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OFFICE OF FINANCIAL AND INSURANCE REGULATION  
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH  
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## **Short-term or One-time Limited Duration Health Insurance Policies For Year Ended 2008**

**A Legislative Committee Report issued by  
Commissioner Ken Ross**

**June 2009**

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## **Office of Financial and Insurance Regulation**

Historically, government regulated insurance, securities, and financial institutions (banks, consumer finance companies and credit unions), separately. A Depression-era federal law known as the Glass Steagall Act (adopted in response to the bank failures following the 1929 stock market crash) specifically prohibited a bank from offering securities and insurance products or engaging in commercial banking. The federal Financial Services Modernization Act of 1999, also known as the Graham Leach Bliley Act (GLBA) repealed the Glass Steagall Act barriers and allowed financial service holding companies to engage in any activity financial in nature so long as it did not cause a safety or soundness issue to the overall financial system.

With changing complexities in insurance, banking and securities, the old-fashioned regulatory model could not keep pace with the marketplace. Michigan became the first state to coordinate the regulation of insurance, financial institutions and securities into one governmental agency, under a single Commissioner, consistent with financial services modernization. Effective April 2000, the Office of Financial and Insurance Services (OFIS) was created by executive order to consolidate the Bureaus of Insurance, Financial Institutions, and the Securities Division of the former Corporations, Securities and Land Development Bureau. The creation of OFIS allowed Michigan regulators to become adept at interpreting and regulating complex services entities that did not exist a few years ago.

On February 1, 2008, Governor Granholm signed Executive Order 2008-02, which became effective April 6, 2008. The order changed the official name of OFIS to the Office of Financial and Insurance Regulation (OFIR) to reflect its regulatory and consumer protection focus.

Today, OFIR is responsible for the regulation of Blue Cross Blue Shield, 26 HMOs, 136 banks, 174 domestic insurance companies, 216 credit unions, 1,601 foreign and domestic insurance companies, 1,858 investment advisers, 2,036 securities broker-dealers, 6,172 consumer finance lenders, 171,443 insurance agents, and 123,604 securities agents. OFIR licenses, registers, or charters these entities, conducts safety, soundness, and compliance examinations, and protects and educates Michigan consumers of financial services. Through adaptability and consumer communication, the Commissioner and staff of the OFIR strive to be the preeminent financial regulators in the United States.

OFIR is headed by Commissioner Ken Ross who was appointed by Governor Jennifer M. Granholm effective February 22, 2008.

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## **Introduction**

In 1996 the Patient's Bill of Rights Act (Act) 1996 PA 517, was passed with an effective date of October 1, 1997, adding section 2213b to the Michigan Insurance Code. Among other things, the Act, established guaranteed renewability of health insurance coverage in both the individual and group markets. The Act also provided guidelines for short-term or one-time limited duration health policies.

Prior to the enactment of 1996 PA 517, health insurers marketed and sold short-term or one-time limited duration health insurance policies that were not renewable after a specific period of time. With the enactment of 1996 PA 517, these policies could no longer be sold because they could not meet the renewability requirements of MCL 500.2213b(1) and (2). Michigan Compiled Laws 500.2213b(1), requires health insurers to renew or continue in force a nongroup hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the individual. Michigan Compiled Laws 500.2213b(2), requires health insurers to renew or continue in force a group hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the sponsor of the plan. Enacted in December of 1998, 1998 PA 457 created an exemption for short-term or limited duration health insurance policies. Michigan Compiled Laws 500.2213b(4) exempts a policy or certificate of no longer than six months or 185 days, from the renewability requirement of MCL 500.2213b(1) and (2).

A provision of the Act requires an annual report to be filed by the Commissioner of the Office of Financial and Insurance Regulation to the Senate and House of Representatives standing committees on insurance issues regarding short-term or one-time limited duration health insurance policies. The annual report requirement of MCL 500.2213b(7) is a compilation of the gross written premium for short-term or one-time limited duration policies or certificates issued in Michigan during the preceding calendar year. This report is issued to fulfill that requirement and it allows the Commissioner and Legislature to monitor the growth of the issuance of these policies.

Michigan Compiled Laws 500.2213b(8) provides a ceiling of no more than 10% of a health insurer's collective gross written premium to be derived from writing short-term or one-time limited duration health insurance policies. This would be for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

Short-term or one-time limited duration health insurance policies are issued to a small portion of the health insurance market in Michigan and serve individuals who are without coverage for short durations of time. Candidates to purchase short-term policies may be 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. The short-term policy is nonrenewable and is effective for 185 days or less in a calendar year. It does not cover preexisting conditions, is available with an immediate effective date, and does not offer underwriting unless optional benefits are offered.

Short-term or one-time limited duration policies are issued to groups and individuals. 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. Individual coverage is obtained through producer sales.

## **DATA COLLECTION**

Insurers are required to file financial statements and related data on an annual and quarterly basis with the Commissioner. In addition, insurers are required to file Form FIS 0322, Michigan Health Insurance Enrollment Premiums and Losses annually by March 1st. The data analyzed to produce this report was taken from a combination of the forms FIS 0322 and the annual financial statements filed by the insurers.

## **DATA ANALYSIS**

Exhibit A identifies each insurer, its policies in force, direct premium written on short-term or one-time limited duration policies, and the company's gross premium written for all applicable health insurance. It also calculates compliance with MCL 500.2213b(8), which limits an insurer's business on short-term or one-time limited duration policies to no more than 10% of the insurer's collective gross health insurance business.

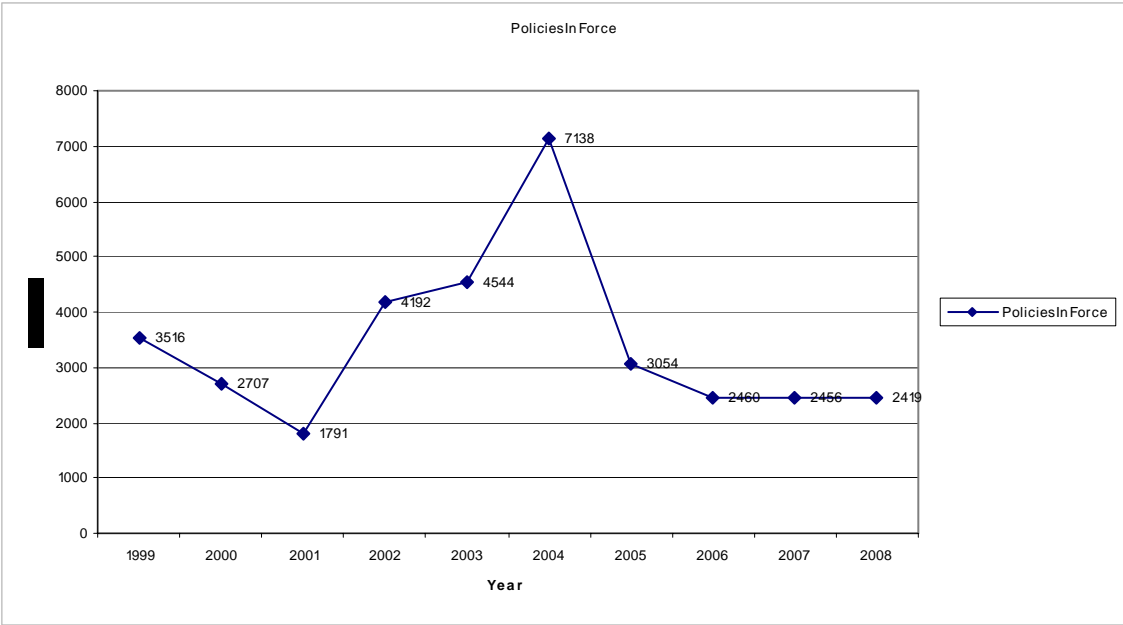
Three companies wrote the bulk of the Michigan business in 2008. The three largest writers in the group market for 2008 were Time Insurance Company, Golden Rule Insurance Company, and John Alden Insurance Company. These are the same three companies that have been the major writers of this coverage in Michigan since OFIR began capturing the data on these policies. American Community Mutual is by far the largest writer of this coverage in the individual market.

Exhibit B identifies the number of policies in force in the short-term or one-time limited duration market over the past nine years. The number of policies in force in Michigan peaked in 2004 at 7,138, declined to 3,054 in 2005, was fairly constant in 2006 and 2007 at 2,460 and 2,456 respectively. Thirty-seven fewer policies were written in 2008, with 2,419 short-term or one-time limited duration policies written.

**EXHIBIT A**

<b>Data for Short-Term/One-Time Limited Duration Health Insurance Policies</b>								
Insurer	Policies in Force		Direct Written Premium		Gross Written Premium		Compliance Calculation	
	2007	2008	2007	2008	2007	2008	2007	2008
<b>Individual Business</b>								
American Comm. Mut. Ins. Co.	603	602	937,749	800,127	80,585,934	79,451,416	1.2%	1%
Pennsylvania Life Insurance Company	9	28	3,607	12,880	2,040,385	1,671,968	.2%	.8%
Standard Life & Accident Ins. Co.	1	8	398	2,580	407,981	585,923	Less than .01%	.4%
<b>Group Business</b>								
Celtic Insurance Company	0	52	N/A	125,031	N/A	2,234,053	N/A	5.6%
Golden Rule Ins. Co.	1	1	891,553	646,540	52,926,635	50,655,704	1.7%	1.3%
John Alden Life Insurance Company	229	225	367,787	320,316	41,106,602	35,756,747	1%	1%
Markel Insurance Co	0	8	N/A	9689	N/A	133,260	N/A	7.2%
Standard Life & Accident Ins. Company	1	5	398	1784	407,981	585,923	Less than .01%	.3%
Time Insurance Company (fmr. Fortis)	1,183	1,490	1,646,995	1,592,691	58,208,151	47,992,450	2.8%	3.3%

**EXHIBIT B**

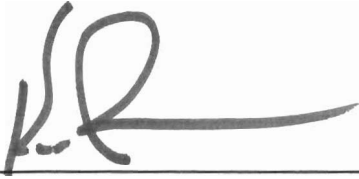


**Source data from FIS 0322 and carrier financial statements**

## CONCLUSIONS

The Commissioner finds that:

1. The short-term or one-time limited duration market continues to be a small portion of the overall health care insurance market in Michigan. The coverage is marketed by only a few insurers.
2. The gross premiums written and percentage of an insurer's total business have not changed significantly over the nine years when this data was first collected.
3. The short-term or one-time limited duration market is a niche market providing coverage for a specified set of circumstances.
4. Carriers appear to favor the group market for the short-term or one-time limited duration policies. The group market for short-term or one-time limited duration is more than twice as large as the individual market for these policies.
5. Companies writing short-term or one-time limited duration policies in Michigan are in compliance with MCL 500.2213b(8).



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Ken Ross  
Commissioner  
Financial and Insurance Regulation



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Date