inpatient treatment.

Substance abuse — As with mental and emotional disorders, outpatient treatment of substance abuse is usually limited to a maximum limit.

D. Chapter Recap

This chapter explained different types of policy provisions that modify coverage in individual health insurance policies. Let's recap some of the key concepts:

POLICY PROVISIONS

Uniform Required Provisions

- *Entire contract* - policy (with riders and amendments) and copy of the application
- *Grace period* - time period after the premium is due during which the policy will not lapse
- *Reinstatement* - a policy can be restored within a specified period of time with proof of insurability
- *Change of beneficiary:*
  - Revocable - can be changed at any time
  - Irrevocable - can only be changed with the beneficiary's consent
- *Notice of claim* - insured must provide insurer with reasonable notice after loss. Notice is required within 20 days of loss, or as soon as possible
- *Claim form* - company must supply insured with claims forms within a specific period
- *Proof of loss* - claimant must submit proof of loss within 90 days of loss
- *Time of payment of claims* - specifies that claims must be paid upon written proof of loss
- *Payment of claims* - specifies to whom claims payments will be made

	• *Physical examination and autopsy* - gives the insurer the right to examine the insured as often as necessary while a claim is pending • *Time limit on certain defenses* - misstatements on an application cannot be used to deny a claim after the policy has been in force for 3 years • *Legal action* - insured must wait 60 days after written proof of loss before bringing legal action against the company
Uniform Optional Provisions	• *Misstatement of age* - benefits are adjusted according to what the premium paid would be purchased at correct age • *Change of occupation* - allows insurer to adjust benefits if the insured changes occupations • *Illegal occupation* - liability will be denied if the insured is injured while committing an illegal act or is engaged in an illegal occupation • *Other insurance in this insurer* - pro rata benefit reduction in response to overinsurance • *Insurance with other insurers* - separate insurers pay proportionate benefits for any one claim • *Unpaid premium* - past due accounts are deducted from claim amount • *Cancellation* - insurer may cancel policy with a written notice • *Conformity with state statutes* - conflicting policies are automatically amended to meet state requirements • *Intoxicants and narcotics* - insurer is not liable for claims resulting from intoxicants or drug use
Other Provisions and Clauses	• *Insuring clause* - basic agreement between the insurer and the policyowner • *Free look* - policy can be returned for a refund of premium within a specified time period • *Consideration* - parties to a contract exchange something of value • *Probationary period* - states that a period of time must lapse before coverage for specified conditions goes into effect • *Elimination period* - commonly found in disability income policies; a period of days that must pass after the onset of an illness or occurrence of an accident before benefits will be payable • *Coinsurance* - provides for the sharing of expenses between the insured and the insurance company; expressed as a percentage after the insured pays the policy deductible • *Exclusions* - specifies causes of loss for which the insurer will not pay, including losses that result from war, military duty, self-inflicted injuries, dental expense, cosmetic medical expenses, eye refractions, or care in government facilities

RIGHTS OF RENEWABILITY

Noncancellable	Insurer cannot cancel or raise premiums beyond amount stated in the policy
Cancellable	Insurer may cancel the policy at any time or at end of policy period with proper written notice and a refund of any unearned premium paid
Guaranteed Renewable	Insurer may increase the policy premium (on a class basis only) on the policy anniversary date; insured has the unilateral right to renew the policy for the life of the contract