

**STATE OF MICHIGAN
DEPARTMENT OF LABOR AND ECONOMIC GROWTH
OFFICE OF FINANCIAL AND INSURANCE SERVICES**

**A Report on Short-Term or 1-Time Limited Duration Health Insurance Policies
Year Ended 2006**

In 1996 the Patient's Bill of Rights legislation was signed into law in Michigan. A provision of that legislation, MCL 500.2213b, requires health insurers to renew or continue in force a nongroup policy or certificate at the option of the individual and a group policy or certificate at the option of the sponsor of the plan. Prior to the enactment of this legislation, health insurers marketed and sold short-term health insurance policies that were not renewable after a specific period of time. Individuals who are between jobs, students who no longer are covered under their parents' policies, and those who may be waiting to become eligible for benefits under a more comprehensive policy often purchase short-term policies. These policies never represented a large portion of the health insurance market. However, they served a purpose for individuals who found themselves without coverage for one of the above reasons.

With the enactment of the Patient's Bill of Rights, these policies could no longer be sold because they could not meet the renewability requirements of MCL 500.2213b. By definition, a short-term policy is nonrenewable, must be in effect for only 185 days or less in a calendar year, does not cover any preexisting conditions, is available with an immediate effective date, and without underwriting unless optional benefits are offered. If these policies were still going to be marketed, legislation had to be passed to allow these policies to be exempt from the renewal requirements of the law.

The Legislature recognized the need for this type of product in the health insurance environment and in December of 1998 passed legislation (1998 PA 457) creating the exemption for the short-term product. Recognizing a potential for misuse of this product to circumvent the Patient's Bill of Rights Act requirements, the Legislature put additional reporting requirements in the exemption to allow the Commissioner and legislators to monitor the growth of this market.

MCL 500.2213b required that no later than March 31, 1999, and annually thereafter, a written annual report be submitted that disclosed the gross written premium for short-term or 1-time limited duration policies or certificates issued in Michigan during the preceding calendar year, and the gross written premium for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan during the preceding calendar year.

The Commissioner is required to maintain copies of these reports and must annually compile the reports received under this subsection and provide the annual compilation to the Senate and the House of Representatives Standing Committees on Insurance issues no later than the June 1 immediately following the March 1 date for which the reports were provided.

The statute contains a requirement that a health insurer not continue to offer the short-term policies if issuing the policies would cause the collective gross written premium to total more than 10

percent of the collective gross written premiums for all individual expense-incurred hospital, medical, or surgical policies or certificates issued in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

Attached to this report is Exhibit 1 that specifies the current number of companies writing this coverage, the names of those companies, the total direct premium written during 2006, and the direct losses paid by each company.

American Community Mutual Insurance Company in the independent market, Times Insurance Company (formerly Fortis Insurance Company), and Golden Rule Insurance Company in the group market, write the bulk of this business based on insured member months. A member month is health coverage for one month for one person. (For example, if a person purchases a policy in July, the policy would be in force for a total of six member months by the end of the year.) These three companies have been the major writers of this coverage since filing of the reports began eight years ago.

Fairmont Premier Insurance Company has premium for this line of business for the first time in 2006. However, that premium is a result of unearned premiums from 2005 being earned in 2006. These policies came from a block of business they purchased from another company. This company is not writing this business in Michigan.

Conclusion

The short-term market appears to be shifting more toward the group market as Time Insurance Company (formerly Fortis Insurance Company), Golden Rule Insurance Co., and John Alden Life Insurance Company have focused on this market in 2005 and 2006. The group policies are traditionally written through associations, whose members may have a need for the short-term coverage. For example, if a person joined a professional association after graduation from college, that association might offer the short-term policy to that member until the member could purchase an employer group policy. The short-term or 1 time limited duration market still appears to be a small portion of the overall health care insurance market and continues to be marketed through only a few companies. The premiums and percentages have not changed significantly over the eight years the information has been collected, when eliminating Clarendon National Insurance Company, which created a large spike in the number of policies written in 2004. Please see Exhibit 2 for number of policies in force over the past eight years.

Short-Term or 1-Time Duration Health Insurance Policies										
	Policies in Force		Member Months		Direct Prem. Written		Direct Losses Paid		% of each Cos. Market*	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Company										
Individual Business										
American Comm. Mut. Ins. Co.	1043	931	0	0	1,361,846	1,317,009	864,481	618,058	0.02%	0.02%
Chesapeake Life Insurance Company	17	0	102	0	11,646	23	58,387	52	0.01%	0.05%
Continental General Ins. Co.	5	0	140	29	4,435	1,462	0	4,239	Less than .01%	less than .01%
Fidelity Security Life Insurance Company	0	0	0	0	0	0	0	4,536	None	less than .01%
Pekin Life Insurance Company	0	0	6	0	90	0	0	0	0.01%	None
Standard Life & Accident Ins. Co.	9	9	108	117	2,583	2,997	0	0	0.01%	0.07%
World Insurance Company	1	0	2	0	0	0	0	0	Less than .01%	None
Group Business										
Chesapeake Life Insurance Company	3	0	1,716	0	225,748	24,257	49,149	23,938	0.01%	0.05%
Clarendon National Ins. Co.	77	0	441	0	16,543	0	27,067	0	100%	None
Continental Casualty Company	11	0	48	0	213,336	0	15,886	0	0.07%	None
Fairmont Premier Insurance Company	0	32	0	160	0	99,607	0	23,140	None	N/A
Golden Rule Ins. Co.	1	1	14,247	16,304	779,817	908,931	389,913	730,475	0.03%	0.03%
John Alden Life Insurance Company	279	254	7,098	5,582	50,238	450,421	221,208	152,780	0.01%	0.01%
Time Insurance Company (fmr. Fortis)	1,608	1,233	36,336	26,024	2,424,104	1,927,375	1,043,357	898,453	0.05%	0.04%

* These percentages represent the amount of premium each company has written for the short-term policies divided by the total amount of Michigan health insurance premium written by that company to determine their compliance with the law.

EXHIBIT 2

Policies In Force

