Session 85PD, MACRA Implications on Medicare Supplement

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SOA Presentation Disclaimer
MACRA IMPLICATIONS ON MEDICARE SUPPLEMENT

Society of Actuaries – 2018 Health Meeting
June 25-27, 2018

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Principal and Consulting Actuary – Milliman, Inc.
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Plan F vs. Plan G

<table>
<thead>
<tr>
<th></th>
<th>Plan F</th>
<th>Plan G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>&quot;Today&quot; (Pre-MACRA)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enrollment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open Enrollees</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Underwritten</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Guarantee Issue Qualified</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>2020 + (MACRA)</strong></td>
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Plan F vs. Plan G

- What is the incremental “value” to an insured of Plan F vs. Plan G?
  - 2018 - $183 (Part B Deductible)
  - Future: ?

- What is the incremental “cost” of Plan F vs. Plan G?
  - A more difficult question to answer but the short answer based on review of typical carrier schedules is much more than $183
    - Why is this the case?
    - Carrier expense / profit loads
    - Simplistic pricing
    - Less than one year of exposure in many cases
    - Experience driven
Plan F vs. Plan G

- What is the overall morbidity difference?

<table>
<thead>
<tr>
<th></th>
<th>Plan F</th>
<th>Plan G</th>
<th>Ratio G/F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Premium</td>
<td>2,431</td>
<td>1,549</td>
<td>64%</td>
</tr>
<tr>
<td>Claim Cost</td>
<td>1,874</td>
<td>1,184</td>
<td>63%</td>
</tr>
</tbody>
</table>

- Benefit difference alone expected to be approximately 90%
- Therefore, rough estimate of morbidity relativity = .63/.9 = 70%
- What will the Plan G morbidity be relative to Plan F benefits under MACRA?
- Remember the 3 yesses
Quantifying Potential MACRA Implications

- Looking at the math
  - What will MACRA do to the market?
  - What will MACRA do to your company?
  - What will drive overall experience in 2020 and later?
    - Total experience will reflect the relative distribution of Plans F and G which will change over time
    - Don’t confuse profit margin with profit dollars
  - What kind of numbers are we really talking about?
Quantifying Potential MACRA Implications

- Projection Model of the Medicare Supplement Market
  - Modeling results developed for Plans F and G issues in 2020 and beyond
  - Objective: Provide insight on the key change drivers, get a sense of directional impact and overall potential scale

- Underlying Data Sources
  - 2017 Medicare Trustees Report
  - Milliman Health Cost Guidelines – Ages 65 and Over
  - CMS – Medicare 5% Sample claims and enrollment data
  - Industry rate tables
Quantifying Potential MACRA Implications

- Projection Model Methodology
  - Project sales, inforce, premium, and claims by:
    - Plan
    - Age
    - Gender
    - Issue Status (Open Enrollees, Guarantee Issue, Underwritten)
    - Calibrate to current market levels and project future enrollment
  - Lots of assumptions
    - Distribution by issue status, age, gender and relative morbidity levels
    - Underwriting impact
    - Future Sales by Plan
    - Others (Claims trend, rate increases, aging, persistency, etc.)
Quantifying Potential MACRA Implications

- Projection Model Methodology (continued)
  - Duplicate Status Quo model and apply MACRA restrictions which result in a shift in sales from Plan F to Plan G at a granular level.
  - Model results ignore market reaction (i.e., rate action) to counter impact of MACRA.
  - Model various reasonable assumption scenarios.
    - Look for consistent patterns
    - Understand differences and key drivers
Quantifying Potential MACRA Implications

- Model results presented
  - Based on a plausible and realistic set of assumptions
  - Certainly other sets of plausible and reasonable assumptions exist. Actual future results will differ from projection assumptions
  - Provide insight on the key change drivers, get a sense of directional impact and overall potential scale
  - Specific carrier experience and reaction to MACRA will certainly vary
Projected Membership (million) – 2020 and later issues
Status Quo

![Projected Membership Chart]

<table>
<thead>
<tr>
<th>Year</th>
<th>Plan G</th>
<th>Plan F</th>
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<td>2022</td>
<td>1.7</td>
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<td>2.6</td>
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<td>2025</td>
<td>3.0</td>
<td>5.1</td>
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Projected Membership (million) – 2020 and later issues

MACRA

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<td>5.9</td>
<td>2.3</td>
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Projected Premium ($ billion) – 2020 and later issues
Status Quo

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<td>3.4</td>
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Projected Premium ($ billion) – 2020 and later issues

MACRA

Plan G

Plan F
Projected Claims ($ billion) – 2020 and later issues

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Projected Claims ($ billion) – 2020 and later issues
MACRA
Projected Retention ($ billion) – 2020 and later issues
Status Quo

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Projected Retention ($ billion) – 2020 and later issues
MACRA
Projected Loss Ratios – 2020 and later issues
Plan F

![Projected Loss Ratios Graph](image)
Projected Loss Ratios – 2020 and later issues
Plan G
Projected Loss Ratio – 2020 and later issues
Plans F and G
Quantifying Potential MACRA Implications

- **Takeaways**
  - Overall market projection requires aggregate assumptions.
  - Impact on specific carrier experience will vary based on various factors. Key among them are:
    - Rate Structure and pre-MACRA rating relativities between Plans F and G
    - Level of underwriting
    - Sales demographics and distribution
  - Impact will be greater for strictly underwritten business and vice versa.
  - Impact will be greater for business sold predominately to open enrollees and vice versa.
  - Impact will be smaller for companies currently selling a significant amount of Plan G relative to Plan F.
Thank you

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MACRA Implications on Medicare Supplement

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Robert Himmelstein
Actuarial Vice President, ASA, MAAA
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What Is MACRA?

- Medicare Access and CHIP Reauthorization Act of 2015


SEC. 401. (Of Title IV Subtitle A):
LIMITATION ON CERTAIN MEDIGAP POLICIES
FOR NEWLY ELIGIBLE MEDICARE BENEFICIARIES.
What does MACRA do?

- Repealed the Sustainable Growth Rate
- Extended federal funding for the Children’s Health Insurance Program
- **Prohibits first dollar Part B coverage on Medicare Supplement plans**
  - to "newly eligible" Medicare Beneficiaries
  - Plan D replaces Plan C and Plan G replaces Plan F within regulations
- In addition
  - Extended the dates on certain Medicare Advantage benefits
  - Adjusted income related premiums for Medicare and Medicaid programs
  - Established studies and actions aimed at reducing waste and fraud
Why do MACRA do what it do?

• Part B Deductible
  - Perceived to increase overall Medicare Claim Costs
  - Tried to convey the seniors need
    - Does deductible coverage lead to higher utilization or
    - Do sicker people just buy the fuller plans

• Medicare Supplement is Guaranteed Renewable
  - Changes try to Grandfather Existing Policies
  - 2003 (MMA) – Removed Drug Benefits
  - 2008 (MIPPA) – Changed Medicare Benefits – 2010 Modernized
What is “first dollar Part B coverage”?

• For Medicare Supplement
  - Part B – Physician Services
  - Deductible
  - Plans C and F only
  - $183 in 2018

• With Removal Of Part B Deductible
  - Plans C & F become redundant with Plans D & G
  - Plans C & F are no longer to be sold to newly eligible
  - By Regulation Plan D replaces Plan C and Plan G replaces Plan F
  - Addition of new Plan G High Deductible
Who is “newly eligible”?

- Anyone Who
  - Attains age 65 on or after January 1, 2020
  - First becomes eligible for Medicare benefits on or after January 1, 2020
    - Age
    - Disability
    - End-Stage Renal Disease

- On the flip side, current enrollees
  - Can continue with their Plan C or Plan F, including F High Deductible
  - May continue to buy Plans C and F beyond January 1, 2020
Do Plans C & F change?

• They Don’t
Do Plans C & F change?

- They Don’t
- Is it really that simple?
- Who is buying?
  - People switching from other companies
  - Upgrades within a company
  - GI from losing Medicare Advantage, leaving employment & 5 other reasons
- Currently companies underwrite approximately 40-70% of policies
- High Deductible Plan F
  - Same changes as Plan F
  - Already High Deductible
Do Plans D & G change?

• They Do

• Plans D and G will be deemed to be treated as Plans C and F
  - What that means is now Guaranteed Issue eligible
  - New Plan G High Deductible
  - Has to be offered whenever C and F was

• This might be able to be considered a new underwriting class

• If new plans or new series
  - Price based on current, adjusted?
  - Price from basics?

“Get ready! The next wave of legislation is rolling in.”
How will companies adjust rates?

- Plans C & F
  - Better business mix
  - Lower rates?
  - Develop organically?
  - Rate reductions?
  - Seven GI States

“We like to greet our Regulatory Compliance hires with one word.”
How will companies adjust rates?

- Plans D & G
  - Worse business mix
  - Raise rates?
  - Develop organically?
  - Rate Increases?
    - Current inforce
    - New series – like 2010
    - New underwriting class
    - Adjust organically
    - Apply for prospective increases
  - Game of chicken?

“Here’s the new Healthcare Plan. Let me know if you can figure it out.”
How will companies adjust rates?

• 2003 logic: When Drug Plans were no longer available for sale
  - Policy Holders with Plans H, I & J could keep them as is
  - Or keep them as H’, I’, J’ or some variation
  - Sales did not continue

• 2010 logic: Modernized, new forms replace old
  - Brand new series
  - Just Plans D & G? Also C & F? All plans?
  - Actuarial equivalence varied greatly by state
    - Original rates?
  - Rate Increases? with the same Plan letter
Within each type of policy, an issuer is permitted up to five policy forms:
- Variations based on inclusion of innovative benefits, marketing methods, underwriting methods, and eligibility for Medicare (aged versus disabled)

Predictive rate increases vs Experience based rate increases:
- Many companies filed higher rate increases Plans C & F
  - 13% Increase in Part B Deductible 2016;
  - 10% Increase in Part B Deductible 2017
- Not as successful in 1990s with Medicare+Choice
  - Intro & Company pull out
  - Effects, not as obvious
- Mix of business, new and old
So what about the other plans?

- Plans A & B are unchanged and still subject to Guarantee Issue
- Plans K, L and M are unchanged, and still not subject to GI, but who cares
- Plan N is unchanged and still not subject to GI
- Waiver States have to stop Part B Deductible sales, same eligibility rules
  - MA, MN, WI
  - Usually as rider
  - 7% of total sales premium
  - Not in graph
How will sales change?

- Why do agents sell so much Plan F
  - Plan F far most popular
  - Commissions not paid on “Part B Deductible”
- In IL, for a 70 y/o female, rates on average are $350 more for a Plan F
  - Illinois is representative of a state where a lot of companies are marketing
  - Its rates close to the Nationwide Average
  - There isn’t a huge disparity between the high and low cost areas
  - Ken will cover more of actuarial why as to the difference later
  - But, to the insured, the difference is still $183
  - Seniors want the most they can afford?
How will sales change?

• With expected better experience
  - Will companies still have a focus on Plan F?
  - Too small to care?
  - Short term?
  - Pursue replacements?

• Plan G sales should dominate

• Will Plan N increase popularity?

• Rate Differential
  - Not just an academic question
  - Will need to justify to state
    - New rate
    - Rate increases
QUESTIONS
Questions

- Do Plans C and F need to be offered?
- What will states allow?
- Premium Refunds
  - Raised as an issue with the NAIC guidelines changing
  - Refund calculations are made at the “type” level
  - F & Hi F together
  - H & H’, I & I’, J & J’
  - Standardized and Modernized?
  - Life years key component
Thank you

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