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## Associations' Policies Under Scrutiny

### Millions buy health insurance through trade and other groups. But alliances and claims of misrepresentation raise concerns.

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Like millions of America's self-employed workers, Doug Christensen found himself on his own when it came to health insurance.

Christensen, who lost his corporate benefits when he started his own business making boat parts, thought his search was over when a representative of the nonprofit National Assn. for the Self-Employed offered a policy to cover him and his wife, Dana, a court reporter.

The association referred them to Mega Life & Health Insurance Co. — which, for about \$400 a month, would even include a special chemotherapy rider to help in case of a recurrence of the bone cancer Doug had battled nearly seven years before.

But just months after buying the policy, Doug's cancer did return. And when he died nearly two years later at 47, Dana was left owing most of the \$550,000 the two spent on medical treatment. Mega had paid less than 18% of the charges.

"As the bills piled up, Doug begged me to divorce him so I wouldn't be responsible for his debt," said Dana Christensen, 47, who lives on a boat in Marina del Rey. "I refused."

Instead, she sued, accusing the association and insurance company of "luring unsuspecting consumers into the purchase of a sham policy of health insurance," according to the lawsuit. In January she settled her case for \$1.7 million.

Experts and insurance regulators say such experiences are all too common as healthcare costs rise and more families turn to associations — including obscure trade groups, unions and chambers of commerce — for health insurance.

Although no firm figures are available, experts estimate that as many as 10 million people are covered by such policies. Offered with the promise of discounted group rates, they can be especially enticing to a small-business owner or self-employed worker.

Many associations offer legitimate policies, and legislation in the House of Representatives would expand their reach nationwide. But regulators worry that in some cases there are hidden ties between associations and insurers. Policyholders can also face unforeseen rate increases and policies with hidden clauses that leave consumers with big — and unexpected — bills.

"It's a very real problem throughout the nation," said California Insurance Commissioner John Garamendi, who two years ago launched an investigation into the association health insurance market, which is continuing. And

with rising health insurance costs, "we know it's going to get worse."

In some cases, authorities contend, the policies are simply fraudulent. Federal agents arrested three people in Los Angeles in May 2004, for example, on suspicion of participating in an insurance scam through Carson City, Nev.-based Employers Mutual. The company, which sold health insurance to 20,000 people nationwide, left \$30 million in unpaid claims when it was shut down by a judge in 2001.

Some of Employers Mutual's customers bought their insurance through associations, including 16 groups that were allegedly set up as fronts and also some legitimate groups such as the National Writers Union, which represents more than 6,000 freelance writers.

"It's become a prevalent way to sell phony insurance," said Mila Kofman, an assistant research professor at Georgetown University's Health Policy Institute who just finished a two-year study tracking the sale of health insurance by associations.

The U.S. Government Accountability Office reported last year that from 2000 to 2002, 144 unlicensed health plans, many of which were offered through associations, sold coverage to at least 15,000 employers, leaving \$252 million in unpaid claims.

Association-based coverage often doesn't fall under the same rules for conventional policies, and in some cases it is exempt from state rules, Kofman said.

"Once we started to look at how this type of insurance was regulated, it shocked me," Kofman said. "If anything goes wrong, in many states consumers have nowhere to turn."

In Connecticut, which does regulate association health plans, the Connecticut Business and Industry Assn. is an example of an association plan that works, Kofman said. The group offers small-business members and their workers 30 options from four different insurers.

"And they are all companies you've probably heard of," said Phil Vogel, a senior vice president of the business and industry group, who said the group insures 4,600 small businesses covering about 35,000 employees.

Despite the concerns, federal lawmakers are working to ease restrictions on associations to help small businesses reduce their healthcare costs. Legislation backed by some small-business groups and the Bush administration would allow association health plans to organize across state lines and be exempt from state laws and lawsuits filed in state courts.

Backers say the law would let small employers band together to control costs, but opponents such as Garamendi said groups could "fraudulently offer impossible bargains and they would be immune from our oversight."

The Christensens didn't know their policy wasn't all they thought it was until the bills started coming and hospitals began demanding cash before Doug could be treated.

Their insurance policy promised that 100% of hospital room and board would be covered, but at a maximum of \$200 a day, Dana Christensen contended in her suit — far below what is typical for a one-day hospital stay. And the chemotherapy rider allowed \$1,000 a day, although Doug's treatments — like those for many cancer patients — cost many times that amount.

"The best a policy like this can give you is a 15% discount on your medical expenses," said Los Angeles attorney Antony Stuart, who represented Dana. "I don't think they should be able to call this insurance."

Officials with the Washington-based National Assn. for the Self-Employed declined to discuss the case. But in court documents, Mega argued that Christensen's claims were without merit and that "any unpaid claims ... were

properly denied according to the plain language" of the policy.

Mega also said the case "improperly seeks to shift the responsibility for the healthcare decisions she ... made onto the insurer and the agent who sold the insurance."

In her suit, Christensen also accused the association of failing to look out for members, referring them to an insurance company with which it had a questionable relationship. The chairman of UICI, the parent company of Mega, is Ronald Jensen — father of Jeffrey Jensen, who runs a company that administers the self-employed group.

"UICI has not, does not and will not control [the association]; they are completely separate," said Glenn Reed, general counsel for UICI.

But Christensen wishes she and her husband had never heard of the insurer or the association. She plans to meet with state consumer activists to warn others about the risks of association-sponsored health coverage.

"They will sit at your dining room table and tell you one thing," Christensen said, "but then sell you something else."

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