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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, including the types of services covered, often with a dollar maximum.

Late last year, Congress repealed the Affordable Care Act's individual mandate penalty, the requirement that individuals have minimum essential health coverage or face a tax penalty.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, and a proposed regulation to increase the maximum coverage term under such policies was published in February. 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 (Table 2);
- can impose lifetime and annual limits – for example, many policies cap covered benefits at $2 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 large online private insurance marketplaces, eHealth and Agile Health Insurance, 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).

There are 24 distinct short-term products on eHealth and/or Agile Health Insurance in 45 states and the District of Columbia, ranging from only one product in New Mexico to 22 in West Virginia. Each product has distinct benefits and exclusions, and is typically offered with varying levels of patient cost-sharing. Due primarily to more comprehensive state laws regulating short-term plans, in five states insurers do not offer any short-term plans on eHealth or Agile Health Insurance.[6]

Of the short-term products offered on eHealth and/or Agile Health Insurance across all states, 43% do not cover mental health services, 62% do not cover services for substance abuse treatment (both alcohol and other drugs), 71% do not cover outpatient prescription drugs, and no plans cover maternity care. In seven states, none of these four benefit categories are covered in the short-term policies offered. The availability of these select benefits is shown in Table 2 (including state variations as specified in plan brochures).

Even when short-term plans do cover mental health, substance abuse, and prescription drugs, limitations and exclusions almost always apply that would not be permitted under ACA-compliant plans. For example, six of the seven products that offer prescription drug coverage apply a dollar maximum cap on the benefit, such as $3,000. With respect to products offering some coverage for mental health and substance abuse treatment, all impose significant limits on the benefits. Examples of coverage limitations for these benefit categories include a $50 maximum for outpatient visits, a 31-day maximum for inpatient care, and/or a policy term maximum of $3,000. Some states have enacted stronger parity regulations for mental health and substance abuse services that extend to short-term policies.[7] All of the policies reviewed exclude coverage for pre-existing conditions, although one issuer provides a $500 allowance for benefits related to a pre-existing condition, and another issuer will reportedly launch a product in some states that provides a benefit for certain pre-existing conditions up to $25,000.[8,9]

Short-term policies 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.[10] 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 cited lower price (51%) than the need for temporary coverage (39%) as the primary reason for buying short-term policies.[11]

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.[12]

In February of this year, the Trump Administration published a proposed regulation amending the definition of short-term policies to include those offering a maximum coverage period of less than 12 months. The proposed rule also sought public comment on other regulation or guidance that could be issued to ease the sale of such policies.

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

	Premiums and Coverage Caps			
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: Kaiser Family Foundation Subsidy Calculator for ACA-compliant plan premiums; eHealth and Agile Health Insurance for short-term policy premiums and features.

NOTES: 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 often required for purchase.

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

Table 2: Percentage of Short-Term Health Insurance Products Covering Select Benefits						
State	Major City	Number of Short-Term Products Available[1]	Mental Health	Substance Abuse[2]	Prescription Drugs[3]	Maternity
Alabama	Birmingham	17	71%	41%	24%	0%
Alaska	Anchorage	3	0%	0%	0%	0%
Arizona	Phoenix	21	57%	33%	33%	0%
Arkansas	Little Rock	21	57%	33%	33%	0%
California	Los Angeles	2	0%	0%	0%	0%
Colorado	Denver	7	57%	57%	0%	0%
Connecticut	Hartford	10	100%	100%	60%	0%
Delaware	Wilmington	21	81%	57%	33%	0%
DC	Washington	11	82%	36%	9%	0%
Florida	Miami	21	57%	33%	33%	0%
Georgia	Atlanta	19	53%	37%	37%	0%
Hawaii	Honolulu	3	0%	0%	0%	0%
Idaho	Boise	8	50%	25%	0%	0%
Illinois	Chicago	21	57%	33%	33%	0%
Indiana	Indianapolis	19	53%	26%	37%	0%
Iowa	Cedar Rapids	21	57%	33%	33%	0%
Kansas	Wichita	11	27%	27%	45%	0%
Kentucky	Louisville	19	53%	26%	37%	0%
Louisiana	New Orleans	18	50%	39%	33%	0%
Maine	Portland	5	20%	20%	0%	0%
Maryland	Baltimore	4	0%	0%	0%	0%
Massachusetts	Boston	0	NA	NA	NA	NA
Michigan	Detroit	16	44%	25%	44%	0%
Minnesota	Minneapolis	6	67%	67%	0%	0%

Mississippi	Jackson	21	57%	33%	33%	0%
Missouri	St. Louis	12	50%	50%	25%	0%
Montana	Billings	4	0%	0%	0%	0%
Nebraska	Omaha	20	55%	30%	35%	0%
Nevada	Las Vegas	18	50%	39%	33%	0%
New Hampshire	Manchester	2	100%	100%	0%	0%
New Jersey	Newark	0	NA	NA	NA	NA
New Mexico	Albuquerque	1	0%	0%	0%	0%
New York	New York City	0	NA	NA	NA	NA
North Carolina	Charlotte	16	44%	44%	38%	0%
North Dakota	Fargo	6	83%	50%	0%	0%
Ohio	Cleveland	20	55%	30%	30%	0%
Oklahoma	Oklahoma City	21	57%	33%	33%	0%
Oregon	Portland	13	62%	62%	23%	0%
Pennsylvania	Philadelphia	21	57%	33%	33%	0%
Rhode Island	Providence	0	NA	NA	NA	NA
South Carolina	Columbia	17	47%	35%	29%	0%
South Dakota	Sioux Falls	8	50%	50%	0%	0%
Tennessee	Nashville	17	71%	41%	29%	0%
Texas	Houston	18	72%	44%	28%	0%
Utah	Salt Lake City	3	0%	0%	0%	0%
Vermont	Burlington	0	NA	NA	NA	NA
Virginia	Richmond	15	73%	40%	20%	0%
Washington	Seattle	2	100%	100%	0%	0%
West Virginia	Huntington	22	59%	36%	32%	0%
Wisconsin	Milwaukee	18	72%	56%	39%	0%

Wyoming	Cheyenne	17	71%	41%	24%	0%
US Averages			**57%**	**38%**	**29%**	**0%**

SOURCE: Kaiser Family Foundation analysis of short-term health insurance plans on eHealth and Agile Health Insurance websites, April 2018.

NOTES: Information is based on the plan brochures and may not reflect all plan variations required by state law. Plans that offer coverage for these four benefit categories often apply limits and exclusions on these services which are not reflected in this table. Five states (MA, NJ, NY, RI, and VT) do not have short-term plan offerings on either of these websites.

[1] An insurer may offer a number of plans with variable cost-sharing structures within each product type. This analysis only looks at the number of distinct products offered.

[2] Products that cover services for alcohol and other drugs (excluding tobacco) are considered to cover substance abuse. Products that only offer coverage for treatment of alcohol disorders are not considered to cover substance abuse. Three of the short-term products available do not specify in the plan brochure whether treatment for substance abuse is covered; in these instances, we do not consider the benefit category to be covered.

[3] Products that cover both inpatient and outpatient prescription drugs are considered to offer prescription drug coverage. Products that only cover prescription drugs when administered in an inpatient setting are not considered to offer that benefit category.

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 dollar caps and higher deductibles 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).

With significant attention focused recently on issues like rising drug prices, the opioid epidemic, and mental health awareness, it is notable that short-term plans generally exclude or severely limit coverage for mental health, substance use, and prescriptions drugs. As is the case with four of the 10 products offered on eHealth and/or Agile Health Insurance that cover at least some substance abuse and mental health services, an enrollee suffering from a dual diagnosis may only be covered for care received up to a maximum of $3,000. And in 15 states, no short-term plans offered on these platforms cover prescription drugs.

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. The combined effect of repealing the individual mandate penalty and the administration's efforts to promote the sale of short-term plans could result in fewer people signing up for ACA-compliant plans and higher premiums in the ACA-compliant individual market, potentially adversely affecting the stability of the ACA-compliant individual market.[13]

Methods

We analyzed publicly-available information published on eHealth.com and AgileHealthInsurance.com in April 2018. While other online private health insurance exchanges selling short-term plans exist, we chose these two platforms for their prominence in the marketplace and breadth of plan offerings.

An insurer may offer several versions of the same product with variable cost-sharing structures; this analysis looks at the number of distinct products offered. Each short-term product has a unique plan name and set of benefits. We examined 24 distinct short-term products offered across 45 states and the District of Columbia; the same product was often offered in multiple states with state variations in plan benefits.

Rates and plan information in this brief are for a 40-year-old male (non-smoker).

While we made every effort to account for state-level plan variations, we only present information made available in insurers' published plan brochures, which may be incomplete or may not reflect all specific state requirements. In the case of three products available from one insurer on eHealth, the plan brochure does not specify whether treatment for substance abuse is covered; in these cases, we do not consider the benefit category to be covered.

[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] The Commonwealth Fund. State Regulation of Coverage Options Outside of the Affordable Care Act: Limiting the Risk to the Individual Market. March 29, 2018. Available at http://www.commonwealthfund.org/publications/fund-reports/2018/mar/state-regulation-coverage-options-outside-aca

[7] ParityTrack. Parity Implementation National Survey. Accessed April 17, 2018. Available at https://www.paritytrack.org/parity-reports/state-reports/

[8] *Modern Healthcare,* "How Stakeholders in the Short-Term Medical Market are Gearing up to Attract More Customers", April 19, 2018. Available at http://www.modernhealthcare.com/article/20180419/TRANSFORMATION04/180419913/how-stakeholders-in-the-short-term-medical-market-are-gearing-up-to

[9] The IHC Group Interim Coverage Plus plan brochure: https://www.healthedeals.com/Media/Default/Anthem/Brochure_Interim_Coverage_Plus_0418.pdf

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

[11] *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

[12] 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

[13] Association for Community Affiliated Plans. Effects of Short-Term Limited Duration Plans on the ACA-Compliant Individual Market. April 12, 2018. Available at https://www.communityplans.net/policy/effects-of-short-term-limited-duration-plans-on-the-aca-compliant-individual-market/