Medicare Supplement – Current Issues, and Future Challenges and Opportunities

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Medicare Supplement Basics

- As name implies, provides benefits that supplement Medicare FFS benefits
  - In other words, covers much of the Medicare beneficiary obligation that would otherwise result in out-of-pocket expenses
  - Not a replacement to Medicare FFS benefits
  - Also referred to as MediGap
- Provided through a private insurance contract independent of Medicare
- Coverage and benefit terms do, however, coordinate with Medicare benefits as well as reimbursement rates
- Extra protection for gaps in coverage
- No network restrictions – paid at Medicare FFS levels
- Standardized/"Simple" Product to understand
  - Essentially a commodity product (i.e. a Plan F is a Plan F)
  - Focus is on rates and future increases
# Medicare Supplement Basics

## Medicare Supplement - 2010 Standardized Plans

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Plan A</th>
<th>Plan B</th>
<th>Plan C</th>
<th>Plan D</th>
<th>Plan F</th>
<th>Plan G</th>
<th>Plan K</th>
<th>Plan L</th>
<th>Plan M</th>
<th>Plan N</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medicare Part A Services:</strong></td>
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<td>Inpatient Hospital:</td>
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<td>X</td>
<td>X</td>
<td>a</td>
<td>b</td>
<td>c</td>
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<td>x</td>
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<td>x</td>
<td>x</td>
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<td>X</td>
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<td>X</td>
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<tr>
<td>First 3 pints of blood</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>a</td>
<td>b</td>
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<td>X</td>
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<td>Skilled Nursing Facility:</td>
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<td>Days 21-100</td>
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<td>X</td>
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<td>a</td>
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<td><strong>Medicare Part B Services:</strong></td>
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<td>X</td>
<td>a</td>
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<tr>
<td>Coinsurance</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>a</td>
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<td>Physician:</td>
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<tr>
<td>Coinsurance</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>a</td>
<td>b</td>
<td>X</td>
<td>d</td>
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<tr>
<td>Excess</td>
<td>X</td>
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<td>Other Services:</td>
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<tr>
<td>Foreign Travel Benefit</td>
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<tr>
<td>Hospice</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>a</td>
<td>b</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

- **X** - 100% Covered
- **a** - Subject to 50% plan coinsurance and OOP limit ($4,660 in 2012)
- **b** - Subject to 75% plan coinsurance and OOP limit ($2,330 in 2012)
- **c** - Only 50% covered
- **d** - Covered, subject to copays (Maximum $20 per office visit and $50 per emergency room visit)
- **e** - Covers medically necessary medicare-eligible emergency care in a foreign country for 80% of billed charges subject to a $250 calendar year deductible and $50,000 lifetime maximum benefit
- ***** - High Deductible version is available - annual deductible for 2012 is $2,070
The Market Today
Premium Volume and Experience

- Plan breakdown
- State
- Individual/Group
- Data Source: National Association of Insurance Commissioners, by permission.
- The NAIC does not endorse any analysis or conclusions based upon the use of it’s data
- Unaudited data
- Not 100% of the market but close
- Statutory Values
The Market Today
Premium Volume and Experience
Plan Breakdown

- Focus on Federal Standardized Plans – 1990 and 2010 Plans
- Excludes Pre-Standardized Plans
- Excludes Massachusetts, Minnesota, and Wisconsin grand fathered plans
- Excludes Medicare Select
Medicare Supplement Market
Premium Volume Distribution by Plan – Calendar Year 2010
All Policy Issues

- A - 2%
- B - 4%
- C - 17%
- D - 4%
- E - 2%
- F - 51%
- G - 4%
- H - 1%
- I - 2%
- J - 12%
- K - 0%
- L - 0%

Legend:
- A
- B
- C
- D
- E
- F
- G
- H
- I
- J
- K
- L
Medicare Supplement Market
Loss Ratio by Plan – Calendar Year 2010
All Policy Issues
Loss Ratio

<table>
<thead>
<tr>
<th>Plan</th>
<th>Loss Ratio</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>90%</td>
</tr>
<tr>
<td>B</td>
<td>88%</td>
</tr>
<tr>
<td>C</td>
<td>76%</td>
</tr>
<tr>
<td>D</td>
<td>75%</td>
</tr>
<tr>
<td>E</td>
<td>75%</td>
</tr>
<tr>
<td>F</td>
<td>79%</td>
</tr>
<tr>
<td>G</td>
<td>77%</td>
</tr>
<tr>
<td>H</td>
<td>75%</td>
</tr>
<tr>
<td>I</td>
<td>79%</td>
</tr>
<tr>
<td>J</td>
<td>76%</td>
</tr>
<tr>
<td>K</td>
<td>77%</td>
</tr>
<tr>
<td>L</td>
<td>58%</td>
</tr>
<tr>
<td>M</td>
<td>70%</td>
</tr>
<tr>
<td>N</td>
<td>82%</td>
</tr>
<tr>
<td>Total</td>
<td>79%</td>
</tr>
</tbody>
</table>
Medicare Supplement Market
Premium Volume Distribution by Plan – Calendar Year 2010
Policies Issued 2008 – 2010

A - 2%
B - 2%
C - 14%
D - 3%
E - 1%
F - 52%
G - 4%
H - 1%
I - 1%
J - 19%
K - 0%
L - 0%
N - 1%
Medicare Supplement Market
Loss Ratio by Plan – Calendar Year 2010
Policies Issued 2008 – 2010
Loss Ratio

- A: 122%
- B: 82%
- C: 111%
- D: 75%
- E: 87%
- F: 82%
- G: 77%
- H: 78%
- I: 83%
- J: 79%
- K: 58%
- L: 71%
- M: 82%
- N: 86%
- Total: 86%
Medicare Supplement Market
Premium Volume Distribution by Plan – Calendar Year 2010
Policies Issued 2007 and Prior

- A: 2%
- B: 4%
- C: 19%
- D: 5%
- E: 2%
- F: 50%
- G: 4%
- H: 1%
- I: 3%
- J: 9%
Medicare Supplement Market
Loss Ratio by Plan – Calendar Year 2010
Policies Issued 2007 and Prior

Loss Ratio

<table>
<thead>
<tr>
<th>Plan</th>
<th>Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>79%</td>
</tr>
<tr>
<td>B</td>
<td>74%</td>
</tr>
<tr>
<td>C</td>
<td>81%</td>
</tr>
<tr>
<td>D</td>
<td>75%</td>
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<tr>
<td>E</td>
<td>78%</td>
</tr>
<tr>
<td>F</td>
<td>74%</td>
</tr>
<tr>
<td>G</td>
<td>74%</td>
</tr>
<tr>
<td>H</td>
<td>80%</td>
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<tr>
<td>I</td>
<td>75%</td>
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<td>J</td>
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<td>K</td>
<td>60%</td>
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<tr>
<td>L</td>
<td>64%</td>
</tr>
<tr>
<td>Total</td>
<td>76%</td>
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The Market Today
Premium Volume and Experience
State Breakdown

- Focus on Federal Standardized Plans – 1990 and 2010 Plans
- Excludes Pre-Standardized Plans
- Excludes Massachusetts, Minnesota, and Wisconsin grand fathered plans
- Excludes Medicare Select
Medicare Supplement Market
Premium Volume Distribution by State – Calendar Year 2010
All Policy Issues

- PA: 6%
- TX: 7%
- FL: 8%
- IL: 6%
- MI: 3%
- NY: 5%
- OH: 4%
- NJ: 5%
- CA: 4%
- IN: 3%
- Rest: 49%

*All policy issues for Calendar Year 2010.*
Medicare Supplement Market
Loss Ratio by State – Calendar Year 2010
All Policy Issues

Loss Ratio

<table>
<thead>
<tr>
<th>State</th>
<th>Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>PA</td>
<td>84%</td>
</tr>
<tr>
<td>TX</td>
<td>78%</td>
</tr>
<tr>
<td>FL</td>
<td>82%</td>
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<tr>
<td>IL</td>
<td>77%</td>
</tr>
<tr>
<td>MI</td>
<td>116%</td>
</tr>
<tr>
<td>NY</td>
<td>75%</td>
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<tr>
<td>OH</td>
<td>77%</td>
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<tr>
<td>NJ</td>
<td>78%</td>
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<tr>
<td>CA</td>
<td>80%</td>
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<tr>
<td>IN</td>
<td>76%</td>
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<tr>
<td>Rest</td>
<td>76%</td>
</tr>
<tr>
<td>Total</td>
<td>79%</td>
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</tbody>
</table>
Medicare Supplement Market
Premium Volume Distribution by State – Calendar Year 2010
Policies Issued 2008 – 2010

- PA: 5%
- TX: 8%
- FL: 8%
- IL: 5%
- MI: 8%
- NY: 4%
- OH: 4%
- NJ: 4%
- CA: 4%
- IN: 3%
- Rest: 45%
Medicare Supplement Market
Loss Ratio by State – Calendar Year 2010
Policies Issued 2008 – 2010
Loss Ratio

<table>
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<th>State</th>
<th>Loss Ratio</th>
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<tr>
<td>PA</td>
<td>85%</td>
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<tr>
<td>TX</td>
<td>85%</td>
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<tr>
<td>FL</td>
<td>83%</td>
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<tr>
<td>IL</td>
<td>83%</td>
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<tr>
<td>MI</td>
<td>128%</td>
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<td>NY</td>
<td>78%</td>
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<tr>
<td>OH</td>
<td>82%</td>
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<tr>
<td>NJ</td>
<td>77%</td>
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<tr>
<td>CA</td>
<td>85%</td>
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<tr>
<td>IN</td>
<td>82%</td>
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<tr>
<td>Rest</td>
<td>82%</td>
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<tr>
<td>Total</td>
<td>86%</td>
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Medicare Supplement Market
Premium Volume Distribution by State – Calendar Year 2010
Policies Issued 2007 and Prior

- PA - 6%
- TX - 7%
- FL - 7%
- IL - 6%
- MI - 1%
- NY - 6%
- OH - 4%
- NJ - 5%
- CA - 4%
- IN - 4%
- Rest - 50%
Medicare Supplement Market
Loss Ratio by State – Calendar Year 2010
Policies Issued 2007 and Prior
Loss Ratio

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<th>State</th>
<th>Loss Ratio</th>
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<tbody>
<tr>
<td>PA</td>
<td>84%</td>
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<td>Rest</td>
<td>74%</td>
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<tr>
<td>Total</td>
<td>76%</td>
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The Market Today
Premium Volume and Experience
Individual vs. Group Breakdown

- All Plans all states except Medicare Select
- All Policies issued
The Market Today
Premium Volume and Experience
Individual vs Group Plans

<table>
<thead>
<tr>
<th>Individual/Group</th>
<th>Premium (000's)</th>
<th>Claims (000's)</th>
<th>Lives</th>
<th>Loss Ratio</th>
<th>Average Premium</th>
<th>Average Claim</th>
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<tr>
<td><strong>All Policy Issues</strong></td>
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<tr>
<td>Individual</td>
<td>14,165,627.0</td>
<td>11,179,095.1</td>
<td>6,765,362</td>
<td>79%</td>
<td>2,094</td>
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<td>Group</td>
<td>4,664,512.1</td>
<td>3,736,093.4</td>
<td>2,073,245</td>
<td>80%</td>
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<td>Total</td>
<td>18,830,139.2</td>
<td>14,915,188.4</td>
<td>8,838,607</td>
<td>79%</td>
<td>2,130</td>
<td>1,688</td>
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<td><strong>Policies issued 2008 - 2010</strong></td>
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<tr>
<td>Individual</td>
<td>3,981,394.7</td>
<td>3,461,990.4</td>
<td>2,741,643</td>
<td>87%</td>
<td>1,452</td>
<td>1,263</td>
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<td>Group</td>
<td>1,244,865.5</td>
<td>1,036,459.0</td>
<td>654,675</td>
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<td>1,902</td>
<td>1,583</td>
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<td>Total</td>
<td>5,226,260.2</td>
<td>4,498,449.4</td>
<td>3,396,318</td>
<td>86%</td>
<td>1,539</td>
<td>1,325</td>
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<td><strong>Policies issued 2007 and Prior</strong></td>
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</tr>
<tr>
<td>Individual</td>
<td>10,184,232.3</td>
<td>7,717,104.7</td>
<td>4,023,719</td>
<td>76%</td>
<td>2,531</td>
<td>1,918</td>
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<tr>
<td>Group</td>
<td>3,419,646.7</td>
<td>2,699,634.4</td>
<td>1,418,570</td>
<td>79%</td>
<td>2,411</td>
<td>1,903</td>
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<td>Total</td>
<td>13,603,879.0</td>
<td>10,416,739.1</td>
<td>5,442,289</td>
<td>77%</td>
<td>2,500</td>
<td>1,914</td>
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The Market Today
MIPPA Ramifications (if any)

- Plan M and N
  - Plan N sales vary by company
  - Plan M for the most part irrelevant in the market
  - Rate level adequacy
  - Product shift

- Actuarial Equivalence and Rate Increases
  - NAIC Compliance Manual Adherence vs. State Variation
  - Equity between 1990 plans and 2010 Plans
Regulatory Issues
Refund Filing Formula

- Potential formula changes
- Separate formulas for Issue Age vs Attained Age Rate Structures
- Pooling by Plan
- Credibility Formula
Regulatory Issues
NAIC PPACA Subgroup

- Per ACA, modify Plans C and F to incorporate “nominal” cost sharing
- Intent is to “encourage” appropriate utilization of Part B services
- Effective 2015
- Subgroup is currently formulating recommendations
- Will most likely apply to new issues
  - Adds another layer of issue cohorts in addition to Pre-Std, 1990 Plans and 2010 Plans
  - Actuarial equivalence issues will no doubt come into play
- Leaning towards copay structure like Plan N
  - Will need to account for Part B deductible coverage
  - May be refined to the service category level
Regulatory Issues
HCR “Carryover”? - Speculation

- Loss Ratio?
  - Current 65% minimum (75% for Group) seems low in comparison
  - Perhaps commercial minimum MLR formula will be proposed
  - Current market loss ratios are operating at high levels
  - While current loss ratio standards are not directly comparable or calculated the same way, those are just details as far as many are concerned.

- Rate Increase Oversight?
  - “Unreasonably high” rate increases will receive scrutiny in this environment
  - Political pressure to do something
  - May actually stabilize the market and reduce aggressive rating
  - Would certainly put much more emphasis on the initial rate development process
    - Rates might include extra margin
    - Would generally increase rate levels across the board
Regulatory Issues
Medicare Reform Proposals

- Medicare Trustees report provides a dire warning
- An ongoing issue
- Various proposals have been floated around
  - Limited spending growth
  - Voucher program
  - Revise FFS benefit design and cost sharing requirement
  - Raise Medicare eligibility age
  - Increase Part B Premium

- Medicare Supplement Limits
  - Restrictions on out-of-pocket coverage
  - Excise taxes
  - Targets Plans C and F primarily
Future Challenges/Opportunities
Product viability and attractiveness vs. MA Plans

- Direct competitor
- Favorable/Unfavorable legislation uncertain and has an indirect impact on Med Supp
- MA: Expanded coverage at generally cheaper cost
- Med Supp: No network restrictions
- Relative advantages/availability vary across the country
- Med Supp product is relatively simple and easy to compare between carriers
- Med Supp is subject to medical underwriting approval for those not eligible for Open Enrollment or Guarantee Issue provisions
- The coverage gap advantage of MA is closing
Future Challenges/Opportunities
Possible relief for Issue Age Rated Plans

- Changes to refund formula
- Additional states may trend toward requiring issue age structure
- Relative coverage gap relative to MA plans is closing for all Med Supp plans
Future Challenges/Opportunities
Future Segmentation of Standardization

- Will “new” C and F still dominate?
- Will cost sharing make a dent in utilization?
- Will this be a new opportunity for new market entrants?
- Will this be an opportunity for existing carriers to expand their product line?
- What additional administrative and pricing complexity will this cause carriers and even regulatory authorities
Future Challenges/Opportunities
Growth in Loss Ratios

- Pressure on profits and compensation
- Continued emphasis on persistency and rate management
- Will this be a viable product line at current loss ratios if overall coverage and rate levels are slashed due to Medicare Reform?
Future Challenges/Opportunities
Continued Growth in Senior Market

- Baby boomers are coming on board
- The pie is getting bigger – but is it an attractive and viable market?
- Possible hedge or exit strategy for MA plans or commercial carriers
Future Challenges/Opportunities
Keys to managing a competitive and profitable product

- Expense efficiency
- Commissions
  - Downward pressure
  - Need for and/or emphasis of cheaper distribution channels (internet/direct mail)
- Alignment with competition
- Balanced rate structure
- Innovative Benefits
- Experience monitoring and filing
- Retention!