



NEWS RELEASE

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HEALTH INSURANCE SCAMS LEAVE THOUSANDS WITH LARGE MEDICAL DEBTS AND NO COVERAGE

Report Calls for Stronger Criminal Penalties and More Consumer Education

New York City, August 28, 2003—A recent unprecedented increase in unauthorized and illegal health insurance plans, spurred by rising health care costs and increasing numbers of uninsured, has left approximately 100,000 people with millions of dollars in medical debts and no coverage, according to a new report from The Commonwealth Fund.

Companies selling phony insurance collect premiums from enrollees but fail to pay health care providers. With no safety net, such as a state guaranty fund, to pay medical claims when these plans become insolvent, victims are often left with huge medical debts.

“These scams prey on people who are seeking access to affordable health insurance coverage,” said Karen Davis, president of The Commonwealth Fund. “Not only do we need better methods to identify and shut down illegal operations, we need to expand access to affordable coverage and reduce the demand that phony plans are exploiting.”

Every state has laws making it illegal to operate an insurance company without a license. Unlicensed plans ignore state and federal insurance regulations, including solvency standards that ensure a company will be able to pay the claims of enrolled individuals.

In their report, *Health Insurance Scams: How Government Is Responding and What Further Steps Are Needed*, Mila Kofman, Kevin Lucia, and Eliza Bangit of Georgetown University’s Health Policy Institute note that health insurance scams have been rising over the past two years as insurance premiums have increased at double-digit rates.

Among their findings:

- Since 2001, four unauthorized plans have left nearly 100,000 people with approximately \$85 million in unpaid medical debts and without health coverage.

- While no state is immune to the problem of unauthorized plans, some have been especially hard hit. In Florida nearly 30,000 victims of scams have been left uninsured and burdened with unpaid medical bills. The Texas Insurance Department has in the last two years shut down 129 unauthorized insurance companies, affiliates, operators, and their agents, whose illegal actions affected 20,000 Texans.

Kofman and colleagues recommend several steps to prevent the proliferation of phony health plans:

- Alert small businesses and consumers about the existence of phony health plans through well-funded state and federal consumer education campaigns.
- Investigate consumer complaints and work with insurance agents to detect unauthorized health plans early on.
- Institute mandatory training for insurance agents about phony health plans.
- Ensure that state and federal investigators share information about open cases and coordinate their investigations.
- Clarify the federal ERISA statute, which governs regulation of employee benefits, to help states shut down phony operators that hide behind ERISA exemptions to insurance laws.
- Give the Department of Labor greater authority to shut down unauthorized plans and seize assets to pay medical claims and protect victims.
- Strengthen state and federal criminal penalties against perpetrators of health insurance scams.
- Expand access to health insurance coverage to reduce the need for affordable insurance that allows phony plans to thrive.

"Being victimized by a phony health insurance scam is worse than being uninsured. At least when you are uninsured, you have no expectation of someone else paying your medical bills," said Kofman, assistant research professor at Georgetown. "Here, not only are you stuck with huge medical bills, you've also been defrauded thousands of dollars in premiums."

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