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Short-Term Health Plans: The Pros and Cons

In response to a directive from President Trump, the U.S. Department of Health & Human Services has proposed a new rule that would allow short-term health care policies to span 364 days instead of the current three months. Federal officials say the intention is to provide more affordable coverage options.

Short-term plans are much less expensive than plans sold on the state and federal insurance exchanges because they aren't subject to certain mandates. For example, they don't have to comply with the "community rating" rule, which prohibits insurers from charging sick enrollees more than they charge healthy ones. They also don't have to comply with the "guaranteed issue" mandate, which requires insurers to offer coverage to everyone.

Short-term plans offer temporary coverage for many of the same things standard health plans do. They don’t, however, cover things like preventive care, maternity care, or pre-existing medical conditions.

Supporters of the rule say that while the plans don’t meet the coverage requirements of the Affordable Care Act (ACA), they offer a meaningful measure of protection to people who need to fill a gap in health insurance coverage. "An ACA plan is a fine solution for individuals and families who qualify for financial subsidies to lower their health insurance costs. But for the 8 million Americans who don't qualify for an ACA plan subsidy and for those in a variety of life events, they should know there are other affordable options," said Jeff Smedsrud, CEO of Pivot Health. "When life throws a curveball, short term health plans can be a low-cost insurance solution while covering doctor office visits, hospitalization and more. It is a niche, temporary solution, but a large overall market."

Supporters see the plans as especially appealing to workers in the “gig economy” and those just starting a business. Short-term medical insurance can start in just 24-hours and costs about 50% less than traditional health insurance. The plans are also a good in situations where employers have a 90-day waiting period before health insurance benefits begin. A temporary short-term health plan helps bridge the gap for workers who are between jobs or stuck in a new employee waiting period.

Opponents, however, see the plans as having a destabilizing effect on the Affordable Care Act’s individual market. Starting next year, the tax penalty for individuals who don’t have health insurance is $0, so it’s possible the change could lead consumers to consider purchasing short-term policies. And because healthier people will be siphoned away from ACA-compliant plans, the current upward pressure on the cost of health care premiums will be even greater. That could make

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it less likely that insurers will offer ACA-compliant plans either on or off the exchange.

A recent report from the Kaiser Family Foundation noted that the 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;
- 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;
- Can impose lifetime and annual limits – for example, many policies cap covered benefits at $1 million or less;
- 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
- 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%.

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