
September 20, 2018

Key Flaws of Short-Term Health Plans Pose Risks to Consumers

By Sarah Lueck

Federal rule changes to short-term health plans are set to take effect on October 2, newly allowing insurers to offer them to consumers for up to one year (instead of three months) and renew or extend them even longer. This is likely to make short-term plans seem, at least on the surface, more similar to traditional individual-market health coverage. But that's far from true: in most states, short-term plans are exempt from pre-existing-condition protections and benefit standards that individual-market plans must meet. This new parallel market for skimpy plans will expose consumers buying these plans to new risks and raise premiums for those seeking comprehensive coverage, especially middle-income consumers with pre-existing conditions.

Short-term plans do not have to cover all of the Affordable Care Act's (ACA) essential health benefits, such as maternity and mental health care, substance use disorder treatment, and prescription drugs — and they often don't.¹ Short-term plans can deny coverage or charge higher prices to people with pre-existing conditions, and they typically do not cover medical services related to a pre-existing condition.

Short-term plans are likely to offer some healthier people lower premiums (because the plans include reduced benefits and cover less costly populations), and thus will lure healthy enrollees away from the individual and small-group markets and leave a costlier group behind. This dynamic, known as adverse selection, raises premiums for traditional, more comprehensive health coverage and undermines ACA protections for people with pre-existing conditions. Meanwhile, healthy people who enroll in these plans may find themselves facing gaps in coverage and exposed to catastrophic costs if they get sick and need care.

Short-term health plans can be sold all year, but the companies that sell them are already gearing up to use the six-week open enrollment period for ACA plans that begins November 1 as a focal

¹ Karen Pollitz *et al.*, "Understanding Short-Term Limited Duration Health Insurance," Kaiser Family Foundation, April 23, 2018, <https://www.kff.org/health-reform/issue-brief/understanding-short-term-limited-duration-health-insurance/>.

point for their own, often aggressive marketing efforts.² And even as the Trump Administration scales back its efforts to inform people about more comprehensive ACA plans, it is promoting short-term plans as a viable alternative with often-lower premiums.

Recent short-term plan documents filed with state regulators show that the plans' major shortcomings will persist for consumers as these plans expand.³

Short-term plans' major problems include:

1. **Invasive and complex applications.** Applicants for short-term plans typically must answer numerous questions about their health status, illnesses, and prior medical treatments. For example, the application for short-term coverage from Independence American Insurance Company, as submitted to North Dakota insurance regulators early this year, asks more than a dozen health-related questions, such as whether the applicant received medical tests or advice related to cancer, stroke, diabetes, or alcohol abuse within the last five years; whether the person weighs more than 300 pounds (if male) or 250 pounds (if female); and whether the applicant is waiting for test results or has been advised to have treatment or testing for any of the listed health conditions.⁴ In an application for short-term coverage submitted to Arkansas regulators, United Security Health and Casualty Insurance Company asks applicants to grant access for two and a half years to medical records related to matters such as: alcohol or drug abuse treatment, mental health diagnosis, HIV testing, pharmacy prescriptions, lab data, and genetic testing.⁵
2. **Higher premiums based on personal characteristics such as gender and age.** Unlike ACA plans, short-term health plans charge higher premiums to people based on their gender and can charge far higher premiums to older people based on their age than the ACA allows. For example, a National Health Insurance Company short-term plan with a \$5,000 deductible would cost \$109 per month for a 40-year-old woman, compared to \$90 per month for a 40-year-old man, according to data submitted to Wisconsin insurance regulators. The same plan would cost a 60-year-old man \$297 per month, while a 60-year-old woman would pay \$270 per month.⁶

² "IHC's HealtheDeals.com to Greatly Expand its Owned Sales Distribution Capabilities," PRWeb, September 5, 2018, https://www.prweb.com/releases/ihs_healthedeals.com.to.greatly.expand.its.owned.sales.distribution.capabilities/prweb15737057.htm.

³ Notably, in many states, short-term plans that were filed with regulators many years ago could be newly or more actively marketed again without being subject to new filing or approval requirements, making it hard to get a complete picture of most states' short-term markets. See Emily Curran *et al.*, "Do States Know the Status of Their Short-Term Health Plan Markets?" Commonwealth Fund, August 3, 2018, <https://www.commonwealthfund.org/blog/2018/do-states-know-short-term-health-plan-markets>.

⁴ "Application for Individual Limited Short Term Medical Expense Insurance," Independence American Insurance Company, submitted January 2018 in North Dakota, accessed via SERFF Filing Access, September 18, 2018.

⁵ "Arkansas Short-Term Medical Insurance Application," United Security Health and Casualty Insurance Company, submitted August 30, 2018, accessed via SERFF Filing Access, September 18, 2018.

⁶ "National Health Insurance Company Rate Manual," submitted to Wisconsin, April 6, 2018, accessed via SERFF Filing Access, September 18, 2018.

3. **Denials of coverage for pre-existing conditions.** Short-term insurers use various tactics to avoid paying out large amounts for people’s pre-existing conditions. As noted, they may simply deny coverage to people who report having a health condition. In addition, short-term plan contracts typically include a broad exclusion for any care related to a pre-existing condition, so that if a person has a condition the application didn’t ask about (or that the enrollee didn’t know about), care related to that condition may not be covered. In addition, after a short-term plan enrollee receives medical care, the insurer may investigate their medical history for evidence that the care they already received is related to a pre-existing condition, a practice known as “post-claims underwriting.”⁷ That’s what seems to have happened to a Pennsylvania man who was hospitalized for an abnormal heartbeat but had his medical claims denied because of a previous doctor visit for high blood pressure.⁸ A similar issue arose for a Georgia woman who was diagnosed with breast cancer *after* she bought a short-term plan and was then left with \$400,000 in medical bills because the insurer said the disease pre-dated the coverage.⁹
4. **High out-of-pocket costs for people who need care.** Short-term plans can — and often do — fail to cover ACA essential health benefits. An April 2018 study of the short-term plans available through two major online broker sites found that 43 percent of plans didn’t cover mental health services, 62 percent didn’t cover substance use disorder treatment, 71 percent didn’t cover outpatient prescription drugs, and none covered maternity care.¹⁰ People who enroll in a short-term plan and then need one of these missing benefits have to foot the bill on their own.

Some benefit gaps may be subtle, found only in the policy’s fine print. For example, a Golden Rule short-term plan submitted in Arizona in August (but sold in multiple states via the United Business Association) excludes coverage of expenses for such events as: illnesses resulting from being intoxicated or under the influence of illegal drugs, charges incurred as a result of “intentionally self-inflicted bodily harm (whether the covered person is sane or insane),” and injuries related to professional or intercollegiate sports, hang-gliding, SCUBA diving, riding a motorcycle, riding a horse, rock climbing, and skiing.¹¹ One odd provision found in short-term plans from Golden Rule (part of health insurer UnitedHealthcare) bars

⁷ Gary Claxton *et al.*, “Pre-existing Conditions and Medical Underwriting in the Individual Insurance Market Prior to the ACA,” Kaiser Family Foundation, December 12, 2016, <https://www.kff.org/health-reform/issue-brief/pre-existing-conditions-and-medical-underwriting-in-the-individual-insurance-market-prior-to-the-aca/>.

⁸ Sarah Lueck, “Health Care Executive Order Would Destabilize Insurance Markets, Weaken Coverage,” Center on Budget and Policy Priorities, November 29, 2017, <https://www.cbpp.org/research/health/health-care-executive-order-would-destabilize-insurance-markets-weaken-coverage>.

⁹ Erik Larson and Zachary Tracer, “The Health Plans Trump Backs Have a Long History of Disputes,” Bloomberg, October 16, 2017, <https://www.bloomberg.com/news/articles/2017-10-16/trump-s-insurance-directive-renews-preexisting-conditions-fight>.

¹⁰ Pollitz *et al.*, *op cit.*

¹¹ “Short Term Medical Expense Certificate,” Golden Rule Insurance, submitted to Arizona August 6, 2018, accessed via SERFF Filing Access, September 18, 2018.

coverage of costs of room and board and nursing care when someone begins a hospital stay on a Friday or Saturday.¹²

Short-term plans also can charge high deductibles and cost-sharing for the benefits they do cover (i.e., a \$5,000 deductible for a policy that lasts three or six months), leaving patients responsible for the rest. Or, the plans include dollar limits on how much they will pay out for a given service or in total for benefits over the life of the policy, or during the life of the enrollee. A recent review of select short-term health plans available in Philadelphia concluded that even when people experience unanticipated illnesses, unrelated to a pre-existing condition, the coverage available under short-term health plans is so sparse that enrollees would face large out-of-pocket charges. For example, one Philadelphia plan limited coverage of hospitalization to no more than \$1,000 per day, far less than the U.S. average cost of more than \$5,000 per day. Another Philadelphia plan limited benefits for an appendectomy to \$2,500, when the average cost of that procedure is nearly \$14,000.¹³

5. **High premiums relative to the value of the benefits they provide.** Even with seemingly low premiums, enrollees in short-term plans may still pay too much for the coverage these plans offer. Much of the money that consumers pay to insurers offering short-term plans actually goes toward plan administration, marketing, and profits — and little toward enrollees' health care. For example, the top three companies selling short-term health plans (based on premiums earned) paid 43 percent, 34 percent, and 52 percent of the premiums they collected from short-term plan enrollees for medical claims (known as the loss ratio), according to data from the National Association of Insurance Commissioners.¹⁴ By comparison, the ACA requires individual-market insurance plans to pay *at least 80 percent* of premiums on medical claims or health quality improvement. The requirement is meant to ensure that consumers receive decent value for the money they spend on health insurance, but it doesn't apply to short-term plans.

Short-term health plans raise risks for the consumers who enroll in them and raise premiums for comprehensive coverage in the traditional ACA market. While some states have banned or limited these plans to protect consumers,¹⁵ in most states, consumers who buy their own health insurance are likely to face a proliferation of substandard, short-term health plans.

¹² Michael Hiltzik, "The fine print of those short-term health plans favored by Trump: Don't get sick on a weekend," *Los Angeles Times*, April 26, 2018, <http://www.latimes.com/business/hiltzik/la-fi-hiltzik-short-term-insurance-20180426-story.html>.

¹³ Jackson Williams, "Short-term health insurance coverage is almost worthless," *Philadelphia Inquirer*, July 30, 2018, <http://www2.philly.com/philly/health/health-cents/short-term-health-insurance-coverage-is-almost-worthless-20180730.html>.

¹⁴ "2017 Accident and Health Policy Experience Report," National Association of Insurance Commissioners, 2018, p. 83, https://www.naic.org/prod_serv/AHP-LR-18.pdf.

¹⁵ Sarah Lueck, "With Federal Rules Weakened, States Should Act to Protect Against Short-Term Health Plans," Center on Budget and Policy Priorities, August 1, 2018, <https://www.cbpp.org/blog/with-federal-rules-weakened-states-should-act-to-protect-against-short-term-health-plans>.