

# Medicare Supplement

Product Development and Market Change

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*A Berkshire Hathaway Company*

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# Topics

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- **Future Product Changes**
- **Industry Overview**
- **Profitability**



# Future Product Changes

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- **NAIC Medicare Supplement Modernization Proposal**
  - Elimination of unnecessary and duplicative plans
  - Addition of new plans
  - Modernization of benefits
  - Status
- **Other Changes to be Developed**
  - Guidance for New or Innovative Benefits
  - Refund formulas
  - Transition issues



# NAIC Medicare Supplement Modernization Proposal

- **Elimination of unnecessary and duplicative plans**
  - Elimination of H, I, and J
  - Elimination of E
- **Addition of new plans**
  - Plan M
  - Plan N



# NAIC Medicare Supplement Modernization Proposal (cont.)

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- **Modernization of benefits**
  - Elimination of the At-Home Recovery benefit (which was offered only in Plans D, G, I, and J)
  - Elimination of the Preventive Care Benefit (which was offered in Plans E and J)
  - Addition of a Hospice benefit to be added as a Core benefit to every plan
  - Replacement of the 80% Part B Excess Benefit in Plan G with a 100% coverage benefit
- **Status**
  - Legislative authorization to make changes is required
  - Up to 2 years needed for states to adopt changes and make them effective



# Other Changes to be Developed

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- **Guidance for New or Innovative Benefits**
- **Refund formulas**
- **Transition issues**



# Industry Overview

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- **Sales & Inforce**
- **Competition**
- **Legislation & Regulation**





# Sales & Inforce

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- **2.5% decrease from 2004 to 2006 in number of individuals with Medicare supplement policies**
- **Standard plans F & C remain the most popular**
- **Very little business in new plans K & L as of 2006**
- **2007?**
- **2008 and later?**



# Competition

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- **Medicare Advantage (including PFFS) and Part D**
- **New Medigap Carriers**



# Legislation & Regulation

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- **Federal**
  - Genetic Information Non-Discrimination Act
  - Physician Payment Fix
  - Medicare Advantage Reimbursements
  - Medicare Advantage Marketing
  - Claim Recoveries
- **State**
  - Rate Increases
  - Guaranteed Issue Requirements



# Profitability

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- **Loss Ratios**
- **Claims Trends**
- **Lapse Rates**
- **Rate Increases**



# Loss Ratios

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- **2005: 80.4%**
- **2006: 79.0%**
- **2007: ?**
- **Minimum required**
  - 65% individual
  - 75% group
- **Profitable?**



# Claims Trends

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- **Inflation**
- **Utilization**
- **Increase in Medicare Deductibles**
- **5-7%**



# Lapse Rates

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- Lapse spike in early 2006
- Lapse spike in early 2007



# Rate Increases

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- **Factors to Consider**
  - Claims trend
  - Actual-to-expected experience
  - Timing
  - Potential for anti-selective lapses
- **Effective Rate Management = Key to Profitability**







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# Questions





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