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Marketplace Grace Periods Working as Intended

Restrictions Would Increase Number of Uninsured

By Tara Straw

People who receive subsidies to help pay for coverage in health insurance marketplaces have a three-month window, called a grace period, to pay overdue premiums before insurers can terminate their coverage. Without this opportunity to catch up on their share of the premiums, enrollees who miss a payment would quickly become uninsured — and barred from reenrolling in private coverage until the next open enrollment period or until they have a life event that qualifies them for a "special enrollment period."

Some insurers and health reform critics claim that enrollees are abusing the grace period to get 12 months of coverage for nine months of premium payments. There is, however, no evidence that this is the case. Moreover, this view misunderstands how grace periods work. If a person has not caught up on *all* overdue premiums by the end of the grace period, coverage is terminated *retroactively* to the end of the first month of the grace period. The enrollee must repay the advance premium tax credit that the insurer received for the first month of the grace period, owes the insurer the outstanding premium for that month, is responsible for the full cost for any medical bills incurred in months two and three, and may owe the individual responsibility payment for the second and third months and any subsequent months he or she was uninsured. It's far from a free ride for an enrollee losing coverage for non-payment.

Insurers recently have advocated to change the law to reduce the grace period from three months to the time otherwise specified in each state's health insurance laws, which is generally 30 days or less. *That short window often would not allow adequate time for enrollees to resolve billing issues, identify payment problems between their health plans and banks, or catch up on a missed premium payment.* Insurers are also calling for changes to current federal regulations, which if adopted would prevent people from reenrolling during open enrollment if they previously lost coverage for nonpayment, until they paid any back premiums they owe.

Reducing the grace period to one month would create harsh consequences for low- and moderate-income individuals and families who miss a payment or even part of a payment for any of a series of reasons, such as a costly car repair so the individual can continue to get to work or the need for a sudden large payment for an essential home repair such as a major roof leak. It also threatens to weaken the marketplace risk pool by increasing "churn" as people exit and reenter the market. Since often-healthy young people — who are more likely to miss bill payments, in general — may be those

most likely to lose coverage, this could leave older or sicker people as a bigger share of the marketplace risk pool. That would raise premiums and further discourage healthy people from enrolling in marketplace plans.

How Grace Periods Work

Some insurers have claimed that enrollees in marketplace health insurance can get 12 months of coverage for paying nine months of premiums. But these claims reflect a serious misunderstanding of how the marketplace grace periods work and enrollees' financial obligations. The regulations governing the three-month grace period do not allow three free months of coverage and are actually quite favorable to insurers.[1]

Marketplace enrollees owe monthly insurance premiums by the due date established by the insurer, often the first day of the month. State laws have grace-period provisions that generally give consumers 30 days to catch up on a late payment before insurers are allowed to discontinue coverage. But the health reform law gives people who are eligible for and receive an advance premium tax credit (APTC) for insurance purchased in state or federal marketplaces a three-month grace period for nonpayment.

Enrollees enter the grace period after their first missed payment. The insurer notifies the consumer about the consequences of missing his or her payment and tells health care providers that the consumer is in a grace period. The insurer still collects the APTC from the federal government on the enrollee's behalf, which covers an average of 73 percent of the premium,[2] and covers the enrollee's medical bills during the first month of nonpayment. In the second and third months of the grace period, the insurer *postpones paying medical claims* but continues to receive the APTC on the consumer's behalf.

If the enrollee doesn't fully catch up on premiums by the end of the third month, coverage is *retroactively* terminated as of the last day of the first month of the grace period. The insurer must return the second and third months' APTC to the federal government and is not responsible for paying any claims it was holding for medical care that the enrollee received during those months. The insurer keeps the APTC from the first month.

The enrollee who loses coverage faces a number of costs at the end of the grace period, which in many cases will exceed the missed premium payments. The consumer still owes the first month's premium to the insurer and is responsible for all medical bills incurred in the second and third months of the grace period as well as any uninsured months that follow. At tax filing, the consumer must repay the APTC the insurer received in the first month of the grace period, and, unless a coverage exemption applies, the taxpayer will be responsible for an individual responsibility payment

[1] See generally, 45 CFR §155.430(b)(2) and 45 CFR §156.270.

[2] "Health Insurance Marketplaces 2016 Open Enrollment Period: Final Enrollment Report," Office of the Assistant Secretary for Planning and Evaluation (ASPE), U.S. Department of Health and Human Services (HHS), March 11, 2016, p. 15, https://aspe.hhs.gov/sites/default/files/pdf/187866/Finalenrollment2016.pdf. (Figure refers to HealthCare.gov enrollees only.)

(penalty) for the second and third months of the grace period and any subsequent uninsured months.[3]

Finally, many people enter or exhaust grace periods for insubstantial premium deficiencies that even the issuers themselves believe shouldn't warrant termination. In fact, insurers supported a provision in the 2017 Notice of Benefit and Payment Parameters, which updates marketplace rules annually, to allow the continuation of coverage without requiring people to enter a grace period in the case of insignificant premium shortfalls.[4] The recommended threshold is 95 percent, meaning that a person who pays 95 percent of his or her share of the premium won't trigger the start of a grace period, and if the person is in a grace period, this minor deficiency at the end of three months would not cause coverage to terminate. Thus, if an insurer has a 95 percent premium payment threshold, for example, and an enrollee pays $97 of a $100 monthly premium, the enrollee falls within the threshold. The enrollee still owes $3, and future premium payments will cover that deficiency first, but for this month, a grace period is not triggered.

Reasons for Premium Nonpayment

Enrollees may stop paying their share of the premiums for many reasons. Many simply forget. Enrollees can also fail to pay their portion of their premiums if they experience errors with their bank or billing issues with their insurer, or they make a mistake such as transposing numbers on a check.

In some cases people intentionally stop paying their premiums because their eligibility changes and they don't understand the need to terminate their old plan or can't figure out how to do it. One-quarter of low-income adults had at least one health insurance enrollment change in 2015, a recent study showed.[5] Confusion is inevitable because when and how to end a plan vary across Medicaid, marketplace plans, employer-sponsored plans, and other forms of coverage. For example, a person who starts the year in marketplace coverage but then becomes eligible for and enrolls in Medicaid or the Children's Health Insurance Program (CHIP) may believe that because the marketplace made both eligibility determinations, it would automatically terminate the original plan. This is not the case, however, despite the fact that marketplaces are single points of entry for multiple coverage programs.

Other families miss premium payments because they are unable to pay in a particular month. More than 80 percent of enrollees in the most recent open enrollment period had income below 250 percent of the federal poverty line ($29,425 for an individual and $50,225 for a family of three).[6] These families are often at risk of financial hardship from one missed paycheck or an unanticipated expense. A recent survey of enrollees found that 67 percent of people in the individual insurance market reported that they could not meet basic expenses, barely met basic expenses, or met basic

[3] No premium tax credit is available for any month in which the full premium was not paid. 26 CFR 1.36B-3(c).

[4] 45 CFR 155.400(g)

[5] Benjamin D. Sommers, *et al.*, "Insurance Churning Rates for Low-Income Adults Under Health Reform: Lower than Expected but Still harmful for Many," *Health Affairs*, October 2016, pp. 1816-1824, http://content.healthaffairs.org/content/35/10/1816.

[6] "Health Insurance Marketplaces 2016 Open Enrollment Period: Final Enrollment Report," p. 29.

expenses with little left over.[7] One-third reported that they had difficulty paying for food, housing, or utilities. The grace period gives families experiencing temporary financial difficulties an opportunity to catch up on their missed premium payments and stay covered.

No Evidence That Consumers Abuse Grace Periods

There are no national data quantifying how many people enter a premium payment grace period or how many grace periods end in termination, but data from Washington State illustrate how critical the grace period is in helping people maintain coverage — and how a statutory or regulatory change restricting grace periods could affect many marketplace enrollees.

In Washington, more than half of subsidized enrollees in 2014 and 2015 entered a grace period at some point.[8] Of those who entered a grace period in 2015, 62 percent paid at least one premium after falling into the grace period.[9] On average, enrollees made a payment within 20 days of entering the grace period. This is consistent with payment delays due to forgetfulness or a temporary cash flow issue, not abuse of the grace period. Only 14 percent of those who landed in a grace period were eventually terminated for nonpayment.

The available data do not substantiate the contention that people are abusing grace periods. One consumer survey showed that 21 percent of respondents reported stopping premium payments in 2015, and that many of them reenrolled in coverage through the marketplace the following year.[10] The survey doesn't differentiate, however, between people who entered a grace period for nonpayment and those who voluntarily terminated their plans; nor does it show that payment stoppage was inappropriate. For instance, 36 percent of payment stoppers did so because they gained other coverage; another quarter of respondents reported they had trouble affording premiums. It's also not surprising that many people who stopped payments in one year returned to the marketplace in the next. People reenroll for insurance on an annual basis. A person whose change in income causes them to leave the marketplace for Medicaid in one year could easily return to the marketplace the next year based on a projection of higher income.

Enrollment data also refute the notion that large numbers of people drop coverage late in the year to take advantage of three "free" months of care in the grace period, then immediately reenroll for the following year. Rather, Centers for Medicare and Medicaid Services (CMS) data show an initial drop in the first few months of enrollment as some people lose coverage due to unresolved data matching issues after the 90-day period for resolving those issues runs out. After that,

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[7] "Survey of Non-Group Health Insurance Enrollees, Wave 3," Kaiser Family Foundation, May 20, 2016, http://kff.org/health-reform/poll-finding/survey-of-non-group-health-insurance-enrollees-wave-3/.

[8] "Annual Grace Period Report: Subsidized Qualified Health Plan Enrollees, Report to the Legislature," Washington Health Benefit Exchange, December 1, 2015, http://www.wahbexchange.org/wp-content/uploads/2013/05/Annual-Grace-Period-Report-2015.pdf.

[9] The data for 2015 are as of September 25, 2015. The 62 percent number reflects people in the grace period who made premium payments before that date; others may have made payments after that date. In 2014, 76 percent of people in the grace period made at least one premium payment by November 18.

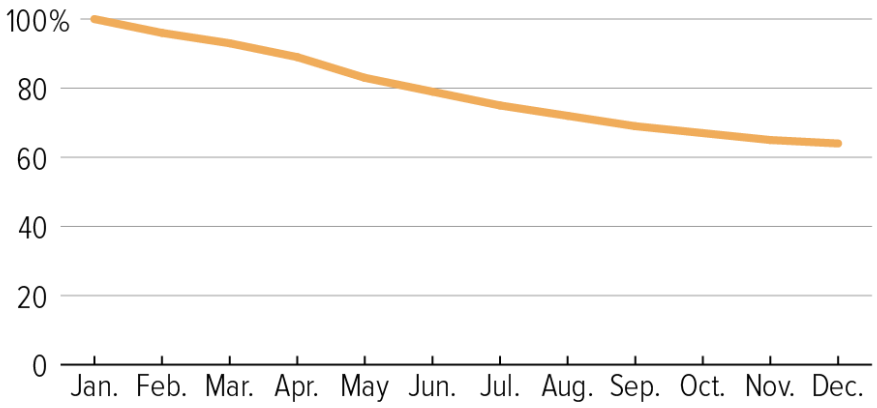
[10] "2016 OEP: Reflections on Enrollment," McKinsey & Company, May 2016, http://healthcare.mckinsey.com/sites/default/files/McK%202016%20OEP%20Consumer%20Survey%20Infographic_vF.pdf.

enrollment declines gradually throughout the year. (See Figure 1.) This pattern of falling enrollment makes sense as enrollees leave the market during the year for many reasons, including obtaining other coverage, while entry is restricted to people who qualify for special enrollment periods.

FIGURE 1

Enrollees Leave Marketplace Health Plans Gradually Throughout the Year

Monthly participation rate of those who enrolled in federal marketplace health insurance coverage during open enrollment, 2015



Note: Does not include new entrants after open enrollment, which occurred November 15, 2014-February 15, 2015.

Grace period = People who receive subsidies to help pay for coverage have a three-month window to catch up on overdue premiums before insurers can discontinue their coverage.

Source: CBPP analysis of Centers for Medicare and Medicaid services data, as presented as presented by Keri Apostle at: https://academyhealth.confex.com/academyhealth/2016arm/meetingapp.cgi/Session/4923

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There is little to be gained by gaming the grace period. The average single enrollee with coverage terminated for nonpayment would owe one month of APTC on his or her tax return and possibly an individual responsibility payment. Using marketplace average figures, a single person who fails to pay premiums for three months would owe $464 at tax filing ($290 in APTC plus $174 in penalties).[11] That's *more* than the $318 it would have cost to pay the premiums owed to maintain coverage for those months ($106 per person per month).

[11] During open enrollment for 2016 coverage, enrollees in states that use the federally facilitated marketplace had monthly premiums averaging $396 per person, with an average advance premium tax credit of $290 and an average net (i.e., out-of-pocket) premium of $106. "Health Insurance Marketplaces 2016 Open Enrollment Period: Final Enrollment Report," p. 15. The individual responsibility payment for 2016 is the *greater of* $695 per adult ($347.50 per child) or 2.5 percent of income above the filing threshold, with either amount prorated for the number of uninsured months. Because marketplace enrollees generally have lower income, most would pay a flat penalty of $695, or roughly $58 per month, per adult.

Grace Periods: A Case Study

Consider an illustrative case of how the grace period could work for an enrollee in marketplace coverage. Angela enrolled in the marketplace for coverage starting January 1, 2015, was determined eligible for an APTC of $360 per month, and was responsible for a monthly premium of $60 per month.[12] She paid her premium on time until she incurred a significant car repair in August and couldn't afford to pay September's premium by the August 31 due date.

Her insurer alerted her that she was in the three-month grace period and would lose coverage if she didn't pay her overdue premium by the end of the three months. In September, Angela paid $20 toward her premium — all she could afford at the time. She made no other payments. At the end of November, her coverage ended retroactive to September 30. She remained uninsured in December.

Enrollee Would Owe More for Non-Payment Than for 4th Quarter Premiums

$40	In-full September premium payment due to insurer	**$60** x 4	September through December premium
+$300	Advance premium tax credit for September repaid on tax return (subject to cap)	**-$20**	September partial premium payment
+$58 x 3	Individual responsibility payment for October, November, and December on tax return		
Total: $514		**Total: $220**	

The insurer received $3,740 of the $3,780 in premiums billed for nine months of coverage. This includes $360 per month of APTC for January through September (APTC from October and November was received but returned after the retroactive termination) and $60 per month from Angela's share of premiums for eight months and the partial premium of $20 for September. The insurer received no payment for October and November but also paid no claims for those months.

In January 2016, in preparation for tax filing, Angela received a Form 1095-A from the marketplace for use in preparing her tax return. It showed she had insurance coverage in January through August and that she received APTC in September. She owes an additional $300 on her tax return to repay September's APTC to the IRS, since she failed to pay the full premium for that month.[a] Because she didn't qualify for an exemption from the individual responsibility payment, she also owes $58 a month for October, November, and December. Angela owes $474 ($300 in APTC plus $174 for three months of the individual responsibility payment). Separately, she still owes $40 to the insurer for September's coverage, bringing her total amount owed to $514. It would have cost only $220 to pay her premium for the remainder of the year, and she would have had coverage for any medical care she received and wouldn't owe a penalty.

[a] Her APTC was $360, but repayment is capped at $300 for a single tax filer with income below 200 percent of the poverty line.

[12] This example uses the estimated premium tax credit and silver plan premium cost for a 55-year-old non-smoker in McLennan County, Texas, with income of $17,500 (150 percent of the federal poverty level). Data are from the Kaiser Family Foundation 2015 Health Insurance Marketplace Calculator. Numbers are rounded for clarity. See http://kff.org/interactive/subsidy-calculator-2015/.

Reducing the Grace Period Would Weaken the Marketplace

Hastily terminating coverage for late payment could end coverage for a large number of marketplace enrollees who simply forgot to pay on time. This would push them out of the insurance marketplace until the following year unless they had a life change qualifying them for a special enrollment period. To the extent that a bigger pool improves risk, this diminishing overall enrollment could negatively impact others' marketplace premiums.

If one missed premium payment leads to a loss of coverage, the marketplace risk pool as a whole may suffer from the departure of healthy people and their inability to reenroll. While we don't have data on the characteristics of late-payers or the health status of people whose coverage is discontinued due to nonpayment, it stands to reason that sicker people will make the greatest efforts to maintain their coverage whereas healthier people may believe that they have less to lose by letting insurance lapse. If this is true, we would expect the people who exit the marketplace due to nonpayment to be healthier, on average. And because young adults — who also tend to be healthier — are 25 percent likelier to pay bills late than older adults,[13] those exiting enrollees may skew younger and healthier as well.

Conclusion

Shortening the premium grace period to only 30 days would leave well-intentioned consumers with too little time to catch up on premiums when other basic expenses cause them to fall behind and would lock people out of coverage for the rest of the year. That would add to the ranks of the uninsured and weaken the marketplace risk pool. The current three-month grace period strikes the right balance by giving people who fall behind on premiums extra time while limiting the financial liability for insurers, providers, and the federal government.

[13] Fiserv, *Sixth Annual Billing Household Survey*, 2013, p. 4, https://www.fiserv.com/resources/413-13-17891-COL_2.5_RP_SixthAnnualBHS-2013_HR_121013.pdf.