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NEWS RELEASE

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Colorado and 28 Other State Insurance Regulators Levy $20 Million Fine Against HealthMarkets and Subsidiary MEGA Life and Health

Colorado is one of 29 U.S. states who signed a $20 million regulatory settlement agreement between the states and HealthMarkets, Inc., and its affiliated companies, MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company and Chesapeake Life Insurance Company. Colorado's share of the settlement, almost $650,000, will be added to Colorado's General Fund.

The agreement was facilitated through the National Association of Insurance Commissioners (NAIC), a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. By coordinating efforts through the NAIC, states were better able to expedite a collective regulatory response in order to protect consumers on a nationwide basis.

The regulatory settlement follows a three-year multi-state exam that found multiple problems involving consumer disclosure, oversight and training of agents, claims handling and complaint-handling practices. HealthMarkets faces up to $10 million in additional penalties if it fails to meet performance standards outlined in the settlement.

"Unfortunately, this is not the first time Colorado has taken action against MEGA Life and Health Insurance Company," said Marcy Morrison, Colorado's Commissioner of Insurance. "In 2002, the Colorado Division of Insurance filed stipulations against this company for violation of Colorado insurance laws, which included two separate $75,000 penalties and required restitution to consumers who were harmed by HealthMarkets' business practices. Our continued monitoring and action against this company should send a firm message to all companies that we take consumer protection very seriously."

"This is a good multi-state settlement that addresses some serious violations of our consumer protection laws," said Montana State Auditor John Morrison, who chairs the NAIC Market Regulation and Consumer Affairs Committee. The multi-state examination was initiated by Washington State Insurance Commissioner Mike Kreidler and Alaska Insurance Director Linda Hall in 2005 and coordinated through the NAIC's Market Analysis Working Group.

According to the terms of the settlement, the companies must implement an outreach program that includes the following:

- Sending a notice to all policyholders with policies issued prior to Aug. 1, 2005, that includes a toll-free number, mailing address and e-mail address where policyholders can ask questions about their coverage. The notice also must include a Web site address for each company.
- Ensuring each method of communication is staffed by someone able to provide detailed information about the policyholder's specific plan.
- Establishing a Web site with a "frequently asked questions" section, general coverage descriptions, a listing of contact information and information on how to appeal a claim or file a grievance.

In addition, the companies must report progress twice a year through Dec. 31, 2009, on performance standards targeted for improvement. Led by Washington, the other states involved in overseeing the insurer's ongoing activities are Alaska, California and Texas.

There are 13 areas in need of improvement, including:

- Agent training and oversight
- Claims handling
- Identification of company
- Transparency of the companies' relationship with associations
- Complaints and grievances
- Cancellation, nonrenewal and discontinuance notices
- Establishing and maintaining a compliance program

The multi-state examination was initiated as a collaborative action under a single umbrella through the NAIC because the companies were the targets of separate investigations and consumer lawsuits in several individual states. Although violations were documented and fines levied in individual state exams, the companies' actions and complaint histories had not significantly improved at the time the multi-state examination was initiated.

The examination covers a five-year period ending Dec. 31, 2005, and stemmed from the volume, scope and nature of complaints made against the companies by consumers in many states.

According to the findings, the companies targeted their sales to self-employed individuals and sold the health plans through associations. MEGA agents sold policies through the National Association for the Self-Employed (NASE), and Americans for Financial Security (AFS). Mid-West agents sold plans through the Alliance for Affordable Services (AAS). In many instances, the agent or the company did not adequately explain the benefits covered by the health plan.

The $20 million penalty will be divided among the participating jurisdictions based on the companies' premium volume.

To date, jurisdictions that have adopted the settlement agreement include: Alabama, Alaska, Arkansas, Arizona, California, Colorado, Connecticut, District of Columbia, Florida, Hawaii, Idaho, Indiana, Kansas, Louisiana, Minnesota, Montana, North Carolina, Nebraska, New Jersey, Oklahoma, South Carolina, South Dakota, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin and Wyoming. Additional states may join the settlement before an Aug. 18, 2008, deadline.

DORA is dedicated to preserving the integrity of the marketplace and is committed to promoting a fair and competitive business environment in Colorado. Consumer protection is our mission.

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