



SOCIETY OF ACTUARIES

**Health Spring Meeting  
June 2009**

**Session # 39 TS: Medicare Supplement update**

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**Moderator:**

**Sudha Shenoy, FSA, MAAA, CERA**

# SOA Health 2009 Spring Meeting Session 39 Medicare Supplement Update

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## 1990 SB Plans to 2010 SB Plans: Managing the Change

- Implementation deadline
- 2010 Plan benefit definitions
- Considerations when choosing which plans to market
- Pricing 2010 Plans
- 1990 to 2010 exchange rules
- Other: refund filing, innovative benefits

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## Implementation: Key Dates

- GINA provisions were effective May 21, 2009/July 1, 2009
- MIPPA applies to policies issued effective June 1, 2010 and after
- Period of time when both 1990 and 2010 will be marketed
- Carriers have already begun filings

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## MIPPA: Plan Benefit Changes

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- Elimination of the Preventive Care benefit
- Increased the 80% Part B Excess benefit to 100%
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- New Plan “M”, which duplicates Plan D but with 50% coinsurance on the Part A deductible

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- Plans A, B, C, F, F-HD only add Hospice
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## Waiver States: MN

- Basic + Riders and Extended Basic Plans
- Kept the preventive benefit but removed the at home recovery benefit
- Added coverage for cost sharing on hospice and home health care
- Increased coverage on the Part B excess rider to 100%
- Created plans similar to standardized plans M and N
- June 1, 2010 effective date

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## Waiver State: WI

- Basic Plan + Optional Riders
- Two new optional riders:
  - Medicare 50% Part A deductible with no out-of-pocket maximum limitation
  - Medicare Part B 100% deductible with copayment requirements for Dr office and ER room
- Adopted the concept of distinct 2010 plans with the option to offer exchanges from 1990 to 2010 plans
- Effective for policies effective on June 1, 2010.

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## Decision: What Plans to Sell

- Benefit and premium differentials among the plans
- Past sales trends
- Preserving options-if a 1990 letter plan is not replaced by a 2010 plan, will the 5-year-out rule be triggered?

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## 2010 Medigap SB Plan Benefits

### Benefit Coverage

Benefits	A	B	C	D	F	G	K	L	M	N
Part A Coinsurance and Hospital	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
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### Relative Claim Costs

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H (no Rx in 2006)		0.6%		4.7%
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Total New Policies In Survey		415,386		192,499

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- Assumption changes for morbidity, selection, expenses, compensation, profit, persistency, interest, et. al.
- Actuaries may be able to experience rate the 1990 policies separate from the 2010 policies

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## 4/13/2009 NAIC Medicare Supplement Compliance Manual: Pricing Comments

- Subsidies between the 1990 plans and the 2010 plans are not prohibited, subject to satisfaction of the loss ratio requirements for each generation of plans
- Initial rates filings for 2010 SB plans should describe the relationship between proposed 2010 rates and renewal rates for the comparable 1990 SB plans
- Initial rate filing for a 2010 SB plan should indicate whether the 2010 SB plan is replacing a 1990 SB plan
- For regulators assessing the reasonableness of pricing assumptions “it is not expected that historical values for these assumptions will change materially with the advent of the 2010 SB plans”

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## MIPPA: Expected State Variations

- Pricing flexibility for the 2010 plans
- Pooling requirements for experience adjustments with renewal rating
- Interpretation-does non-replacement of a 1990 plan trigger the 5 year out rule
- New plan forms versus endorsement or riders to existing forms

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## MIPPA: Other Pricing Considerations

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- Finding the right balance between agent compensation and price
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- Large premium differences between 1990 and 2010 SB plans will create transition challenges

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- Original issue age if IA rating used
- Same or closest rating class
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- Drafting note states carriers may designate plans to be offered, but no reduction in benefits
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## Exchange Program Considerations

- Co-marketing of 1990 and 2010 plans
- Existing policyholder disruption
- Policyholder retention
- Policy issue expense
- Degradation of experience on the 1990 block
- Agent compensation for internal replacements

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## Refund Filings & Reporting

- No specific guidance yet on changes
- NAIC A&H work group-MS Refund Calculation group
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- For the latest information monitor the Life and Health Actuarial Taskforce and the Senior Issues Task Force (both report to the NAIC Life and Health B Committee)

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## 4/13/2009 NAIC Medicare Supplement Compliance Manual: Innovative Benefits

- Non-binding guidance
- Examples: hearing, vision, dental, preventive services
- Not: discounts on services or alternative Medicare cost-sharing
- Urges: state promotion of IB and consideration of optional benefit riders to add to existing policies

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- Rating methodology of riders should be consistent with that used for the base policy
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- IB experience to be included in the refund filing
- Approval of IB's should be reported to the NAIC Senior Issues (B) Task Force

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## Questions on Implementation Issues

- Will there be any restrictions on changes to pricing assumptions? (morbidity, expenses, commissions, persistency, selection, profit, et. al.)
- Pooling requirements for renewal rating purposes?
- Will the non-replacement of a 1990 plan trigger the 5 year out rule?
- May carriers modify 1990 plans via endorsements or riders? If so, should the endorsed policy then be experience rated with the 2010 block?
- How will DOI decisions be communicated?



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SOA 2009 Health  
Spring Meeting  
Session 39  
Medicare Supplement Update

Marianne Miller  
America's Health Insurance Plans

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**New federal minimum standards:**

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- **GINA** - Genetic Information Nondiscrimination Act
- **MIPPA** - Medicare Improvements for Patients and Providers Act



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## Sources of Information

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- NAIC Medigap Model Regulation 9/24/08
- Federal Register Notice 4/24/09
- NAIC Implementation Guidance 10/7/08
- NAIC Compliance Manual draft 4/13/09



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## I will cover:

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- New GINA & MIPPA standards
- Historical context for new standardized plans
- State implementation
- Thoughts about future market for Medigap



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## GINA Federal Minimum Standards

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- Prohibits using an individual's genetic information to determine eligibility, establish premiums or premium contributions, or impose any benefit exclusions based upon a pre-existing condition.
- Prohibits requiring an individual to undergo a genetic test.
- Permits certain use of genetic information – e.g. for payment determinations.



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## GINA Federal Minimum Standards

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- Effective May 21, 2009
- Most carriers will not have to change anything



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## MIPPA Federal Minimum Standards

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- To implement new standardized plans
  - Switchover date – June 1, 2010
- Mandated plan offerings: if > A, then C or F
- Clarification of definition of Medicare supplement plan – MA supplemental products prohibited



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## Historical Context for New Std Plans

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Two important facts:

Beneficiaries like 1<sup>st</sup> dollar Medigap coverage

Federal policymakers do not like 1<sup>st</sup> dollar  
Medigap coverage



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## Historical Context for New Std Plans

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Federal policymakers do not like 1<sup>st</sup> dollar coverage.  
They say secondary coverage boosts Medicare spending.

- Dueling Research – CBO & MedPAC, AHIP, MedPAC
- Policy Proposals – MMA Conference Report



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## Historical Context for New Std Plans

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MMA of 2003 Conference Report

...NAIC should consider much broader changes to the Medigap market that will effectuate reduced premiums and more rational coverage policies that create incentives for appropriate utilization of services.”



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## Historical Context for New Std Plans

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an aside...

Higher Cost-Sharing Medigap Plans have been added...

- F & J High Deductible in 1997
- K & L in 2003

... but enrollment is quite low



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## Historical Context for New Std Plans

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NAIC did two rounds of changes following MMA 2003

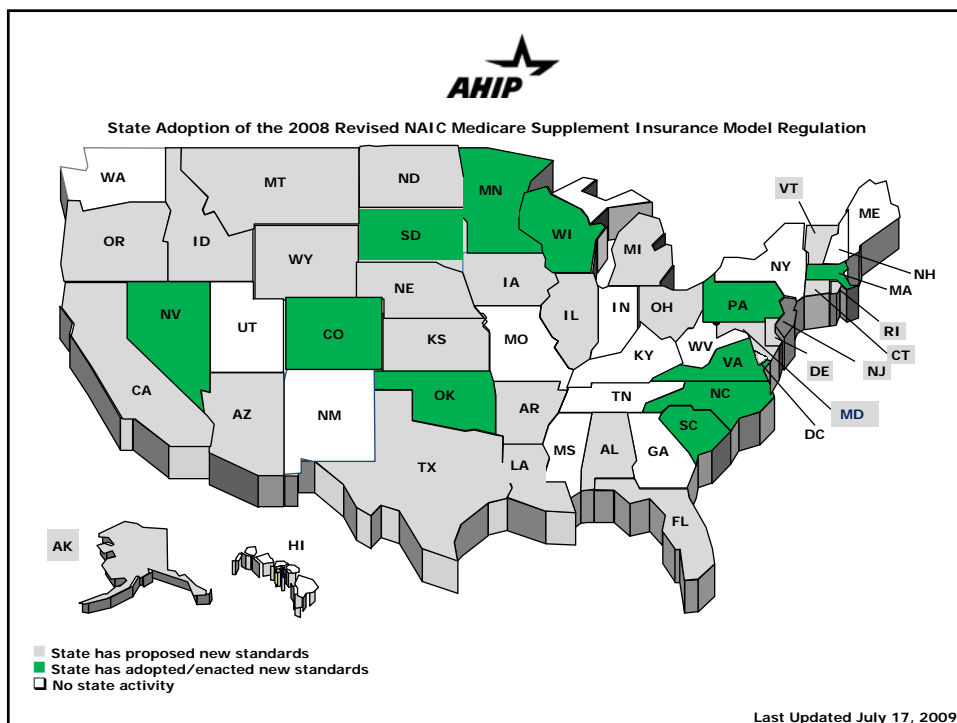
- Mandated changes re drug benefits '04 – '06
- “Modernization” per the Conf Report '07-'09



## State MIPPA Implementation

As of June 5, 2009

- 11 states have completed implementation
- 27 states – implementation underway
- 13 states have not issued proposed changes





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## State Implementation – Deviations

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- Surprisingly few (compared with last round)
- Clarification of wording for 2010 policies
  - Delivered on or after June 1, 2010
  - Delivered with an effective date for coverage on or after June 1, 2010



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## Other State Medigap Activity

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- FL – OE for < 65 disabled + ESRD- passed 09
- UT – mandates return of unearned premium- passed 09
- [IL – OE for < 65; new annual disclosures to DOI]
- [ME – GI for any MA enrollee]
- [MI – 90% MLR]



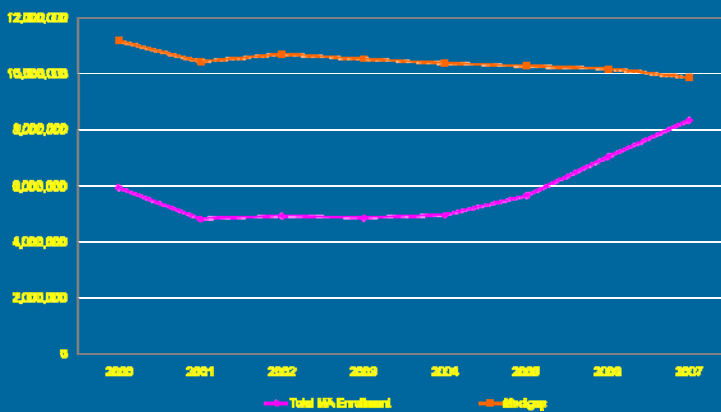
## Medigap Marketplace

- Recent enrollment trends
  - Sources of supplemental coverage
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- Growth in number of Medicare beneficiaries
  - Trends in employer retiree coverage
  - Federal law changes



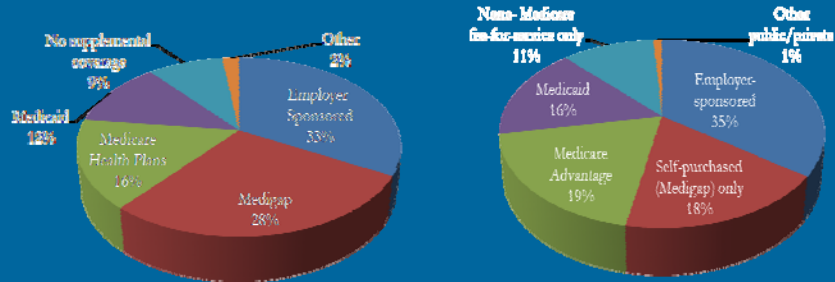
## Medigap Marketplace

Enrollment Trends in MA and Medigap 2000-2007



## Medigap Market of Future

### Sources of supplemental coverage '01 and '06



Source: MedPAC Report to Congress: Medicare Payment Policy, March 2004, p. 18.

Source: Kaiser Family Foundation analysis of the CMS Medicare Current Beneficiary Survey Access to Care File, 2009.

## Medigap Market of Future

### Opportunity and Danger

- Growth in number of Medicare beneficiaries
- Trends in employer retiree coverage
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## Medigap Market of Future

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Federal Law Changes...

- 2003 – Medicare Modernization Act
- 2008 – Medicare Improvements for Patients and Providers Act
- ?? 2009 Health Care Reform/Medicare Reform? ?



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## Medigap Market of Future

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Federal policymakers do not like 1<sup>st</sup> dollar coverage.

- Policy Proposals - CBO Budget Options, Senate Finance Committee
- Budget Savings Estimates Questionable



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## Medigap Market of Future

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Federal Medicare reform proposals under discussion:

- MA payment rates
- Medigap
  - mandated higher cost-sharing for certain Medigap plan types
  - open enrollment for under age 65 beneficiaries



America's Health  
Insurance Plans

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