OPINION

Three ways 'fake insurance' is undermining the health coverage market

by Margaret Murray | April 26, 2018 12:00 AM

Fewer benefits. Higher premiums. A drained risk pool. Short-Term, Limited Duration Insurance plans threaten all three legs on which the individual health insurance market stands.

Healthcare reforms have traditionally rested on a foundation often described as a "three-legged stool."

The first leg is made up of insurance reforms to ensure that coverage is meaningful: In the context of the Affordable Care Act, it means essential health benefits are covered and exclusionary practices like lifetime limits and restrictions on pre-existing conditions are ended. The second leg consists of mandates that everyone — young and old, healthy and sick — purchase insurance so that the shared risk of all consumers is as broad and diverse as possible. This contains cost and premium growth.

Finally, the third leg of the stool helps bring premiums within reach for people with low incomes. In the case of former President Obama's healthcare law, this has meant government subsidies.

Each leg of the stool reinforces the others. The insurance must be useful, the risk pool must be close to universal, and the coverage must be affordable. However, the Trump administration is considering new regulations for Short-Term, Limited Duration Insurance plans. Such plans tend to feature lower premiums but also skimpier benefits and fewer consumer protections. These regulations would result in essentially “fake insurance” for some and higher premiums for the rest of us. It would weaken all three legs of the stool at once, a perversely impressive accomplishment.

STLDI plans were first created to do exactly what the name implies — offer some insurance benefits for a short period of time. HHS defined them as "designed to fill temporary gaps in coverage that may occur when an individual is transitioning from one plan or coverage to another plan or coverage." These plans were originally intended to be temporary stopgaps, not a substitute for coverage. Think of them as those small spare tires in a car: They get the job done for short periods of time, but you can’t drive them for too fast or too long.

But the proposed rule offered by the Trump administration would do just that. It would change the maximum period for STLDI coverage from 3 months to 12, turning a short-term stopgap into a stand-in for a year-round insurance plan. Congress and the administration are also considering ways to allow individuals to renew STLDI coverage for longer than 12 months.

STLDIs would undermine some of the most popular insurance reforms established under the Affordable Care Act — including those popular on both sides of the aisle. STLDI plans, for instance, can exclude people on the basis of pre-existing conditions. They need not cover essential health benefits, like maternity care or treatment for substance abuse. And STDLI plans often have deductibles of up to $20,000 for three months of coverage. Some also have annual coverage limits of $1 million.

Not only do STLDI plans *not* cover pre-existing conditions, but what was covered when you bought the plan can be excluded three months later when you try to renew the plan. Rescissions are rampant in the STLDI market, leading to retroactive cancellation of policies that stick patients with enormous medical bills.

STLDI plans, in other words, feature everything the public hated about health insurance before the Affordable Care Act was passed. To lower the cost of a plan, insurance companies strip out every provision that might be of value to a patient. They are selling fake insurance that doesn’t cover what people expect it to cover.

A study we commissioned from Wakely Consulting Group found the most direct impact of the proposed STLDI regulations to be the reduction in the number of healthy, young consumers in the individual market. Projections prepared by HHS estimate between 100,000 and 200,000 individuals would exit exchanges to take up coverage in STLDI plans in 2019. Wakely found the

Trump administration to have grossly underestimated this impact, projecting instead that the entire ACA-compliant market would decrease between 400,000 and 790,000 enrollees.

Those left behind would be older and sicker as a group — sending premiums spiraling higher. Wakely found that STDLI plans will have an increasingly adverse effect on the individual market over time. Between the harmful effects of STLDIs and the effective repeal of the individual mandate, Wakely estimates premiums in the ACA-compliant market to rise up to 12.8 percent and enrollment to go down by as much as 26.3 percent.

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They deserve greater attention. When protections for essential health benefits and people with pre-existing conditions were threatened by "repeal and replace," the issue was news in the morning newspaper and a topic of late-night talk show hosts. When the individual mandate was challenged, arguments about its merits were heard in the halls of Congress and before the U.S. Supreme Court. And when Congress failed to pay for cost-sharing reduction payments earlier this year, every healthcare reporter in Washington took notice. But when it comes to STLDIs, there is hardly any coverage in the media or outcry by the public.

Every threat to the stability of America's healthcare system must be taken seriously. And STLDIs — fake insurance — are particularly egregious.

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[i] Murray, Margaret. "Three Ways 'Fake Insurance' is Undermining the Health Coverage Market." The Washington Examiner, 26 April, 2018, https://www.washingtonexaminer.com/opinion/op-eds/three-ways-fake-insurance-is-undermining-the-health-coverage-market