# Student Health Insurance:

## Opportunities for Universities in the Wake of the Affordable Care Act

By Beth Turbitt

## Overview

With the 111th United States Congress' enactment of the Patient Protection and Affordable Care Act (ACA) in March 2010, the student health insurance market has gone through evolutionary changes. Through this legislation, student health insurance, which was historically categorized as a type of blanket accident and sickness insurance, has been brought into a broader category analogous to employer health insurance and the ensuing regulatory parameters. Universities are beginning to understand that self-funding their student health insurance offerings with tailored stop loss coverage can positively impact inherent cost and enterprise risk management strategy.

## Conditions That Led to the Consideration of Self-funded Student Health Insurance Plans

In the past, before the enactment of the ACA, student health insurance plans were allocated benefit accident and sickness insurance/medical service plans with usual average maximum/lifetime limits of $250,000. The student health insurance segment of the accident and sickness insurance market was fostered by the steady competition of a group of niche accident and sickness underwriting companies, along with larger national health insurance companies like Aetna, United Healthcare and Blue Cross organizations. With the regulatory applicability of the ACA to student health insurance, the respective exposure base became more encompassing and required to comply with ACA-mandated minimum essential benefits as well as the unlimited benefit maximum threshold. More importantly, however, was the applicability and imposition of a corporate tax and executive compensation implications that attached to any insurance company underwriting a health plan, including a student health plan, as defined by the ACA.

The stringent and overly burdensome corporate budgetary and operational parameters imposed by the ACA caused the niche accident and sickness underwriting companies in the student health insurance market to exit the line of business, as offering this product line brought their entire corporate operations under the purview of the ACA. Consequently, the number of choices of student health insurance underwriters has constricted to two large national health insurance companies and a handful of designated wholesaling administrators underwriting on behalf of the remaining carriers, along with some regional health plans and Blue Cross entities.

## Universities are Responding with Self-funding and Diversion to Exchanges

With a reduction of choice and an increased cost of providing student health insurance due to the increased benefits and maximum limits required by the ACA, some colleges and universities are contemplating alternatives. These include ceasing to offer coverage and steering students to the federal/state health insurance exchanges, or even self-funding student health plans. This is analogous to self-funding an employer health benefit plan and buying stop-loss coverage.

## Possible Problems with the Diversion to Exchanges Approach

For the most part, any affordable coverage option purchased from a federal/state health insurance exchange is usually a high deductible plan; as such, students would need the cash flow to pay for the medical services until the requisite deductible is met. Additionally, since students would incur significant out of pocket expenses, they may look to file eligible claims under the school's general liability coverage if the medical expenses were contributed to by an accident on campus.

Furthermore, federal/state health insurance exchange plans are usually connected to a narrow provider network. Consequently, if students proceed to the university's on campus health center for medical treatment, this may be considered an out-of-network service and will likely not be covered under the federal/state health insurance exchange plan. Generally speaking, most students go to the university on campus health center for their primary and tertiary care. If students are covered under a federal/state health insurance exchange plan, the university health center could also be left with "balance billing" students for payment of treatment received.

## Benefits of Self-funding Student Health Insurance Plans

The option of self-funding student health insurance is gaining popularity as colleges and universities explore alternatives to bring their students appropriately structured and affordable health insurance. This is especially the case when a college or university has a robust, proprietary on campus health center or affiliate hospital. Steering students to the on campus/in-house medical facility fosters cost containment of medical treatment and brings pricing transparency. With firsthand data and knowledge of the utilization and cost of a student population's medical treatment, a university can quantify the health/medical service utilization exposure base of its students. This assessment can assist in an accurate determination of a university's risk appetite for self-funding its student health insurance plan. It can also aid in the procurement of the requisite stop-loss coverage to cap its risk and exposure base and transfer the remaining limit up to the ACA's mandated unlimited lifetime benefit maximum.

The underwriting and pricing of stop loss coverage for self-funded student health plans is a unique initiative. While underwriting and pricing for employer stop loss coverage is quite prevalent and established, there are very few stop loss underwriting companies in the "student health plan" stop loss market. Notwithstanding, the very distinct differences, first and foremost, ERISA (the Employee Retirement Income Security Act of 1974) provides the enabling federal legislation for employers to self-fund their employee health benefit plans on behalf of their employees. ERISA does not apply to self-funded student health benefit plans maintained by universities on behalf of their students. Certain states have, however, enacted legislation enabling universities to self-fund their student health benefit plans and have imposed financial capitalization and fiduciary requirements. Additionally, an increased number of states are enabling universities to self-fund their student health plans.

## Stop Loss Underwriting Distinctions From Typical Employer Health Plan Designs

Despite the activity towards self-funding, the "student health plan" stop loss market does not seem to have proportionately expanded. The standard employer stop loss underwriting companies have not fully grasped the nuances of the student health plan exposure base that distinguish it from the usual employer health plan exposure base. The variance of student health plans' age banding, along with medical service utilization and prescription drug trending, can be quite different from a standard employer health plan. These differences need to be captured in the underwriting process and claims trend calculation to appropriately price a self-funded student health plan's stop loss coverage.

## Implications and Opportunities for Colleges and Universities

The growth of customized self-funded student health plans and their ensuing stop loss coverage is a welcome trend. Universities are encouraged to consider the positive impact that providing students access to adequate and affordable health insurance, other than through the parents' plans or the federal/state health insurance exchanges can have on its enterprise risk management strategy.

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**About the Author**

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