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Medicare Supplement Insurance Claim Cost Trends

by Mike Abroe

The American Academy of Actuaries was asked by the National Association of Insurance Commissioners to examine issues that may be affecting the cost of Medicare supplement insurance policies. The Academy formed a Working Group that collected and analyzed claims data from 11 insurance carriers providing Medicare supplement coverage.

The final report was released June 8, 2000 and was presented at the spring and fall NAIC national meetings. The report is being used by the NAIC as a source document for revisiting the benefit composition of Medicare supplement standardized plans as well as for other purposes.

The following few paragraphs outline several interesting results contained in the report.

The aggregate nationwide annual claim trend from 1996 through 1998 was 11.2% for all plans A through G combined. This was twice the 5.6%

expected trend over the same time period (1996-1998). The following table provides some details by Medicare supplement plan.

The analyses presented in the report reveal that hospital outpatient costs had a major impact on claim cost trend. For most outpatient services, the Medicare beneficiary was liable for the annual Part B deductible plus 20% of the hospital's outpatient billed charges. It is important to note that no limits were placed on the absolute level or amount of annual increase of hospital outpatient charges, so beneficiaries were subject to full medical inflation on their coinsurance liability, an annual 18.2% claims trend based on the experience of one large carrier.

Medicare's new prospective payment methodology for hospital outpatient services is expected to initially decrease outpatient hospital claims costs on a nationwide basis by about 11% and slow annual trend thereafter. The report shows that results are expected to vary by state, with some states not reaping

any initial reductions in claims costs. States such as: Alaska, Idaho, Montana, New York, and Vermont will see initial increases in claims costs in excess of 10%. On the other hand, Alabama, Florida, California, Texas, and others are expected to benefit from initial decreases in costs of 25% or more.

The Academy's report addresses other issues related to Med Supp claims costs, including, state-mandated rating methods, prescription drug coverage, guaranteed issue, and fraud. The study is available online at the American Academy of Actuaries Web site, <http://www.actuary.org/whatnew.htm#medbrief>.

Michael S. Abroe, FSA, MAAA, is a consulting actuary at Milliman & Robertson, Inc. in Chicago. He can be reached at mike.abroe@milliman.com

