
A Survey of Medigap Enrollment Trends, July 2006

October 2006

In July 2006, America's Health Insurance Plans (AHIP) conducted a survey of its member companies offering Medicare Supplemental (Medigap) insurance coverage. The goal of the survey was to identify any shifts in Medigap coverage resulting from changes made to Medicare and Medigap by the Medicare Modernization Act of 2003 (MMA), which created the Medicare Part D prescription drug benefit. The survey tracked the types of federally standardized Medigap policies in force from January 2003 to July 2006, and the types of new policies issued over that period.

For this survey, AHIP received responses from 25 companies in the Medigap market, reflecting 1.7 million Medigap policyholders. Overall, 10-11 million Medicare beneficiaries have Medigap coverage, and roughly two-thirds of Medigap policyholders have federally standardized plans. Therefore, AHIP's survey represents approximately 20-25 percent of the overall market for federally standardized Medigap plans.¹

Key Findings:

- According to the survey, the number of Medigap policyholders has changed little in recent years, and there has been no major change in the number of policies in force thus far in 2006. Among AHIP member companies responding to the survey, the number of federally standardized policies in force fell by about 1 percent from January 2006 to July 2006, after having grown by 1.7 percent from 2005 to 2006, and 0.1 percent from 2004 to 2005.
- In July 2006, the majority of Medigap policyholders in federally standardized plans were in Plan F (51 percent). Plan C had a 14 percent share of the market for federally standardized plans; Plan G had a 9.5 percent share; and Plan D had an 8.5 percent share. Plans F and C cover 100 percent of the deductibles and coinsurance charged by Medicare's fee-for-service program; Plans G and D cover all deductibles and coinsurance except for the Part B (outpatient) deductible (\$124 in 2006).

¹ According to the 2002 Medicare Current Beneficiary Survey, approximately 11 million Medicare beneficiaries in the fee-for-service program have purchased Medigap coverage. A 2001 report by the Government Accountability Office (GAO) estimated that approximately 61 percent of Medigap policyholders had federally standardized plans in 1999; 35 percent had supplemental plans that predated federal standardization; and 4 percent had Medigap plans in three states -- Massachusetts, Minnesota, and Wisconsin -- with state-based standards that can be used instead of the federally standardized plans. See Government Accountability Office, *Medigap Insurance*, (July 2001, GAO-01-941). Since 1999, the percentage of Medigap policyholders with federally standardized plans most likely has risen, because all new policies sold outside of those three states must meet the federal standards.

- Thus far, very few policyholders (less than 0.05 percent) have purchased either of the new standardized Medigap Plans K and L, which cover a smaller portion of Medicare's deductibles and coinsurance. A small share of Medigap purchasers were in Plan F with a high deductible (0.6 percent). None of the carriers responding to the survey offered Plan J with a high deductible.
- The number of new policies issued rose in the first half of 2006, in part because Medigap policyholders switched policies as a result of new rules associated with the Medicare drug benefit. The MMA prohibited new sales of Plans H, I, and J with drug benefits effective on January 1, 2006; the number of policyholders with those plans fell by more than 50 percent between January 2005 and July 2006.

Medigap policies cover Medicare deductibles and coinsurance, as well as certain benefits not included under Medicare's fee-for-service program. In 2006, Medicare's fee-for-service program had a \$952 deductible for inpatient hospital care, and 20 percent coinsurance for outpatient and physician care after an annual deductible of \$124. The fee-for-service program does not have a limit on beneficiaries' potential out-of-pocket costs.

Seniors purchase Medigap coverage to protect themselves from high out-of-pocket costs, to budget for unexpected medical expenses, and to avoid the confusion and inconvenience of handling complex bills from health care providers. Under most Medigap plans, policyholders can assign their benefits directly to providers and thereby avoid the need to decipher bills and file claims.

Background

Table 1 summarizes the benefits of the federally standardized Medigap policies. Medigap plans were standardized under federal law into 10 benefit packages -- labeled A through J -- in the Omnibus Budget Reconciliation Act (OBRA) of 1990. However, not all Medicare beneficiaries with Medigap coverage have federally standardized benefits. Many policyholders with pre-standardized Medigap policies kept them instead of switching to standardized plans. Moreover, three states -- Massachusetts, Minnesota and Wisconsin -- had state-based standardized Medigap plans prior to 1990, and have kept their state systems in place.

Table 1. Benefits Covered by Federally Standardized Medigap Policies, by Type of Plan										
	A	B	C	D	E	F	G	H	I	J
Basic Benefits <ul style="list-style-type: none"> • Part A coinsurance and hospital benefits • Part B coinsurance • Blood 	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Skilled Nursing Coinsurance			✓	✓	✓	✓	✓	✓	✓	✓
Medicare Part A Deductible		✓	✓	✓	✓	✓	✓	✓	✓	✓
Medicare Part B Deductible			✓			✓				✓
Medicare Part B Excess Charge (100%)						✓			✓	✓
Medicare Part B Excess Charge (80%)							✓			
Foreign Travel Emergency			✓	✓	✓	✓	✓	✓	✓	✓
At-Home Recovery				✓			✓		✓	✓
Basic Drug Benefit								✓	✓	✓
Preventive Medical Care					✓					✓
Source: CMS: <i>Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare, 2006.</i> Notes: Plans F and J also have a high-deductible option. Since January 2006, plans H, I, and J can be offered only without drug benefits, and policyholders with those plans in force were allowed to either maintain their existing policy with drugs, or switch to other plans when they enrolled in the Medicare Part D drug benefit during the initial enrollment period of January 1 through May 31, 2006.										

The MMA made several changes to standardized Medigap plans. First, it prohibited the sale of Medigap Plans H, I, and J with a prescription drug benefit beginning in 2006. Second, the MMA required removal of the prescription drug benefit for current policyholders in Plans H, I, and J (as well as pre-standardized plans) for those Medigap policyholders who enrolled in the Medicare Part D program. Policyholders in Plans H, I, and J with drug benefits who enrolled in Part D during the initial enrollment period (January 1 and May 31, 2006) were allowed to switch on a guaranteed issue basis to Medigap Plans A, B, C, F (including high deductible F), K or L -- offered by the same

Medigap carrier (if the carrier offered those plans). Third, it permitted the sale of new Plans H, I, and J without prescription drug benefits after January 1, 2006.

Finally, the MMA created two new Medigap plans -- K and L -- that cover only a share of Medicare's deductibles and coinsurance, but cap policyholders' annual out-of-pocket expenditures. Table 2 summarizes the benefits in these plans.

Table 2. Benefits Covered by Standardized Medigap Plans K and L			
		K	L
Basic Benefits	Part A Coinsurance and Hospital Benefits	100%	100%
	Part B coinsurance	50%	75%
	Blood	50%	75%
	Hospice Care	50%	75%
Skilled Nursing Coinsurance		50%	75%
Medicare Part A Deductible		50%	75%
<p>Source: CMS: <i>Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare</i>, 2006.</p> <p>Note: Plan K has a \$4,000 out-of-pocket limit and Plan L has a \$2,000 limit. Once annual out-of-pocket limits are met, the policies cover 100% of Medicare copayments, coinsurance, and deductibles for the rest of the year.</p>			

Characteristics of Survey Respondents

About one-quarter (24 percent) of responding AHIP member companies offer Medigap products in 41-50 states (see Table 3). One-fifth (20 percent) of responding carriers offer Medigap in 26-40 states; 12 percent offer in 11-25 states; and 8 percent offer in 2-10 states. Sixteen percent of responding carriers currently offer Medigap in one state, and 20 percent of the responding companies had federally standardized plans in force but were not offering new Medigap policies for sale.

Table 3. Number of States Where Carriers In Survey Currently Offer Medigap Products	
	Percent of Responding Companies
41-50 States	24%
26-40 States	20%
11-25 States	12%
2-10 States	8%
1 State	16%
No Products Open for New Enrollment *	20%

Source: America's Health Insurance Plans
 Notes: These percentages are based on 25 carrier responses, representing 1.7 million policyholders.
 *Some companies no longer offer new Medigap policies but still have policies in force.

Table 4 displays the percentage of responding carriers that offer each federally standardized product. Thus far, the percentage of carriers offering the new Plans K and L is relatively small.

Table 4. Medigap Products Currently Offered by Carriers in Survey	
A	100%
B	92%
C	96%
D	72%
E	40%
F	96%
F (high deductible)	20%
G	64%
H (without Rx)	12%
I (without Rx)	16%
J (without Rx)	16%
J (high deductible without Rx)	0%
K	12%
L	16%
None*	20%

Source: America's Health Insurance Plans
 Notes: These percentages are based on 25 carrier responses, representing 1.7 million policyholders.
 *Some companies no longer offer new Medigap policies but still have policies in force.

Medigap Enrollment Trends Through July 2006

Among survey respondents, the number of Medigap policies in force has changed little over the last several years, and the introduction of the Medicare prescription drug benefit does not seem to have had a significant impact on the total number of Medigap policyholders (see Table 5).

The number of Medicare beneficiaries with federally standardized Medigap plans represented in the survey has remained steady at just over 1.7 million over the last three years. Among companies responding to the survey, the number of policies in force increased rapidly between January 2003 and January 2004 (7.2 percent), but leveled off in 2004, grew slightly in 2005 (1.7 percent), and has fallen slightly thus far in 2006 (1.1 percent over 6 months).

Table 5. Number of Federally Standardized Medigap Policies In Force in Survey, January 2003 to July 2006					
	January 2003	January 2004	January 2005	January 2006	July 2006
Total Number of Medigap Policies in Force in Survey	1,607,074	1,722,680	1,724,400	1,753,789	1,734,763
Percent Change from Prior Date		7.2%	0.1%	1.7%	-1.1%
Source: America's Health Insurance Plans.					
Note: Data are based on 25 carrier responses.					

Among policyholders in federally standardized plans, Plan F continues to be the most popular, held by over 50 percent of Medigap policyholders (see Table 6). Plan F covers all of the deductibles and coinsurance charged under Medicare's fee-for-service program.

Plan C, which also covers all of Medicare's cost-sharing -- has the second-highest share, with 14 percent of the market. Plans G and D, with 9.5 percent and 8.5 percent of the market respectively, also cover all of Medicare's cost-sharing except the Part B deductible.

Table 6. Distribution of Federally Standardized Medigap Policies In Force, by Product Type, January 2003 to July 2006

Medigap Product Type	January 2003	January 2004	January 2005	January 2006	July 2006
A	2.1%	2.1%	2.0%	1.8%	1.7%
B	9.6%	8.9%	8.0%	7.1%	6.6%
C	20.8%	18.6%	16.9%	15.1%	14.2%
D	10%	9.5%	9.2%	8.7%	8.5%
E	3.1%	3.6%	4.1%	4.3%	4.0%
F	46.6%	47.7%	48.9%	50.6%	51.4%
F (high deductible)	0.2%	0.2%	0.4%	0.5%	0.6%
G	4.8%	6.0%	7.4%	9.2%	9.5%
H (with Rx)	1.3%	1.2%	1.1%	0.8%	0.3%
I (with Rx)	0.7%	1.2%	1.3%	0.9%	0.5%
J (with Rx)	0.8%	0.9%	0.8%	0.6%	0.4%
J (high deductible, without Rx)				0%	0%
H (without Rx)				*	0.5%
I (without Rx)				0.2%	0.6%
J (without Rx)				0.2%	1.3%
K				*	*
L				*	*
Total	100%	100%	100%	100%	100%
Total Policies in Force in Survey	1,607,074	1,722,680	1,724,400	1,753,789	1,734,763

Source: America's Health Insurance Plans

Notes: Data are based on 25 carrier responses. Plans H, I, and J without prescription drug benefits were not available prior to 2006. Likewise, plans K and L were not generally offered prior to 2006.

* Less than .05%

The number of Medigap policies issued during the first half of 2006 increased noticeably compared with the number issued during the same period in prior years (see Table 7). One possible explanation is that many Medigap policyholders switched plans in response to the introduction of the Part D prescription drug benefit. It is likely that many of the new policies issued were sold to policyholders who switched from Plans H, I, and J with drug benefits to other plans made available on a guaranteed-issue basis to Medigap purchasers enrolling in the Part D drug benefit (see Table 8).

Table 7. Number of New Medigap Policies Issued by Carriers Responding to the Survey in the First Six Months of the Year, 2003 to 2006

	January 1, 2003 to June 30, 2003	January 1, 2004 to June 30, 2004	January 1, 2005 to June 30, 2005	January 1, 2006 to June 30, 2006
Number of Policies Issued in Survey -- First Half of Year Shown	154,310	125,380	135,696	192,499

Source: America's Health Insurance Plans

Note: Data are based on 25 individual carrier responses, representing approximately 1.7 million policyholders.

Table 8. Distribution of New Medigap Policies Issued in the First Six Months of the Year, 2003 to 2006

Medigap Product Type	January 1, 2003 to June 30, 2003	January 1, 2004 to June 30, 2004	January 1, 2005 to June 30, 2005	January 1, 2006 to June 30, 2006
A	2.4%	2.1%	1.3%	0.7%
B	10.9%	3.8%	2.8%	2.6%
C	11.0%	7.5%	5.5%	5.5%
D	12.6%	8.1%	6.6%	5.6%
E	6.0%	7.9%	6.1%	3.3%
F	44.9%	51.9%	52.0%	49.7%
F (high deductible)	0.7%	1.3%	1.6%	1.3%
G	8.6%	16.0%	23.2%	13.7%
H (with Rx)	1.2%	0.3%	0.1%	
I (with Rx)	1.6%	1.1%	0.8%	
J (with Rx)	0%	0%	0%	
J (high deductible, without Rx)	0%	0%	0%	0%
H (without Rx)				4.7%
I (without Rx)				3.3%
J (without Rx)				9.2%
K				0.2%
L				0.3%
Total	100%	100%	100%	100%
Total New Policies In Survey	154,310	125,380	135,696	192,499

Source: America's Health Insurance Plans.

Note: Data are based on 25 individual carrier responses, representing approximately 1.7 million policyholders. Plans H, I, and J without prescription drug benefits were not available prior to 2006. Likewise, plans K and L were not generally offered prior to 2006.

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