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SB 910 (Hernandez) Factsheet Short-term limited duration insurance

Purpose

SB 910 makes it clear that short term limited duration health insurance may not be sold in California.

Background

Short-term limited duration insurance is insurance that is designed to fill a brief gap in time when a person is without health insurance. These policies existed prior to the passage and implementation of the Affordable Care Act (ACA). These policies do not comply with ACA requirements, which reformed the individual health insurance market to improve the availability and quality of coverage issued in that market. The ACA requires health insurance carriers to guarantee issue (not deny coverage to individuals for health reasons or occupation), end discriminatory premium charges, and cover essential health benefits. Short term limited duration policies can be purchased outside of the open and special enrollment periods, are available for less than 12 months and are not required to cover the essential health benefits. After the ACA was implemented some carriers started marketing these products as an ACA alternative.

These policies are not comprehensive coverage, are inexpensive and are therefore attractive to young, healthy individuals. Individuals choosing these products are less likely to participate in health care exchanges. Once an individual has a medical need that requires more comprehensive coverage, he or she will switch to an ACA compliant plan during open enrollment. When fewer young healthy individuals participate in the ACA market, premium costs increase for those who do purchase in the ACA market. An issue brief released by the Urban Institute in February of 2018 indicates that in 2019 average individual market premiums would increase approximately 18% in the states that do not prohibit or limit these plans and because of the lack of enforcement of the individual personal responsibility requirement (known as the individual mandate).

Because of these concerns, and because these products offer minimum value, the Obama Administration issued regulations prohibiting short-term policies that lasted longer than

three months, required these products be nonrenewable, and required each policy to include a notice that the policy is not minimum essential coverage and does not satisfy the individual mandate. The Trump Administration has issued an Executive Order directing federal agencies to expand the availability of shorter-term coverage and consider allowing such insurance to cover longer periods and be renewed by the consumer. Federal regulations were proposed on February 20, 2018 to expand short term limited duration policies to up to 12 months but they are not final.

California law authorizes these policies in the Insurance Code in a section dealing with “conversion policies,” which are policies that a person could purchase when he or she loses group coverage (when he or she quits a job or is fired). The group policy is “converted” to an individual market policy. This section of law has been made dormant because of the ACA, so it is not currently operative.

There are a limited number of short term limited duration policies in California today (approximately 2,000 policies). According to the Department of Managed Health Care (DMHC), these policies do not meet minimum requirements of the Knox-Keene Act. According to California Department of Insurance (CDI), the largest carriers of this product have exited the market. This bill would prohibit a health insurer regulated by CDI from issuing, selling, renewing, or offering these policies in California.

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Oppose: Anthem Blue Cross
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