DEPARTMENT OF HEALTH AND HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop N3-26-00
Baltimore, MD 21244

OFFICE OF THE ACTUARY

Date: April 6, 2018

From: Paul Spitalnic, ASA, MAAA
Chief Actuary

Subject: Estimated Financial Effects of the Short-Term, Limited-Duration Policy Proposed Rule

On February 21, 2018, a proposed rule[1] was released by the Departments of Treasury, Labor, and Health and Human Services that would amend the definition of short-term, limited-duration (STLD) insurance policies. Specifically, the maximum life of such policies would be increased from 3 months to 1 year. However, there is nothing in the proposed rule that would prevent companies from underwriting and issuing new policies to individuals at the end of the 1-year coverage term. This memorandum provides the Office of the Actuary's estimates of the budgetary, enrollment, and premium effects of this proposed rule.

STLD plans are not considered individual market insurance policies, and therefore they are exempt from the statutory coverage requirements of the individual market. Moreover, they do not need to meet the essential health benefits requirements or the actuarial value requirements, they can be medically underwritten, and they are not eligible for Federal subsidies in the Health Insurance Marketplace. As a result, insurance companies would be able to offer these policies to individuals who are in good health at a substantially lower premium than available in the individual market. To model the impact of this policy change, we made the following assumptions:

- The impacts are estimated relative to the President's Fiscal Year 2019 Budget baseline, which is adjusted to reflect the repeal of the individual mandate.
- Due to the lower premium, 90 percent of healthy individuals with incomes over 400 percent of the Federal poverty level (and therefore unsubsidized) who have non-group coverage, and roughly one-third of healthy individuals with incomes between 300 and 400 percent of the Federal poverty level who have non-group coverage, would ultimately choose to purchase a STLD policy.
- The shift to these policies was modeled with a 4-year transition, and roughly two-thirds of the ultimate impact would occur in 2019.
- The STLD plans would have an average actuarial value of 50 percent and slightly lower non-benefit costs.
- In general, the assumptions and methods used here are the same as those in our previous health reform modeling.[2]

Based on our modeling, enrollment in the Marketplace is ultimately expected to decline by 0.8 million people by 2022 as shown in Exhibit 1. Of these 0.8 million, a large number are healthy, unsubsidized individuals moving to STLD policies, but a small number are unsubsidized

---

[1] https://www.federalregister.gov/documents/2018/02/21/2018-03208/short-term-limited-duration-insurance
[2] https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/AHCA2017.html

and unhealthy people who are dropping coverage as a result of the higher premiums. Similar shifting is expected to occur with off-Marketplace coverage, for which enrollment is projected to fall by about 0.9 million people by 2022. Take-up of the STLD policies is estimated to reach 1.9 million by 2022, and although a majority of these individuals are assumed to be enrollees who were previously covered in the individual market, some are expected to be new enrollees who are relatively healthy and join due to the lower premiums. Overall, the number of people covered by a STLD plan or in the individual market is expected to increase by roughly 0.2 million.

Exhibit 1—Estimated Impacts of the Short-Term Limited-Duration Policy Change on Enrollment in the Individual Insurance Market

Calendar Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current Law										
Marketplace	9.7	9.5	9.6	9.6	9.7	9.8	9.8	9.9	10.0	10.0
Other direct purchase[1]	5.3	5.0	4.9	4.8	4.6	4.5	4.3	4.2	4.2	4.1
Total	15.0	14.5	14.5	14.4	14.3	14.2	14.2	14.1	14.1	14.1
Proposed Rule										
Marketplace	9.1	8.9	8.9	8.8	8.9	9.0	9.0	9.1	9.1	9.2
Other direct purchase[1]	4.6	4.3	4.1	3.9	3.8	3.7	3.6	3.5	3.4	3.4
STLD	1.4	1.6	1.7	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Total	15.2	14.7	14.7	14.7	14.6	14.5	14.4	14.3	14.3	14.3
Difference										
Marketplace	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Other direct purchase[1]	-0.7	-0.8	-0.8	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7
STLD	1.4	1.6	1.7	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Total	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

[1]Off-Marketplace coverage includes enrollment in plans that we assume would meet the definition of insurance coverage. Most of these individuals are assumed to be enrolled in ACA-compliant plans.

Because the STLD plans are expected to enroll healthier individuals, those remaining in the Marketplace would be relatively less healthy, causing the average Marketplace gross premiums to rise. Based on our modeling, we estimate that gross premiums would ultimately increase by about 6 percent by 2022. Since premiums are based on income for individuals who are subsidized, there is no effect on net premiums for that group; however, the unsubsidized individuals would be subject to the 6-percent increase. A greater share of Marketplace enrollees would be subsidized because much of the unsubsidized population is expected to move to the STLD plans, and as a result the average net premium paid by Marketplace enrollees (both unsubsidized and subsidized) is ultimately expected to decline by 14 percent. Healthier individuals who opt for a STLD policy are estimated to pay a premium that is about half of the average Marketplace premium. These results are shown in Exhibit 2.

Exhibit 2—Estimated Impacts of the Short-Term Limited-Duration Policy Change on Marketplace Premiums

Calendar Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Premium Rates										
Marketplace - Baseline	$602	$636	$666	$696	$727	$760	$794	$831	$868	$908
Marketplace - Proposed	$619	$661	$697	$739	$772	$807	$843	$882	$922	$964
STLD - Proposed	$342	$348	$350	$358	$374	$390	$408	$427	$446	$466
Premium Impact										
Marketplace										
Gross Premium	3%	4%	5%	6%	6%	6%	6%	6%	6%	6%
Net Premium	−11%	−12%	−13%	−14%	−14%	−14%	−14%	−14%	−14%	−14%
STLD										
Gross Premium[1]	−43%	−45%	−47%	−49%	−49%	−49%	−49%	−49%	−49%	−49%

[1]The change in gross premium for those choosing a short-term, limited-duration policy is measured relative to the average gross premium in the Marketplace.

Since gross premiums on the Marketplace are expected to rise and net premiums for the subsidized enrollees are expected to remain the same, the advanced premium tax credits will increase. We estimate that this outcome will increase Federal spending by roughly $38.7 billion over the next 10 years. Exhibit 3 summarizes the financial impacts during the 10-year period 2019-2028.

Exhibit 3—Estimated Federal Costs (+) or Savings (-) of the Short-Term Limited-Duration Policy Change

(In billions)

Fiscal Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-28
Current Law											
Premium Tax Credits	$45.8	$44.6	$46.8	$49.5	$52.1	$54.9	$57.9	$61.0	$64.3	$67.8	$544.8
Proposed Rule											
Premium Tax Credits	$47.0	$46.7	$49.6	$53.2	$56.3	$59.3	$62.5	$65.9	$69.5	$73.3	$583.5
Federal Impact											
Premium Tax Credits	$1.2	$2.2	$2.8	$3.8	$4.2	$4.4	$4.7	$4.9	$5.2	$5.4	$38.7

Projections of individual market enrollment are premiums are inherently uncertain and this uncertainty is heightened as a result of the rapid changes in premium levels and policies such as the repeal of the individual mandate. In addition, there could be changes to state requirements for short-term plans that could significantly impact the results. We modelled the impacts as if these products would be available and marketed for all of 2019. Given the potential timing of the final rule, this may not be possible. Therefore the 2019 impacts could be far smaller than shown here.