

# The expansion of short-term limited-duration policies and implications for patients

A survey of STLD plan designs and comparison of out-of-pocket costs between ACA-compliant and STLD policies for patients newly diagnosed with five medical conditions

Dane Hansen, FSA, MAAA  
Gabriela Dieguez, FSA, MAAA

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Recently-enacted regulations are expected to increase consumer access to short-term limited-duration (STLD) health insurance.<sup>1</sup> Historically, STLD policies have been offered to fill a temporary gap in coverage.<sup>2</sup> They are not required to comply with provisions of the Patient Protection and Affordable Care Act (ACA).<sup>2</sup> Therefore, STLD policies can impose annual or lifetime limits, exclude coverage for the ACA essential health benefits, and are not guaranteed renewable.<sup>2</sup> Given these differences, premiums for STLD plans are generally lower than ACA-compliant coverage, providing a lower premium option for individuals when in-between jobs or health insurance coverage in exchange of a greater financial risk.<sup>2</sup>

Effective October 2, 2018, the Departments of Treasury, Labor, and Health & Human Services expanded access to STLD plans by increasing the maximum duration from three months to up to 364 days, renewable up to 36 months.<sup>1</sup> The expanded access to STLD policies has increased the number of options available to consumers who are seeking health coverage. The Centers for Medicare & Medicaid Services (CMS) estimates that enrollment in STLD plans will reach 1.9 million by 2022, with a majority of these individuals assumed to be enrollees previously covered in the ACA marketplace.<sup>3</sup>

The Leukemia & Lymphoma Society engaged Milliman to examine how the increased availability of STLD policies may impact patient out-of-pocket costs. We used actuarial models to compare the expected costs for individuals who are newly diagnosed with a medical condition while covered under typical STLD and ACA-compliant policies. We found that STLD plans offer lower premiums but fewer benefits and less out-of-pocket protection than ACA-compliant policies to individuals with a newly diagnosed condition or acute event, even after adjusting for differences in premiums.

## A survey of STLD plan designs

We reviewed the plan designs of 96 STLD policies offered in December 2019 through eHealth in the Atlanta, Georgia market. The Atlanta market was selected because it is a large, competitive market with total healthcare benefit costs near the national average, according to Milliman's 2019 Commercial Health Cost Guidelines (HCGs).<sup>4</sup>

**Of the STLD policies studied, over 25% had a deductible greater than the 2019 maximum limit for ACA-compliant policies of \$7,900**, established by the Department of Health & Human Services (HHS). Sixty percent of these policies had a maximum patient 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, this was only six months.

**All policies in our research included a maximum coverage limit.** The vast majority of STLD policies surveyed (88%) had a maximum coverage limit of \$1 million or \$2 million. ACA-compliant policies have no maximum coverage limit.

**Two-thirds of the STLD policies included in our research did not cover prescription drug benefits, and over half did not cover mental health benefits.** Exclusions for mental health encompass the "treatment of mental disorders, or court-ordered treatment for substance abuse." Services resulting from the use of substances were also separately excluded.

**All STLD policies in our research included a preexisting condition exclusion provision.** This provision allows denial of coverage to individuals with a medical condition that existed prior to the effective date of the STLD policy.

**The average premium for a popular STLD policy was lower than the unsubsidized premium for an ACA-compliant bronze policy.** Premiums for STLD policies are often more

<sup>1</sup> 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>.

<sup>2</sup> Pollitz K, Long M, Semanskee A, Kamal R. Understanding Short-Term Limited Duration Health Insurance - April 2018. Henry J Kaiser Fam Found. 2018;(April 2018). <http://files.kff.org/attachment/Issue-Brief-Understanding-Short-Term-Limited-Duration-Health-Insurance>.

<sup>3</sup> 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>.

<sup>4</sup> The Health Cost Guidelines (HCGs) are a cooperative effort of all Milliman health actuaries and represent a combination of their experience, research, and judgement. An extensive amount of data is used in developing the HCGs and that data is updated annually.

FIGURE 1: PLAN DESIGN COMPARISON

POLICY FEATURE	POPULAR STLD PLAN*	POPULAR ACA BRONZE PLAN**
Initial duration	6 month	12 months
Deductible	\$12,500	\$4,600
Member cost-sharing	Coinsurance, 30%	Coinsurance, 30%
Maximum out-of-pocket limit	\$22,500	\$7,900
Policy maximum coverage limit	\$2,000,000	No Limit
Prescription drug coverage	Not covered	Covered
Mental health services coverage	Not covered	Covered
Maternity service coverage	Not covered	Covered
Monthly premium (age 27, female, nonsmoker)	\$77.10	\$293.01

\* Reflects the plan design for the Short Term Medical Value Select A policy, offered by UnitedHealthcare in 2019.

\*\* Reflects the plan design for the Anthem Bronze Pathway X Guided Access HMO 4600 Online Plus ACA-compliant bronze policy, offered by Anthem in 2019.

affordable than for ACA-compliant policies, although they may result in substantial out-of-pocket expenses when using the benefits.

Figure 1 compares two popular STLD and ACA-compliant bronze policies.<sup>5</sup> While the premium for the popular STLD policy is lower than the premium for the popular ACA-compliant bronze policy, the STLD policy has several limitations: a greater deductible and a maximum out-of-pocket limit, a maximum coverage limit, and coverage exclusions for certain services, including maternity, mental health, and prescription drugs.

## STLD policies spend less on medical care than ACA-compliant policies

Using Milliman's 2019 HCGs,<sup>4</sup> we estimated the actuarial value for the popular STLD and ACA policies from Figure 1 as well as a typical STLD plan representative of the most common benefits among the STLD policies included in our research. Actuarial value represents the proportion of total average costs for covered benefits that a plan will pay (versus what a member is expected to pay through member cost-sharing). ACA-compliant plans are required to have an actuarial value of at least 60%.

As shown in Figure 2, we estimated that the popular STLD plan has an actuarial value of 41%, indicating that for each dollar of covered services, the insurer pays 41 cents and the patient pays 59 cents.

Actuarial value does not factor in non-covered services.

Therefore, in addition to the portion of covered services paid by patients, patients enrolled in STLD plans may also bear the full costs of prescription drugs, mental health, and maternity services, if not covered by the plan. We estimated that these three services make up roughly 30% of total estimated allowed (i.e., patient and insurer paid) spending for the popular ACA plan.

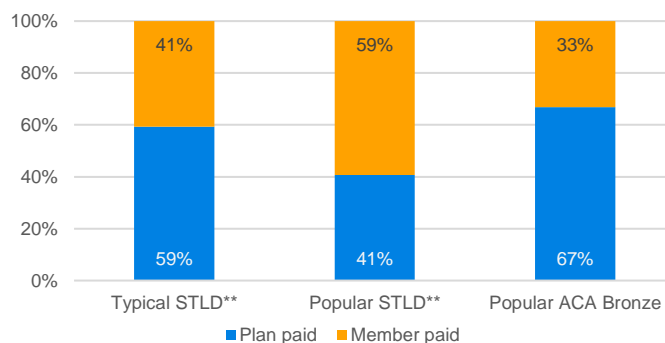
## The cost of a new diagnosis

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.

We performed an analysis on newly diagnosed cases of five select conditions: lymphoma, diabetes, lung cancer, heart attack, and a mental health or substance use disorder (MH/SUD) hospitalization. Figure 3 illustrates the total cost per patient, including monthly premium and member cost-sharing payments, in the six-month period following the new diagnosis of one of the five conditions among individuals enrolled an ACA-compliant plan and among individuals enrolled in an STLD plan. Because a diagnosis of this nature can impact a patient's ability to secure coverage, we illustrate two STLD policy scenarios:

- **STLD Scenario 1:** Assumes the patient is enrolled in an STLD policy for a six-month period following diagnosis.
- **STLD Scenario 2:** Assumes the patient is enrolled in an STLD policy for three months following diagnosis, is declined renewal thereafter, and unable to obtain immediate coverage in the ACA market (i.e., the patient is uninsured for the following three-month period).

FIGURE 2: ESTIMATED ACTUARIAL VALUE BY PLAN TYPE\*

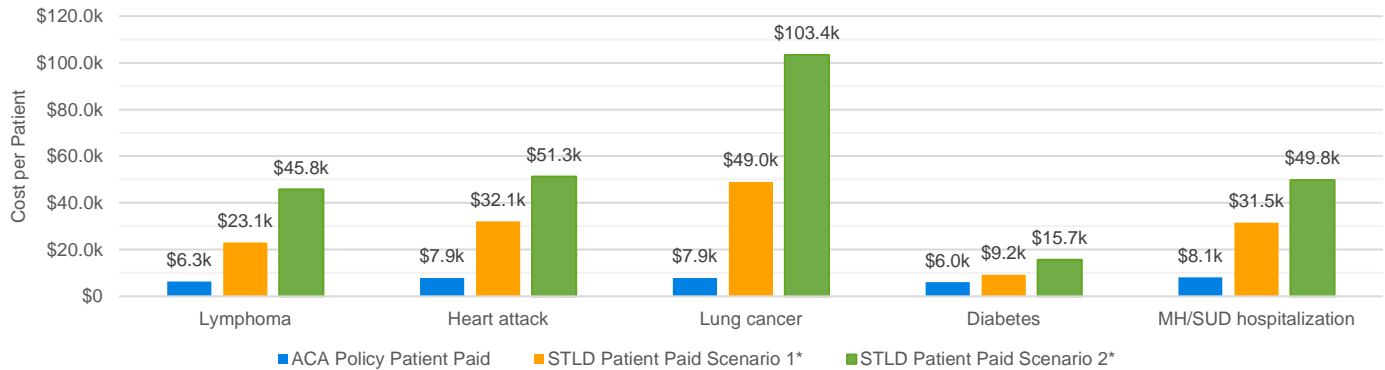


\*The typical STLD plan is a hypothetical policy reflecting median benefits and the most common characteristics among the STLD policies we researched. See Figure 1 for popular STLD and popular ACA policy definitions.

\*\* Does not cover maternity, mental health/substance use disorder (MH/SUD) or prescription drug services.

<sup>5</sup> Bronze ACA-compliant plans exhibit the lowest unsubsidized ACA premiums and most closely resemble the cost-sharing levels of STLD policies.

**FIGURE 3: 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 by the provider for all services following termination of the STLD policy.

Under both scenarios, the assumed cost per patient in the six-month period following diagnosis is greater than under an ACA-compliant policy. For example, in the six-month period following a new diagnosis in 2017, a new lymphoma patient enrolled in an STLD policy could pay \$16,800 more in out-of-pocket expenses, including premium and member cost-sharing, than they would while enrolled in an ACA plan (see STLD Scenario 1).

ACA-compliant policies also offer the advantage of guaranteed renewal; a typical STLD policy includes preexisting condition exclusion provisions, which may lead to newly diagnosed enrollees being uninsured and having to wait until the next ACA open enrollment period begins for coverage beginning the following year. We determined that a patient who is denied STLD renewal three months following a new diagnosis of lymphoma and subject to providers' billed charges would be responsible for \$39,500 more than the same patient covered under an ACA-compliant individual policy (see STLD Scenario 2). Therefore, individuals opting for STLD coverage must carefully consider the appropriate policy duration to avoid gaps in coverage and potential exposure to financial risk.

Figure 4 illustrates the longitudinal journey for a newly diagnosed lymphoma patient enrolled in an ACA-compliant policy as well as two scenarios of STLD policies. The lines represent average out-of-pocket cost per patient in each month (including monthly premiums and member cost-sharing). Patient out-of-pocket figures for the ACA-compliant policy were empirically derived

from our databases; figures for STLD policies were estimated based on actuarial models.

To estimate cost-sharing payments for patients enrolled in a STLD plan, we applied benefit coverage and cost-sharing characteristics commonly observed in STLD policies to the empirical monthly billed (undiscounted), allowed, and out-of-pocket costs of ACA individual enrollees with a new diagnosis. Maternity, mental health, and pharmacy services were assumed to be not covered. Out-of-pocket expenses for other medical services were modeled at 50% cost-sharing. No maximum out-of-pocket limits were applied. Our estimates represent what the out-of-pocket costs would have been, including estimated premium and member cost sharing, had the member been enrolled in an STLD policy instead of an ACA-compliant plan.

## Methodology and data sources

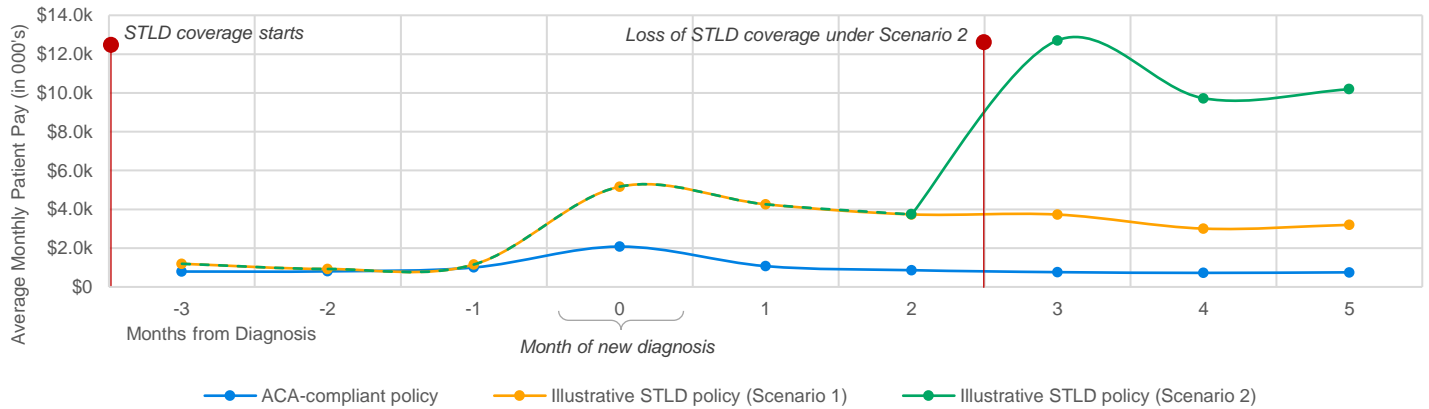
Additional details on our methodology and data sources can be found in our [full publication](#).

We developed the estimated actuarial values using Milliman's 2019 Commercial HCGs.<sup>4</sup> The HCGs were calibrated to the nationwide average claims utilization and costs, with demographics reflecting a sample population of individuals enrolled in ACA-compliant bronze policies.

We also used Milliman's 2016 and 2017 Consolidated Health Cost Guidelines Sources Database (CHSD)<sup>6</sup> to identify the costs, prevalence rate, and incidence rate for individuals diagnosed with

<sup>6</sup> 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.

**FIGURE 4: MONTHLY TOTAL PATIENT OUT-OF-POCKET COSTS (PREMIUM + MEMBER COST SHARING) PER MONTH IN THOUSANDS FOR ACA-COMPLIANT INDIVIDUAL MARKET NON-CSR ENROLLEES WITH A NEW DIAGNOSIS OF LYMPHOMA IN 2017 (N = 414)**



\* See Figure 3 for scenario definitions.

each of the following conditions: lymphoma, heart attack, lung cancer, diabetes, or a MH/SUD hospitalization. From CHSD, we studied all members in the individual ACA-compliant marketplace who were under the age of 65 and had continuous enrollment in 2017. We defined prevalence rate as the proportion of members with a diagnosed condition. We then identified members as newly diagnosed if the condition was not present in 2016.

### Caveats and limitations

Our model of patient out-of-pocket costs under STLD policies was based on a large sample of members enrolled in ACA-compliant individual coverage in 2017 and are representative of popular policies as identified in our research. The modeling of

specific subpopulations, geographies, and time periods may produce 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.

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#### CONTACT

Dane Hansen  
[dane.hansen@milliman.com](mailto:dane.hansen@milliman.com)

Gabriela Dieguez  
[gabriela.dieguez@milliman.com](mailto:gabriela.dieguez@milliman.com)

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