The Basics of Portability and Conversion

White Paper

INTRODUCTION

Portability and Conversion refer to the continuation options provided to an individual when he/she will lose or change group coverage due to a qualifying event. Qualifying events may include termination of employment by a covered individual or his/her spouse which forces him/her to separate from his/her group coverage. These insurance options allow an individual to keep his/her insurance even after leaving the group.

This paper discusses the step-by-step processes of how port and conversion are conducted, common pitfalls that threaten carriers, and solutions to these problems that ensure a seamless transition for the end user. Success with this aspect of plan administration allows carriers and plan sponsors to recoup revenue that otherwise would be lost.

WHAT IS PORTABILITY AND CONVERSION?

Definitions

Portability, usually discussed as "Port" or "Porting," generally refers to a situation where a person who lost coverage in a group plan due to a qualifying event is provided the right to "port" or continue to keep the coverage offered by the prior group plan. This is most often seen with employer-based group life insurance, but can also apply to other types of health insurance products as well as non-employer groups such as association membership groups. In general, "porting" coverage will mean an individual is continuing his/her coverage under a term life plan (most typically) and generally at a slightly higher rate than the group plan that he/she was previously enrolled in.

Glossary of Port and Conversion Terms

Carrier: A commercial insurer that underwrites or administers programs that pay for health, life or other insurance services. Synonymous with insurance company.

Conversion Privilege: The right of an individual to convert a group health or life insurance policy to an individual policy should the individual's coverage terminate or reduce in certain specified circumstances. Under such a provision, a physical exam or other evidence of insurability is usually not required.

Portability Right: Allows an eligible member of a group plan, who is losing group coverage due to a qualifying event, to continue coverage provided, although separate from the group.

Notice of Continuation of Coverage (NCC): Initial notice sent out to separating group members that notifies that individual that, if eligible, they may be able to continue their coverage. Provides that individual with the port or conversion options available to them.

Plan Sponsor: An employer, member group, association, etc. that offers an insurance plan to its group members. The plan sponsor is not the insurance company that produces the product or plan, it is the organization that offers the plan or product to its members. Plan Sponsors own the policy that is offered to its members. Plan sponsors can administer their own plans, however, often they outsource that work to a designated plan administrator like a TPA.

Source: Selman & Company. (2017, July). SelmanCo Training Glossary of Terms. Unpublished Internal Document.

On the other hand, Conversion refers to a situation where a person who lost coverage in a group plan is provided the right to convert that group plan into an individually-owned plan. Converted plans usually carry much higher rates than the prior group coverage.

Neither option requires a medical exam to be eligible for continuation of coverage, and often dependents and spouses are afforded the option to port or convert their coverage as well. Port and conversion options allow individuals who may now be uninsurable to maintain coverage they had under a group plan, which is often seen as an attractive feature to the individual who is losing group coverage. Portability may not be available with all group life insurance plans.

HIPAA Origins

These two continuation of coverage options arose from the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and seek to provide rights and protections for individuals and beneficiaries participating in group health plans. In the circumstance of a qualifying work/life event, HIPAA provides the right to "port" or continue group coverage even after leaving the group or convert that group coverage into an individual plan.[1]

While HIPAA is a federal law, insurance is still regulated at the state level. Therefore, while there is some uniformity, individual state-by-state regulations mean that the rights and processes for portability and conversion are not the same everywhere or for every product.[2] This makes it difficult for carriers and plan sponsors to make sure they fully comply with all state and federal regulations.

THE PORT AND CONVERSION PROCESS

Notice of Continuation of Coverage

The processes for porting or converting group coverage are similar. While some steps differ, they both involve time-sensitive deadlines that must be met to comply with state and federal regulations. The first step in either process is to send out a Notice of Continuation of Coverage (NCC). In most cases these notices are "request for information" forms that are sent directly to group members from the plan sponsor because part of the form must be filled out by the plan sponsor. However, there are circumstances where a TPA (third-party administrator) may send out notices directly using information provided by the plan sponsor or when a plan sponsor may provide applications directly to group members to complete their part of the form. In many situations, providing these notifications is required by law and must be completed within a specific time limit relative to the date group coverage ends for the separating employee or group member.

Start the Clock

In either case, the second step in the process is for the group member to fill out the NCC form and send it back to either the underwriting carrier or TPA depending on how the plan is administered. This is another step that must adhere to strict timelines, which can vary state by state, and, if missed, may make the group member ineligible for continuation of coverage.

After the NCC is returned by the group member, a written quote and application are provided back to the insured. During this step the plan administrator is responsible for checking the eligibility of the insured and making sure that the appropriate individuals are offered the correct continuation options.

Process Applications

If the individual is interested in continuing coverage, he/she returns the completed application with the first payment for the ported or converted policy, and the plan administrator can begin the processing of the enrollment application. Again, there are sensitive deadlines that must be met by the insured to make sure he/she remains eligible. These deadlines vary sometimes, but are usually related to the date when the quote for coverage or application was received by the insured. If eligibility is confirmed and the applications are filled out correctly, the insured will be provided a certificate of insurance with the new plan details. However, there are often missing data or eligibility issues that can delay this final step. Accuracy matters here as all parties must achieve resolution within certain compliance deadlines.

There are many instances in the processes that vary from plan to plan, group by group, or state by state, which can complicate things and create potential problems for plan sponsors, administrators, and insureds alike. Further compounding these complications are all the time-sensitive deadlines that must be met by both the plan sponsors and the insureds for the coverage to be continued. Any complications create more work for the plan sponsor, hurt customer satisfaction, and could end with lost premium from an individual who does not extend coverage. Next, we'll examine possible issues that arise in the process and show how they impact the bottom line for sponsors, carriers, and TPAs.

COMMON PITFALLS AND THEIR BUSINESS IMPACT

Missing Deadlines

Missing deadlines are the most common type of issue that arises throughout port and conversion processes.[3] This can come in the form of plan sponsors missing deadlines to provide initial continuation notices and/or applications or insureds missing deadlines on returning initial forms and applications. Neither instance is good for business: insureds missing deadlines can increase the workload for the plan administrator and sponsor in the form of customer service calls, appeals, or denials. Even worse, missing notification deadlines can result in hefty legal fines for a sponsor, carrier, or administrator. According to *Benefit News,* the $750,000 that a federal court ordered an employer to pay for breaching its duty in administering its group life insurance plan, "serves as a good reminder to employers that they must understand and properly administer conversion procedures."[4]

Regulations

However, the most persistent problem that missing deadlines creates for carriers is the total loss of premium from an individual who could have continued coverage—yet didn't—because of timeliness problems. Part of the problem of missed deadlines can be traced back to a root cause: there are countless regulations for different states and even different insurance products as well as group-specific regulations and service level agreements.

The staggering amount of differences in regulations make it incredibly difficult for a plan sponsor or administrator to remain compliant and efficient throughout the process. It takes vast experience, expertise, and knowledge of port and conversion to adhere to all the legal regulations and service level agreements that apply to the business.

Billing

Another problem prevalent in the port and conversion process is related to the changes required to switch from group to individual billing when a person ports or converts coverage. Systems challenges often arise in the process of moving individuals off the group bill, billing them separately, and keeping track of all the changes accordingly.[5] Improper billing can be detrimental in two ways: first, by increasing workload to correct errors or track down missing payments, and secondly, by potentially losing premiums altogether from individuals who may "fall through the cracks" of the initial billing change and end up with terminated policies due to unpaid premiums.

SOLUTIONS

Automated File Feeds

For an insurance carrier, it can tax resources to keep up with all front-end notifications for larger groups with many insureds. Different deadlines for states, groups, and products create a complex workflow that can be difficult to monitor. Ultimately, getting Notices of Continuation of Coverage to the right individuals at the right time can serve to help retain premiums for the carrier that would otherwise be lost if insureds miss continuation deadlines. One way to mitigate this issue is to implement an automated File Feed System that generates and sends out Notice of Continuation of Coverage (NCC) letters to insureds who are losing coverage. However, with multiple groups and products, these systems need to be flexible and intelligent; they need to send out the correct letters to the correct people at the correct time while maintaining compliance with a multitude of regulations.

TPA Managing Requirement

Nearly all large insurance carriers employ compliance coordinators, and a wealth of expertise and knowledge is required to efficiently navigate the regulatory environment of the insurance industry. One solution to reduce compliance problems is to partner with a TPA that can correctly and efficiently manage any compliance directives given by the underwriting carrier. As such, when looking to outsource the administration of insurance products, partnering with a reputable and experienced TPA is critical to minimize compliance-related issues.

Flexible Billing Systems

Finally, there are potential problems with handling changes between group and individual premium billing. First, there is the general issue of keeping records straight when an individual leaves a group bill and switches to an individual direct bill. Second, rates change when an individual ports or converts his/her group coverage. And lastly, the billing cycle may change because of ported or converted coverage. Billing is how carriers get paid. Therefore, this may be the most critical part of the port and conversion process for a carrier. It can require dedicated labor resources and flexible billing systems that are often out of the scope for large insurance carriers' workflows. Because of the specificity and flexibility required to keep billing on track, it is often most efficient for carriers to rely on an administrator that has built these types of systems organically and has extensive experience with all types of billing and collection needs.

CONCLUSION

Port and conversion processes present a lot of moving parts for an insurance carrier to coordinate. However, they also present a carrier with an opportunity to retain premium that could otherwise be lost. Thus, portability and conversion business is an important revenue retention tool for an insurance carrier—if done correctly. If not handled correctly, the port and conversion process can lead to lost premiums, increased operational costs, and potential legal ramifications. Often, insurance carriers look to outsource this aspect of their business to a knowledgeable and experienced TPA to deal with the intricacies involved in the process.

A reputable TPA can handle everything from initial notification, application enrollment, and premium billing to back-end customer service while remaining compliant with legal regulations and service level agreements. For over 30 years, SelmanCo has administered life and health insurance products to members of associations and affinity groups, customers of financial institutions, and employees through their employers. Our experience, knowledge, and expertise make us a trusted partner to manage the portability and conversion business of the nation's leading carriers.

[Request a Proposal]

[1] *Portability of Health Coverage*. (n.d.). U.S. Department of Labor. https://www.dol.gov/general/topic/health-plans/portability
[2] Miller, L. S. (2011). *A benefits professional's checklist for mothering terminated workers*. Employee Benefit News, 25(4), 12.
[3] Koco, L. (2010). *Next Term Life Challenge: Conversion Options*. National Underwriter / Life & Health Financial Services, 114(8), 14-25.
[4] Clark, D. J., & Howard, E. (2017). *Employers must disclose group life conversion*. Ebn.Benefitsnews.Com, 1.
[5] Selman & Company. (2017, April). *Outsourced Administration of Employer Sponsored Insurance Portability & Conversion.* Unpublished internal document.