

What Impact Will Health Care Reform Have on Limited Medical Plans and Pan-American Life Insurance Company Products?

The Patient Protection and Affordable Care Act (PPACA) will have a significant impact on group health plans, including certain limited medical plans, over the next few years.

Pan-American Life's limited benefit plan, PanaMed, is an indemnity-based plan and is exempt from the federal health care reform coverage requirements.

Limited Medical Plan Types

There are generally two styles of limited benefit plans within the limited medical industry:

1. Coinsurance (sometimes referred to as "copay-based" or "expense incurred")
2. Indemnity-based (sometimes called "fixed indemnity") insurance

In the coinsurance design, benefits are paid as a percentage of incurred usual and customary charges, and the plan typically includes deductibles, copays and/or coinsurance, paid up front. These types of plans are generally subject to the PPACA coverage and minimum loss ratio requirements, absent a waiver from the Department of Health and Human Services.

The second type of limited medical plan traditionally features an indemnity-based design, or benefits that are paid according to a clearly defined, fixed schedule of benefits. They are also typically first-dollar coverage, offer access to PPO network discounts and are structured for rate stability. Most carriers design the plan to fit either the benefit desires of the group and/or the price points that the group has budgeted. Fixed indemnity-style limited medical plans that do not issue creditable coverage letters or represent themselves as a true group health insurance plan are typically considered supplemental health plans and are exempt from many of the PPACA changes.

PPACA and PanaMed

Pan-American Life Insurance Company's limited benefit plan, PanaMed, is filed and approved as hospital indemnity coverage. PanaMed provides fixed, scheduled indemnity benefits regardless of the actual cost of the incurred service and provides first dollar coverage. These indemnity payments can be applied to cover a part of the cost that an insured may incur upon the occurrence of a covered event, such as a doctor's visit or hospitalization. PanaMed does not have deductibles or coinsurance.

Pan-American Life Insurance Company has sold hospital indemnity plans for over a decade and has been a reliable and financially sound solution for many employer groups. Supplemental health products such as our hospital indemnity, medical accident and dental plans are generally not creditable or comprehensive major medical coverage, and are not impacted by PPACA changes. At this time, we intend to continue to sell our PanaMed product without any changes to the plan design, and believe that these products will continue to provide significant value to employers and their employees.

Near Term Effects of Health Care Reform

Except for certain exempted products, all health benefit plans are subject to the following changes, effective for plan years beginning on or after September 23, 2010¹:

- Restricted Annual Limits on “Essential Health Benefits”
A carrier may impose annual limits on “essential health benefits” only as determined by the Secretary of Health and Human Services. Beginning in 2014, a health plan may not have any annual limits.
- Employers May Not Discriminate in Eligibility in Favor of Highly Compensated Employees
A group health plan sponsor may not establish coverage eligibility rules “that have the effect of discriminating in favor of higher wage employees.”
- Dependent Coverage to Age 26.
If a health care carrier provides dependent coverage, the carrier must provide adult child coverage until the 26th birthday (through age 25). Dependent coverage may be greater if required by state law.
- Prohibition of Pre-existing Condition Exclusion for Children
A group health plan may not impose a pre-existing condition exclusion with respect to an enrollee under age 19.
- Coverage of Preventive Health Service
A group health plan shall provide coverage for and not impose any cost sharing requirements for preventive care (i.e. certain colonoscopies, mammograms, pap smears), immunizations, and child screenings.
- Prohibition Against Rescission Except in Case of Fraud
Under the Act, a group health plan cannot rescind coverage except in the case of fraud.

Longer Term Effects of Health Care Reform

Effective in 2014, there will be additional requirements, including a total prohibition (for both children and adults) against pre-existing condition exclusions, further limitations on deductibles and cost sharing, and a prohibition of waiting periods in excess of 90 days. In addition, most individuals will be required to have health insurance beginning in 2014. Large employers will be required to pay penalties for employees who receive tax credits for purchasing health insurance through the newly created health insurance exchange.

Pan-American Life will continue to monitor regulatory developments that may affect our products. We encourage clients to consult their own legal or tax advisors as needed to review other aspects of the federal health plan legislation, such as the availability of exchanges and obligations of employers to provide creditable health coverage. Clients can also visit www.healthcare.gov for more information.

¹ For plans on a calendar year basis, these changes become effective on January 1, 2011. The non-discrimination rules and preventive care rules will not apply to grandfathered plans.