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## NEW **Insurance Plan** **Has Novel Pitch --** **Get Sick, Buy More**

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A small Michigan insurer is trying a novel way to woo young, healthy people who lack health insurance: let them buy lots of coverage *after they get sick*.

American Community Mutual Insurance Co. is rolling out an unusual two-tier coverage plan today that would give policyholders struck by serious illness or accidents the option of adding \$5 million of coverage.

### **POLICY INITIATIVE**

- **The News:** An insurer launches an unusual health policy that lets people buy up to \$5 million in additional coverage after they get sick.
- **Target Market:** Young and healthy adults who are shopping for a bargain and dislike \$5,000 deductibles.
- **The Bottom Line:** Insurers are trying to enroll individuals as more employers quit providing benefits. But this new policy isn't for everybody.

Signing up individuals is critical to insurance-industry growth as more employers quit providing company-paid health benefits, and carriers are eager to limit big claims by courting the 40% of uninsured who are 19 to 34 years old and healthy -- the fastest-growing segment of uninsured Americans.

Industry experts say they have never seen a policy like American Community's, introduced in Texas today under the name "Coverage on Demand." A similar plan will be rolled out early next year in Michigan, Ohio and Missouri as "Pay-As-You-Go." Overall, the company hopes to offer this product line in more than 13 states within the next year.

Here's how it works: A consumer buys one of three limited-benefit plans -- called Tempo, Rhythm or Groove -- with annual benefit caps of \$1,000, \$2,500 or \$5,000, respectively. Deductibles range from nothing to \$500. The cost of the plan for a healthy 25-year-old man in Dallas, for example, would be \$88 to \$95 a month, the company says.

The twist comes when a person gets seriously ill or hurt and exceeds the modest benefit cap. Under Coverage on Demand, policyholders can pay a lump-sum annual "activation" premium of \$9,000 to \$10,000 -- on top of the basic premium -- to receive a guaranteed \$5 million of catastrophic coverage for that year. American Community offers to finance that amount through an outside company over three years, with interest.

"It's the right to hindsight in health insurance," says Mike Grandstaff, chief executive of American Community's new Precedent Insurance unit, which is selling this plan in Texas. The company chose Texas because it has the highest percentage of uninsured among its population -- 27%, or 5.6 million people. The average annual premium for individuals in Texas is \$2,836, according to an industry trade group. Mr. Grandstaff says it remains to be seen how well it will work: "Who are we going to draw? Who will we keep as customers? How will they behave? Time will tell."

Many individuals balk at paying annual premiums of roughly \$2,500 for a standard major-medical policy that typically covers most hospital, doctor and drug costs. In response, leading insurers such as **WellPoint Inc.** and **UnitedHealth Group Inc.** have introduced plans that cost less than \$1,000 a year

for young people, who are less likely to suffer major medical setbacks. The downside for some is that the annual deductibles run from \$1,500 to \$5,000. WellPoint plays to this demographic with policies dubbed Thrill-Seeker, Calculated Risk-Taker and Part-time Daredevil.

Another low-cost option has been limited-benefit plans, also known as "mini-medical," that have little or no deductible. The premiums are low, perhaps \$800 to \$1,000 a year, but so are the annual benefits, typically capped at \$5,000 to \$25,000. Critics consider many limited plans a poor value, as they lack the catastrophic coverage needed to protect people from crippling medical bills.

Products with low-dollar caps or high deductibles can be lucrative for insurers, though. American Community, based outside Detroit in Livonia, Mich., estimates less than 70 cents of every premium dollar will go toward medical care on its new policies, though margins could be squeezed if too many people who buy the plans end up filing significant claims. Traditional group plans use up more premium dollars, but companies incur less cost by enrolling a large group at once.

Under American Community's plan, people who activate the \$5 million in extra coverage revert back to their original benefit cap of \$5,000 or less when their policy renews each year. This means a person diagnosed with cancer or facing lengthy care after an accident would have to pay a hefty sum every year to maintain catastrophic coverage; typical major-medical premiums, by contrast, rise modestly year-to-year, whether you are sick or not. And even under the \$5 million coverage, the company continues to impose certain exclusions and cost-sharing -- for instance, consumers must pay 40% of prescription-drug bills -- that could leave customers still paying significant medical bills out of their own pockets.

For those reasons, some industry experts question the value of this new policy for customers, and they express concern that many insurers are focused on attracting the young and healthy and shunning older, sicker people who most need help.

American Community says its marketing campaign tries to dissuade anyone other than the young and healthy from even seeking a policy, and its online application points out exclusions in coverage for antidepressants, maternity and other items. Television and radio ads depict young people going overboard -- buying expensive golf clubs and downing massive amounts of vitamins -- to underline the campaign's message. "What we are saying is, 'Don't buy more insurance than you need,'" Mr. Grandstaff says.

"We would never contend we are the solution for everyone," he says, adding that customers with the policy who do get sick would be better off longer term finding other coverage through a new job or a state-run insurance program.

"It's troubling when a company is saying, 'We don't want you hanging out in this product if you get sick,'" says Gary Claxton, a vice president at the Kaiser Family Foundation, a nonprofit health-policy research group in Menlo Park, Calif.

Mila Kofman, an associate professor at the Georgetown University Health Policy Institute in Washington, says the plan offers consumers "false hope," and she questions whether many young people can afford a \$10,000 activation premium. The company acknowledges the activation premiums are high, but says it's better than facing a \$500,000 hospital bill. She also questions whether American Community will aggressively raise premiums for policyholders who file expensive claims to force them into dropping coverage. The company says annual premium increases will be tied to general medical inflation and their own claims trend, not specific policyholder claims.

Others are pursuing similar ideas. Tennessee Gov. Phil Bredesen, a Democrat, launched a state-subsidized \$25,000 limited-benefit plan earlier this year for small businesses and their uninsured

workers, with monthly premiums of \$150 split evenly among employer, worker and the state. More than 5,000 workers are covered under the insurance. To counter criticism that the coverage is flimsy and to make it more attractive, Mr. Bredezen is exploring the addition of catastrophic coverage if federal money is made available.

In July, AmWINS Group Inc. a large insurance wholesaler based in Warwick, R.I., began marketing a limited-medical plan to employers that incorporates catastrophic coverage. The typical plan offers \$25,000 of immediate coverage and the catastrophic plan kicks in after \$50,000 of medical claims, leaving the worker to cover the amount in between. Sam Fleet, AmWINS Group Benefits president, says this design makes the monthly premium cheaper than a more traditional major-medical policy. And he contends it serves most people's needs, based on his own research showing 97% of people never exceed \$25,000 of annual claims, not counting prescription drugs.

Yet limited-benefit plans, even with additional bells and whistles, continue to carry a stigma among many employers and individual consumers. American Community tried to get Texas insurance regulators to permit it to market Coverage on Demand as a major-medical policy, given the potential \$5 million benefit. But Texas officials rejected that reasoning and forced the company to post a prominent disclaimer on all marketing materials that it is a "limited-benefit policy."

American Community is also experimenting with how best to sell this new type of policy. In Texas, its Precedent Insurance unit is encouraging young and healthy people to enroll online through lighthearted television, radio, print and Internet advertisements. The company also says its goal is to give about 80% of online applicants a yes or no within a matter of minutes rather than days or weeks.

Tia Goss Sawhney, chief strategy officer for Precedent, says consumers want health insurance to work more like other services, akin to buying a prepaid cellphone and purchasing additional minutes when needed. "We need to take ideas from other industries and apply them to **health insurance**."

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