

Class 9 Outline
Business Finance 640 - Insurance and Risk
Autumn Quarter, 2007

Group insurance is an important source of protection for most people. We will begin this class with an overview of the basic characteristics of group insurance as a whole. Next, we will review the basic principles of group underwriting and the requirements for eligible groups and employees.

We will examine specific kinds of group insurance plans, starting with group life insurance. Our examination will also include a brief review of group term, group AD&D and group universal life plans. From this, we will transition to group medical expense insurance. We will note that group health insurance accounts for 90% of all health insurance premiums.

In this context, we will discuss the major characteristics of managed care plans, such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs). We will touch briefly on health savings accounts and patients' bill of rights initiatives and then review the major contractual provisions of group medical expense plans. Next, we turn our attention to group disability income plans, including both short-term and long term plans, and conclude with a brief review of cafeteria plans.

I. Group Insurance

A) Basic Characteristics

1. Coverage of many persons under one contract
2. Low cost protection from reduced marketing and administrative expenses
3. Individual evidence of insurability usually not required
4. Experience rating for larger groups

B) Basic Principles of Group Underwriting

1. Insurance incidental to the group
2. Flow of persons through the group
3. Automatic determination of benefits
4. Minimum participation requirements
5. Third-party sharing of cost
6. Simple and efficient administration

II. Eligibility Requirements in Group Insurance

A) Eligible Groups

1. Types of groups are regulated by state law: individual employers; multiple employers; unions; debtors of a common creditor; miscellaneous groups.
2. Size requirements

B) Eligibility Requirements

1. Be a full-time employee
2. Satisfy a probationary period
3. Apply for insurance during the eligibility period
4. Be actively at work when insurance becomes effective

III. Group Life Insurance

A) Group Term Life Insurance

1. Characteristics: low cost coverage; yearly renewable term insurance; convertible within 31 days after leaving group
2. Major advantage: low cost

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3. Disadvantages: prohibitively expensive for older workers to convert; no savings for retirement; temporary protection

B) Group Accidental Death and Dismemberment Insurance (AD&D)

C) Group Universal Life Insurance—universal life products are sold on a group basis.

IV. Group Medical Expense Insurance

A) Group Medical Expense Providers

1. Commercial insurers
2. Blue Cross and Blue Shield plans
3. Managed care organizations
4. Self-insured plans by employers

B) Basic Medical Expense Insurance—usually provides the following basic benefits:

1. Hospital expense insurance
2. Surgical expense insurance
3. Physicians' visits
4. Diagnostic X-ray and laboratory benefits and other miscellaneous benefits

C) Major Medical Insurance

1. Supplemental major medical insurance
2. Comprehensive major medical insurance

D) Managed Care Plans

1. Health maintenance organization (HMO)
2. Preferred provider organization (PPO)
3. Point-of-service plan (POS)
4. Exclusive provider organizations (EPO)
5. Advantages and disadvantages of managed care plans
6. Current developments in managed care plans
7. Patients' bill of rights

V. Health Savings Account

VI. Group Medical Expense Contractual Provisions

VIII. Group Disability-Income Insurance

A) Short-term plans—characterized by benefits paid only for a short period; short elimination period; nonoccupational coverage; benefits are a percentage of earnings, and relatively few exclusions.

B) Long-term plans—characterized by benefit period that may run to age 65 or longer; coverage for both occupational and nonoccupational disability; a dual definition of disability used; monthly payments; a waiting period of three to six months; and may have a provision for the accrual of pension benefits and cost-of-living benefit.

IX. Cafeteria Plans