

---

December 15, 2017

## Insurers' Arguments for Shortening Grace Period Don't Withstand Scrutiny

By Tara Straw

As part of their bill to fund the government into January, renew the Children's Health Insurance Program and provide funding for community health centers, congressional Republicans are proposing to reduce the marketplace grace period for catching up on missed premiums from three months to one month (or a period determined by the state). This means that low- and moderate-income consumers who fall behind on their premium payments would generally have only 30 days to catch up before losing coverage versus the 90 days they have under current law. This change would cause 259,000 to 688,000 people to lose coverage, we have estimated.<sup>1</sup> In supporting this change, insurers have criticized CBPP's estimate and argued that the change is needed to address widespread gaming. Those arguments don't hold up under scrutiny.

### Hundreds of Thousands Would Lose Coverage

Insurers argue that reducing the grace period would affect few people, but Congressional Budget Office (CBO) data indicate otherwise. CBO estimates the proposal would save \$4.9 billion.<sup>2</sup> Based on average premium tax credit costs, that implies about 1 million lost months of coverage per year as a result of the proposal — consistent with our estimate that 259,000 to 688,000 people would lose coverage over ten years.

As CBO explains, the proposal's \$4.9 billion in savings would come not from those whose coverage is terminated due to their failure to pay their premiums, but rather from lost premium tax credits and additional penalty collections from people "who would have paid their delinquent premiums during the second or third month of their grace period [but] would instead have their coverage terminated under this bill." That's because people who fail to pay premiums within 90 days *already* lose coverage and financial assistance for the second and third months of the grace period (the federal government doesn't pay their premium tax credits, and insurers don't have to pay their claims). The savings from the proposal would come from taking coverage and financial assistance away from people who would catch up on premiums within 90 days, but can't with just 30.

---

<sup>1</sup> Tara Straw, "Up to 688,000 Would Lose Insurance Under House Bill," Center on Budget and Policy Priorities, October 31, 2017, <https://www.cbpp.org/blog/up-to-688000-would-lose-insurance-under-house-bill>.

<sup>2</sup> Congressional Budget Office, "Cost Estimate: H.R. 3922, CHAMPION Act of 2017," October 19, 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/hr3922.pdf>.

Our estimate of people who would lose coverage is an extrapolation of data from Washington State, the only state known to collect such data. In Washington, of the people who entered a grace period, 62 percent paid a premium once in the grace period, with average payment happening in 20 days.<sup>3</sup> Insurers say that average payment time means that most consumers wouldn't be affected by shortening the grace period. But the average — which is likely brought down by large numbers of people who pay premiums just a few days late — doesn't provide evidence of how many people paid the premium in the second or third months of the grace period.

## People Are Using Grace Periods as Intended

Insurers claim consumers are gaming the system by intentionally falling behind on premiums and catching up only if they have medical claims during the grace period. But there are already strong disincentives for consumers to take this approach. The “clawback” of advance premium tax credits (APTC) on the tax return makes it potentially very expensive for a person to let the grace period expire. If a person's coverage is terminated after three months of non-payment, the person must *repay* the APTC the insurer received on their behalf in the first month at the time of tax filing.

For the average enrollee, repaying one month of APTC costs three times what it would have cost to pay their share of the premium to the insurer for that month of coverage.<sup>4</sup> For example, an enrollee who receives \$383 per month in advance payments of the premium tax credit and pays a premium of \$106 per month<sup>5</sup> would have coverage terminated if he missed a payment and could not catch up in 90 days. It would be less costly to pay all three months' premiums than to repay *one* month of APTC, even before accounting for the individual responsibility penalty he would owe for the months without coverage.

As evidence that enrollees are gaming the grace period, insurers cite the fact that in 2015 only 40 percent of people covered through HealthCare.gov had coverage for 12 months. But the marketplace is, intentionally, coverage of last resort. Given that many enrollees use the marketplace as a source of transitional coverage — an affordable option when someone is between jobs, for example — it's not surprising that many people are insured by the marketplace for less than a full year.

Rather than widespread consumer gaming, it is much more likely that people fall behind on premiums because they simply can't afford to pay during periods of extreme financial stress. At least 7 in 10 marketplace enrollees have income below 250 percent of the poverty line<sup>6</sup> and many of them barely make ends meet, according to the Kaiser Family Foundation.<sup>7</sup> A family emergency, a car breakdown, or other temporary financial strain can keep consumers from paying premiums for a month or two. As a result, many people fall behind on payments — and then catch up. In Washington, more than half of subsidized

---

<sup>3</sup> Washington Health Benefit Exchange, “Annual Grace Period Report: Subsidized Qualified Health Plan Enrollees,” December 1, 2015, <http://www.wahbexchange.org/wp-content/uploads/2013/05/Annual-Grace-Period-Report-2015.pdf>.

<sup>4</sup> Tara Straw, “Marketplace Grace Periods Working as Intended,” Center on Budget and Policy Priorities, revised October 14, 2016, <https://www.cbpp.org/research/health/marketplace-grace-periods-working-as-intended>.

<sup>5</sup> These are the 2017 averages for states using the HealthCare.gov platform. Centers for Medicare & Medicaid Services, “Health Insurance Marketplaces 2017 Open Enrollment Period Final Enrollment Report: November 1, 2016-January 31, 2017,” March 15, 2017, <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2017-Fact-Sheet-items/2017-03-15.html>.

<sup>6</sup> *Ibid.*

<sup>7</sup> Liz Hamel *et al.*, “Survey of Non-Group Health Insurance Enrollees, Wave 3,” Kaiser Family Foundation, May 20, 2016, <https://www.kff.org/health-reform/poll-finding/survey-of-non-group-health-insurance-enrollees-wave-3/>.

marketplace enrollees entered a grace period at some point in 2015.<sup>8</sup> But *only 14 percent* had their coverage terminated for non-payment: the rest used the grace period to stay covered or voluntarily ended coverage, showing that people are strongly motivated to continue coverage if they can and that the grace period is important to letting them do so.

### **No Precipitous Drop in Coverage at Year's End**

Insurers theorize that people drop coverage toward the end of the year and use the grace period to preserve the option of coverage, should they have claims. Contrary to these assertions, there is no evidence that people drop coverage at the end of September because they plan to rely on the grace period for the rest of the year.<sup>9</sup> Comprehensive administrative data directly contradict the claim that coverage loss accelerates at the end of the year.<sup>10</sup> Moreover, the three-month grace period is *not* three months of free care. As noted, medical claims and premium tax credits are paid only in the first month of the grace period.<sup>11</sup> Insurers have no responsibility for claims in the second and third months, unless the enrollee catches up on *all* premiums within 90 days.

Furthermore, a regulatory change urged by insurers and recently implemented by the Trump Administration already allows insurers to force people to pay any premiums owed before re-enrolling in 2018 coverage. As of June 19, 2017, an insurer may condition enrollment on the payment of any past-due premiums. That means that if an enrollee cannot afford premiums and her insurer terminates her coverage in 2017, that insurer can choose to deny 2018 coverage unless all past-due premiums are paid. People who did not pay premiums toward the end of the year and are in the grace period at re-enrollment may need to pay as many as four months of premiums (each month of the grace period plus January's premium). This regulatory change will largely address insurers' concerns about not being paid for months covered. But this policy will also make it harder for people who experience financial hardship to regain their footing and enroll in insurance coverage in the future. Reducing the grace period would only magnify its negative impact.

### **Data Don't Show People Gaming Grace Periods**

Insurers have pointed to a McKinsey and Company survey they say shows that most people who stop paying premiums re-enroll the next year, and have argued that this shows people are gaming the system. But the survey they highlight looks only at people who stopped paying premiums without then catching up and who either re-enroll in individual market coverage or become uninsured.<sup>12</sup> It thus excludes by design both those consumers who stopped paying premiums because they became eligible for other coverage (such as through an employer) and those who used grace periods but caught up on premiums to stay covered. It's impossible to draw conclusions about grace period use based on this narrow slice of consumers.

Insurers also imply that the McKinsey data show people who have used grace periods have worse health risks than other marketplace enrollees. In fact, people who stop repaying in one year and re-enroll the next

---

<sup>8</sup> Washington Health Benefit Exchange, *op. cit.*

<sup>9</sup> Tara Straw, "Shortening Marketplace Grace Period Would Boost Number of Uninsured," Center on Budget and Policy Priorities, October 4, 2017, <https://www.cbpp.org/blog/shortening-marketplace-grace-period-would-boost-number-of-uninsured>.

<sup>10</sup> Keri Apostle, "Key Findings from the Health Insurance Marketplaces," AcademyHealth Annual Research Meeting, June 28, 2016, <https://academyhealth.confex.com/academyhealth/2016arm/meetingapp.cgi/Session/4923>.

<sup>11</sup> Straw, "Marketplace Grace Periods Working as Intended," *op. cit.*

<sup>12</sup> McKinsey & Company, "2016 OEP: Reflection on enrollment," May 2016, [http://healthcare.mckinsey.com/sites/default/files/McK%202016%20OEP%20Consumer%20Survey%20Infographic\\_vF.pdf](http://healthcare.mckinsey.com/sites/default/files/McK%202016%20OEP%20Consumer%20Survey%20Infographic_vF.pdf).

have similar health risks as other people who renew their coverage, the data show. The most significant difference between these individuals and other groups of enrollees is that they're younger. If anything, that suggests making it harder for people to recover from periods of non-payment could end up hurting the risk pool, rather than helping it.

## **Conclusion**

Keeping more people insured is worth the cost of administering the grace period policy. It's true that the three-month grace period is unique to the premium tax credit system. Because the marketplace population is disproportionately low-income and therefore more likely to face tough financial periods — and because once out of coverage, enrollment would be closed for most people until the following year — lawmakers deemed additional leniency was appropriate and important to achieving the goal of expanding coverage.

Shortening grace periods would hurt low- and moderate-income individuals and families who miss a payment or even part of a payment for any reason, such as a costly home or car repair. It would leave well-intentioned consumers with too little time to catch up on premiums when they fall behind and lock people out of coverage for the rest of the year, raising the number of uninsured. The Children's Health Insurance Program and community health centers provide health care for millions of low- and moderate-income people, and it's essential to fund them. But policymakers shouldn't pay for them by taking coverage away from other low- and moderate-income people.