

Three takeaways from the expansion of short-term limited-duration health insurance

The impact of STLD policy expansion on ACA individual market premiums, enrollment, and out-of-pocket expenses for patients newly diagnosed with selected medical conditions

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The Patient Protection and Affordable Care Act (ACA) of 2010 prompted major changes to access of health insurance in the United States, including the creation of health insurance marketplaces.¹ Coverage offered today under the ACA rules must be issued and priced without regard to a person's preexisting conditions and must cover a minimum set of essential benefits, among other requirements.¹ In addition, the law introduced an individual mandate penalty to encourage enrollment in comprehensive health coverage and to diversify the health status of the risk pool.¹

Since 2017, Congress and the Executive Branch have altered the regulations governing the ACA-compliant markets and related products.² The Tax Cuts and Jobs Act of 2017 reduced the individual mandate penalty to \$0 as of January 2019,³ effectively eliminating the mandate. Additionally, a final federal rule issued in August 2018 allowed the extension of short-term limited-duration (STLD) policies, which do not qualify as minimum essential coverage (MEC) as defined by the ACA, to increase plan duration from three months to 364 days, with further renewal options allowable for a total coverage period of up to three years.⁴

With typically lower premiums, STLD policy premiums are often more affordable than ACA premiums for healthier consumers, but these policies may come at a cost. STLD policies are not subject to ACA rules of guaranteed issue and renewability for people with preexisting conditions, which may lead to higher out-of-pocket costs for patients who are diagnosed with a new condition or experience an acute event. The Centers for Medicaid and Medicare Services (CMS) expects these options to increase costs in the ACA-compliant individual marketplace as healthier individuals transition to other coverage options.⁵

The Leukemia & Lymphoma Society engaged Milliman to quantify the impact of recent regulatory actions on individuals enrolled in the ACA-compliant marketplace, by:

1. Comparing expected out-of-pocket expenses for hypothetical members enrolled in STLD coverage and newly diagnosed with one of five medical conditions or acute events, presenting a range of associated medical spending, and
2. Quantifying the impact of expanded availability of STLD policies, along with other regulatory actions, on ACA-compliant premiums and enrollment reflecting insurer's expectations of the worsening of the risk pool.

A survey of STLD plan designs

STLD policies offer lower premiums, less benefit coverage, and fewer insurance protections than ACA-compliant policies. We reviewed the plan designs of 96 STLD policies offered in December 2019 through eHealth in the Atlanta, Georgia market and identified a typical STLD plan design, as outlined in Figure 1. This represents a hypothetical policy with characteristics that were common among the STLD policies we encountered in our research. Our key findings include:

- Of the STLD policies studied, over 25% had a deductible greater than the annual maximum limit for ACA-compliant policies of \$7,900, and over 60% of these policies had a maximum out-of-pocket (MOOP) limit greater than \$7,900. The STLD deductible and MOOP values apply for the duration of the policy; in some cases, six months. Policy features like high deductibles and MOOP limits may lead to significant patient spending.
- All policies included in our research had a maximum coverage limit, with the majority of policies (88%) covering up to a limit of only \$1 million or \$2 million during the policy term. Maximum

¹ Patient Protection and Affordable Care Act of 2010.; 2010. <https://www.hhs.gov/sites/default/files/ppacacon.pdf>.

² Redhead CS, Kinzer J. Legislative Actions in the 112th, 113th, and 114th Congresses to Repeal, Defund, or Delay the Affordable Care Act. *Congr Res Serv*. 2017. <https://fas.org/sgp/crs/misc/R43289.pdf>.

³ Tax Cuts and Jobs Act of 2017.; 2017:1-186. <https://www.congress.gov/bill/115th-congress/house-bill/1/titles>.

⁴ Department of the Treasury, Department of Labor D of H and HS. *Short-Term, Limited-Duration Insurance. Final Rule.*; 2018. <https://www.federalregister.gov/documents/2018/08/03/2018-16568/short-term-limited-duration-insurance>.

⁵ Spitalnic P. Estimated Financial Effects of the Short-Term, Limited-Duration Policy Proposed Rule. Centers Medicare Medicaid Serv. 2018. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/STLD20180406.pdf>.

FIGURE 1: TYPICAL STLD PLAN DESIGN

POLICY FEATURE	TYPICAL STLD PLAN
Initial duration	6 months
Deductible	\$5,000
Member cost-sharing	Coinsurance, 20%
Maximum out-of-pocket limit	\$10,000
Policy maximum coverage limit	\$2,000,000
Prescription drug coverage	Not covered
Mental health services coverage	Not covered
Maternity service coverage	Not covered

benefit coverage limits are prohibited for most benefits under ACA-compliant coverage.

- Two-thirds of STLD policies did not cover prescription drug benefits, and over half did not cover mental health benefits. In addition, maternity benefits are commonly not covered under STLD policies.⁶ These benefits are required to be covered under ACA-compliant policies.
- The average premium for a popular STLD policy is lower than the unsubsidized premium for an ACA-compliant bronze policy, reflecting the reduced coverage inherent in these plans.

The cost of a new condition

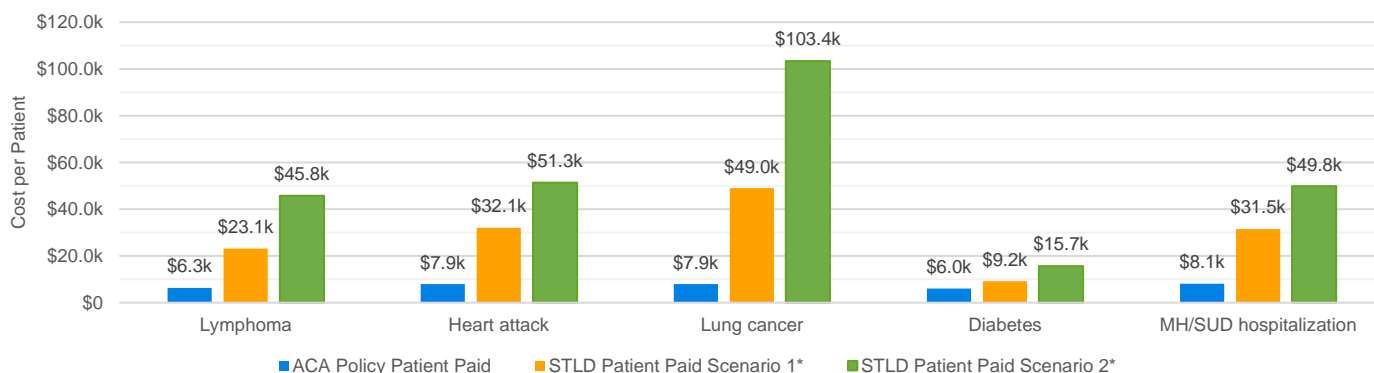
While they often offer lower premiums and can provide coverage for catastrophic medical expenses, with fewer patient protections than ACA-compliant policies, STLD policies may lead to higher out-of-pocket costs for patients who are diagnosed with a new condition or experience an acute event.

In addition to richer benefit coverage, ACA-compliant policies guarantee renewability, ensuring that coverage is available to individuals who are newly diagnosed with a medical condition. STLD policies, on the other hand, may deny renewal coverage to an enrollee who is diagnosed with a new condition while covered, potentially leaving the individual with no insurance protections and exposed to high medical costs until ACA enrollment becomes available for the following year, unless the individual can obtain coverage elsewhere.

Using administrative claims data for individuals enrolled in ACA-compliant individual coverage, we quantified total out-of-pocket costs for individuals who were newly diagnosed with one of five select conditions in 2017: lymphoma, diabetes, lung cancer, heart attack, and a mental health or substance use disorder (MH/SUD) hospitalization.

Figure 2 illustrates total out-of-pocket expenses, including monthly premiums as well as member cost-sharing payments, among individuals enrolled in plans without cost-sharing reduction (CSR) benefits in the ACA individual market in 2017. For each condition, total out-of-pocket expenses are reflected for an ACA-compliant policy and two illustrative STLD policy scenarios:

- STLD Scenario 1:** Assumes the patient is enrolled in an STLD policy for the full six-month period following diagnosis.
- STLD Scenario 2:** Assumes the patient is enrolled in an STLD policy for three months following diagnosis of a new condition and is declined renewal thereafter (i.e., uninsured for three months).

FIGURE 2: ESTIMATED PATIENT OUT-OF-POCKET COSTS (PREMIUM + MEMBER COST SHARING) IN SIX-MONTH PERIOD FOLLOWING DIAGNOSIS OF SELECT CONDITIONS IN 2017, AMONG NON-CSR PATIENTS ENROLLED IN ACA-COMPLIANT INDIVIDUAL MARKET

*Assumes that STLD insurer pays an average of 50% of health care expenses (i.e., the actuarial value). Because the typical STLD policy does not cover maternity services, mental health services, or prescription drugs, we have assumed that the patient is responsible for the full amount contracted between the insurer and the provider. For Scenario 2, we assume that the patient is uninsured and is responsible for the amount billed (i.e., undiscounted) by the provider for all services following termination.

⁶ Kamal R, Cox C, Fehr R, Ramirez M, Horstman K, Levitt L. How Repeal of the Individual Mandate and Expansion of Loosely Regulated Plans are Affecting 2019 Premiums. Henry J Kaiser Fam Found. 2018;(October 2018). <http://files.kff.org/attachment/Issue-Brief-How-Repeal-of-the-Individual-Mandate-and-Expansion-of-Loosely-Regulated-Plans-are-Affecting-2019-Premiums>.

Total out-of-pocket expenses are substantially greater under both illustrative STLD scenarios than under the ACA-compliant policy in 2017. For example, in the six-month period following a new diagnosis of lymphoma in 2016, a patient enrolled in an STLD policy could pay \$16,800 more in total out-of-pocket expenses than they would have while enrolled on an ACA policy. If the same patient’s STLD policy term expires three months after diagnosis, they could be left spending over \$45,000 on medical care during the six-month period following diagnosis if they become uninsured. Therefore, individuals opting for STLD coverage must carefully consider the appropriate policy duration to avoid gaps in coverage and potential exposure to financial risk.

STLD impact on ACA market premiums and enrollment

Using publicly available files with 2020 premium ratings, we analyzed carriers’ expectations of the impact of STLD policies and other regulatory actions on the ACA market. States are categorized by degree of regulation of STLD policies based on our research as of January 2020:

- **Full Impact:** Includes states that have taken no action against the expansion of STLD policies or continue to allow the sale of STLD policies with an initial term of at least 360 days.
- **Moderate Impact:** Includes states that have restricted the initial term of STLD policies to less than 360 days.
- **Restricted Impact:** Includes states that have passed legislation to either ban the sale of STLD policies or have implemented significant barriers to entry.

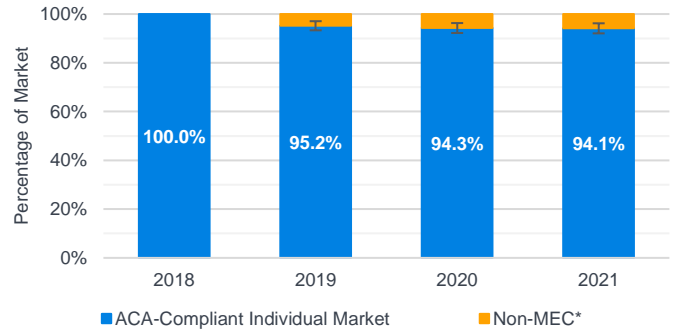
FIGURE 3: IMPACT OF REGULATORY ACTIONS ON 2020 ACA INDIVIDUAL MARKET PREMIUMS

DEGREE OF STLD REGULATIONS*	2020 RATE IMPACT
Full impact	+4.3%
Moderate impact	+3.0%
Restricted impact	-1.2%

Figure 3 summarizes the reported impact of regulatory changes, such as the individual mandate penalty repeal and STLD policy expansion, on 2020 ACA individual market premiums, by the statewide degree of regulation on STLD policies. Insurers offering ACA individual coverage in states with non-restricted availability of STLD policies included an adjustment of approximately 4% in their 2020 premiums to account for the expected worsening of the risk pool due to regulatory changes.

There are important differences among states with and without restrictions in the STLD market. Carriers offering individual coverage in states without restrictions on STLD availability assumed an average rate impact that was 5% greater than states that have banned or significantly restricted STLD policies. In states that allow STLD policies with an initial duration of at least

FIGURE 4: PROJECTED IMPACT OF REGULATORY ACTIONS ON ENROLLMENT IN ACA INDIVIDUAL MARKETS WITH NON-RESTRICTED STLD REGULATIONS, 2018-2021



*Reflects enrollment in non-minimum essential coverage, including STLD policies and individuals without insurance.
Note: Error bands reflect 95% confidence interval.

360 days, we found that average monthly unsubsidized premiums were about 4.3% greater, or about \$25 higher, due to regulatory actions. On the other hand, among states that have restricted the sale of STLD policies, including California (where the individual mandate penalty was reinstated for 2020), regulatory actions have had a lower impact on premium rates.

In general, the impact of regulatory actions on 2020 premiums was lower than the assumed impact on 2019 premiums. Research performed by the Kaiser Family Foundation on rate filings for 2019 found that carriers assumed a premium impact of 6.0% in states without restrictions on STLD policies.⁶ This decrease suggests that carriers may be correcting for an earlier over-estimation of the market impact of regulatory actions in 2019.

Although complete claims and enrollment data for 2019 was not available when setting 2020 premium rates, emerging data such as enrollment during Open Enrollment Periods suggests that alternative coverage options may not have attracted as many members as expected that year and that enrollment in the ACA market has not declined as significantly as originally expected.

As healthy enrollees in the ACA individual market switch to STLD coverage, the risk pool is expected to deteriorate. Without further changes to market regulations, continued deterioration of the ACA-compliant market will cause premium increases, leading to further adverse selection against the ACA individual market. Using Kaiser’s reported findings⁶ and our research on the impact of regulatory actions on 2019 and 2020 individual market premiums, we estimate that the ACA individual market may lose up to 6% of members to non-minimum essential coverage by 2021 in states with the federal guidelines of STLD regulation. Figure 4 illustrates the projected impact of regulatory actions on enrollment in states with the federal guidelines of STLD regulation based on our modeling of enrollees in the ACA

individual market. We expect that the impact of these regulatory actions on enrollment will largely subside after 2021.

Methodology and data sources

Additional details on our methodology and data sources can be found in our [full publication](#).

STLD PLAN DESIGN SURVEY

We surveyed 96 STLD policies available as of December 2019 through eHealth, an online vendor for short-term health insurance, in the Atlanta, Georgia area. For each policy, we collected data on duration, various cost-sharing features (e.g., member cost-sharing, deductible levels, MOOP levels, and maximum limits), and premium, as well as benefit coverage information for select services.

CONDITION IDENTIFICATION AND COSTS

Using Milliman's 2016 and 2017 Consolidated Health Cost Guidelines Sources Database (CHSD),⁷ we identified the costs for patients newly diagnosed with one of the following conditions in the ACA-compliant commercial market: lymphoma, heart attack, lung cancer, diabetes, and mental health/substance use disorder hospitalization. Newly diagnosed members for each of the five conditions were identified as those members who had the condition in 2017 but not in 2016.

Per patient costs for each condition include estimated monthly premium payments and member cost-sharing payments. Monthly premium payments were estimated using average 2019 unsubsidized premiums for an enrollee of the average age and sex in a popular STLD policy and ACA-compliant bronze policy. Member cost-sharing payments were derived from CHSD, relative to the month of diagnosis.

IMPACT OF REGULATORY ACTIONS ON ACA MARKET

We reviewed all publically available rate filings for ACA-compliant individual coverage effective in 2020, including actuarial

memorandums, Unified Rate Review Templates (URRTs), and insurer objection responses. The premium impact for insurers that explicitly included an impact due to regulatory changes (which include, but are not limited to: individual mandate penalty repeal, STLD policy expansion, and association health plan expansion) was recorded.

To simulate the projected impact of regulatory actions on the ACA individual market between 2019 and 2021, we developed a model using a sample of individuals enrolled in ACA individual coverage from CHSD. Using assumptions and research on the impact of regulatory changes on 2020 premiums, we modeled enrollment patterns between ACA coverage and non-minimum-essential coverage.

Caveats and limitations

In preparing this report, we relied on data released by CMS and publically available rate filing materials for 2020. Our estimate of the impact of regulatory actions on 2020 premiums represents insurer expectations in the ACA individual market. The estimate of the future impact of regulatory actions on enrollment, as well as the illustrative patient out-of-pocket cost of an STLD policy, are based on a large sample of members enrolled in ACA-compliant individual coverage in 2017 in CHSD. Other subpopulations or time periods may exhibit different results.

This report was commissioned by The Leukemia & Lymphoma Society. The findings reflect the research of the authors. Milliman does not endorse any product or organization.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Dane Hansen and Gabriela Dieguez are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report and rendering the actuarial opinions contained herein. The authors thank Emily DeAngelis and Eric Yonda for their research assistance.



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⁷ The Consolidated Health Cost Guidelines Sources Database (CHSD) contains paid cost, allowed cost, and billed cost, along with utilization, for inpatient, outpatient, professional, and pharmaceutical services for a commercial population, including individual market payers as well as small and large group employer sponsored plans.