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A Side Order of Health Insurance

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"What comes with the crab-crusted grouper?" is a reasonable question that might be asked by an actuary enjoying a coastal dinner while attending the Society of Actuaries Health Meeting in Hollywood, Florida. It is our dietary custom to eat multiple items in one sitting, usually a large entrée accompanied by several "side orders." In our culture, a meal is generally not regarded to be complete unless several food sources are represented.

Contrary to our customary meals, major medical insurance has traditionally provided a complete spectrum of benefits through a single product. Recent developments, spurred by the Patient Protection and Affordable Care Act (ACA), are changing that dynamic. The amalgamation of individual and small group major medical products with gap insurance products to provide complete coverage is becoming an attractive option for individuals and employers alike. Gap insurance, or supplemental insurance, has some history in commercial markets but the ACA has created a new relevance. As medical costs increase and average benefit values of major medical plans decrease, out-of-pocket costs are growing to levels that warrant additional insurance consideration. Gap insurance products provide coverage for out-of-pocket costs that may complement major medical benefits to offer comprehensive coverage.

A similar concept exists with private insurance in Canada and with Medicare Supplement products in the United States. Over time, Medicare Supplement products have become more standardized and uniformly regulated. Gap insurance products in the commercial market are in the development stage from both a product and regulatory standpoint. The prescribed allowance of small employers to fund health reimbursement accounts to provide individual coverage[1] may add an additional layer of complexity for employers utilizing multiple sources to customize complete health benefit packages.

Might it become customary to ask an insurance broker, "What pairs best with a Bronze PPO?" perhaps with a wine-snob voice impression? Will employers be interested in providing multiple and complementary benefits to their employees if there are cost savings to be achieved? This article explores the developing gap insurance market and offers some considerations for health plans, actuaries, employers and individuals.

BACKGROUND

Medical gap insurance is an insurance policy designed to cover out-of-pocket costs not covered by a member's major medical insurance policy. We will refer to this as the primary product throughout the article. There are many different designs and they are often labeled under different names including supplemental insurance, gap insurance and hospital indemnity. Throughout the rest of this article we will collectively refer to these products as gap insurance even though they do have differences in the way they are administered.

As out-of-pocket expenses for health care continue to increase, gap policies are seen a viable option to help shield members from these expenses. Historically, most gap policies have been sold through channels not connected to a primary major medical policy, which adds a layer of complexity for the member. This often requires having the members wait for their explanation of benefits (EOB) from their primary plan before they can submit their claim to the gap insurer for reimbursement. This process can take weeks or even months as claims are processed by the primary insurer. Alternatively, a member may be required to carry two insurance cards to a physician's office to have multiple coverages timely applied.[2]

BENEFIT DESIGNS

Gap policies should be recognized and marketed as supplemental products to complement major medical plans. They should not be confused with mini-med products or short-term policies that are alternatives to major medical coverage.

Gap insurance labeled under hospital indemnity products pays a defined benefit per service (e.g., per day, per visit) up to a maximum benefit. The products range in the covered services,

with some only covering hospitalization while others have a benefit for MRIs, labs, office visits or other services. Products more traditionally labeled gap insurance cover all or partial amounts of members' out-of-pocket expenses related to their primary policies. Typically, gap insurance that covers a member's cost-sharing is designed around a maximum benefit that is chosen by the member. However, only certain services might be covered up to the maximum benefit, while others might have a specific dollar cap or a cap as a fraction of the maximum benefit. Traditionally, inpatient hospital services will have coverage up to the maximum benefit, and outpatient and professional services will be covered as a percentage of the maximum benefit or at a fixed dollar amount.

Gap policies from traditional supplemental insurers are designed not to be specific to any one primary plan.

RISK MITIGATION

Depending upon enrollment mechanisms and regulatory requirements, gap issuers have taken different steps to protect against anti-selective risk. Products sold through voluntary employer channels assume some benefit from "actively at work" and sometimes require minimum group participation rates. Individual sales are more likely to be underwritten and usually have waiting periods for pre-existing conditions. Rates typically vary by age bands that are not constrained by the ACA. Legal status of "excepted benefits" means that gap products are exempt from the market rules and other mandates imposed by the ACA. Essential benefits are not required and individuals have more flexibility to tailor insurance coverage to their perceived needs.

GROWTH AND OPPORTUNITIES

Cost-sharing provisions serve several purposes within a health insurance policy. First, they reduce premium costs and allow insureds to manage some of the risk associated with health care costs. Second, they provide some transparency and responsibility, and are intended to incentivize a responsible use of health care services. Third, cost-sharing is sometimes varied by benefit level to provide incentives for cost-effective services or site of service.

The rise in cost-sharing levels warranting additional insurance considerations is due to several factors. As we all know, medical costs increase each year at higher rates than other consumer goods. The ACA market rules and essential benefits have given rise to additional costs within ACA markets. Employers often use benefit adjustments to lower annual increases in health insurance premiums. Health savings accounts have increased the prominence of high-deductible plans in the market.

Some commentators have described the potential "sticker shock" of high deductible as a need for additional risk mitigation. In addition to the need for insurance, the rise of consumerism and customized benefit options allow individuals to choose insurance policies based on their needs, preferences, risk tolerance and lifestyle.

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The growth in the gap insurance market has some attribution to the supply side as well. Some insurance agents have been squeezed out of the exchange markets or have accepted lower commissions. Growth is driven externally by agents who may be less active in the new exchange markets and corporate advertising.

As discussed earlier, most gap policies have been sold without an administrative connection to major medical insurance, generally by third-party gap insurers. This creates an opportunity for traditional health insurers. First, having the same insurer hold both the primary and gap product will be simpler from the insured's perspective. No longer will they have to manually submit their own claims as the gap policy can be administered alongside their primary product. However, the degree of integration between the two might be limited due to regulations that may vary by state. Second, the primary insurer has another avenue to get its members the level of coverage they prefer. If you think about it from a group setting, an insured individual may only be offered a limited number of plans. If an insurer offers several gap policies that are a derivative of the primary plans offered in the group market or individual market, individuals can now pair one of those with the primary policy to create a synthetically richer plan that provides the coverage they want.

As an example, an individual wanting gold-level coverage but not all the essential benefits may appreciate the opportunity to purchase a bronze plan and a gap plan that provides the other 30 percent of desired coverage. The opportunity may translate to lower prices through bundled coverage. Some brokerages have taken proactive steps to pair ACA product coverages with gap plans and build holistic coverage for employers through different channels.[3]

With this in mind, a traditional major medical insurer entering the gap insurance market should be designing products to integrate with their primary policies. As an example, if a primary plan has reasonable copays for imaging and other outpatient services, the related gap product doesn't need to cover these

services and might only need to cover inpatient services. This in turn lowers the rate of the gap policy and helps prevent the member from overpaying for duplicated services that the traditional supplemental insurer cannot do.

BENEFIT/PRICE OPTIMIZATION

In ACA markets, the annual calendar cycle combined with a finite number of benefit plans and associated premium rates allows a comparison of plan options. These plans can be extracted and paired with gap plans to compare coverage and premium rates. For example, the premium sum of a bronze plan and a gap plan that equate to the coverage of a gold plan can be compared to the gold plan premium. With fixed plan designs and prices in place for an entire year, optimization can be applied to achieve the targeted benefit level at the lowest price. Alternatively, a fixed contribution could be applied to achieve maximum benefit value.

Actuaries will need to rethink how they measure benefit values. Typically, models have been built off traditional group experience and compressed into an Excel file or two with the output being a single allowed and paid per member per month (PMPM) and the ratio between the two with no distinction between classes of members. When it comes to pairing ACA products with gap insurance, only certain classes of members may benefit, and one will need to find these arbitrage opportunities. Therefore, the next generation of benefit models will need to keep all the member details (e.g., age, gender, risk class) as well as the detailed claims data to model how the different classes of members perform under single primary coverages vs. primary plus gap coverage.

CHALLENGES

There are several challenges a major medical insurer is likely to face as it enters the gap insurance market, with regulatory being the most significant. This article is not intended to be an exhaustive expose of the regulatory hurdles an insurer is likely to face as regulatory challenges are likely to vary by state. In summary, the challenges an insurer is likely to face are stipulations on what supplemental coverage qualifies as group health insurance. Regulators might also have concerns and reservations surrounding dual marketing of gap insurance with major medical policies. In addition, there are myriad unsettled tax considerations for both employers and employees that are beyond the scope of this article.

Other challenges an insurer is likely to face include claims processing and billing, as well as administration of a new product. An insurer is already doing claims processing and billing, but getting an insurer's existing claims processing billing system to handle multiple products efficiently is likely harder than it sounds and may even require a new system. In addition, selling gap insurance is going to require additional training to customer service representatives as well as to any individual involved with the distribution and sales of the gap product.

CONCLUSION

The ACA has created opportunities for the emergence of new products. Proposed repeal legislative efforts suggest a continued trend toward leaner major medical benefit options. Gap insurance gives individuals the opportunity to seek a portion of their coverage outside of the more heavily regulated market. It provides agents the opportunity to educate consumers on new options and earn commission volume that may have been reduced by ACA regulations.

Gap insurance provides traditional health insurers an opportunity to enter a growing market as well as the opportunity to rethink how they want to provide insurance solutions to their employer groups and members. Modeling techniques that pair coverages to optimize benefits and price may provide the benefit package that will leave employers and individuals completely satisfied, and we haven't even talked about dessert. ■

The views expressed herein are those of the authors alone and reflect current information as of March 2017. They do not represent the views of the Society of Actuaries, Axene Health Partners LLC or its consultants, or any other body.

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ENDNOTES

1 *https://insurancenewsnet.com/innarticle/21st-century-cures-act-brings-hras-back-market*

2 *http://acforrest.com/what-is-gap-plan/*. Short video illustrates the two-card requirement.

3 *http://help.hixme.com/customer/en/portal/articles/2523666-what-is-a-hixme-bundle-*