Medicare Supplement Insurance
Claim Cost Trends

Report to the National Association of Insurance Commissioners

American Academy of Actuaries Medicare Supplement Insurance Work Group

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- Bill Weller, Health Insurance Association of America
- Tom Wilder, American Academy of Actuaries
- Byron Wingo, Blue Cross/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

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

- Guaranteed issue and Medicare+Choice plans
- Fraudulent claims
- Increasing average age of insured individuals
Aggregate nationwide annual claim trend from 1996 through 1998 was 11.2% for plans A through G combined.

- 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

ï 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.

ï 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

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Total Claim Cost Trend</th>
<th>Hospital Outpatient Claim Cost Trend</th>
<th>Total Claim Cost Trend If Hospital Outpatient Trend had Equaled Other Part B Trend</th>
<th>Hospital Outpatient Claims as a % of Total Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>6.9%</td>
<td>19.8%</td>
<td>4.6%</td>
<td>22.9%</td>
</tr>
<tr>
<td>1996</td>
<td>6.1%</td>
<td>19.2%</td>
<td>2.3%</td>
<td>25.7%</td>
</tr>
<tr>
<td>1997</td>
<td>8.8%</td>
<td>18.4%</td>
<td>5.4%</td>
<td>28.0%</td>
</tr>
<tr>
<td>1998</td>
<td>9.0%</td>
<td>15.3%</td>
<td>6.7%</td>
<td>29.6%</td>
</tr>
<tr>
<td>Average</td>
<td>7.7%</td>
<td>18.2%</td>
<td>4.8%</td>
<td></td>
</tr>
</tbody>
</table>
Medicare’s New Prospective Payment Methodology for Outpatient Services

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

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

- Disabled-eligible beneficiaries have significantly higher Med Supp claim costs than age-eligible beneficiaries
- Increases in the % of a disabled-eligible Med Supp block will lead to increased overall trend
- 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

<table>
<thead>
<tr>
<th>Plan</th>
<th>Disabled Eligible</th>
<th>Age Eligible</th>
<th>Ratio</th>
<th>Disabled Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan A</td>
<td>$2,311</td>
<td>$604</td>
<td>3.83</td>
<td>2,185</td>
</tr>
<tr>
<td>Plan C</td>
<td>2,494</td>
<td>1,006</td>
<td>2.48</td>
<td>3,125</td>
</tr>
<tr>
<td>Plan F</td>
<td>1,201</td>
<td>892</td>
<td>1.35</td>
<td>8,907</td>
</tr>
<tr>
<td>Plan BDEG</td>
<td>1,530</td>
<td>987</td>
<td>1.55</td>
<td>715</td>
</tr>
<tr>
<td>All Plans</td>
<td>1,650</td>
<td>929</td>
<td>1.78</td>
<td>14,933</td>
</tr>
<tr>
<td>Plans C+F</td>
<td>1,537</td>
<td>939</td>
<td>1.64</td>
<td>12,032</td>
</tr>
</tbody>
</table>
Observations over 1996-1998 Period

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

- Effects of Fraud-not quantifiable
  - Not shared with beneficiary
  - Fraudulent claims not screened by intermediary
- Effect of different rating methodologies-no definitive answer if rating method affects claims levels
- Impact of state rating mandates-data limitations
- 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

ï Med Supp carriers likely to experience anti-selection

ï Degree of Anti-selection uncertain due to varying availability of options for coverage
Conclusions

- Medigap trends continue to be well in excess of Medicare trends
- Hospital outpatient claims primary driver of excess trend
- Expectation of adverse hospital outpatient trend decrease needs verification
What it All Means
Ongoing Work of the NAIC