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Understanding Short-Term Limited Duration Health Insurance

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Short-term, limited duration (STLD) health insurance has long been offered to individuals through the non-group market and through associations. The product was designed for people who experience a temporary gap in health coverage.[1] Unlike other products that are considered "limited benefit" or "excepted benefit" policies – such as cancer-only policies or hospital indemnity policies that pay a fixed dollar benefit per inpatient stay – short-term policies are generally considered to be "major medical" coverage; however short-term policies are distinguished from other comprehensive major medical policies because they only provide coverage for a limited term, typically less than 365 days. Short-term policies are also characterized by other significant limitations.

Late last year, Congress repealed the individual mandate penalty under the Affordable Care Act (ACA), the requirement that individuals have minimum essential health coverage or face a tax penalty. Starting in 2019, the tax penalty will be reduced to $0. It is possible this change could lead more consumers to consider purchasing short-term policies. In addition, late last year, President Trump issued an executive order directing the Secretary of Health and Human Services to take steps to expand the availability of short-term health insurance policies. This brief provides background information on short-term policies and how they differ from ACA-compliant health plans.

Background

As the name suggests, short-term health insurance policies are not renewable. Whereas federal law since 1996[2] has required all other individual health insurance to be guaranteed renewable at the policyholder's option, coverage under a short-term policy terminates at the end of the contract term. To continue coverage beyond that date requires applying for a new policy. As a result, an individual who buys a short-term policy and then becomes seriously ill will not be able to renew coverage when the policy ends.[3]

The Affordable Care Act (ACA) exempted short-term policies from market rules that apply to most major medical health insurance policies sold to individuals in the non-group market: rules that prohibit medical underwriting, pre-existing condition exclusions, and lifetime and annual limits, and that require minimum coverage standards. By contrast, short term policies:

- are often medically underwritten – applicants with health conditions can be turned down or charged higher premiums, without limit, based on health status, gender, age, and other factors;

- exclude coverage for pre-existing conditions – policyholders who get sick may be investigated by the insurer to determine whether the newly-diagnosed condition could be considered pre-existing and so excluded from coverage;[4]
- do not have to cover essential health benefits – typical short-term policies do not cover maternity care, prescription drugs, mental health care, preventive care, and other essential benefits, and may limit coverage in other ways;
- can impose lifetime and annual limits – for example, many policies cap covered benefits at $1 million or less; (Table 1)
- are not subject to cost sharing limits – some short term policies, for example, may require cost sharing in excess of $20,000 per person per policy period, compared to the ACA-required annual cap on cost sharing of $7,350 in 2018 (Table 1); and
- are not subject to other ACA market requirements – such as rate review or minimum medical loss ratios; for example, while ACA compliant non-group policies are required to pay out at least 80% of premium revenue for claims and related expenses, the average loss ratio for individual market short-term medical policies in 2016 was 67%; while for the top two insurers, who together sold 80% of all short-term policies in this market, the average loss ratio was 50%.[5]

How Short-Term Policies Compare to Minimum Essential Coverage

Due to these limitations in coverage, short-term policies, not surprisingly, cost less than ACA-compliant major medical health insurance policies. A review of short-term policies offered on two websites, ehealthinsurance.com and agilehealth.com, shows it is not uncommon to find the cheapest short-term policy priced at 20% or less of the premium for the lowest cost ACA-compliant bronze plan in an area. (Table 1)

Because of their coverage limitations, short-term policies also are not considered minimum essential coverage (MEC) for purposes of satisfying the ACA individual mandate. Individuals who are covered only under short-term policies for a year and who do not otherwise qualify for exemptions from the mandate could face a tax penalty in 2018 – the greater of $695 or 2.5% of income above the tax filing threshold. However, even taking the tax penalty into account, short-term policies can be cheaper for individuals healthy enough to qualify to purchase them. Once ACA market rules took effect in 2014, some short-term policy marketing materials specifically highlighted this differential.[6] Once the individual mandate penalty drops to $0 in 2019, the cost differential between short-term policies and ACA-compliant policies will be even greater.

The number of short-term policies in effect today is not known. Most such policies appear to be sold through associations, though a small number are sold directly through the non-group market. News reports suggest short-term policy sales may have grown since ACA market reforms were implemented. One industry survey found that more purchasers (51%) cited lower price, vs. the need for temporary coverage (39%) as the primary reason for buying short-term policies.[7]

Concerned that short-term policies were becoming an alternative to ACA compliant major medical policies, and not just a bridge for short coverage gaps, the Obama Administration published new rules for such policies in 2016. The final regulation defined short-term policies as those with an expiration date specified in the contract, taking into account any extension that may be elected by the policyholder with or without the issuer's consent, which is less than 3 months after the original effective date of the contract. This new maximum policy term was consistent with the ACA individual mandate exemption for short periods (defined as less than 3 months) of uninsurance. The final regulation also required short-term policies to include prominent consumer notices that coverage does not constitute qualifying health coverage (MEC) for purposes of satisfying the individual mandate. These rules took effect for short-term policies sold on or after January 1, 2017.

Since the 2016 rule took effect, short-term policy terms appear to now be limited to less than 3 months; however, some issuers offer "four-packs" of short-term policies with sequential effective dates scheduled 3-months apart, enabling consumers to continue to buy up to a year of short-term coverage at a time.[8]

Table 1: ACA Marketplace Plans vs. Short-Term Health Insurance Plans in Selected Cities, 40-year-old male

City	Monthly Premium for Lowest Cost Bronze Marketplace Plan (unsubsidized)	Range of Monthly Premiums for Short-Term Plans	Range of Out-of-Pocket Cost Sharing Maximums for Short-Term Plans	Range of Policy Coverage Caps for Short-Term Plans
Phoenix, AZ	$405	$36 - $437	$500 – $30,000	$250,000 – $2 million
Los Angeles, CA	$264	$141-$566	$2,500 – $10,000	$750, 000 – $2 million
Denver, CO	$338	$35-$262	$2,000 – $20,000	$250,000 – $1.5 million
Miami, FL	$297	$46 - $983	$250 – $22,500	$250,000 – $2 million
Atlanta, GA	$371	$47 - $503	$1,000 – $22,500	$250,000 – $2 million
Chicago, IL	$305	$55 - $573	$250 – $22,500	$250,000 – $2 million
St. Louis, MO	$281	$38 - $423	$1,000 – $20,000	$250,000 – $2 million
Columbus, OH	$289	$25 - $305	$250 - $20,000	$250,000 – $2 million
Houston, TX	$270	$55 - $644	$250 - $22,500	$250,000 – $2 million
Virginia Beach, VA	$479	$44 - $583	$250 - $20,000	$250,000 – $2 million

Source: KFF Subsidy Calculator for ACA compliant plan premiums; ehealthinsurance.com and agilehealth.com for short-term policy premiums and features.

Monthly premiums for Marketplace plans do not reflect discounts for premium tax credits. Monthly premiums for short-term plans reflect prices posted online; these rates are not guaranteed and may be adjusted after medical underwriting. Short-term monthly premiums also do not all reflect association membership fees, generally required to purchase

Out-of-pocket cost sharing maximum for short-term plans applies to 3-month term of coverage; by contrast, out-of-pocket cost sharing maximum max for an ACA compliant plan in 2018 is $7,350 for the calendar year

Discussion

Short-term health insurance policies offer lower monthly premiums compared to ACA-compliant plans because short-term policies offer less insurance protection. Medically underwritten policies can only be purchased by people when they are healthy. Individuals who buy short-term policies and then develop health conditions will lose coverage when the contract ends. Short-term policies typically do not cover essential benefits, such as prescription drugs, and often apply higher deductibles and dollar caps on coverage that are no longer allowed under ACA-compliant individual market and group health plans. As a result, people who buy short-term policies today in order to reduce their monthly premiums take a risk that, if they do need medical care, they could be left with uncovered bills and/or find themselves "uninsurable" under such plans in the future (though they would be able to buy ACA-compliant policies at the next open enrollment period).

To the extent that healthy individuals opt for cheaper short-term policies instead of ACA-compliant plans, such adverse selection contributes to instability in the reformed non-group market and raises the cost of coverage for people who have health conditions. Income-related premium subsidies in the non-group market offset the cost differential, and so help correct for adverse selection to a significant extent. Lower-income people would be protected by the premium subsidies, but middle-income people not eligible for subsidies who buy ACA-compliant plans would likely see premium increases. So far, the individual mandate penalty also has helped offset the cost differential between short-term plans and ACA-compliant plans, though this will disappear starting in 2019. Whether administration efforts to promote the sale of short-term policies will add further instability to the ACA-reformed market remains to be seen.

Endnotes

[1] For example, a newly hired employee who must complete a probationary period before becoming eligible for group health benefits might seek coverage through a short term policy during the probationary period.

[2] The Health Insurance Portability and Accountability Act of 1996 (HIPAA).

[3] See, for example, *Time Magazine,* "The Health Care Crisis Hits Home," March 5, 2009, available at http://www.pnhp.org/news/2009/march/the_healthcare_cris.php

[4] Short-term policies commonly exclude coverage for pre-existing conditions, often defined as conditions (1) for which medical advice, diagnosis, care or treatment was recommended or received preceding the date the covered person became insured under the policy, or (2) that was not diagnosed but manifested symptoms that would have caused an ordinarily prudent layperson to seek medical advice, diagnosis, care or treatment.

[5] National Association of Insurance Commissioners, Accident and Health Policy Experience Report for 2016, available at http://www.naic.org/prod_serv/AHP-LR-17.pdf

[6] See, for example, https://www.agilehealthinsurance.com/health-insurance-learning-center/term-insurance-costs-less-for-26-year-olds-with-penalty-and-subsidies

[7] *Wall Street Journal*, "Sales of Short-Term Policies Surge," April 10, 2016. Available at https://www.wsj.com/articles/sales-of-short-term-health-policies-surge-1460328539

[8] See, for example, brochure for one currently-marketed short-term policy explaining the length of coverage, "Current federal regulations limit short term medical plans to 90 days under one certificate of insurance. However, [we offer] you the convenient opportunity to apply for up to four back-to-back certificates at one time. You do not have to qualify again for the three additional certificates, and you can cancel at any time." https://www.pivothealth.com/_assets/pdf/Pivot_Health-Short_term_medical_brochure-20161027.pdf

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