

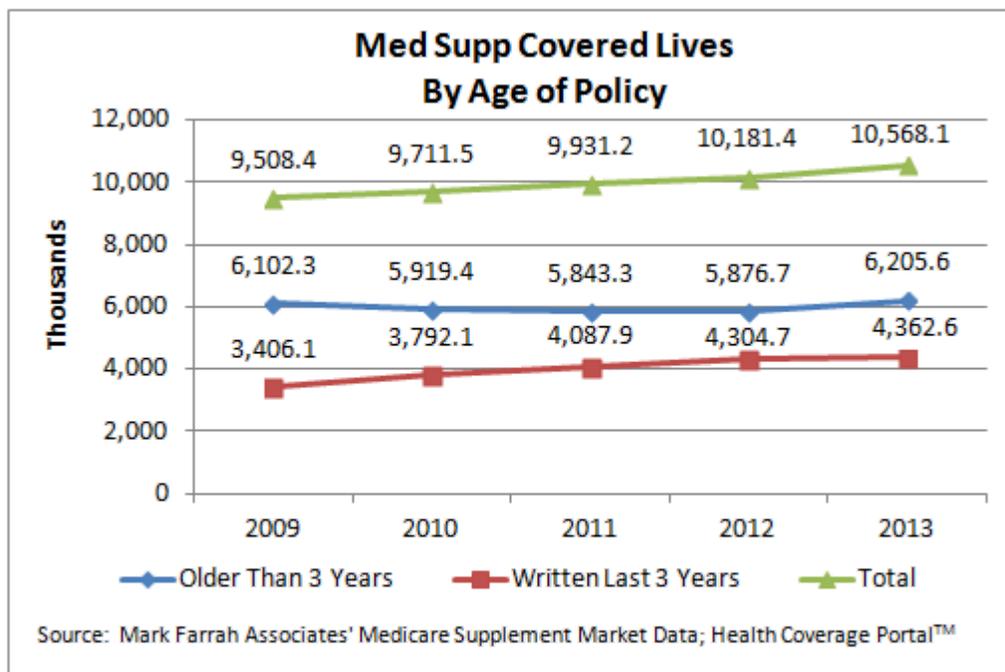


Med Supp Enrollment Continues to Grow

4/30/2014

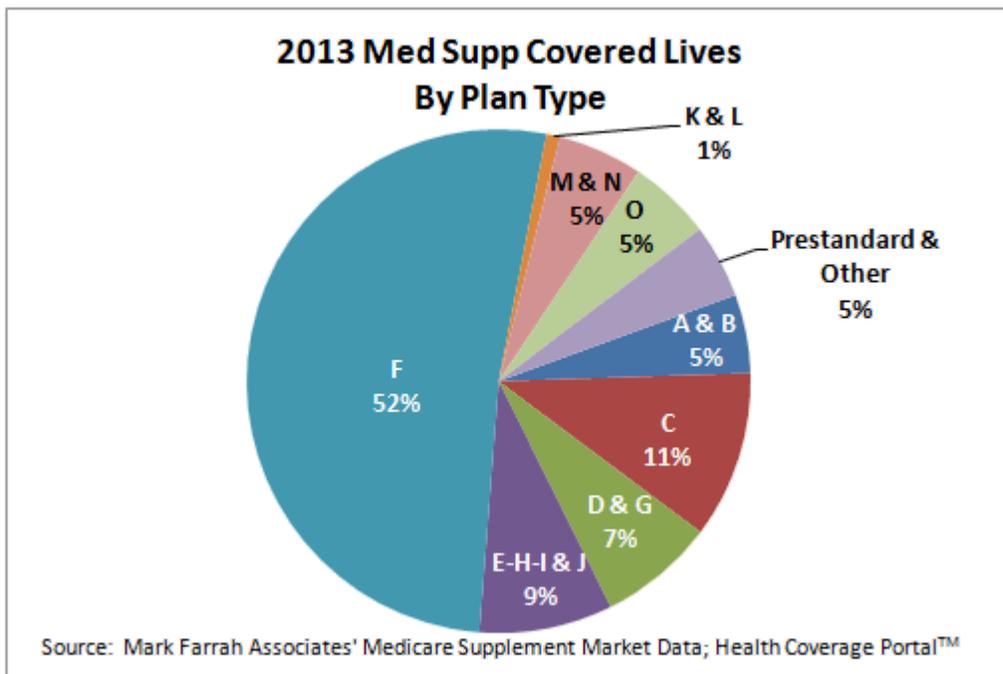
by Debra A. Donahue

The latest Medicare Supplement membership and financial figures show continued growth in the number of new policies being issued, a shift among plan types being selected by consumers and a decline in the aggregate loss ratio, incurred claims as a percent of earned premiums. Medicare Supplement products continue to remain a viable and growing alternative to Medicare Advantage options for seniors looking to offset the out-of-pocket costs of traditional Medicare coverage. As of December 31, 2013, enrollment in Medicare Supplement products (also referred to as Med Supp or Medigap) exceeded 10.5 million enrollees, up 3.8% from 10.2 million in 2012, according to annual financial statements filed with the National Association of Insurance Commissioners (NAIC). The latest Medicare Supplement membership figures show continued growth in the number of new policies being issued. The number of newer policies, those issued in the last three years, increased by 1.3% in 2013, when compared to the 2012 final enrollment data. In comparison, total Medicare Supplement enrollment for 2012 increased 2.5% over 2011, with a 5.3% growth rate in new policies. The number of covered lives in policies written more than 3 years ago increased 5.6% from 2012 to 2013, and increased 0.6% between 2011 and 2012.



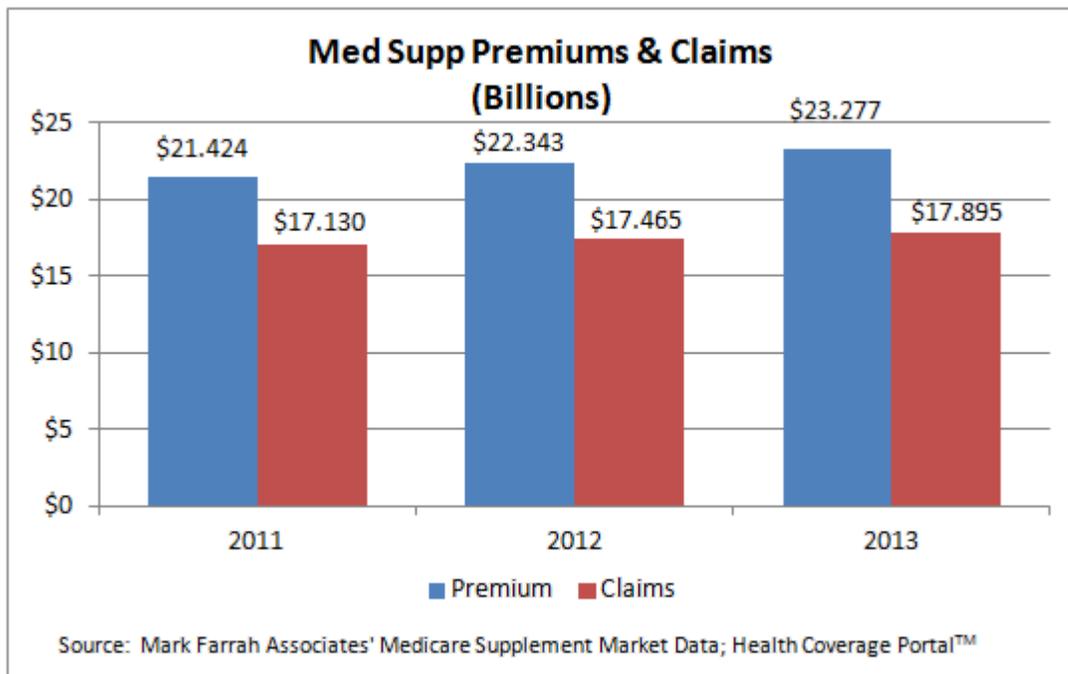
Med Supp Business Snapshot

Between 2012 and 2013, enrollment in Medicare Supplement plans increased by approximately 387,000 covered lives. Plan F, the most popular design that covers Medicare deductibles as well as coinsurance and copayment costs, increased by nearly 416,000 enrollees between 2012 and 2013. Plan F was purchased by 52% of people with Medigap coverage in 2013, up from 50% in 2012. Based on policy names and numbers, it appears roughly 2.5% of Plan F enrollment is in high deductible type products, up from 2.4% in 2012.



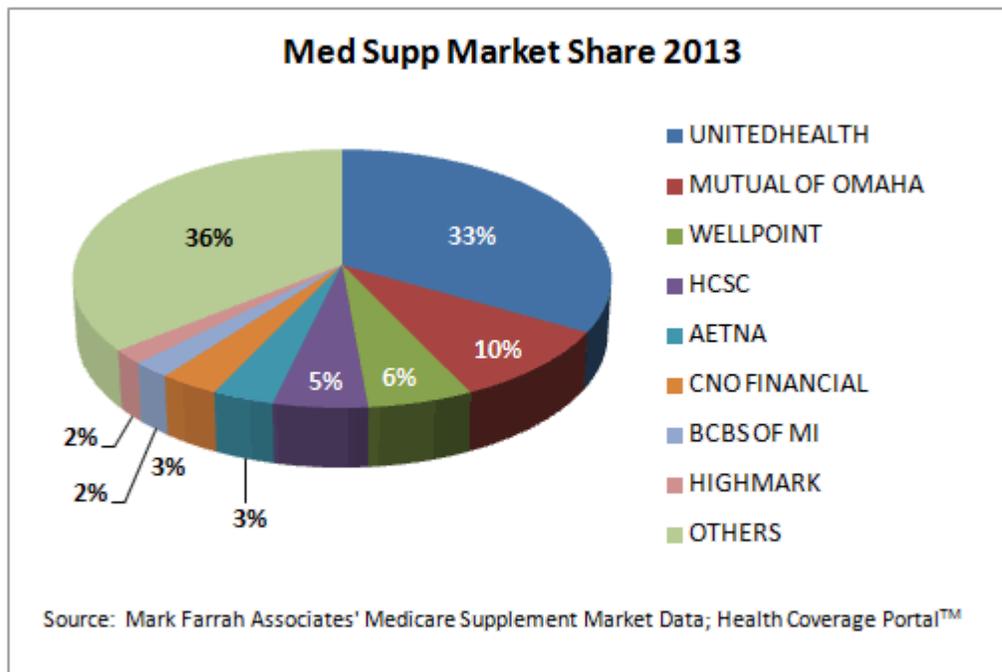
The shift among plan types, that Mark Farrah Associates (MFA) observed last year, continued in 2013. Plan types F, G, K, N and O saw increases in 2013. Plan N gained over 573,000 enrollees since June 2010 when it was introduced. Plan G gained more than 103,000 from 2012 to 2013. The plan type O designation (which stands for Other) is used by carriers in the three states (Massachusetts, Minnesota, and Wisconsin) that have waivers to the standardized Medicare Supplement regulations. Plan types C, J, L and P each declined by more than 50,000 people in 2013. The plan type P designation (or Pre-Standardized) is used for policies issued prior to the enactment of the Omnibus Reconciliation Act (OBRA) of 1990, which standardized the Medicare Supplement plans as we know them today. Plan M, also introduced in 2010, is the most unpopular option, with only 4,080 enrollees as of December 2013, down from 5,413 one year ago.

Medicare Supplement plans earned \$23.277 billion in premiums and incurred \$17.895 billion in claims during 2013, increases of 4.2% and 2.5% over 2012, respectively. The aggregate loss ratio, incurred claims as a percent of earned premiums, dropped to 76.9% in 2013. The aggregate loss ratio hovered around 80% from 2007 to 2011, with a drop to 78.2% in 2012. The removal of prescription drug coverage benefits from Medicare Supplement plans may be responsible for the drop in the aggregate loss ratio. Medigap policies sold after January 1, 2006 are no longer permitted to include prescription drug coverage. As more people are covered by Medicare Supplement products without prescription drug, and more chronic conditions are treated effectively with prescription drugs, claims expense for products without this coverage should be expected to decline.



In 2013, 183 carriers reported Med Supp enrollment, down from 190 in 2012. Mark Farrah Associates is aware of 16 plans that filed data in 2012 but, as of April 18, 2014, had not filed data with the National Association of Insurance Commissioners (NAIC). These 16 missing plans covered 96,500 people in 2012, less than 1% of total enrollees. A similar number of plans were missing when this analysis was done in 2013.

Only 115 carriers that filed data in 2013 reported writing new policies in the last three years, down from 129 last year. Leading managed care organizations, Blues plans, regional plans and multiline carriers compete in the Medicare Supplement space. UnitedHealth, with a longstanding AARP contract, dominates the segment with 33% market share. Mutual of Omaha ranks a distant second with 10% share. Market share among top plans changed in 2013, with UnitedHealth gaining an additional 0.9% of the market. Aetna, whose purchase of Genworth Financial companies' Medicare Supplement business helped it to join the ranks of the leading Medicare Supplement plans in 2012, picked up an additional 1.2% share of the market. Aetna's gain of nearly 137,000 new members helped propel it ahead of CNO Financial Group (formerly CONSECO Group) and Blue Cross Blue Shield of Michigan (BCBS of MI). Market share for five of the leading plans -- Mutual of Omaha, WellPoint, CNO Financial, BCBS of MI and Highmark -- declined less than 1% from 2012 to 2013. Health Care Service Corporation (HCSC) gained 43,500 members (some of which came from the acquisition of BCBS of Montana) and saw a slight increase in market share year-over-year.



Many companies are diversifying their Medicare portfolios with Med Supp, Med Advantage, as well as stand-alone Part D plans, to better leverage opportunities in the growing senior market. The competitive landscape could change as new companies and new products enter this dynamic market. The Centers for Medicare and Medicaid (CMS) reported 52.9 million people were eligible for Medicare as of April 2014. With only 20% in Medicare Supplement plans and 30.2% enrolled in Medicare Advantage plans, there is still a lot of opportunity for growth in this highly competitive market.

About Medicare Supplement Market Data

Mark Farrah Associates presents the latest Medicare Supplement market data in the Health Coverage Portal™. The data scope includes state-by-state membership, premiums, claims and loss ratios for all plans nationwide. The data is as filed with the National Association of Insurance Commissioners (NAIC) in annual financial statements. California managed care plans do not file with the NAIC and are not included in this analysis. Annual Medicare Supplement data is refreshed four times a year to capture any carriers that file data late or to correct previously filed information. For more information about MFA's Medicare Supplement Market Data product, please visit the Product section of our website ([www.markfarrah.com \(/default.aspx/\)](http://www.markfarrah.com(/default.aspx/))) or call us at 724.338.4100.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading data aggregator and publisher providing health plan market data and analysis tools for the healthcare industry. MFA's Medicare Supplement Market Data and Medicare Business Online™ (MBO) products simplify the tracking of the Medicare market. MBO coupled with Medicare Benefits Analyzer™ provides a full suite of business intelligence for the competitive Medicare Advantage market. Committed to simplifying analysis of health insurance business, our products include Medicare Business Online™, Medicare Benefits Analyzer™, Health Coverage Portal™, County Health Coverage™, Health Insurer Insights™, and Health Plans USA™.

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