PRIVATE HEALTH INSURANCE

Unauthorized or Bogus Entities Have Exploited Employers and Individuals Seeking Affordable Coverage

Why GAO Did This Study

As health insurance premiums have risen at double-digit rates in recent years, employers and individuals who have sought to purchase more affordable coverage have fallen prey to certain entities that may offer attractively priced premiums but do not fulfill the expectations of those buying health insurance. These unauthorized entities—also known as bogus entities or scams—may not meet the financial and benefit requirements typically associated with health insurance products or other arrangements that are authorized, licensed, and regulated by the states.

This testimony is based on GAO’s recent report Private Health Insurance: Employers and Individuals Are Vulnerable to Unauthorized or Bogus Entities Selling Coverage, GAO-04-312 (Feb. 27, 2004). In this testimony, GAO was asked to identify the number of entities that operated from 2000 through 2002 and the number of employers and policyholders affected, approaches and characteristics of these entities’ operations, and the actions federal and state governments took against these entities. GAO analyzed information obtained from the Department of Labor (DOL) and from a survey of insurance departments in the states; interviewed officials at DOL and at insurance departments in Colorado, Florida, Georgia, and Texas; and examined the operations of one of the largest entities—Employers Mutual, LLC.


To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118 or Robert J. Cramer at (202) 512-7455.

What GAO Found

DOL and the states identified 144 unique entities not authorized to sell health benefits coverage from 2000 through 2002. Although every state was affected by at least 5 of these entities, these entities were most often identified in southern states. These unauthorized entities covered at least 15,000 employers and more than 200,000 policyholders. The entities also left at least $252 million in unpaid medical claims, only about 21 percent of which had been recovered at the time of GAO’s 2003 survey.

In most cases, the operators characterized their entities as one of several types to give the appearance of being exempt from state regulation, but states found that they actually were subject to state regulation. Other characteristics that were common among at least some of these entities included:

- adopting names that were familiar to consumers or similar to legitimate firms,
- marketing their products through licensed agents and with other health care or administrative service companies,
- setting premiums below market rates,
- marketing to employers or individuals that were particularly likely to be seeking affordable insurance alternatives, and
- paying initial claims while collecting additional premiums before ceasing claims payments.

Employers Mutual adopted many of these characteristics as it collected approximately $16 million in premiums from over 22,000 people in 2001, leaving more than $24 million in medical claims unpaid.

Both federal and state governments—individually and collaboratively—took action against these entities and sought to increase public awareness. For example, state insurance departments issued cease and desist orders against 41 of the 144 entities, and DOL obtained court orders against three large entities from 2000 through 2002. States also took other actions against some entities’ operators and agents that received commissions for marketing these entities. Further state or federal actions remain possible as many investigations remain ongoing. States and DOL primarily focused their prevention efforts on improving public awareness, including the need for consumers, employers, and insurance agents to verify an entity’s legitimacy with insurance departments.