Medicare Supplement Insurance

Product Guide

February 9, 2021

Disclosure: This guide was developed to provide a general overview of the issues related to its subject matter. The comments and recommendations contained in this paper are not intended to provide specific consulting advice or a statement of actuarial opinion. The unique situation of an individual company should always be considered in determining an appropriate response.

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Background

Medicare

Medicare is the United States' federal health insurance program that primarily provides health insurance to individuals aged 65 and older and is administered by the Centers for Medicare and Medicaid Services (CMS). Additionally, individuals under the age of 65 may qualify for coverage due to disability. Original Medicare (Medicare) consists of the following components:

1) Part A provides coverage for inpatient hospital services, skilled nursing facility services, and hospice services.
2) Part B provides coverage for outpatient services.

Medicare provides benefit coverage for these services, but the individual is still responsible for deductibles and coinsurance. For example, Part A recipients are subjected to an initial inpatient deductible ($1,484 for 2021) and additional cost-sharing amounts after being hospitalized for a certain number of days. Additionally, Part B recipients are subjected to an annual deductible ($203 in 2021) and additional cost-sharing (20%) after meeting the deductible.

Medicare beneficiaries pay a monthly Part B premium that is based on their annual income. Most Medicare beneficiaries are not subject to a Part A premium as they qualify by meeting the minimum number of quarters of Medicare-covered employment during their lifetime.

Medicare Supplement

Medicare supplement/Medigap insurance (Med supp) is offered by insurance carriers and provides coverage for a policyholder's deductible and cost-sharing responsibilities under Medicare. While Med supp has been available since the inception of Medicare, the currently available plans were originally standardized in 1992 and modernized in 2010. Currently, there are 10 lettered plans available (A, B, C, D, F, G, K, L, M, N) as well as high-deductible versions of Plans F and G. It should be noted that Plans C and F (including high deductible version) are only available to individuals that were eligible for Medicare prior to January 1, 2020. **Appendix A** includes a chart that displays the various benefits offered under each plan. Three states (MA, MN, WI) received grandfathered status and do not have the standardized lettered versions of the plans, but carriers may offer similar coverages in those states.

Opportunity

The current Med supp market offers a significant opportunity for carriers looking to expand their business. According to data reported by the National Association of Insurance Commissioners (NAIC), there were over 14 million individuals with a Med supp policy in 2019 and carriers collected over $32.9 billion of premium. Additionally, the market is expected to remain strong in the coming years primarily driven by the Baby Boomer generation becoming eligible for Medicare. According to the "2020 Annual Report of the Boards of Trustees of the Federal Hospital and Federal Supplementary Medical Insurance Trust Funds", approximately 61.2 million people were covered by Medicare in 2019. In the same report, the number of individuals covered by Medicare was anticipated to be over 78 million by 2030.

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Additionally, the Med supp market provides an opportunity for carriers to add a product line to their portfolio that is not materially affected by the ongoing and sustained low interest rate environment. Finally, Med supp provides a cross selling opportunity for other products marketed by the carrier that have a similar targeted age group (e.g. final expense insurance).

Reinsurance

If the potential capital strain of introducing a new Med supp product is a material issue for your company, there are numerous reinsurers that are willing to assume the financial risk (upward of 95%). Additionally, these reinsurers bring a wealth of industry knowledge and experience that will ensure you enter the market effectively and responsibly.

Policy Administration

Carries may elect to administer their Med supp block(s) of business in house, but there are numerous third-party administrators available that allow your company to continue to focus on current core lines of business without sacrificing speed to market of a new Med supp product.

Renewability

Med supp is a guaranteed renewable product. This means that if the policyholder pays the required premium rate, a carrier may not cancel coverage. However, claim payments may be denied or policies rescinded where material misrepresentation was committed by the policyholder.

Underwriting

Upon first enrolling in Medicare, individuals are eligible for open enrollment into a Med supp policy and the carrier is not permitted to perform underwriting. Additionally, there are other situations where individuals may be eligible to obtain a Med supp policy on a guaranteed issue basis without being subjected to underwriting. In situations where individuals are not eligible for open enrollment or guaranteed issue, the carrier may perform underwriting. The underwriting process typically consists of a series of yes/no health questions on the application, prescription drug screen, and a phone interview with an underwriter. Depending on the findings during the underwriting process, a carrier may decline offering coverage to the individual.

Loss Ratio Requirement

Med supp regulation requires that a carrier achieve a minimum loss ratio of 65% over the lifetime of the block of business. In the current market, carriers are likely to target something higher than 70% dependent on the carrier’s expense structure and competitive strategy.

Distribution

The method of distribution will vary by carrier and consists of one or more of the following channels: career/captive agents, independent agents, outbound call center agents, and direct to consumer marketing.

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Commission Rates
If a carrier elects to utilize agents to sell the Med supp product, the agent will receive a commission upon issuance of the policy. While commission rate requirements are dictated by the individual states, most carriers pay a level commission for years 1-6 followed by a substantial reduction in commission rate for years 7+. Commissions are only paid while the policy remains in force and are commonly paid on original premium only meaning that experience and attained age rate increases do not factor into the calculation of commission dollars paid to the agent. Depending on the agents utilized for distribution, carriers may advance the initial commission payment. Common advancement periods range from 3-12 months.

Premium Rate Structure

While the benefits covered by a Med supp policy are mandated by CMS, individual states maintain authority over how they will allow carriers to structure premium rates.

Age
There are three premium structures utilized. While most states allow for any of the three to be used, some states mandate which structure can be utilized:

Attained age – In addition to premium rate adjustments based on carrier experience, a policyholder's premium rate increases on an annual basis based on their current age.

Issue age – A policyholder's premium rate is established based on their age at policy issue. While policyholders are not subject to annual premium rate increases due to their age, they are still subject to increases based on product experience.

Community rated – All individuals are charged the same premium rate regardless of age. These premium rates are still subject to premium rate increases that are a result of product experience.

Sex
Most states allow carriers to charge different premium rates for females and males. Most carriers charge a higher premium rate for males compared to their similarly aged female counterparts.

Tobacco Use
Most states allow carriers to charge different premium rates for non-tobacco and tobacco users. Most carriers charge a higher premium rate for individuals that use tobacco.

Geography
Med supp carriers typically charge premium rates that differ by state. Additionally, carriers typically charge different premium rates within a state depending on a policyholder's zip code of residence. In most cases, a carrier's premium rates within a state are higher in the metropolitan areas and lower in the rural areas.

Premium Discounts
Most carriers offer a premium rate discount. These are typically in the form of a multi-policy discount or a household discount where the policyholder resides with another adult. These discounts typically range from 3-12%. Premium discounts are not permissible in all states.

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Rerating

Med supp is a guaranteed renewable product, but carriers can adjust premium rates subject to state department review and approval. In most states, carriers can perform a rate adjustment once every 12 months. While loss ratio experience is monitored throughout the year, carriers typically develop an annual rating plan once per year and premium rate adjustments are filed with the state departments of insurance for approval. The premium rate adjustments are based on the emerging and projected loss ratio experience, anticipated medical claim trend, and desired competitive positioning. Finally, carriers are not allowed to isolate individuals for premium rate adjustments based on their individual loss ratio experience.

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Whether you are investigating entering the Medicare supplement market as a new entrant or are a seasoned veteran within the space, Trilogy Actuarial has the requisite experience to partner with you. Our team boasts over two decades of experience focused on Medicare supplement product development and subsequent maintenance. Not only do we know the product and landscape, but we have built effective working relationships with many of the key partners in this space including reinsurers, marketers, and third-party administrators.

We would like to discuss the value we can bring to your new or existing Medicare supplement line of business by contacting us via one of the methods below.

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Schedule a Call with the Trilogy Team

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Appendix A

The following chart was obtained from medicare.gov:

Medigap Benefits	Medigap Plans									
	A	B	C	D	F*	G*	K	L	M	N
Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Part B coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes***
Blood (first 3 pints)	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A hospice care coinsurance or copayment	Yes	Yes	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Skilled nursing facility care coinsurance	No	No	Yes	Yes	Yes	Yes	50%	75%	Yes	Yes
Part A deductible	No	Yes	Yes	Yes	Yes	Yes	50%	75%	50%	Yes
Part B deductible	No	No	Yes	No	Yes	No	No	No	No	No
Part B excess charge	No	No	No	No	Yes	Yes	No	No	No	No
Foreign travel exchange (up to plan limits)	No	No	80%	80%	80%	80%	No	No	80%	80%
Out-of-pocket limit**	N/A	N/A	N/A	N/A	N/A	N/A	$5,880 in 2020 ($6,220 in 2021)	$2,940 in 2020 ($3,110 in 2021)	N/A	N/A

* Plans F and G also offer a high-deductible plan in some states. With this option, you must pay for Medicare-covered costs (coinsurance, copayments, and deductibles) up to the deductible amount of $2,340 in 2020 ($2,370 in 2021) before your policy pays anything. (Plans C and F aren't available to people who were newly eligible for Medicare on or after January 1, 2020.)

** For Plans K and L, after you meet your out-of-pocket yearly limit and your yearly Part B deductible, the Medigap plan pays 100% of covered services for the rest of the calendar year.

*** Plan N pays 100% of the Part B coinsurance, except for a copayment of up to $20 for some office visits and up to a $50 copayment for emergency room visits that don't result in inpatient admission.

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