



Insurance Overview: Major Medical, Short-Term, Fixed Indemnity

Center Forward Basics
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Introduction

A variety of health-related coverage options are available in the United States, all of which may be valuable to consumers, but which serve different purposes. Certain types of health insurance are essentially an agreement between a health insurer and the insured as a patient. This type of agreement requires the insurer to pay some, or all of a patient's health care costs in exchange for a premium paid by the patient or their employer. Other types of coverage are triggered by certain health related events but are clearly not intended as major medical insurance providing health care, but rather providing additional financial protection. The need for adequate insurance is clear. According to Kantar Polling, nearly half of all American employees feel they are not financially prepared for an unexpected medical event. In general, three main kinds of private health insurance are available to consumers in the United States healthcare system.

Overview

The first and most common kind of insurance available is major medical. Major medical insurance plans compliant with the Affordable Care Act (ACA) are available in the small and large employee markets as well as the individual market. These insurance plans are subject to all ACA requirements such as essential health benefits (individual and small group only), no annual or lifetime dollar limits on essential health benefits, no exclusions for pre-existing conditions, and ACA limitations on individual underwriting for eligibility or premiums.

Another market option is short term limited duration insurance. Available only in the individual market, short term insurance plans are not subject to any ACA requirements. Premiums vary based on the scope of benefits provided and individual health status. Pre-existing conditions are generally not covered. With renewals, these plans can potentially last up to thirty-six months, although the Biden Administration has recently proposed a set of rules that would decrease the maximum amount of time on these plans to four months which will strengthen the Obamacare exchange. The rules also include increased disclosure requirements for insurers. This kind of coverage is intended as limited primary coverage for individuals who have a temporary gap in coverage - most often as a consequence of moving from one job to another. Short term coverage is also used as a bridge between healthy uninsured individuals and the next open enrollment for a major medical plan.

A third type of insurance coverage is health fixed indemnity

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common-sense solutions.

For more information, please visit www.center-forward.org

Employees By The Numbers:

- 25% of all American employees have faced a major medical event in the last year
- 88% of employees have faced unexpected healthcare related costs
- More than half of all employees missed a paycheck or took time away from work due to unplanned health events
- 1/3 of employees have delayed a medical procedure in order to save money
- 90% of employees report seeing a growing need for supplemental insurance
- More than 43% of adults were under insured in 2020

coverage. While generally triggered by a health event, this type of coverage is not intended to serve like primary medical coverage. Rather, they provide patients with funds for expenses not covered by major medical insurance, such as copays and deductibles, or ancillary expenses associated with their health event such as child-care, hospital parking, transportation, etc. The benefit payments to the individual may be used for any purpose, thus providing the flexibility to use the money as they need to. This coverage is available as group and individual products. Fixed indemnity coverage can be bought for a variety of risks, such as accidents, critical illness, hospital confinement, cancer, and more. Fixed Indemnity plans are created to offset the financial challenges one experiences due to accidents or illness, not to provide specific medical care or replace major medical insurance.

Major Differences

A number of differences exist between the insurance options consumers may choose. One of the most important is how policyholders receive their benefits. Traditional major medical insurers and short-term insurance plans pay doctors, hospitals, pharmacies and other healthcare infrastructure for covered expenses such as treatments, procedures, prescriptions, etc. whereas fixed indemnity coverages typically pay policyholders directly. A second notable difference is fixed indemnity coverages' non-exclusive nature. Fixed indemnity coverages pay customers regardless of what their major medical plan is while major medical insurances coordinate with multiple plans to determine the claims paid. Lastly, it is important to acknowledge fixed indemnity coverages are considered HIPAA excepted benefits and are thus not major medical benefits. As a result, their benefits are generally excluded from rules and regulations designed for major medical coverage.

Competing Perspectives

Groups looking for alternatives to ACA plans could point to short term coverage plans as viable alternatives, and furthermore, some have mistakenly perceived fixed indemnity coverages as a way to undermine the ACA. In reality, these plans typically only supplement ACA compliant coverage as they are not intended to provide holistic and complete care.

In some cases, there is an education barrier with the public, which leads patients to be purchasing fixed indemnity plans believing they provide the same coverage as major medical plans. On the other hand, many recognize the value of the additional financial protection these fixed indemnity plans provide. Many believe adequate disclosure requirements for these plans could be a viable approach to making sure individuals understand their coverage.

Key Definitions:

- **Premium:** The amount an individual pays their health insurance provider monthly.
- **Affordable Care Act (ACA):** Enacted in 2010 and commonly referred to as "Obamacare", the law attempts to provide more health insurance to a greater portion of the population through subsidies, expanding the Medicaid program, and supporting innovative medical care delivery methods.
- **Essential Health Benefits:** A set of 10 categories of services health insurance plans must cover as a result of the ACA. These include prescription drug coverage, pregnancy, mental health services etc. Specific services may vary based on individual states.
- **Pre-existing Conditions:** A health problem the patient had before the date that the new health coverage started. Major medical insurances can't refuse to cover treatment for pre-existing conditions or charge patients additionally.
- **Fixed Indemnity Coverage:** A type of medical insurance that pays a predetermined amount on a per-period or per-incident basis regardless of the total amount of medical charges incurred.
- **Health Insurance Portability and Accountability Act (HIPAA)- Excepted Benefits:** First defined in 1996, these benefits are not intended as major medical benefits or as a substitute for major medical benefits, and typically provide independent coverage more limited in scope and fills gaps left by major medical insurance.

Links to Additional Resources

- HealthCare.gov: [Glossary](#)
- Healthinsurance.org: [Fixed-indemnity health insurance](#)
- Aflac: [There's a big difference between short-term medical insurance and other policies](#)
- Kaiser Family Foundation: [Employer Health Benefits Survey](#)
- New York Times: [Getting Sick Can Be Really Expensive, Even for the Insured](#)
- Aflac: [Financial Insecurity Implications for the U.S. Workforce](#)
- The Commonwealth Foundation: [How Well Does Insurance Coverage Protect Consumers](#)
- PWC Health Research Institute: [Top Health Industry Issues of 2019](#)
- Kaiser Family Foundation: [Most Short-Term Health Plans Don't Cover Drug Treatment or Prescription Drugs, and None Cover Maternity Care](#)
- Axios: [Bridging America's Medical Divide](#)