

# Chicago Actuarial Association March Workshop

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											
Summary Chart of Benefits by Plan											
Benefit		Plan A	Plan B	Plan C	Plan D	Plan F *	Plan G	Plan K	Plan L	Plan M	Plan N
Medicare Part A Services:											
Inpatient Hospital:											
	Days 1-60		X	X	X	X	X	a	b	c	X
	Days 61-90	X	X	X	X	X	X	X	X	X	X
	Lifetime Reserve Days	X	X	X	X	X	X	X	X	X	X
	Days Beyond Lifetime Reserve	X	X	X	X	X	X	X	X	X	X
	First 3 pints of blood	X	X	X	X	X	X	a	b	X	X
Skilled Nursing Facility:											
	Days 21-100			X	X	X	X	a	b	X	X
Medicare Part B Services:											
Hospital Outpatient:											
	Deductible			X		X					
	Coinsurance	X	X	X	X	X	X	a	b	X	d
Physician:											
	Deductible			X		X					
	Coinsurance	X	X	X	X	X	X	a	b	X	d
	Excess					X	X				
Other Services:											
	Foreign Travel Benefit			e	e	e	e			e	e
	Hospice	X	X	X	X	X	X	a	b	X	X
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

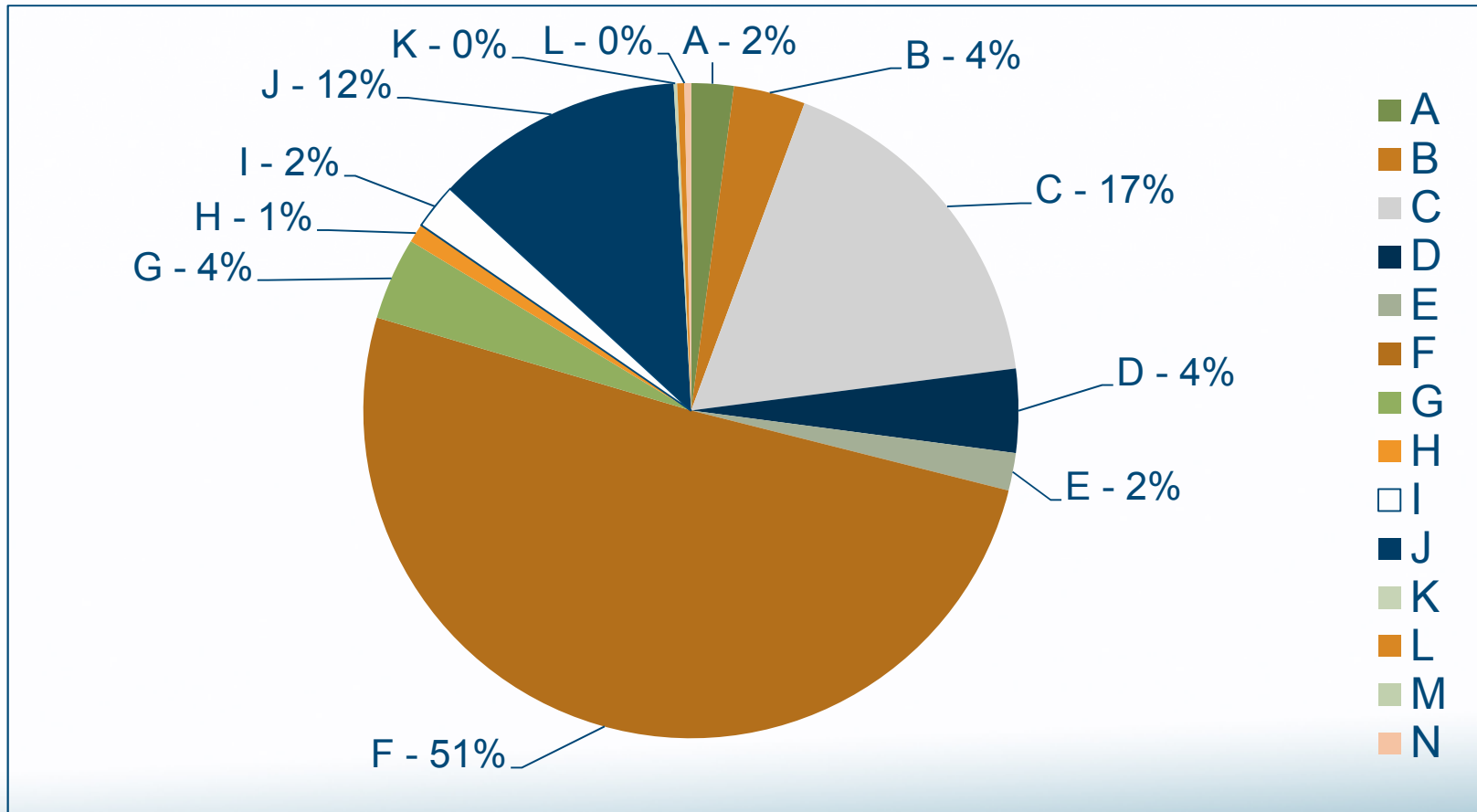
## Premium Volume and Experience

### 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

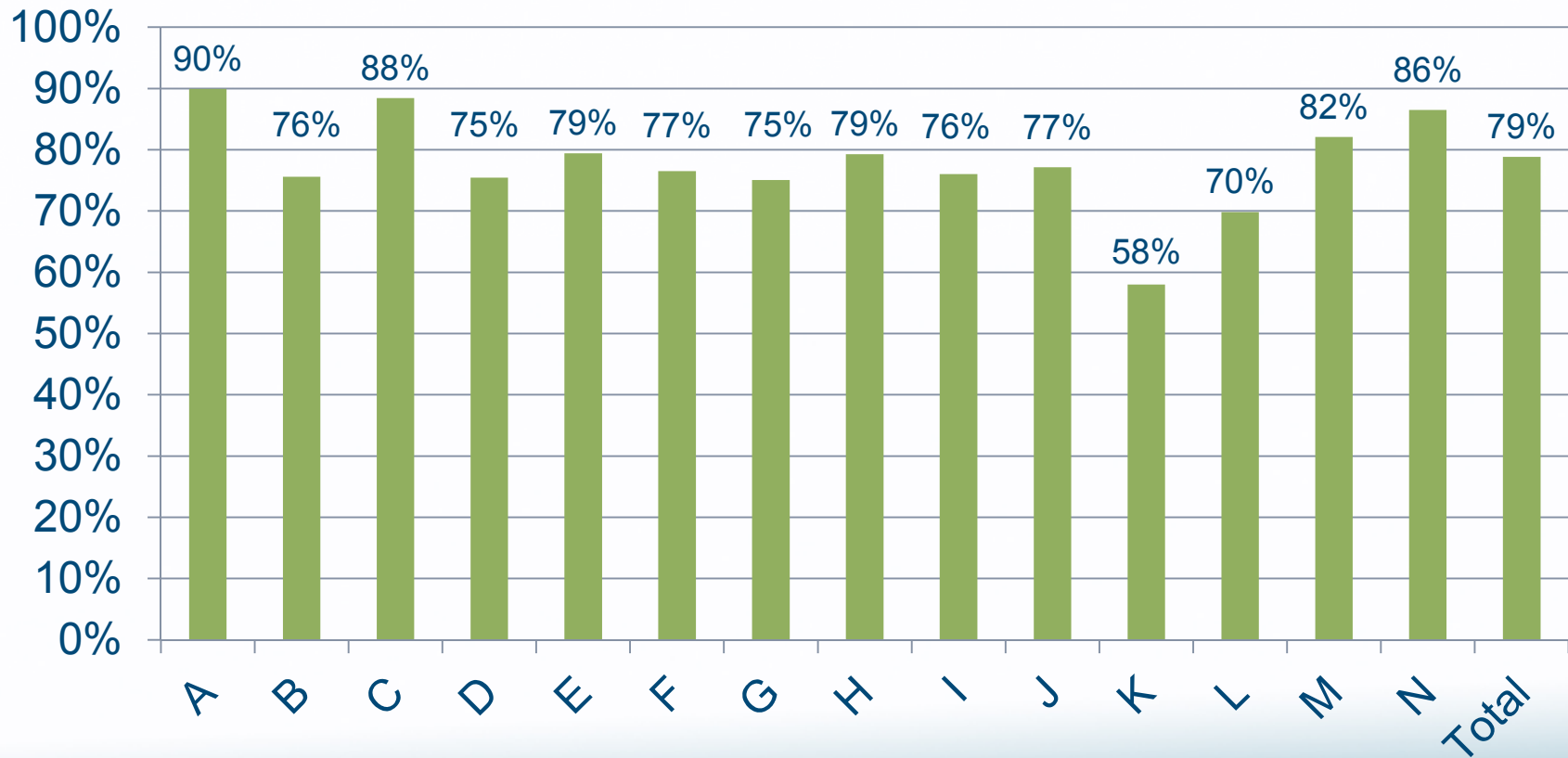


# Medicare Supplement Market

## Loss Ratio by Plan – Calendar Year 2010

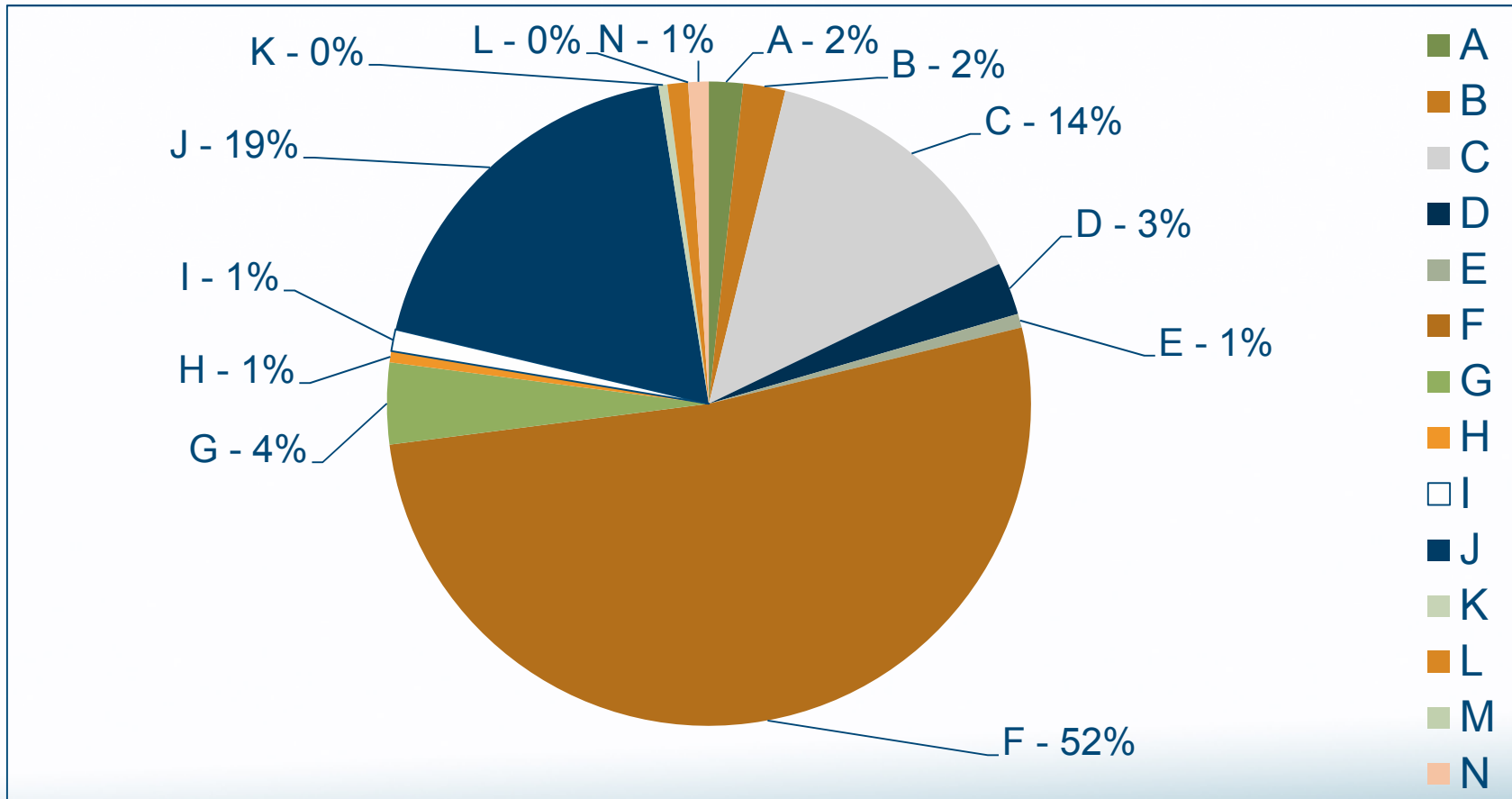
### All Policy Issues

#### Loss Ratio



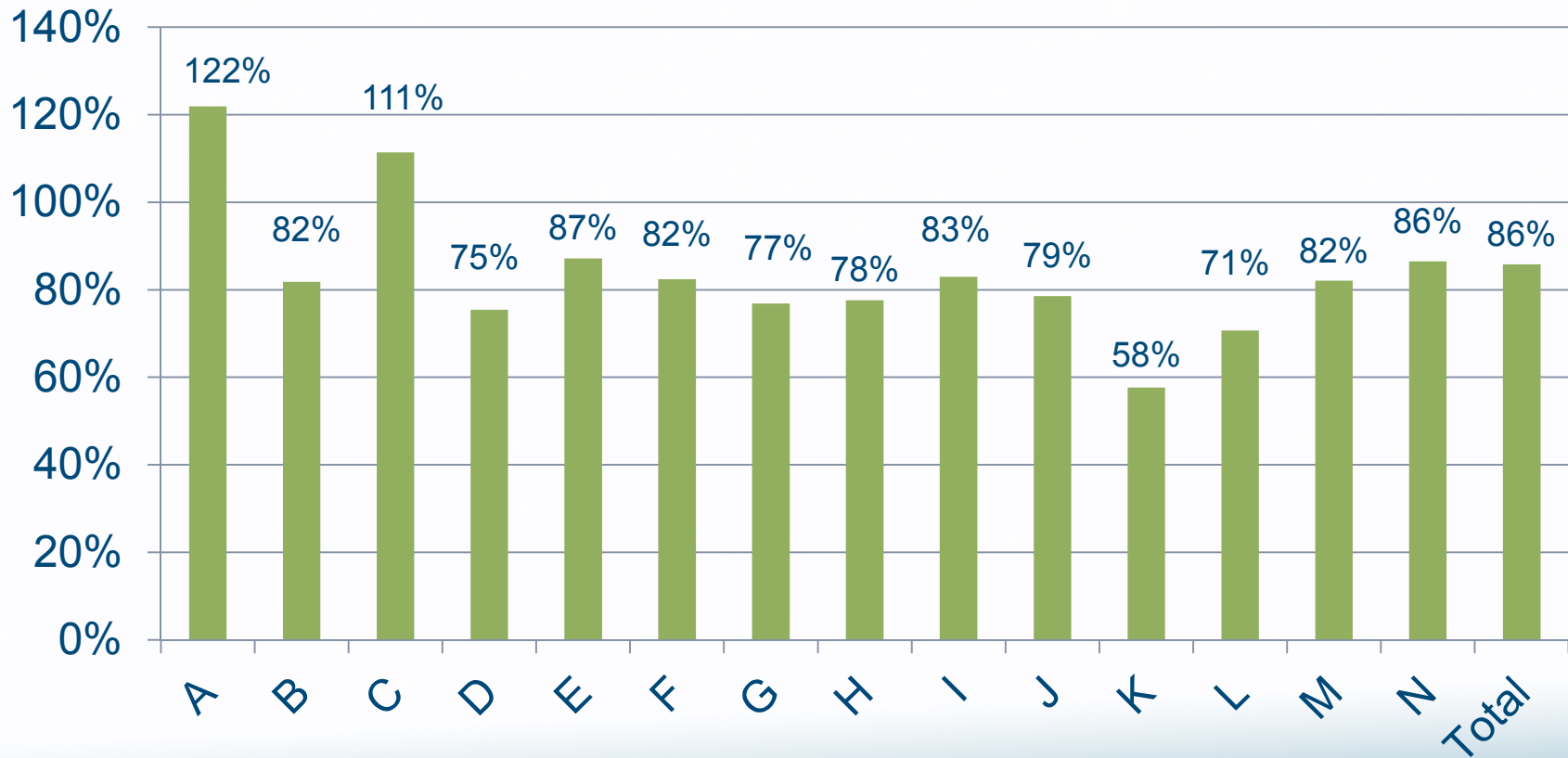
# Medicare Supplement Market

## Premium Volume Distribution by Plan – Calendar Year 2010 Policies Issued 2008 – 2010



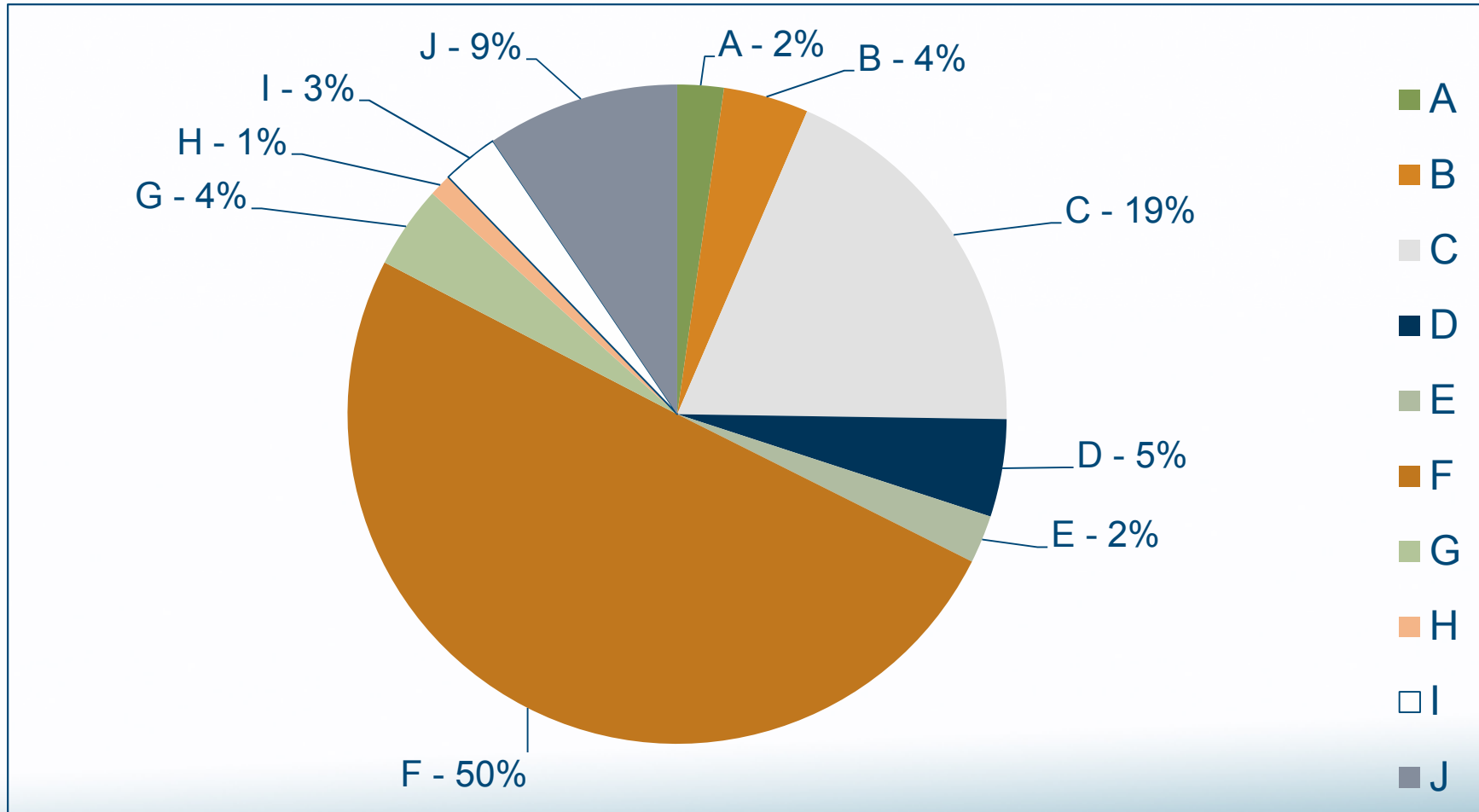


# Medicare Supplement Market Loss Ratio by Plan – Calendar Year 2010 Policies Issued 2008 – 2010 Loss Ratio



# Medicare Supplement Market

## Premium Volume Distribution by Plan – Calendar Year 2010 Policies Issued 2007 and Prior

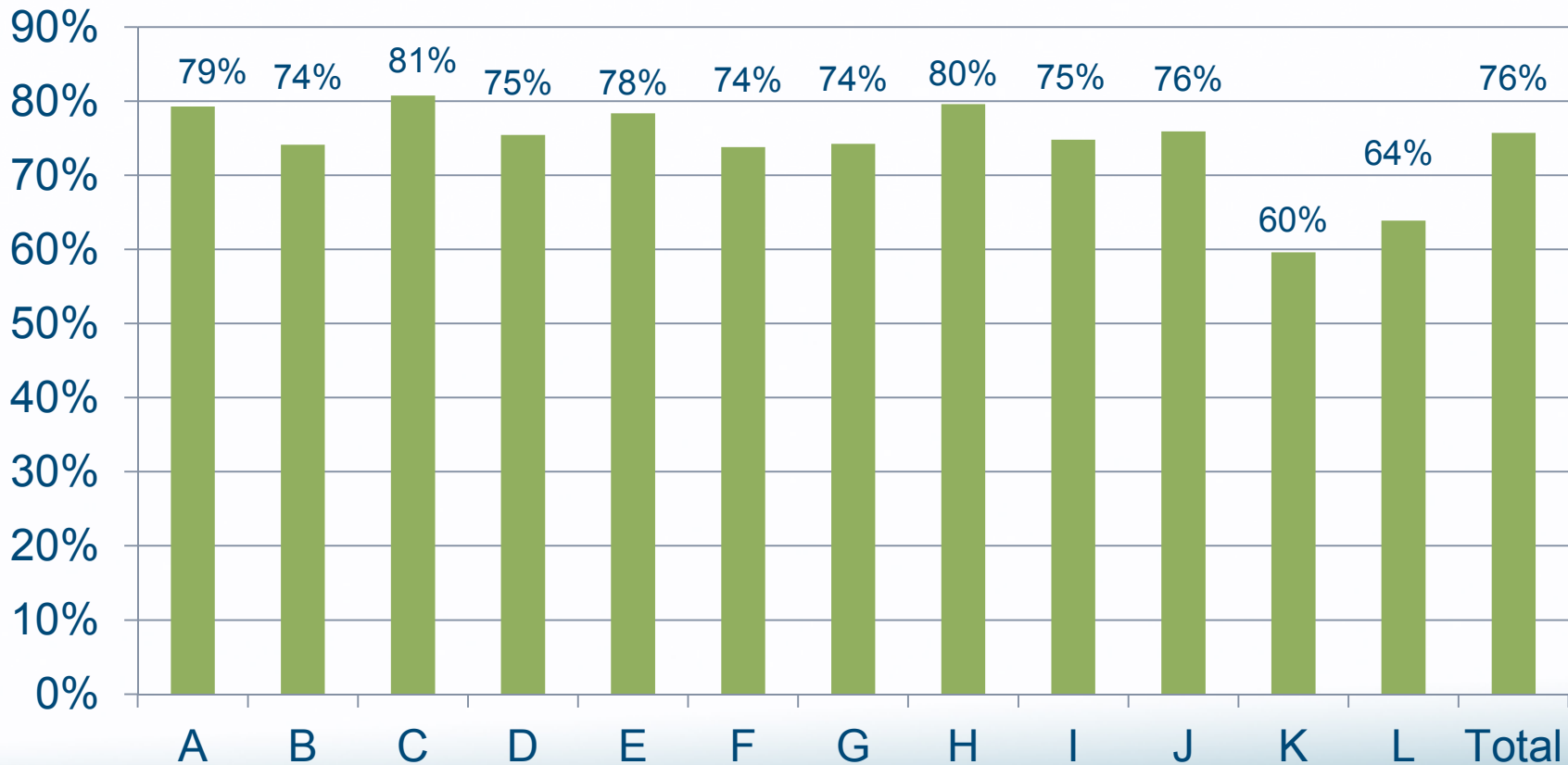


# Medicare Supplement Market

## Loss Ratio by Plan – Calendar Year 2010

### Policies Issued 2007 and Prior

#### Loss Ratio



# The Market Today

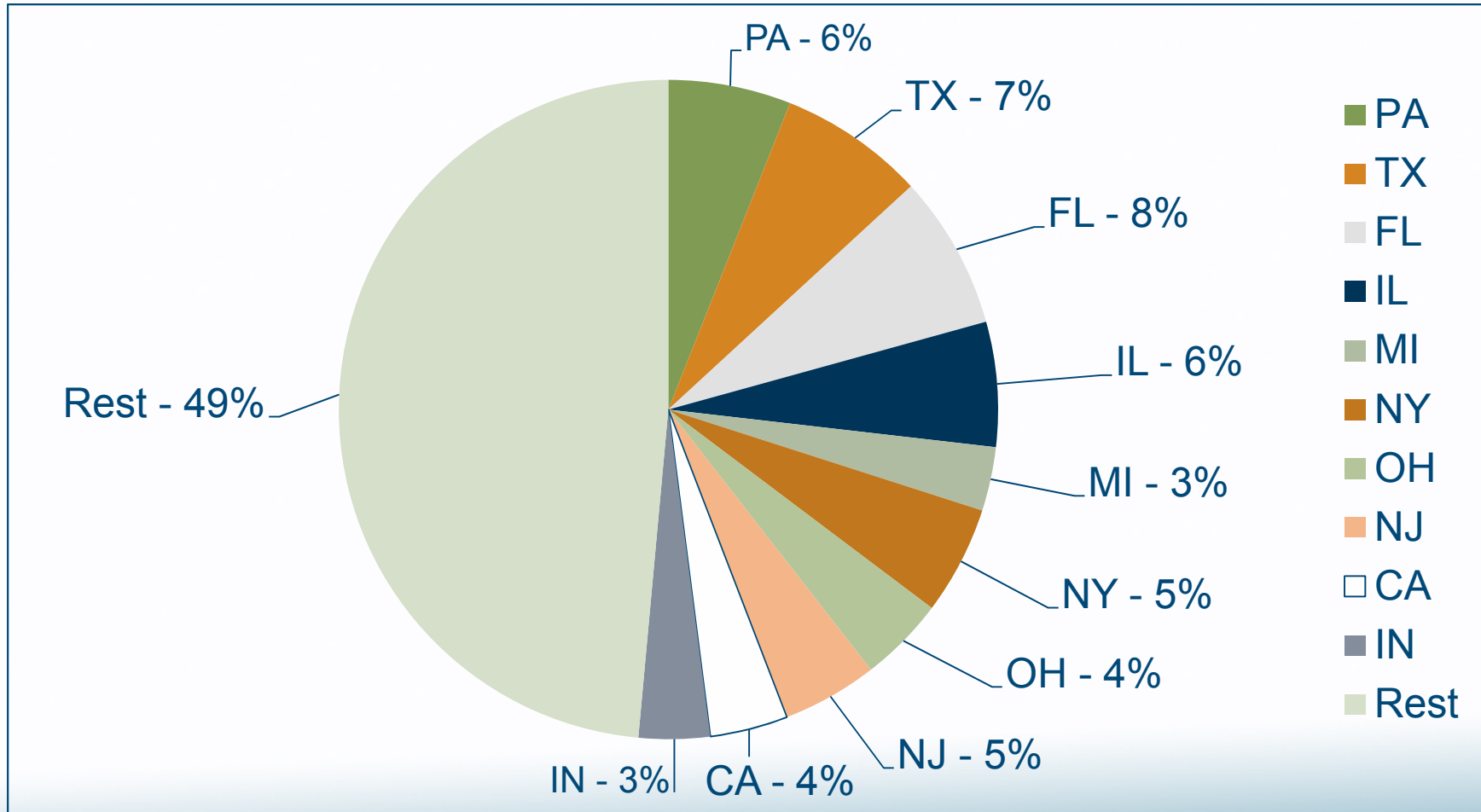
## Premium Volume and Experience

### State Breakdown

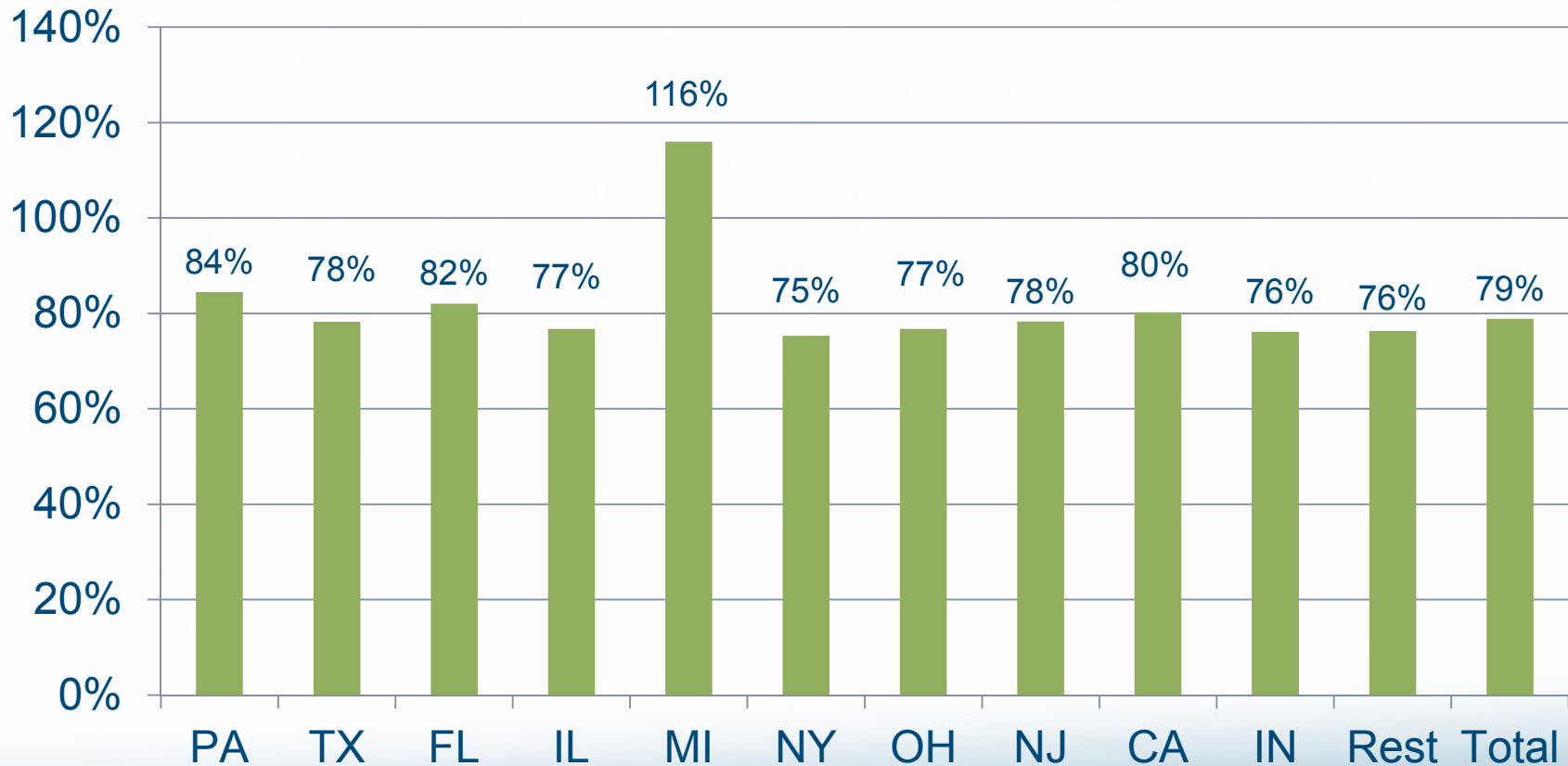
- Focus on Federal Standardized Plans – 1990 and 2010 Plans
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# Medicare Supplement Market

## Premium Volume Distribution by State – Calendar Year 2010 All Policy Issues

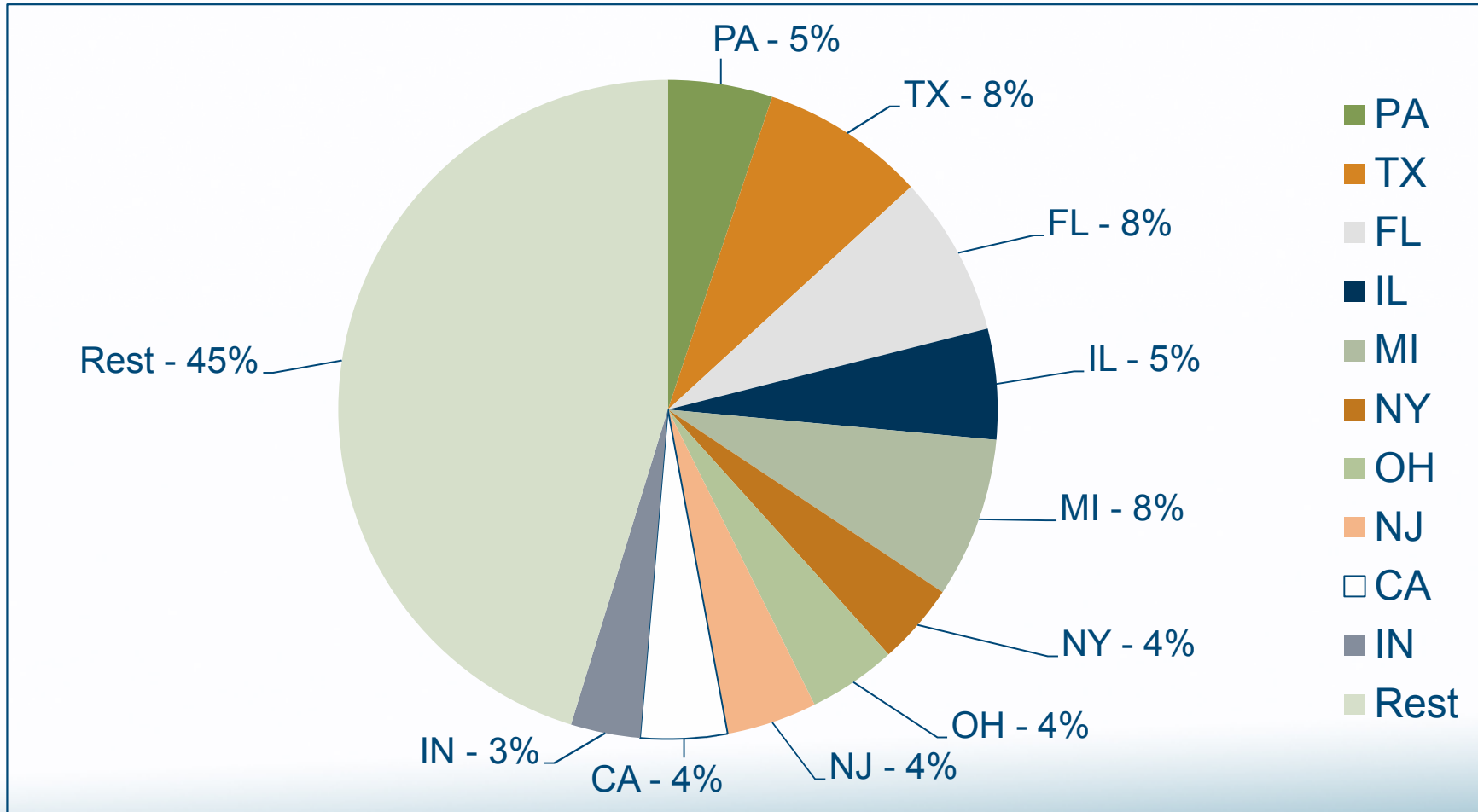


# Medicare Supplement Market Loss Ratio by State – Calendar Year 2010 All Policy Issues Loss Ratio



# Medicare Supplement Market

## Premium Volume Distribution by State – Calendar Year 2010 Policies Issued 2008 – 2010

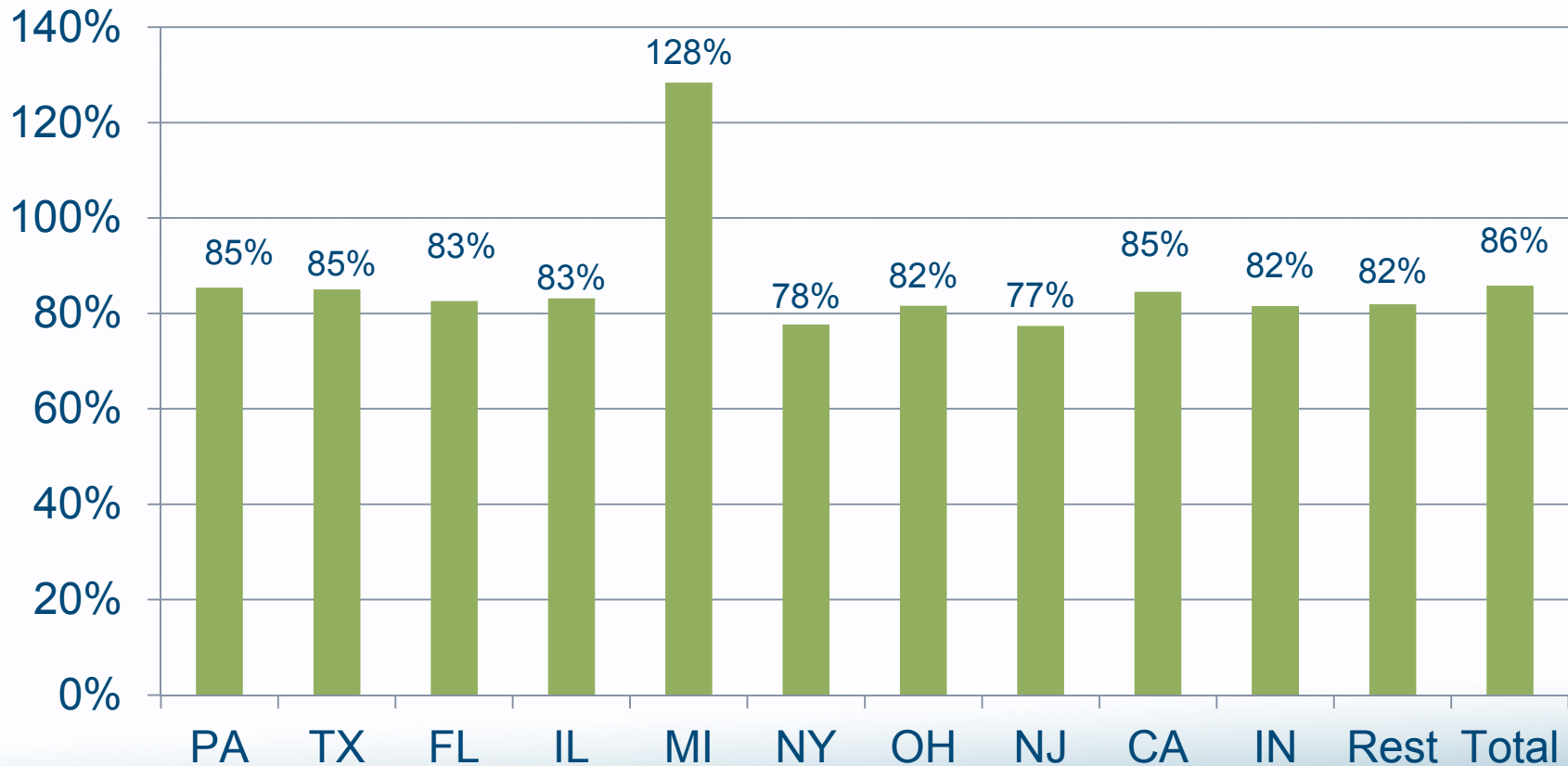


# Medicare Supplement Market

## Loss Ratio by State – Calendar Year 2010

### Policies Issued 2008 – 2010

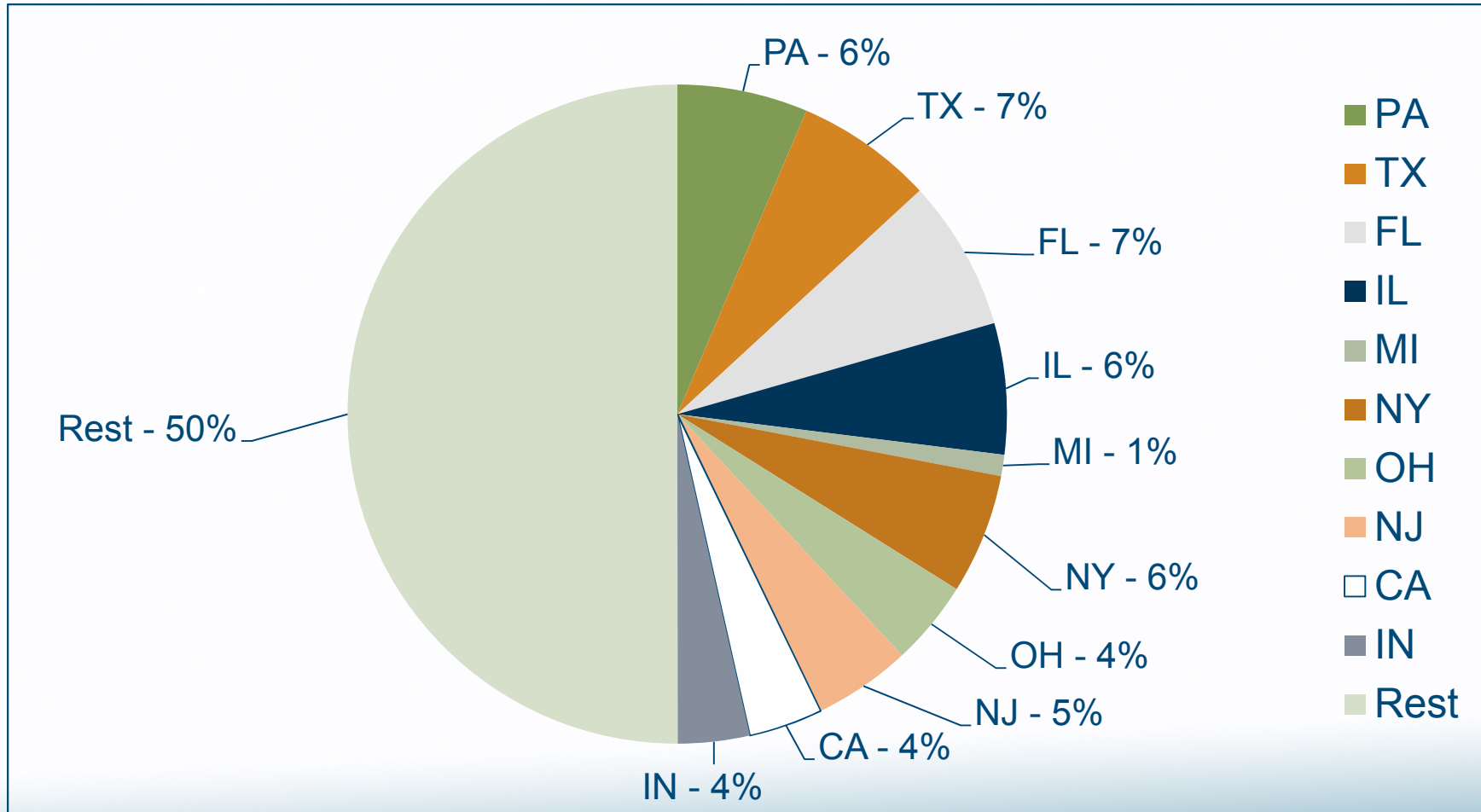
#### Loss Ratio



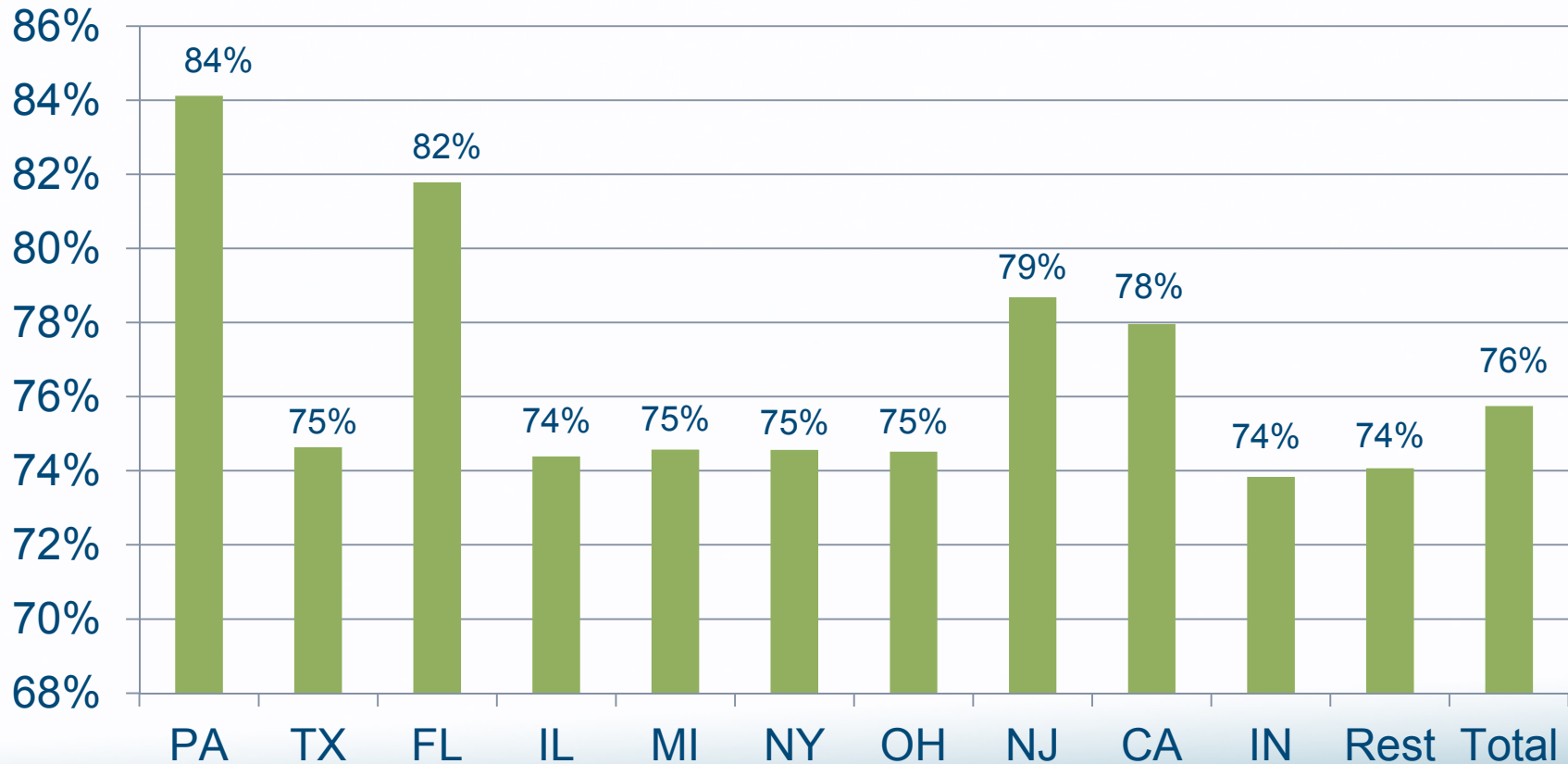


# Medicare Supplement Market

Premium Volume Distribution by State – Calendar Year 2010  
Policies Issued 2007 and Prior



# Medicare Supplement Market Loss Ratio by State – Calendar Year 2010 Policies Issued 2007 and Prior Loss Ratio



# 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

Medicare Supplement Market						
Loss Ratio Experience by Individual/Group - calendar year 2010						
<u>Individual/Group</u>	<u>Premium (000's)</u>	<u>Claims (000's)</u>	<u>Lives</u>	<u>Loss Ratio</u>	<u>Average Premium</u>	<u>Claim Cost</u>
<i>All Policy Issues</i>						
<b>Individual</b>	14,165,627.0	11,179,095.1	6,765,362	79%	2,094	1,652
<b>Group</b>	4,664,512.1	3,736,093.4	2,073,245	80%	2,250	1,802
<b>Total</b>	18,830,139.2	14,915,188.4	8,838,607	79%	2,130	1,688
<i>Policies issued 2008 - 2010</i>						
<b>Individual</b>	3,981,394.7	3,461,990.4	2,741,643	87%	1,452	1,263
<b>Group</b>	1,244,865.5	1,036,459.0	654,675	83%	1,902	1,583
<b>Total</b>	5,226,260.2	4,498,449.4	3,396,318	86%	1,539	1,325
<i>Policies issued 2007 and Prior</i>						
<b>Individual</b>	10,184,232.3	7,717,104.7	4,023,719	76%	2,531	1,918
<b>Group</b>	3,419,646.7	2,699,634.4	1,418,570	79%	2,411	1,903
<b>Total</b>	13,603,879.0	10,416,739.1	5,442,289	77%	2,500	1,914

# 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!