

ACSW Spring Meeting 2016: *Medicare Supplement  
Environment*

# Medicare Supplement Environment

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# ACSW Spring Meeting 2016: *Medicare Supplement Environment*

## Agenda

- What is Medicare Supplement
- Medicare Demographics
- Future of Medicare Supplement
- Other Considerations

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## What is Medicare Supplement?

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### Medicare Supplement (or Medigap)

A guaranteed renewable supplemental health insurance product that provides coverage for various benefit **gaps** not covered by traditional **Medicare**

Highly regulated by state insurance departments

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## Medicare

- What is Medicare?
- Future Growth in Medicare Market

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### Medicare Part A

“Traditional Medicare”, covers primarily inpatient hospital

### Medicare Part B

“Traditional Medicare”, covers physician and hospital outpatient

### Medicare Part C

Medicare Advantage – Medicare provides PMPM capitation to private health plans to provide Medicare services

### Medicare Part D (Prescription Drugs)

Benefits either provided within Medicare Advantage plan or stand-alone Prescription Drug Plan (PDP)

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Medicare Supplement plans, designated by letters, cover benefit **gaps** (co-pays, deductibles, etc) not covered by Medicare Parts A and B

Examples of Medicare “gaps”:

- Medicare pays 80% of Part B costs after Part B Deductible, Medicare Supplement plans cover other 20%
- 2016 Part A Deductible = \$1,288
- 2016 Part B Deductible = \$166

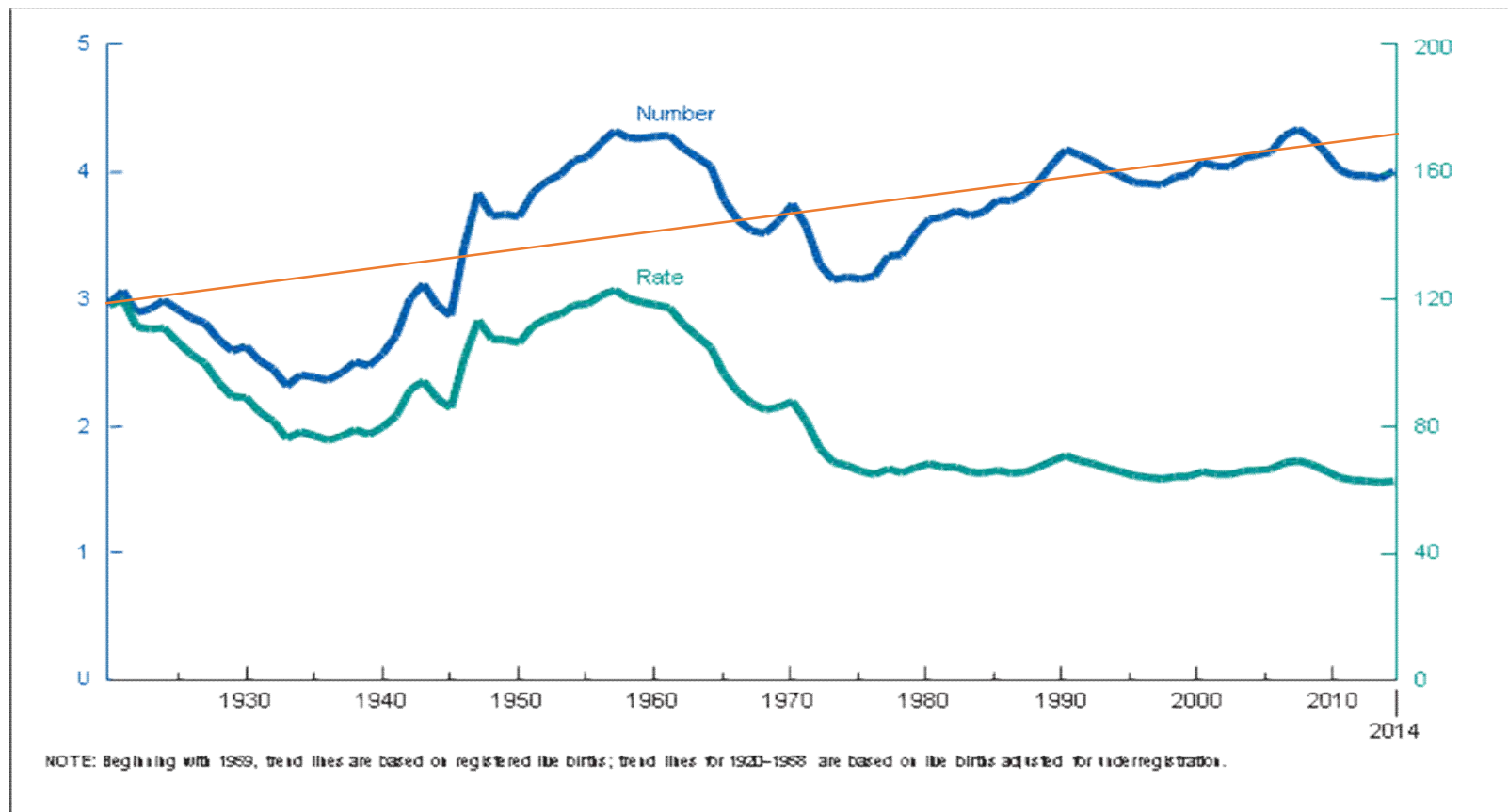
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## Medicare Demographics



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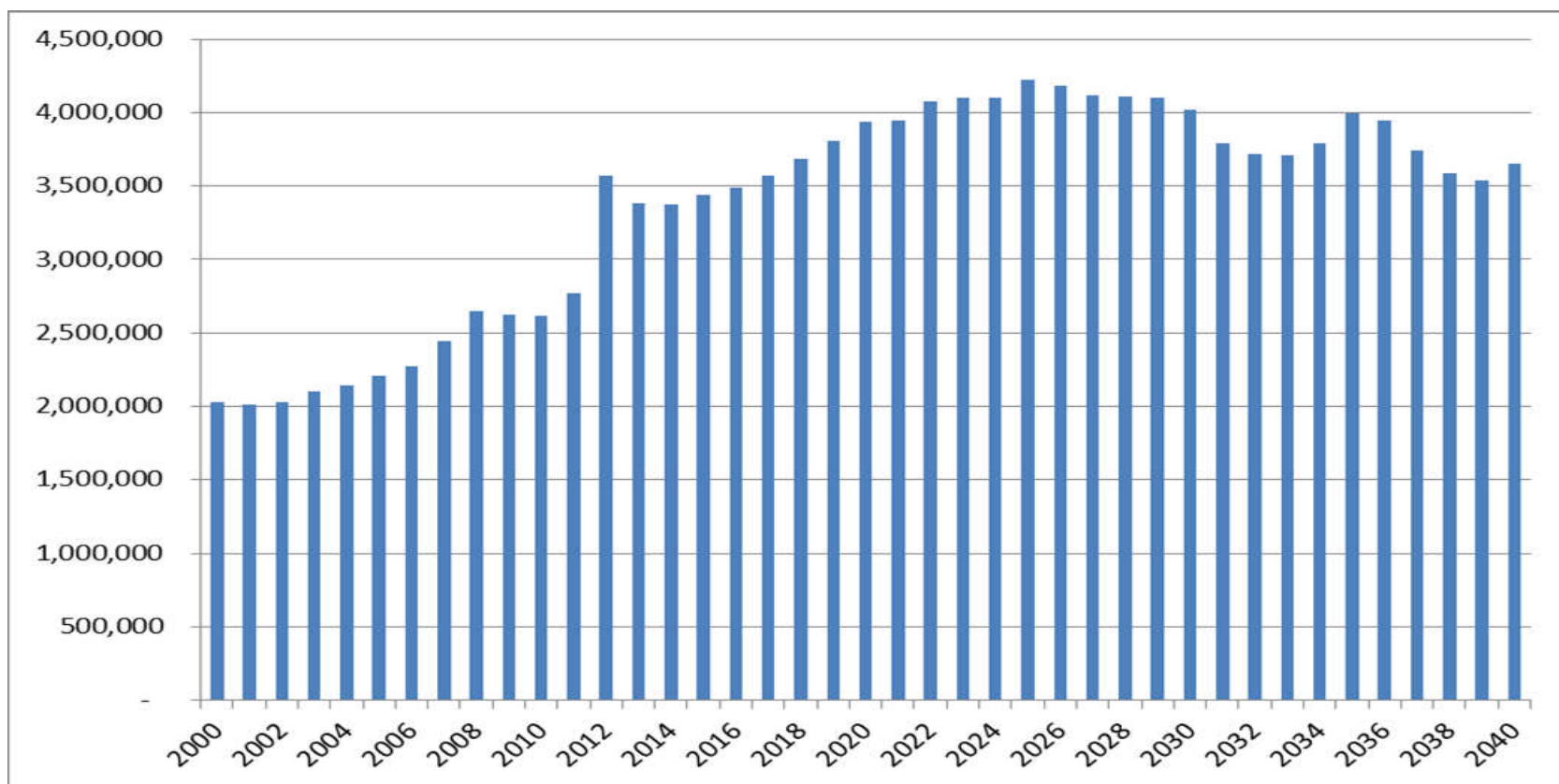
## United States Births



The chart is from National Vital Statistics Reports, Vol. 64, No. 12, December 23, 2015, page 3

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## Turning Age 65 by Year

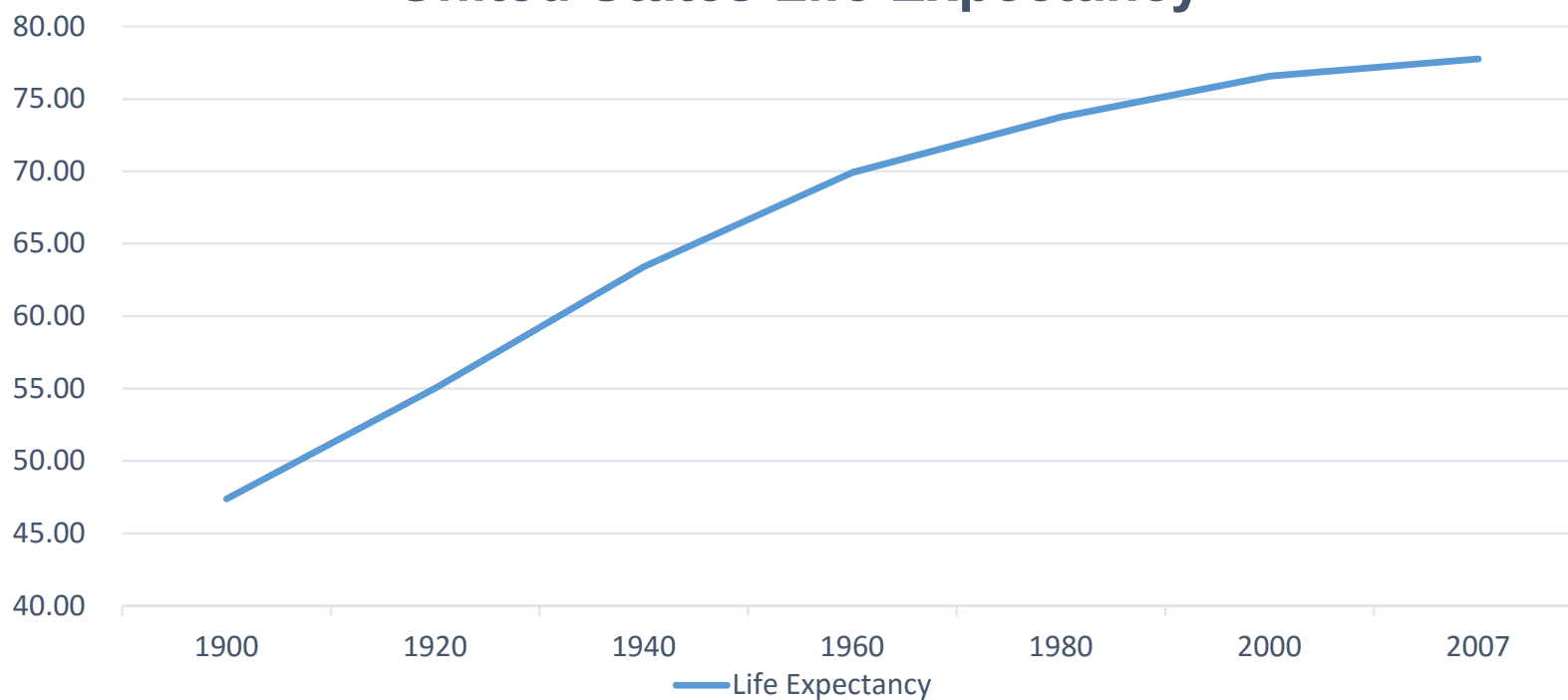


Source: census.gov – 2000 and 2010 census information

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## Mortality Improvements

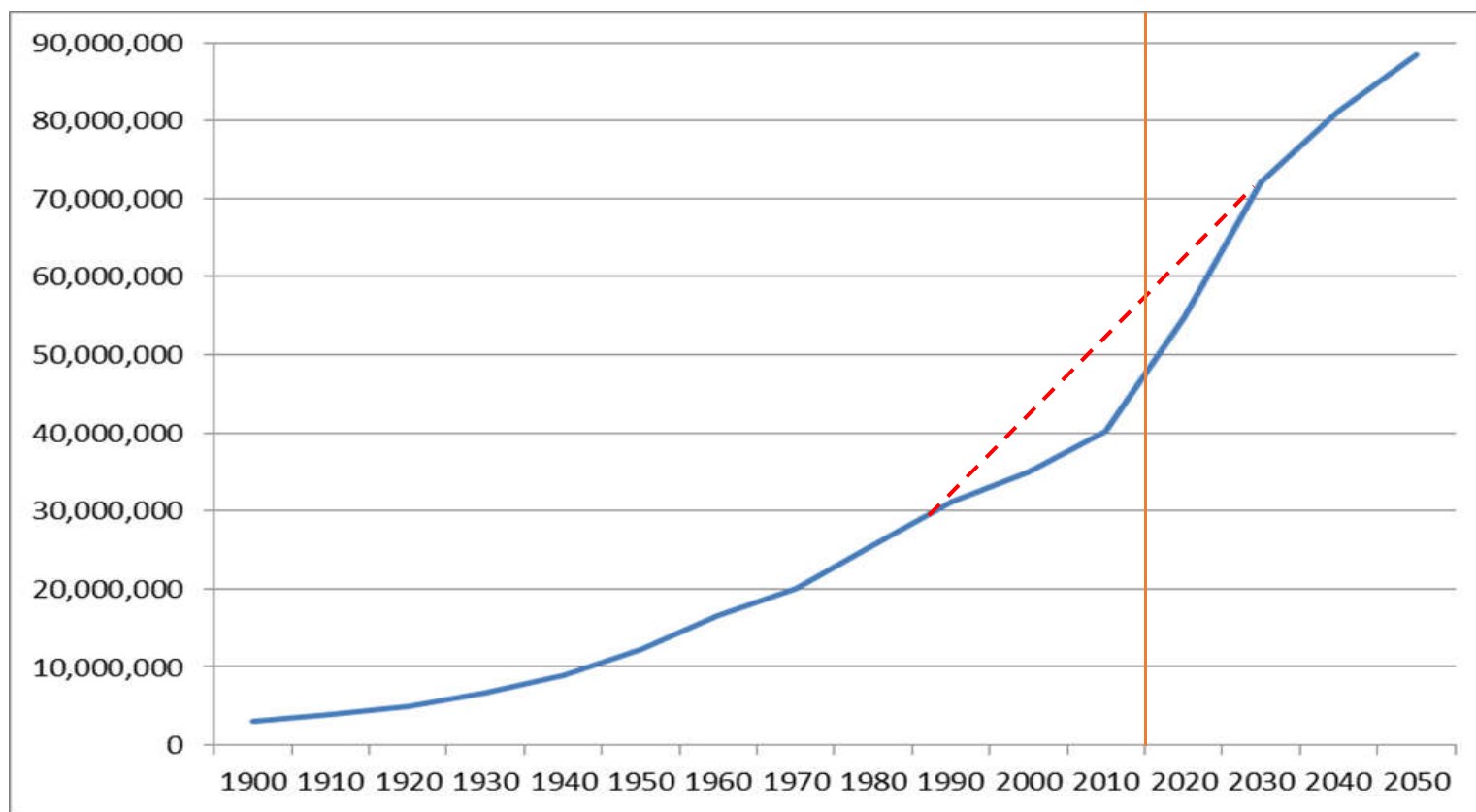
### United States Life Expectancy



Source: SSA Mortality Rates for the period 1900-2007

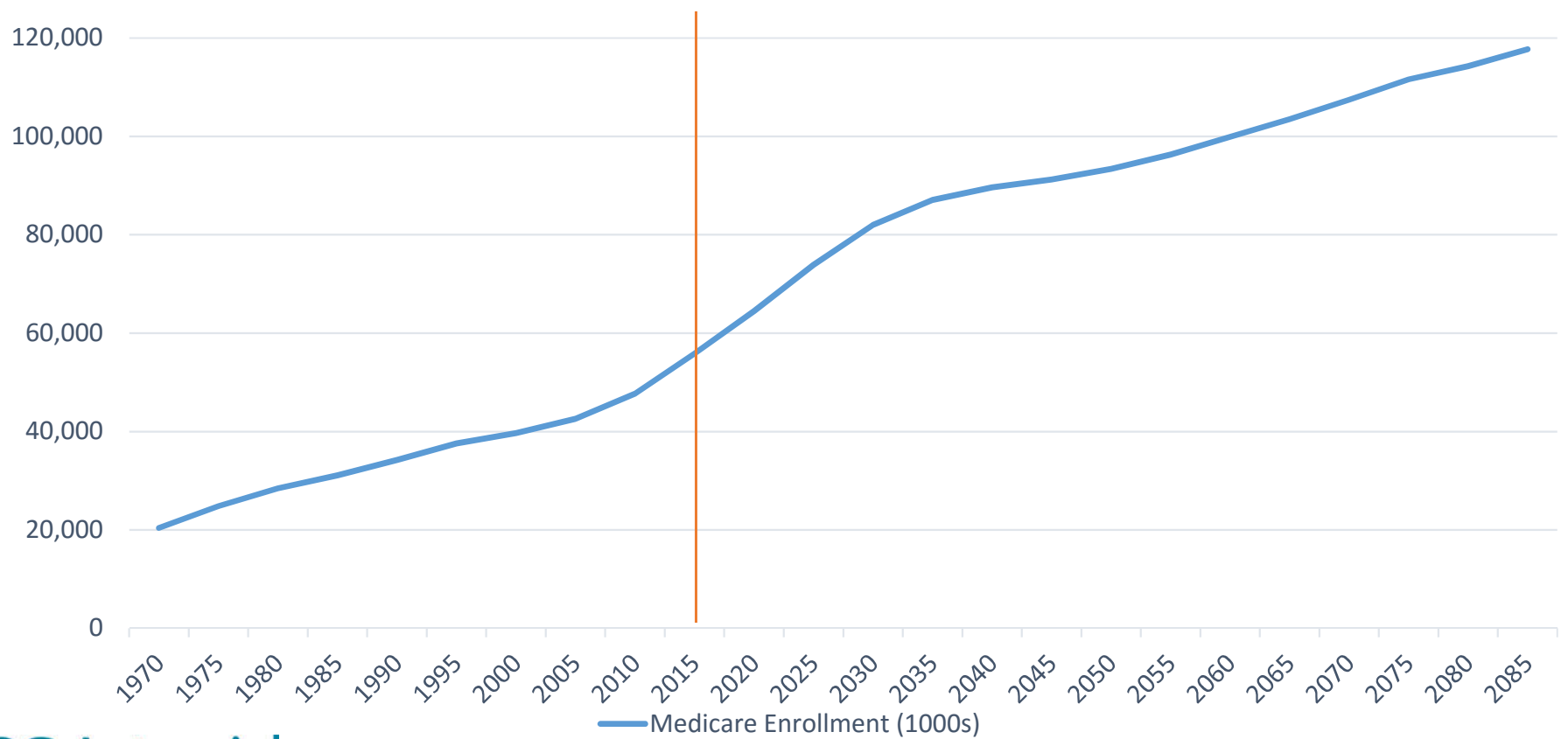
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## Age 65+ Population



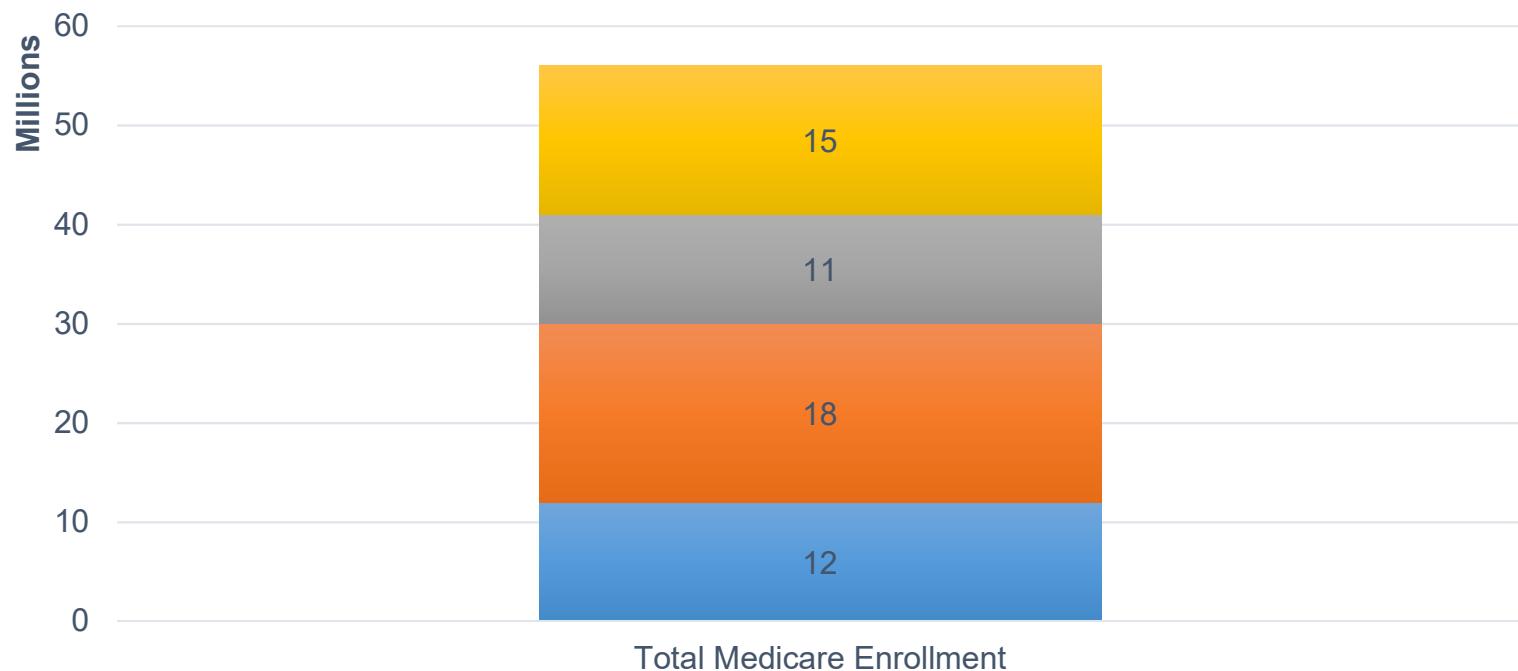
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## Medicare Enrollment Past and Future



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## Medicare Enrollment



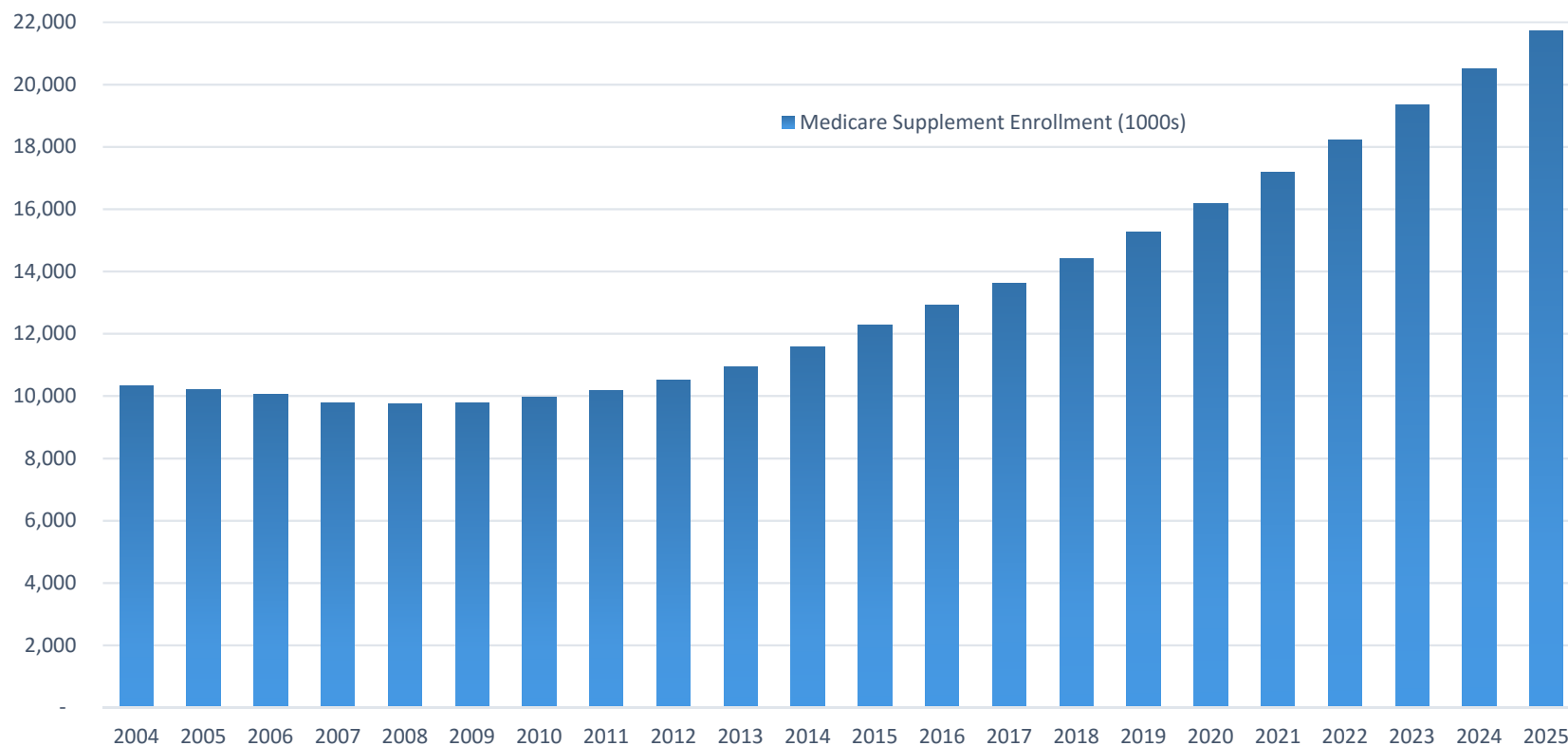
■ Traditional Medicare & Med Supp ■ Medicare Advantage ■ Employer Retiree Coverage ■ Other

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## Future of Medicare Supplement

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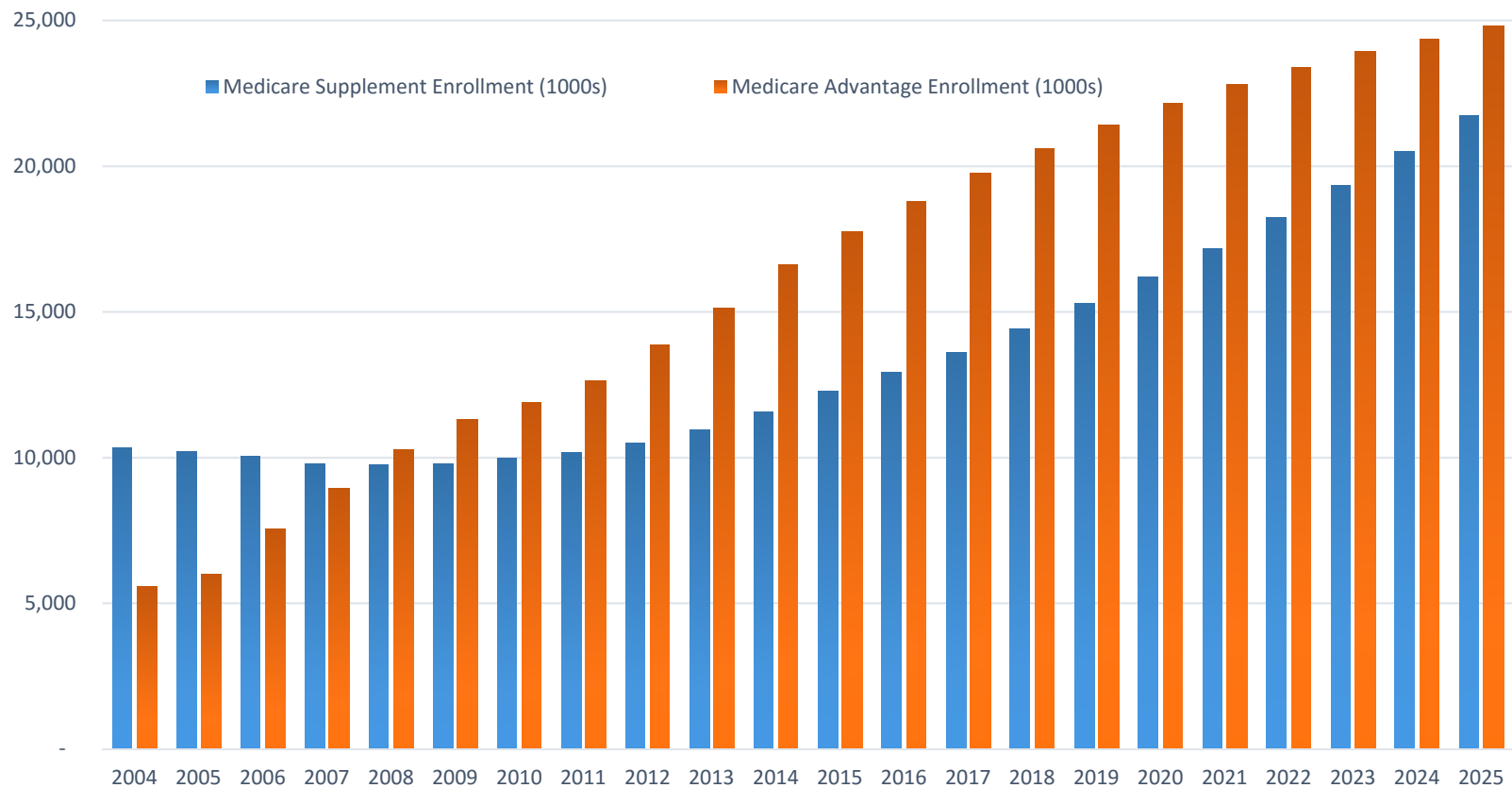
## Past & Projected Medicare Supplement Enrollment





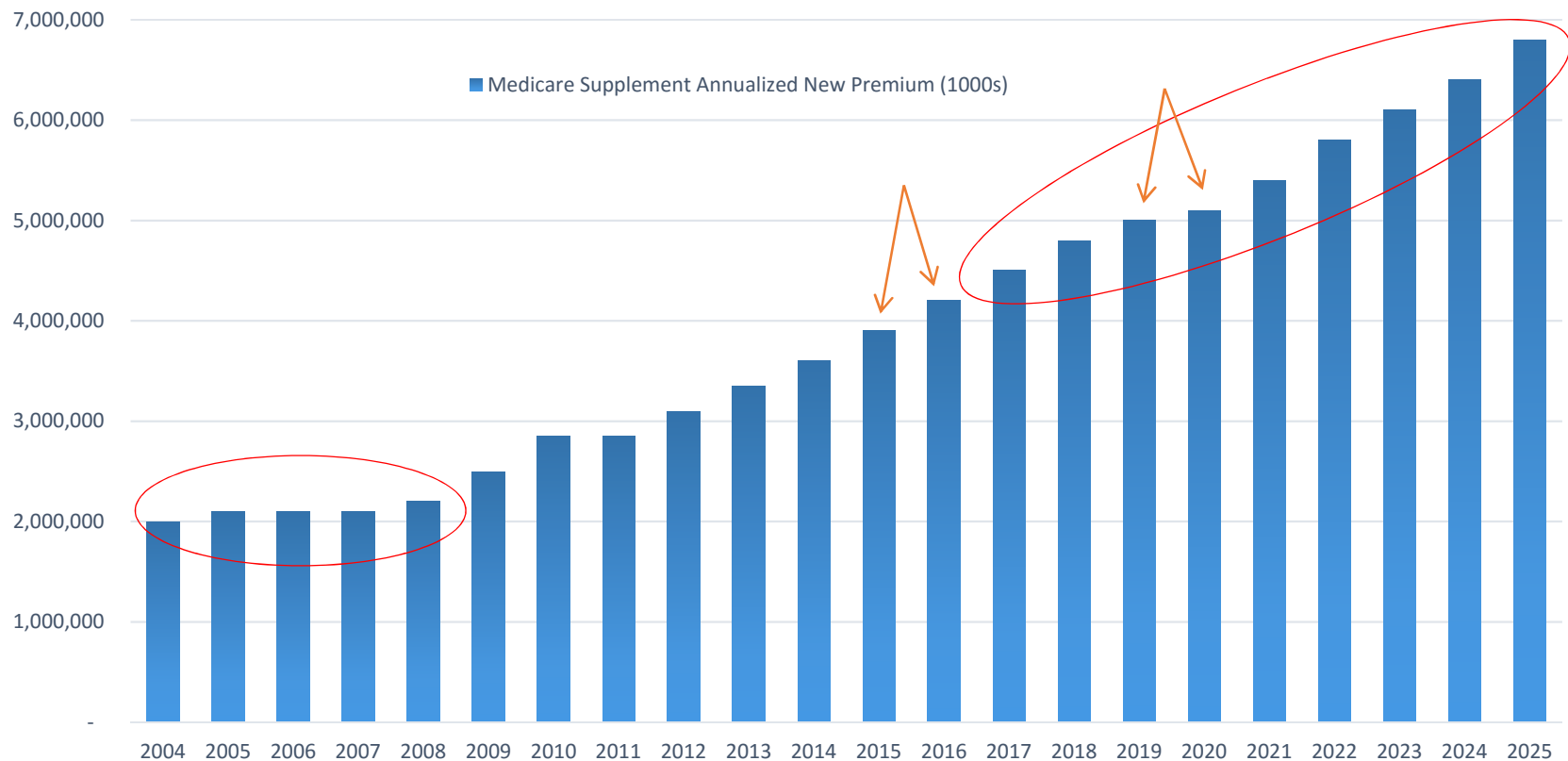
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## Past & Projected Medicare Supplement & Medicare Advantage Enrollment



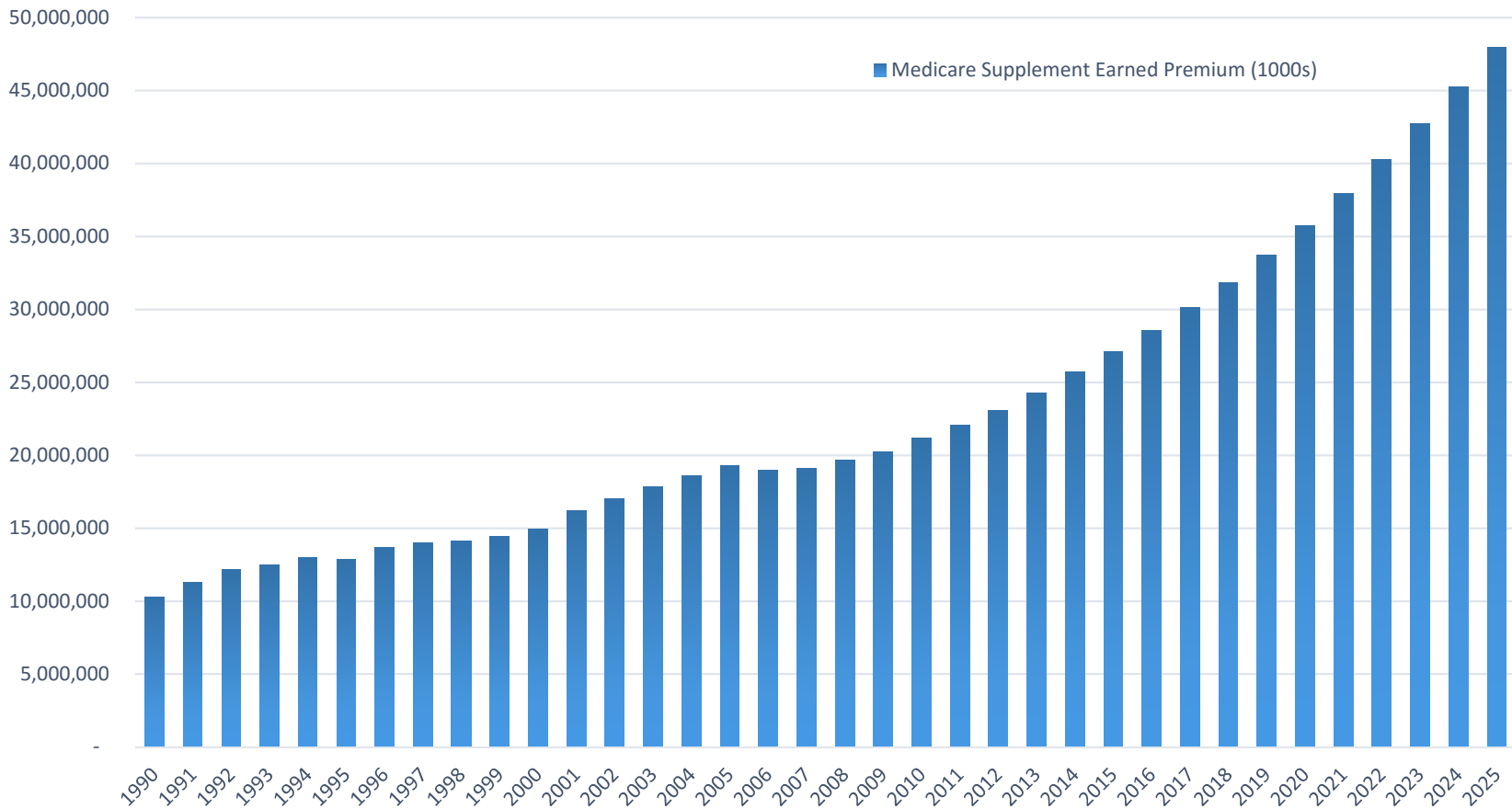
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## Past & Projected Medicare Supplement Annualized New Premiums



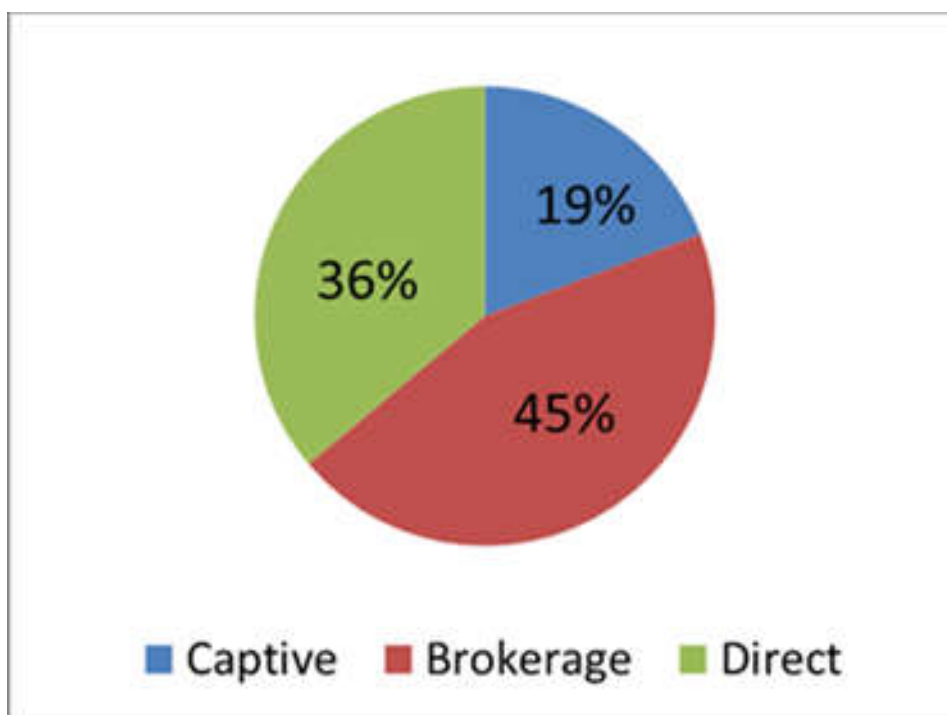
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## Past & Projected Medicare Supplement Earned Premiums



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### Estimated 2015 Medicare Supplement Annualized New Premiums by Source



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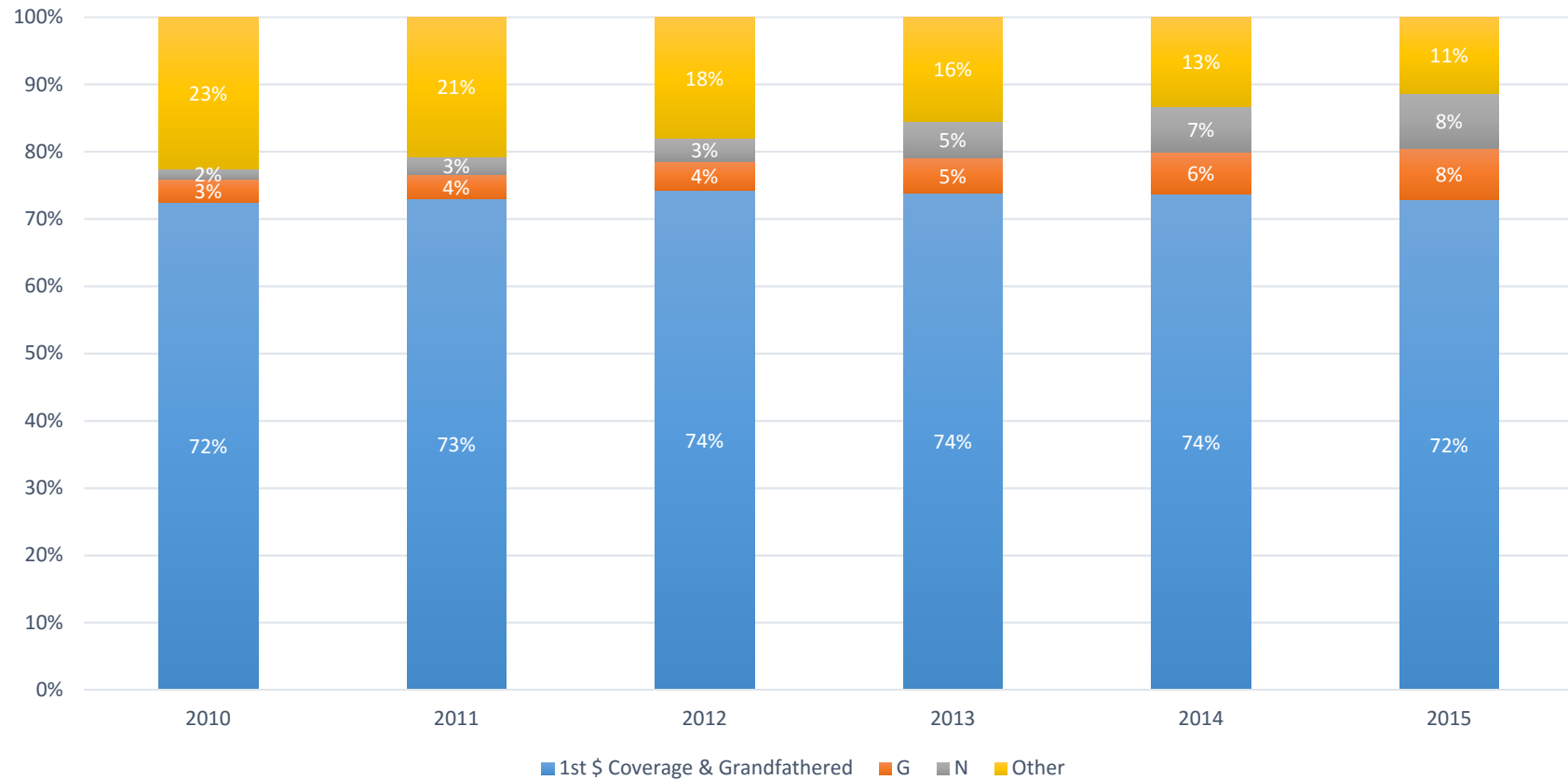
Other Considerations

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A	B	C	D	F	F*	G	K	L	M	N
<b>Basic including 100% Part B Coinsurance</b>	Basic including 100% Part B Coinsurance	Basic including 100% Part B Coinsurance	Basic including 100% Part B Coinsurance	<b>Basic including 100% Part B Coinsurance</b>		<b>Basic including 100% Part B Coinsurance</b>	Hospitalization and preventative care paid at 100%; other Basic Benefits paid at 50%	Hospitalization and preventative care paid at 100%; other Basic Benefits paid at 75%	Basic including 100% Part B Coinsurance	<b>Basic including 100% Part B Coinsurance, except up to \$20 copayment for office visit, and up to \$50 copayment for ER</b>
		Skilled Nursing Facility Coinsurance	Skilled Nursing Facility Coinsurance	<b>Skilled Nursing Facility Coinsurance</b>		<b>Skilled Nursing Facility Coinsurance</b>	50% Skilled Nursing Facility Coinsurance	75% Skilled Nursing Facility Coinsurance	Skilled Nursing Facility Coinsurance	<b>Skilled Nursing Facility Coinsurance</b>
	Part A Deductible	Part A Deductible	Part A Deductible	<b>Part A Deductible</b>		<b>Part A Deductible</b>	50% Part A Deductible	75% Part A Deductible	50% Part A Deductible	<b>Part A Deductible</b>
		Part B Deductible		<b>Part B Deductible</b>						
				<b>Part B Excess 100%</b>		<b>Part B Excess 100%</b>				
		Foreign Travel Emergency	Foreign Travel Emergency	<b>Foreign Travel Emergency</b>		<b>Foreign Travel Emergency</b>			Foreign Travel Emergency	<b>Foreign Travel Emergency</b>
							Out of Pocket limit \$4,960; paid at 100% after limit reached.	Out of Pocket limit \$2,480; paid at 100% after limit reached.		

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## Medicare Supplement Distribution of Policies by Plan



Sources: NAIC Med Supp study and other sources

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- Standardized benefit structures have created a commodity marketplace
- Premium rate level is primary driver of sales volumes



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- Premium rates vary by state and, in many cases, by zip code within each state
- Premium rates for each plan also typically vary by attained age, gender, tobacco usage, household

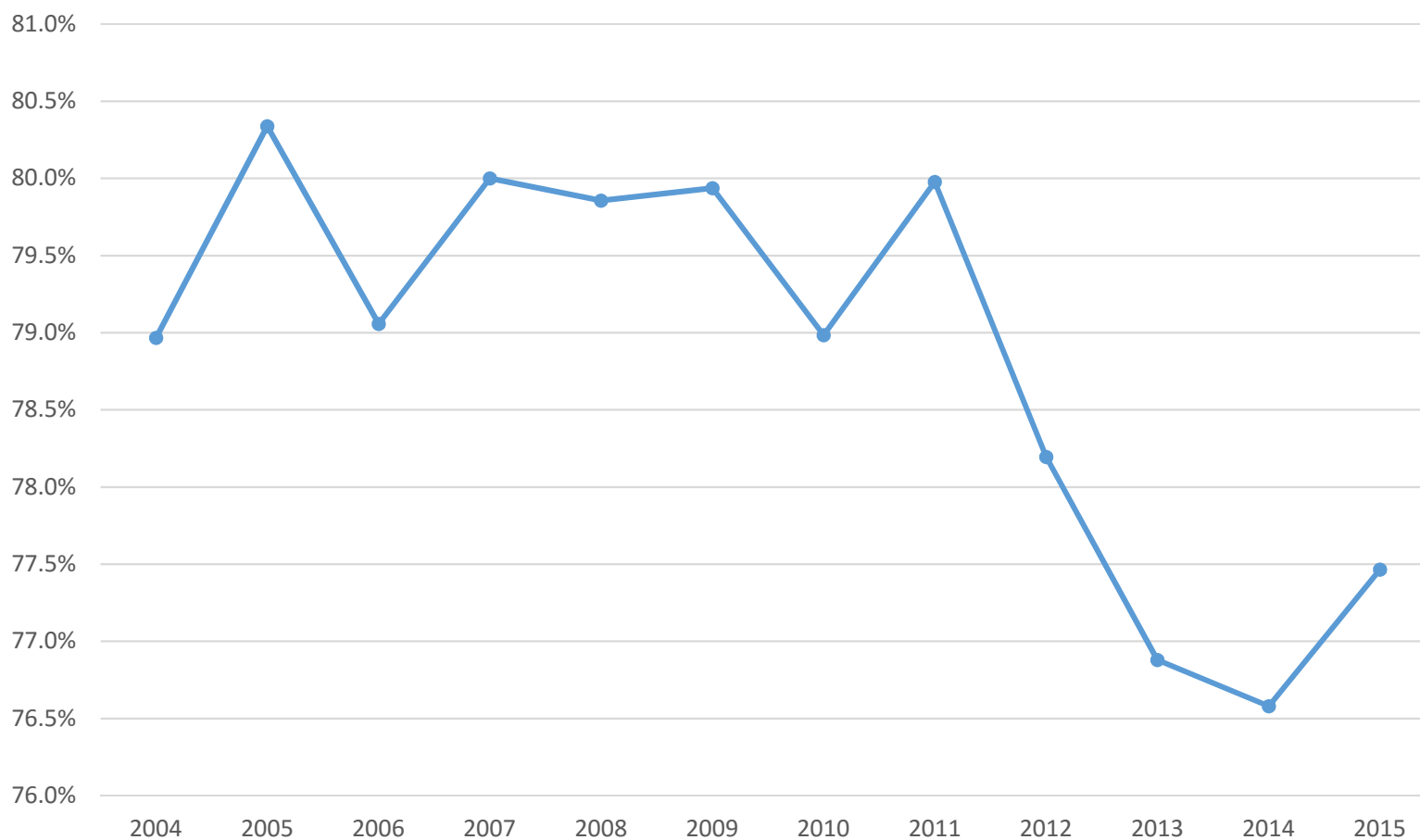
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### Medicare Supplement Minimum Loss Ratios

- 65% for individual products
- 75% for group products
- Must provide refunds to policyholders if loss ratios at a state/plan level are below minimums (with tolerances for credibility and underwriting selection)

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### Total Medicare Supplement Loss Ratios

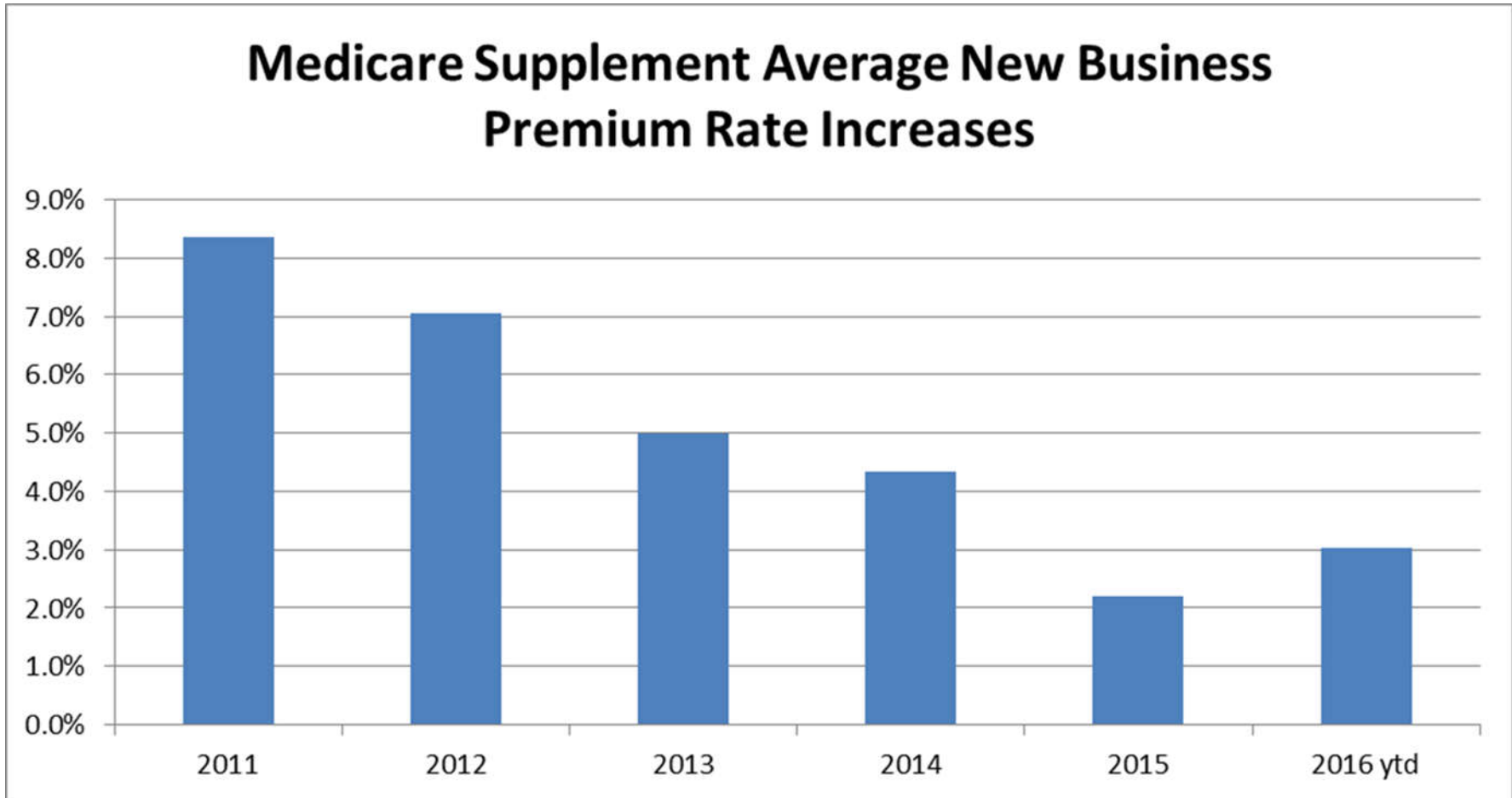


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### Medicare Supplement Rate Increases

- Plans re-rated annually to account for medical trend and experience, justification filings must be approved by the state insurance departments

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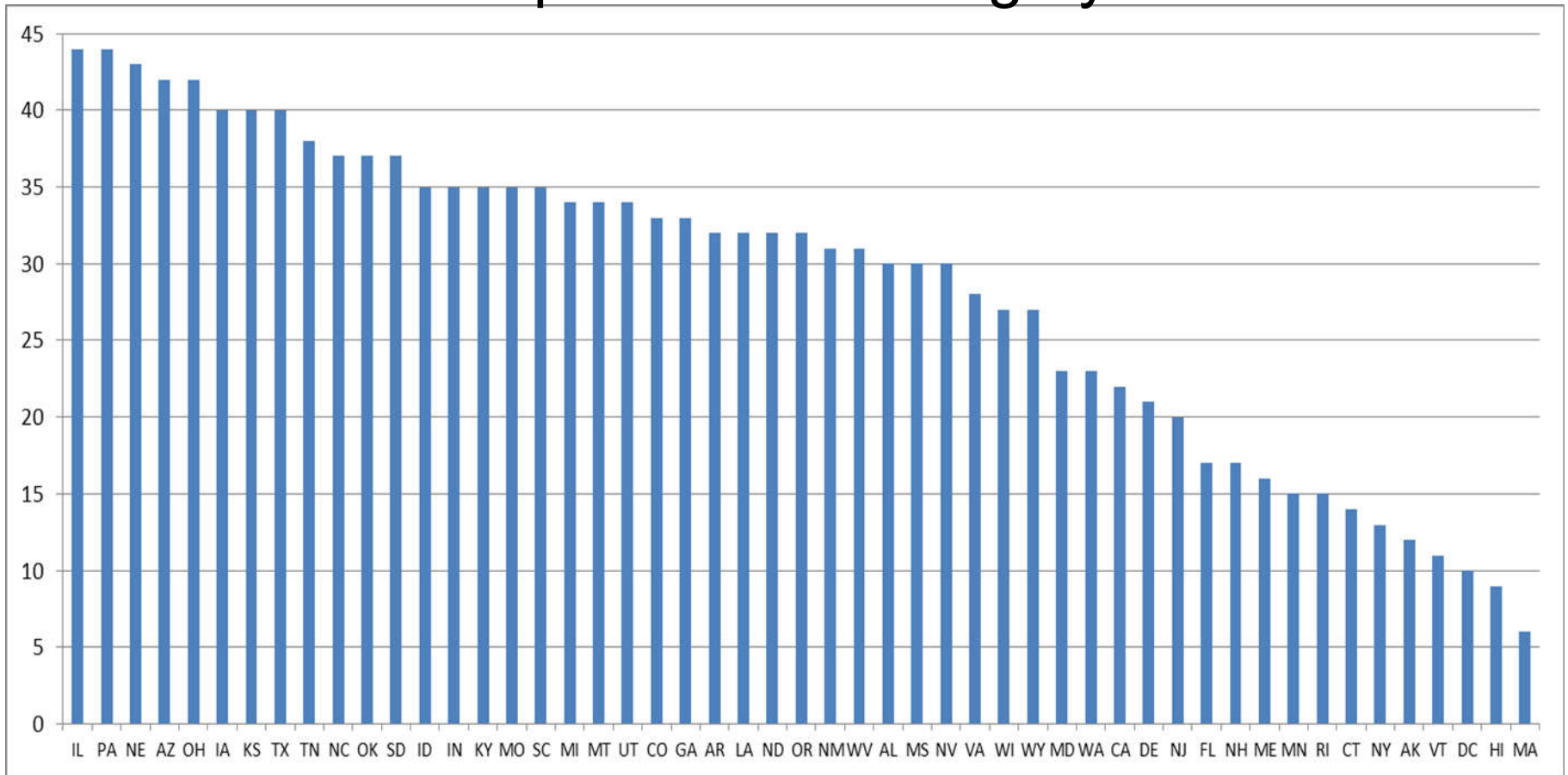
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### Medicare Supplement State Specials

- Each state is essentially its own market
- Each state has its own regulations
  - Typically start with the NAIC model regulation

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## # of companies marketing by state



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### Medicare Supplement Statutory Pricing

- Typical pre-tax profit: 5 – 7%
- Typical Distributable Earnings breakeven year 8 - 10



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- Market Support for New Entrants
  - Distributors: A number of large, medium, and small marketing organizations
  - Reinsurers: Numerous Re-insurers active in the market
    - 90 – 95% quota share is typical
  - TPAs: numerous TPAs with Medicare Supplement expertise (mix of carriers and stand-alone)

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Positive signs in the Medicare Supplement market are attracting continued “new” activity

- New rates (rate decreases / adding household discounts, etc)
- New companies in pipeline – mix of “National” and smaller carriers
- New paper

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- For more information:
  - [csgactuarial.com](http://csgactuarial.com)
    - 6th Annual Medicare Supplement Market Projection paper coming this summer
    - and much more .....

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## Questions?

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