

## **CHAPTER 16**

### **HEALTH INSURANCE POLICY PROVISIONS**

#### **UNIFORM POLICY PROVISIONS**

The National Association of Insurance Commissioners developed the Uniform Individual Accident and Sickness Policy Provision Law. All states have adopted this law in principle but most states have modified the law to some extent. The purpose of the law was to make for a certain degree of uniformity of all individual health insurance contracts. Insurance companies are not required to use the exact wording of the uniform policy provisions. They are allowed to reword the provisions as long as the wording is not less favorable to insureds.

There are 12 mandatory provisions and 11 optional provisions. This chapter will summarize these provisions.

#### **TWELVE MANDATORY PROVISIONS**

##### **Provision #1: The Entire Contract**

The policy, including the endorsements and the attached papers, if any, constitutes the entire contract of insurance. Therefore, the entire contract is the policy, the application, and any riders or endorsements. Nothing can be incorporated by reference. No change in the policy shall be valid until approved by an executive officer of the insurer and unless such approval be endorsed or attached to the policy. No agent has authority to change the policy or to waive any of its provisions.

##### **Provision #2: Time Limit on Certain Defenses**

There are two paragraphs in this provision having to do with the incontestability of a health policy after it has been in effect a certain period of time, usually two years.

Paragraph A states that after two years from the date of issue of the policy, no misstatements, except fraudulent misstatements, made by the applicant in the application for the policy shall be used to void the policy or to deny a claim for loss incurred or disability commencing after the expiration of such two-year period. Fraudulent statements on a health insurance application are grounds to contest the policy at any time. However, if the policy is guaranteed renewable, it cannot be contested for any reason after the contestable period expires.

Paragraph B states that no claim for loss incurred or disability commencing after two years from the date of issue of the policy shall be reduced or denied on the grounds that a disease or physical condition, not excluded from

coverage by name or specific description effective on the date of loss, had existed prior to the effective date of coverage of the policy. In other words, the insurance company cannot deny a claim or reduce benefits on the basis of a preexisting condition after the expiration of a two-year period unless the preexisting condition is specifically excluded in the policy.

#### Provision #3: Grace Period—7, 10, or 31 Days

The **grace period varies according to premium payment frequency**. The grace periods are as follows:

Weekly-premium policies-----7 days  
Monthly-premium policies---10 days  
All other policies-----31 days  
(quarterly, semi-annual,  
and annual payments)

The policy is in force during the grace period and claims submitted during the grace period will be covered.

#### Provision #4: Reinstatement

If the premium on the health policy is not paid by the end of the grace period, the policy will lapse and coverage will terminate. If the insurer or its agent accepts the delinquent payment and no reinstatement application is required, the policy is reinstated automatically upon receipt of the premium due. If the insurer requires an application for reinstatement and issues a conditional receipt for the premium paid, the policy will be reinstated upon approval of such application by the insurer or, lacking such approval, upon the 45<sup>th</sup> day following the date of such conditional receipt unless the insurer has previously notified the insured in writing of its disapproval of the application.

Once a policy is reinstated, there is a 10-day waiting period for sickness coverage. There is no waiting period for accident coverage.

#### Provision #5: Notice of Claim

Written notice of claim must be given to the insurer within 20 days after occurrence or commencement of any loss covered by the policy or as soon thereafter as is reasonably possible. Notice given by or on behalf of the insured to the insurer or its authorized agent shall be deemed notice to the insurer.

If the insured suffers loss of time on account of disability for which indemnity may be payable for at least two years, the insured shall give notice to the insurer once every six months of the continuance of the disability except in the case of legal incapacity.

#### Provision #6: Claim Forms

The insurer, upon receipt of a notice of claim, will furnish to the claimant such forms as are usually furnished by it for filing proof of loss. If such forms are not furnished within 15 days after giving notice of loss, the claimant shall be deemed to have complied with the requirements as to proof of loss upon submitting written proof covering the occurrence and the character and extent of the loss.

#### Provision #7: Proof of Loss

Written proof of loss must be furnished to the insurer within 90 days after the date of loss or after the insurer becomes liable for periodic payments (disability income benefits). Failure to furnish proof within 90 days shall not invalidate nor reduce any claim if it was not reasonably possible to give such proof within such time, provided such proof is furnished as soon as reasonably possible and in no event, except in the absence of legal capacity, later than one year from the time proof is otherwise required.

#### Provision #8: Time of Payment of Claims

With the exception of claims involving periodic payments over time, the insurer must make payment immediately after receiving notification and proof of loss. Payments on disability income policies must be made at least monthly.

#### Provision #9: Payment of Claims

The payment of claims provision states how and to whom payments are to be made. Indemnity for loss of life is payable to the beneficiary designated. If there is no beneficiary, the payment will be made to the estate of the insured. Any other accrued indemnities unpaid at the insured's death may, at the option of the insurer, be paid either to the beneficiary or to the estate. All other indemnities are payable to the insured.

This provision has two optional paragraphs. The first paragraph, called the *facility of payment* clause, allows the insurer to pay up to \$1,000 in benefits to a relative or individual who is considered to be equitably entitled to payment. The second paragraph allows the insured to have medical benefits paid directly (assigned) to the provider of care.

#### Provision #10: Physical Exam and Autopsy

The insurer at its own expense shall have the right to examine the insured at reasonable intervals during the period of a claim. The insurer may pay to have an autopsy performed to determine the exact cause of death where it is not forbidden by law.

### Provision #11: Legal Actions

This provision sets the time limit for bringing suit against the insurer. No action at law can be brought to recover on the policy prior to the expiration of 60 days after written proof of loss has been furnished. This gives the insurer time to investigate a claim and determine its validity.

No suit can be brought after the expiration of three years after the time written proof of loss is required to be furnished.

### Provision #12: Change of Beneficiary

This provision applies to health or disability policies that include a death benefit. Unless the insured makes an irrevocable beneficiary designation, the right to change beneficiaries is up to the insured. The consent of the beneficiaries will not be requisite to surrender or assignment of the policy or to change beneficiary designations.

## ELEVEN OPTIONAL PROVISIONS

The following eleven optional provisions may or may not be included in a policy. Insurers may use any of them that they choose. However, provision #3 (Other Insurance in This Insurer), provisions #4 (Insurance with Other Insurer), and provision #5 (Insurance with Other Insurers) are rarely used as they deal with overinsurance but have proved to be ineffective.

### Provision #1: Change of Occupation

This provision is included in many disability income policies as the risk involved in an occupation affects the chances of an insured being disabled. The change of occupation provision states the changes that may be made to premium rates or benefits payable if an insured changes occupations. If an insured changes to a more hazardous occupation, the insurer will reduce benefits to whatever the premium would have purchased at the higher risk occupation. If the insured changes to an occupation classified by the insurer as less hazardous, the insurer will reduce the premium rate accordingly and will return the excess pro rata unearned premium from the date of change of occupation or from the policy anniversary date immediately preceding receipt of such proof, whichever is the more recent.

### Provision #2: Misstatement of Age

If the age of the insured has been misstated, all amounts payable shall be adjusted to the amount the premium paid would have purchased at the correct age. It makes no difference whether the misstatement was intentional or unintentional. The insurer will adjust benefits based on the correct information.

If an insured understated his/her age, the insured was paying too low a premium and benefits paid would be reduced. If an insured overstated his/her age, the insured was paying too high a premium and the insurer could increase the benefit amounts.

#### Provision #3: Other Insurance in This Insurer

If an insured has more than one policy of a similar type with an insurance company, the insurer can limit the amount of benefits that will be paid under all contracts. Any insurance over the specified amount is considered to be void and the insurer will return the premium paid for these benefits to the insured or the insured's estate.

Another way an insurer can handle such a situation is to limit coverage to one policy selected by the insured, the beneficiary, or the administrator of the insured's estate. The premium for all the other policies will be refunded.

#### Provision #4: Insurance with Other Insurer

If an insured has coverage with another insurer providing benefits for the same loss on an expense-incurred basis, the amount payable will be prorated in cases where the company accepted the risk without being made aware of the other existing coverage. Any excess premium will be refunded to the policyowner.

#### Provision #5: Insurance With Other Insurers

If the insured has coverage with other insurers providing benefits for the same loss on other than a expense-incurred basis, the liability of the company will be for such proportion of the indemnities of which the insurer had notice that bear to the total amount of all indemnities. Any excess premium will be returned to the policyowner.

#### Provision #6: Relation of Earning to Insurance

If an insured has several disability income policies and the benefits from all policies exceed the insured's monthly earnings at the time of disability or the average monthly earnings for the two preceding years, the insurer is liable only for a proportionate amount of benefits as the insured's earnings bear to the total benefit under all contracts.

The monthly benefit amount cannot be reduced to less than \$200 or the sum of the monthly benefits specified in the coverages, whichever is less.

#### Provision #7: Unpaid Premium

Upon the payment of a claim under the policy, any premium due and unpaid may be deducted from the sum payable to the insured or beneficiary.

#### Provision #8: Cancellation

The insurer may cancel the policy for cause at any time by giving five days written notice to the insured. After the policy has been continued beyond its original term, the insured may cancel at any time by written notice to the insurer with the cancellation effective upon receipt of notice or at a later date as specified in the notice. Cancellation of a policy shall not effect any pending claim.

A policy cancelled by the insurer will be cancelled on a pro rata basis—all unearned premium will be returned to the policyowner. If the insured cancels a policy, it will be cancelled on a short rate basis—unearned premium minus company expenses will be returned to the policyowner.

#### Provision #9: Conformity with State Statutes

Any provision of the policy which, on its effective date, is in conflict with the statutes of the state where the insured resides will be amended to conform to the minimum requirements of state statutes.

#### Provision #10: Illegal Occupations

The insurer shall not be liable for any loss that was caused by the insured's commission of or attempt to commit a felony. The insurer also is not liable for a loss caused by the insured's being engaged in an illegal occupation.

#### Provision #11: Narcotics

The insurer shall not be liable for any loss sustained by the insured while under the influence of alcohol or narcotics. An exception to this rule involves an insured taking narcotics under the advice of a physician.

### OTHER HEALTH INSURANCE PROVISIONS

#### Policy Face

The policy face contains a summary of the type of policy and the coverage provided by the policy. It identifies the insured, the term of the policy (the effective date and termination date), and how the policy can be renewed.

## Insuring Clause

The insuring clause essentially is the insurer's promise to pay benefits under the conditions stipulated in the contract. It identifies the insurer and the insured and states the type of loss covered by the contract.

## Consideration Clause

Legal contracts require consideration. In health insurance, the insurer agrees to provide the benefits stated in the contract. The consideration given by the insured is premium payment and the statements made in the application. A copy of the application will be attached to the policy. The consideration clause will state the amount and frequency of premium payment.

If the applicant submits a signed application without premium payment to the insurer, the policy lacks consideration and is not a valid contract.

## Free-Look Provision

When a policy is delivered to the insured, he/she has the right to look over the policy and decide whether or not to keep it. The free look is 10 days. However, seniors have a 30-day free look. If the policy is not wanted for any reason, the policy may be returned for a full refund of premium. If the policy is returned during the specified period, the insurer is not liable for any claim originating during the free-look period.

## Renewability Provisions

Health policies have to be renewed periodically. The policyowner always has the right to cancel a policy or allow it to lapse by failing to make premium payments. If a policyowner wishes to cancel a policy during the policy term, he/she is entitled to receive the unearned premiums. The policyholder pays in advance for insurance coverage, but the insurer does not earn the premium until coverage is provided. If an individual paid the annual premium for 12-months coverage and cancelled the policy after three months, he/she would be entitled to receive the premium paid in advance for the nine months for which no coverage will be provided. When the policyholder cancels the policy, the insurer returns the unearned premium on a short rate basis. The insurer deducts an amount to cover its expenses and returns the remainder to the insured. When a company cancels a policy, it will return all of the unearned premium to the insured which is referred to as a pro rata cancellation.

Whether an insurer may refuse to renew a policy depends upon the renewability provision in the policy. The more favorable the renewability provision is to the insured, the higher the premium. The less favorable the renewability provision is to the insured, the lower the premium. The renewability

provisions can be classified into five types. The 2010 Health Reform Bill has made some of these renewability provisions obsolete.

#### 1. Cancelable

A cancelable policy can be canceled by the insurer at any time by giving written notice to the insured. Any premiums paid in advance must be refunded to the policyowner. If an insurer cancels a policy in the midst of a claim, the company is responsible for the claim. A cancelable policy allows the insurer to increase premiums.

#### 2. Optionally Renewable

In an optionally renewable policy, the insurer has the option to renew or not renew for any reason. The insurer also may terminate the policy on any premium due date or anniversary date of the policy. If the insurer chooses to renew, the premium may be increased for a class of insureds.

#### 3. Conditionally Renewable

In a conditionally renewable policy, the insurer may terminate coverage but only for specific conditions stated in the policy. These reasons cannot be based on the insured's health. Some reasons could be loss of employment or reaching a certain age. Premiums may be increased on the policy's anniversary date for an entire class.

#### 4. Guaranteed Renewable

The insured is guaranteed the **right to renew** this policy at each renewal date until reaching a certain age (e.g. 65). The insurer cannot change the terms of this contract, but the insurer **may change the premiums** for an entire class of insureds.

#### 5. Non-cancelable

A non-cancelable (noncan) policy **cannot be canceled** for any reason other than non-payment of premium. **Premium rates cannot be changed** either. The rates are specified in the policy. Noncancelable policies normally can be renewed until age 65. This type of provision commonly is found in disability income policies.

### Conversion Privilege for Dependents

When dependents are covered under a family policy, they have certain rights of conversion when they are no longer eligible under the family plan. Dependents include the insured's spouse, insured's children, insured's



dependent parents, and anyone else for whom dependency can be established. Eligibility can end due to death, divorce, or a child reaching a certain age. Children are eligible to stay on the policy until age 26. These dependents have the right to convert to an individual plan without evidence of insurability as long as the conversion is done within 31 days.

### Benefit Payment Clause

The benefit payment clause defines the type of benefits provided by the contract and under what circumstances they will be paid. Contained in this clause are specific benefit amounts, the elimination period, and the duration of benefits.

There are certain minimum mandated benefits that are required by state law to be included in certain types of policies. These mandated benefits normally apply to individual and group health policies written on an expense-incurred basis and to service plans such as Blue Cross and Blue Shield. Coverage for newborn children and coverage for emotional, mental, and nervous disorders are examples of these mandated benefits. There are some benefits that must be provided as optional coverages including obstetrical services and treatment for alcohol and drug dependency.

### Exclusions

Exclusions are provisions in insurance policies that state what will not be covered under the contract. Common exclusions in health policies include:

- War and acts of war
- Self-inflicted injuries
- Aviation as a pilot
- Military service
- Overseas residence
- Foreign travel
- Committing or attempting to commit a felony

### Pre-existing Conditions

A pre-existing condition is a condition for which the insured was treated or sought advice within a stipulated time period before making application for an insurance policy. Insurance companies are prohibited from denying coverage due to a pre-existing condition for children as of September 2010 and for adults in 2014.

## Non-occupational Coverage

A non-occupational policy will cover the insured only while not working (such as covering an injury at home). Any losses due to an occupational cause will not be covered. Injuries due to work will be covered under workers compensation insurance.

An occupational policy will cover losses due to work or due to any other type of loss.

## REVIEW QUESTIONS

1. A disability policy described as “guaranteed renewable” is one where the insurance company:
  - A. Surrenders the right to change the premiums and may change the terms only with the consent of the insured.
  - B. Surrenders the right to change any of its terms or to change the premiums.
  - C. Surrenders the right to change any of its terms but may change the premiums with the consent of the insured.
  - D. Surrenders the right to change any of its terms but may change the premiums.
  
2. What is the grace period on a disability policy that has a quarterly premium payment?
  - A. 7 days
  - B. 10 days
  - C. 31 days
  - D. 45 days
  
3. When an insured changes his occupation to a more hazardous one and his individual policy contains the optional change of occupation provisions:
  - A. The insurer may cancel the policy.
  - B. The insurer will raise the premium payment retroactively.
  - C. The insurer will reduce the benefits.
  - D. The insurer cannot reduce the benefits.
  
4. All of the following are true about a non-cancelable policy **except**:
  - A. The insurer may cancel for non-payment of premium.
  - B. The insurer may adjust premiums by class of individuals.
  - C. The insurer cannot change the terms of the policy.
  - D. The insurer cannot refuse to renew.

5. The type of disability policy that is most favorable to the insured and, therefore, has the highest premium payment is:
- A. Conditionally renewable
  - B. Non-cancelable
  - C. Guaranteed renewable
  - D. Optionally renewable
6. A secretary purchases a disability policy with a change of occupation provision. She later becomes a lion tamer. Which of the following is correct?
- A. The company may increase the premium.
  - B. The company must provide the same benefits at the same premium if she had the policy for two years or longer.
  - C. The company may decline coverage.
  - D. The company may reduce the benefits.
7. If a disability policy has a provision that is in conflict with state law:
- A. The policy is void.
  - B. The insurer will not pay benefits under the contract.
  - C. The provision in conflict with state law will be amended to conform to state law.
  - D. The insured will have the right to sue the insurer.
8. When can an insured bring legal action regarding disability insurance against an insurer?
- A. No sooner than 30 days nor later than 3 years.
  - B. No sooner than 60 days nor later than 3 years
  - C. No sooner than 15 days nor later than 2 years.
  - D. No sooner than 60 days nor later than 1 year.
9. Uniform policy provisions address:
- A. The entire contract
  - B. Notice of claim
  - C. Proof of loss
  - D. All the above