

# **Medicare Supplement Insurance Claim Cost Trends**

**Report to the National Association of Insurance  
Commissioners**

**American Academy of Actuaries Medicare  
Supplement Insurance Work Group**

**Mike Abroe, Chairperson**



# Members of the Academy Medicare Supplement Work Group

- Mike Abroe, Chairperson, Milliman & Robertson, Inc.
- David Bahn, Blue Cross/Blue Shield of FL
- Mark Billingsley, Pyramid Life Insurance Company
- John Bryson, Blue Cross and Blue Shield of Conn.
- Gina Calise, Blue Cross and Blue Shield of RI
- William Cashion, Capital Blue Cross
- Susan Clark, Blue Cross and Blue Shield of KS
- Rich Coyle, Health Care Financing Administration
- Randy Edwards, Blue Cross and Blue Shield of KS
- Doug Feekin, Mutual/United of Omaha Insurance Co.
- Patrick Fleming, Bankers Life and Casualty Co.
- William Gilmore, Blue Cross and Blue Shield of MS
- Dave Hitchins, Blue Cross and Blue Shield of KS
- Nancy King, Physicians Mutual Insurance Co.
- Gail Lawrence, American Republic Insurance Co.
- Tom Lindquist, United HealthCare Insurance Co.
- Doug Littleton, United Health Care Insurance Co.
- Diana Long, Blue Cross and Blue Shield of FL
- Amber Lubeck, Mutual/United of Omaha Insurance
- Don Martin, Blue Cross and Blue Shield of AR

- Robert McCarty, Milliman and Robertson, Inc.
- Mike Murray, Blue Cross and Blue Shield of DL
- Dotti Outland, United Health Care Insurance Co.
- Carol Pawlak, Blue Cross and Blue Shield RI
- Mike Recorvits, Blue Cross and Blue Shield RI
- Don Roll, Anthem Blue Cross and Blue Shield
- David Shea, Trigon Blue Cross Blue Shield
- Donald Sheak, United HealthCare Insurance Co.
- Jamie Trimble, Milliman and Robertson, Inc.
- John Troy, Blue Cross Blue Shield Association
- Dave Tuomala, Wellmark, Inc.
- Chris Walke, Physicians Mutual Insurance Co.
- David Walker, United HealthCare Insurance Co.
- Bill Weller, Health Insurance Association of America
- Tom Wilder, American Academy of Actuaries
- Byron Wingo, Blue Cross/ and Blue Shield of MS
- Diana Wright, National Association of Insurance Commissioners





# Companies That Shared Data for the Academy Study

Bankers Life and Casualty  
Blue Cross and Blue Shield of Arkansas  
Blue Cross and Blue Shield of Connecticut  
Blue Cross and Blue Shield of Florida  
Blue Cross and Blue Shield of Kansas  
Blue Cross and Blue Shield of Mississippi  
Blue Cross and Blue Shield of Rhode Island  
United/ Mutual of Omaha  
Physicians Mutual  
United Health Care  
Wellmark



# Issues Discussed

- i Annual claim cost trend nationwide, by geographic area, plan and state
- i Hospital outpatient costs
- i Coverage for beneficiaries under age 65
- i Rating methods mandated by states
- i Prescription drug coverage



# Issues Discussed Continued

- i Guaranteed issue and Medicare+Choice plans
- i Fraudulent claims
- i Increasing average age of insured individuals





**Aggregate nationwide annual claim trend from 1996 through 1998 was 11.2% for plans A through G combined**

**Plans A and B Combined 1996/1998**

Plan A	17.6%
Plan C	10.9%
Plan F	9.0%
Plans BDEG	12.8%
Plans ABCDEFG	11.2%





# Hospital Outpatient Costs

## Major Impact

- i From 1995 to 1998, the increase in outpatient claim costs caused overall trend to be 2.9% higher per year than it would have been if the outpatient trend had equaled the average of the other components
  
- i Adding 2.9% to an annual trend rate over an 8 year period (the number of years since standardization) would cause a 25% additional increase in claim costs



# Hospital Outpatient Medicare Supplement Study

Calendar Year	Total Claim Cost Trend	Hospital Outpatient Claim Cost Trend	Total Claim Cost Trend If Hospital Outpatient Trend had Equaled Other Part B Trend	Hospital Outpatient Claims as a % of Total Claims
1995	6.9%	19.8%	4.6%	22.9%
1996	6.1%	19.2%	2.3%	25.7%
1997	8.8%	18.4%	5.4%	28.0%
1998	9.0%	15.3%	6.7%	29.6%
Average	7.7%	18.2%	4.8%	







# Medicare's New Prospective Payment Methodology for Outpatient Services

- i One-time reduction in aggregate coinsurance costs nationwide
- i Wide variance by state
  - ñ Winners- 25% reduction in claims costs: Alabama, California, Florida, Louisiana, Texas
  - ñ Losers -10% increase in claims costs: Alaska, Idaho, Montana, New York, Oregon, Utah, Washington
  - ñ Big Loser-47% increase: Vermont



# Plans H-J with Rx Benefits

- i Annual trend for Rx benefits 15%
  - ñ Cap on benefits
- i Non-Rx trend 8.7% versus 11.2%
  - ñ Different company mix
  - ñ Still lower after adjustment for company mix
- i Study of Massachusetts unlimited Rx plan
  - ñ 25% annual trend ñ Rx benefit
  - ñ 16.5% annual trend ñ all benefits combined





# Disability Contributes More Than Age

- i Disabled-eligible beneficiaries have significantly higher Med Supp claim costs than age-eligible beneficiaries
- i Increases in the % of a disabled-eligible Med Supp block will lead to increased overall trend
- i The claim cost trend for the disabled-eligible may be different from the claim cost trend for the age-eligible



## Benefit Relativities By Plan Disabled-Eligible and Age-Eligible Annual Claim Costs

	Disabled Eligible	Age Eligible	Ratio	Disabled Exposure
Plan A	\$2,311	\$604	3.83	2,185
Plan C	2,494	1,006	2.48	3,125
Plan F	1,201	892	1.35	8,907
Plan BDEG	1,530	987	1.55	715
All Plans	1,650	929	1.78	14,933
Plans C+F	1,537	939	1.64	12,032



# Observations over 1996-1998 Period

- i Average age of enrollment increased 1 year
- i Community rated was 1.4 years older than entry age rated business
- i Entry age rated was 2.6 years older than attained age rated
- i Average issue age increased 1 year for community and attained age rated, but remained constant for entry age rated
- i Average age for current year issues for all rating methods was in excess of 70 years



# Other Findings

- i Effects of Fraud-not quantifiable
  - ñ Not shared with beneficiary
  - ñ Fraudulent claims not screened by intermediary
- i Effect of different rating methodologies-**no definitive answer if rating method affects claims levels**
- i Impact of state rating mandates-data limitations
- i Significant volatility of claim trend exhibited at state level-more research would be needed



# Guaranteed Issue

## Med Supp and Medicare+Choice Plans

### Probable Implications of Implementation (Limitations of Early Evaluation)

- i Med Supp carriers likely to experience anti-selection
- i Degree of Anti-selection uncertain due to varying availability of options for coverage



# Conclusions

- i Medigap trends continue to be well in excess of Medicare trends
- i Hospital outpatient claims primary driver of excess trend
- i Expectation of adverse hospital outpatient trend decrease needs verification





# What it All Means



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# Ongoing Work of the NAIC



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