



New Medicare Opportunities with Medigap

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by LuAnne Farrah

Medicare Supplement insurers are positioning to gain market share this year with the introduction of Plans M and N on June 1, 2010. The new standardized plans will equip carriers with lower premium alternatives and add another dimension to Medicare market competition. Many believe these new plans may gain traction and become popular choices among seniors, particularly in the wake of significant changes to the Medicare Advantage program. This brief provides an overview of Medigap products and competition within the framework of the larger Medicare market.

Brief History of Medicare Supplement

Private insurers began offering Medicare Supplement or Medigap policies soon after Congress established the Medicare program in 1965. Due to coverage "gaps" in the Original Medicare plan, many seniors wanted some kind of supplemental coverage. Then in 1990, Congress enlisted the National Association of Insurance Commissioners (NAIC) to develop a model to standardize Medicare Supplement plans. This was in response to abuses in the marketing of Medigap policies. Consequently, Medigap standardized plans, developed by the NAIC, were adopted in 1993 under OBRA 1990 (Omnibus Budget Reconciliation Act of 1990). All states were required to adopt the NAIC model with the exception of Wisconsin, Massachusetts and Minnesota. These states are considered "waiver" states because they already had comparable standardized policies in place.

The Medicare Modernization Act of 2003 added two high deductible plans and eliminated prescription drug benefits previously included in select Medigap plans. This legislation also included provisions directing the NAIC to further "modernize" Medicare Supplement plans and benefits. In response, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) was signed into law on July 15, 2008. The NAIC implemented a revised Medicare Supplement model on September 24, 2008 that included changes authorized by MIPPA and also contained changes required by the Genetic Information Nondiscrimination Act of 2008 (GINA). When modernization revisions are fully implemented, there will be 11 plans available: Plans A-D, Plan F, High Deductible Plan F, Plan G, and Plans K-N). This includes new Plans M and N, slated to make their market debut on June 1, 2010. With higher deductibles and greater levels of beneficiary cost-sharing, these lower cost plans are expected to generate wide market appeal.

[Click here \(http://www.naic.org/documents/committees_b_senior_issues_medigap_impl_guide.pdf\)](http://www.naic.org/documents/committees_b_senior_issues_medigap_impl_guide.pdf) for a detailed overview of Medigap changes as outlined in the NAIC's Medigap Model Implementation Overview.

Plans M and N in a Nutshell

Plan M offers 50% coverage of the Part A deductible and no coverage of the Part B deductible. Though the Part B deductible isn't covered, policyholders will have no doctor office co-pays after they meet the Part B deductible.

Plan N begins to resemble Medicare Advantage plans. It covers 100% of the Part A deductible with no coverage for the Part B deductible but introduces Part B coinsurance. The copay for office visits will be \$20 and plans may charge up to \$50 for emergency room visits unless a patient is admitted.

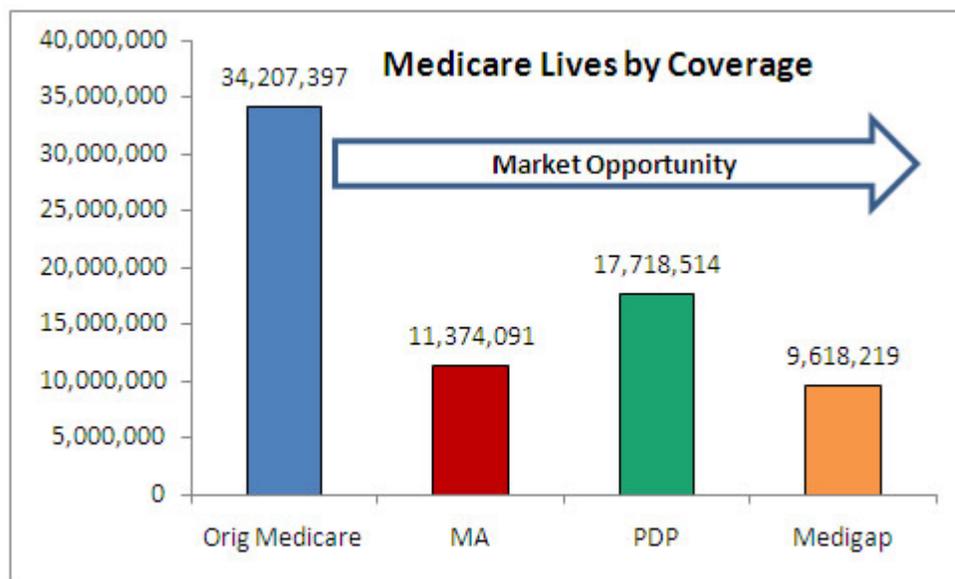
Many expect these plans will present an attractive alternative, particularly for seniors currently enrolled in Medicare Advantage plans because premiums will be more comparable.

The 2010 Medicare deductible for Part A (hospital insurance), which pays for inpatient hospital, skilled nursing facility and some home health care is \$1,100 during the first 60 days and coinsurance amounts kick in for hospital stays that last beyond 60 days. The 2010 Part B deductible (medical insurance) is \$155 per year and beneficiaries pay 20% of the Medicare-approved amount for services after meeting the deductible.

[Click here \(/healthcarebs/healthcarebs76/2010_Medigap_Changes.pdf\)](/healthcarebs/healthcarebs76/2010_Medigap_Changes.pdf) for a chart summarizing 2010 MIPPA Medigap Changes by Plan from the CMS National Medicare Training Program.

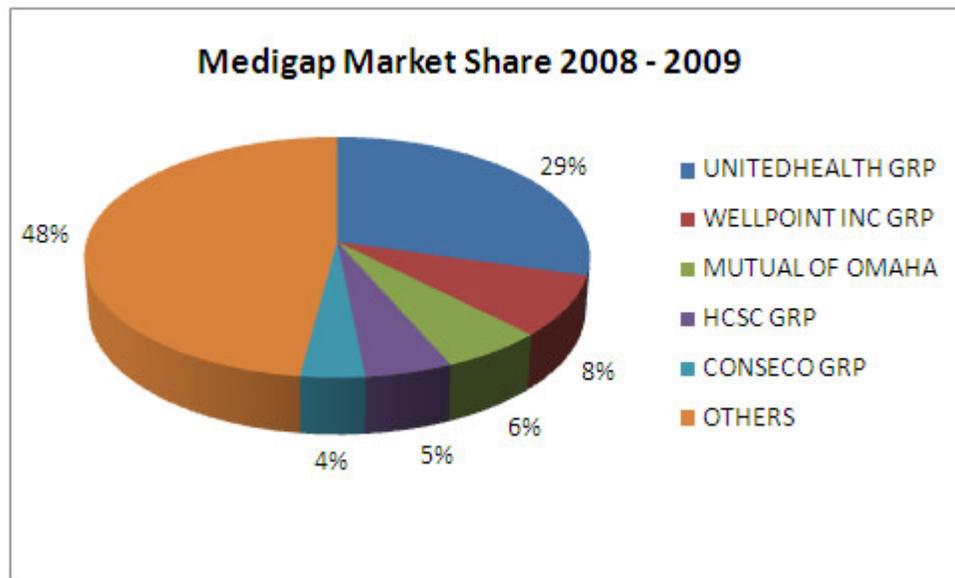
Medigap Market Position

The age 65+ senior segment with more than 45 million people is one of the most coveted target markets in the healthcare industry today. Health plans, ancillary benefit plans, providers and many other vendor stakeholders remain intently focused on senior market business opportunities. Within the health insurance segment, sizing up markets, products and competition is an ongoing necessity. Medigap plans have held their own in recent years as they compete with a multitude of Medicare Advantage plans. More than 9.6 million have Medicare Supplement policies compared with 11.3 million covered by Medicare Advantage. The 34 million enrolled in Original Medicare remains a highly attractive target for managed care and supplemental insurers.



Source: MFA's analysis of CMS and NAIC data from the Health Coverage Portal™.

Traditional health plans and multiline carriers compete in the Medicare Supplement space. Though UnitedHealth, with a longstanding AARP contract, has dominated, there are hundreds of Medigap plans throughout the United States. Five companies cover 52% of the market while the remaining 48% is covered by all other carriers.



Source: MFA's analysis of CMS and NAIC data from the Health Coverage Portal™.

Many companies offer diversified Medicare portfolios to better leverage opportunities in the growing senior market. From a broader market perspective, Humana, WellPoint and Universal American are market leaders based on a 2008 — 2009 Mark Farrah assessment. This lineup could change significantly as new companies and new products enter this dynamic market.

Senior Market Leaders

| 2008 - 2009 Product Lives | Med Supp | Med Advan | PDP | Total |
|---------------------------|-----------|-----------|-----------|-----------|
| UnitedHealth | 2,836,024 | 1,752,648 | 4,300,271 | 8,888,943 |
| Humana | 20,166 | 1,477,666 | 2,073,587 | 3,571,419 |
| WellPoint | 787,508 | 435,408 | 1,196,892 | 2,419,808 |
| Universal American | 136,081 | 235,948 | 1,697,775 | 2,069,804 |

Source: MFA's analysis of CMS and NAIC data from the Health Coverage Portal™.

Note: "Product Lives" include double counts of individual members across products by company.

Tracking Medigap Business

Tracking short-term gains and losses within the Medigap market is challenging because month-to-month enrollment reports are not readily available. Many plans expected to increase Medigap membership significantly during the Part D open enrollment season last year. Early results indicate Medicare Advantage (MA) gains from open enrollment last year were much smaller than in previous years. MA plans picked up only 20% as many members as they gained in the prior year. This suggests Medicare Supplement plans are making headway and reports from public companies concur.

Mark Farrah Associates will be analyzing Medigap market share in March and membership, premiums and claims data will be available in the Health Coverage Portal. [EMAIL \(mailto:prodmgr@markfarrah.com?subject=Medigap market analysis\)](mailto:prodmgr@markfarrah.com?subject=Medigap%20market%20analysis) MFA if you'd like more information about Medigap market analysis. We will also soon release an updated analysis of the managed Medicare market presenting the latest MA and PDP

observations. The "one size doesn't fit all" product strategy surely applies to the current Medicare market. In anticipation of aging baby-boomers and ongoing erosion of retirement benefits, there is plenty of opportunity for Medicare Supplement carriers, Medicare Advantage and Part D plans.

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 plans nationwide. The data is as filed with the National Association of Insurance Commissioners in quarterly and annual financial statements. For more information about Medicare Supplement data, please contact MFA at 207-985-8484.

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. Our products include Medicare Business Online™, the Health Coverage Portal™, Health Insurer Insights™, and Health Plans USA™.

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