STATE OF MICHIGAN
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
MICHIGAN DIVISION OF INSURANCE

A Report on Short-Term or 1-Time Limited Duration Health Insurance Policies
Year Ended 2000

In 1996 the Patient's Bill of Rights legislation was signed into law in Michigan. A provision of that legislation required 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 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. Although these policies never represented a large portion of the health insurance market, an estimated 100,000 policies were in effect in 1997. 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 renewable language required in the bill. The 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. Legislation had to be passed to allow these types of policies as an exemption from the renewal requirements of the new bill.

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 requirements in the exemption to allow the Commissioner and the legislators to monitor the growth of this market in order to determine if a need continued for this type of policy and the exemption.

The legislation 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 Committee on Insurance Issues no later than the June 1 immediately following the March 31 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% 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 2000, and the direct losses paid.

There are five companies that write the bulk of this business. It appears from the information gathered on our survey that Golden Rule Insurance Company has made a business decision to enter the group market. Continental Casualty has increased its business in both individual and group coverage; however, it still has a minimal number of policies issued in 2000. The other three companies, American Community Mutual, John Alden Life Insurance Company, and State Farm Mutual, hold the majority of the individual business.

The companies that reported policies in 1999 and did not have business in 2000 are Clarica Life Insurance Company, Columbia Casualty Company, Continental General Insurance Company, Mutual of Omaha Insurance Company, and World Insurance Company. Although Pennsylvania Life Insurance Company had policies and premiums in force in 1999, further research provided information that they had mistakenly reported short-term disability policies under this item. They do not write this form of health insurance policy.

New companies reporting premium in 2000 include American Casualty Company of Reading, PA, although this company does not appear to currently have a policy in force. American Republic Insurance Company has one policy in force, along with Nationwide Life Insurance Company, and Zurick American Insurance Company. The largest newcomer is Golden Rule Insurance Company, who has a sizable amount of group business.

The total number of individual short-term or 1-time limited duration health insurance policies written in 1999 was 1,547. The 2000 total individual policies are 1,364. The group policy market went from 6 policies in 1999 to 1,341 in 2000. Golden Rule Insurance Company accounted for the large increase in group business. Its policies are marketed through associations that provide information on the policies to their members for Golden Rule. The duration of these policies may be from one month to six months, but are not renewed.

Conclusion

As expected, most of the short-term, limited duration policies are written in the individual market, except for Golden Rule. Individuals who would normally purchase this type of coverage would not have group policies available to them. The group policies are traditionally written through associations, whose members may have 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 they could purchase an employer group policy once they found a permanent position.

The only remarkable change in the market for short-term or 1-time limited duration health insurance policies is the growth of Golden Rule in the group market. The Division of Insurance will actively monitor the group market to prevent circumvention of the short duration requirements for these policies. It appears the market has been fairly stable during the two years we have been tracking the information. However, none of the companies writing these policies appears to be violating the 10% standard found in the statute.

EXHIBIT 1

	Short-Term or 1-Time Duration Health Insurance Policies									
	Policies in Force		Member Months		Direct Prem. Written		Direct Losses Paid		% Individual Market	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Company										
Individual Business										
American Cas. Co.of Reading,PA	**0**		**0**		**28**		**0**		**less than .01%**	
American Comm. Mut. Ins. Co.	**954**	1,022	**0**		**1,216,852**	1,040,249	**427,971**	71,790	**0.015%**	0.01%
American Republic Ins. Co.	**1**		**12**		**270**		**0**		**0.001%**	
Clarica Life Ins. Co. - U.S.		4		48		3,183		1,076		less than .01%
Columbia Casualty Co.						586				0.01%
Continental Casualty Co.	**0**		**0**		**677**	1,640	**0**		**0.046%**	0.01%
Continental General Ins. Co.		8		72		8,326				0.02%
John Alden Life Ins. Co.	**240**	355	**1,353**	1,105	**245,520**	67,010	**48,164**	2,841	**0.094%**	less than .01%
Mutual of Omaha Ins. Co.		5		24		1,470				less than .01%
Nationwide Life Ins. Co.	**1**		**12**		**2,681**		**132**		**0.008%**	
Pennsylvania Life Ins. Co.		1,963		24,606		218,850		100,615		0.07%
State Farm Mut. Auto. Ins. Co.	**168**	150	**2,972**	2,118	**163,270**	114,319	**64,678**	18,853	**0.010%**	less than .01%
Trustmark Insurance Co.	**0**		**4**	10	**195**	793	**0**		**less than .01%**	less than .01%
World Insurance Co.		3		30		591				0.01%
Group Business										
Columbia Casualty Co.						574				0.01%
Continental Casualty Co.	**18**	3	**0**		**56,643**	27,838	**28,169**		**0.046%**	0.01%
Fidelity Security Life Ins. Co.	**1**	1	**0**		**95**	18,950	**2,693**	4,022	**0.001%**	less than .01%
Golden Rule Ins. Co.	**1,321**		**0**		**185,639**		**4,787**		**0.015%**	
Legion Insurance Co.	**0**	2	**0**	2	**732**	940	**0**		**less than .01%**	less than .01%
Trustmark Ins. Co.	**0**		**2**		**159**		**0**		**less than .01%**	
Zurick American Ins. Co.	**1**		**0**		**11,693**		**0**		**0.025%**	