



**AHIP**

*Center for Policy  
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# Trends in Medigap Policies, December 2004 to December 2006

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## Number of Medigap Policyholders Has Remained Steady in Recent Years.

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This paper presents findings from an analysis conducted by America's Health Insurance Plans (AHIP) on enrollment trends in Medicare Supplement (Medigap) insurance coverage, using year-end data for 2004 through 2006 from the National Association of Insurance Commissioners (NAIC). The NAIC dataset contains information on most Medigap policies in force in the U.S.,<sup>1</sup> representing approximately 10 million covered lives with policies from nearly 250 carriers.

- According to the data, the overall number of Medigap policyholders has remained steady in recent years. The number of standard Medigap policies in force (Plans A through L and Waiver State Standard Plans) increased by three percent between 2004 and 2006 while the number of pre-standard policies in force decreased by 27 percent.
- In 2006, most Medicare beneficiaries with standard Medigap plans purchased Plan F (40 percent); Plan C had 19 percent of the Medigap standard plan market. Plans F and C cover 100 percent of the deductibles and coinsurance charged by Medicare.
- So far, only 0.04 percent of Medigap policyholders have purchased the new standard Plans K or L which became available in 2006. These plans have lower premiums than Plans A through J and higher out-of-pocket costs, but with annual limits. Plans A through J do not have annual out-of-pocket limits.

The findings from this analysis are similar to those reported previously by AHIP in a report based on a member survey conducted in July 2006.<sup>2</sup> Although the previous AHIP survey of Medigap carriers was based on a much smaller sample of the Medigap market -- 1.7 million Medigap policies from 25 carriers -- the trends in enrollment and the distribution of policy types were similar to the results reported here. Thus, the more comprehensive NAIC data supports the conclusions of the prior AHIP survey.

<sup>1</sup> Some Medigap carriers do not report into the NAIC data system -- however, we believe that the number of Medigap policyholders represented by these non-reporting carriers is less than 1 million. Overall, AHIP believes that there were roughly 11 million Medigap policies in force, about one-quarter of all Medicare beneficiaries.

<sup>2</sup> America's Health Insurance Plans, *A Survey of Medigap Enrollment Trends, July 2006*, AHIP Center for Policy and Research, October 2006. <http://www.ahipresearch.org/PDFs/MedigapProductSurvey10-27-06.pdf>.

## BACKGROUND

Medigap remains an important source of supplemental coverage for Medicare beneficiaries. Seniors purchase Medigap coverage to protect themselves from high out-of-pocket costs, to budget for medical expenses, and to avoid the confusion and inconvenience of handling complex bills from health care providers. Medigap policies generally cover Medicare deductibles and coinsurance, as well as certain benefits not covered by Medicare.

In 2006, the Medicare program had a \$952 deductible for inpatient hospital care and 20 percent coinsurance for outpatient and physician care after an annual deductible of \$124. These are adjusted upward each year and have risen to \$1,024 and \$135 respectively for 2008. The Medicare program does not have a limit on beneficiaries' potential out-of-pocket costs and most Medigap plans cover beneficiaries' Part A deductibles and several cover Part B deductibles. In addition, under most Medigap policies, policyholders can assign their benefits directly to providers and thereby avoid the need to decipher bills and file claims. The diverse benefits and cost-sharing provisions of Medigap plans give Medicare beneficiaries a choice in their supplemental coverage, increased convenience, a variety of coverage options, and peace of mind.

There are three categories of Medigap plans:

**OBRA 1990 Standard Plans:** Medigap policies sold after July 1992 are required to conform to one of 10 uniform benefit packages (A through J), based on provisions in the

Omnibus Budget Reconciliation Act of 1990 (OBRA 1990). Plans F and J are also available as high-deductible plans. In 2003, Congress authorized two new standard plans (K and L), which entered the market in 2006.

**Waiver State Standard Plans:** Three states (Massachusetts, Minnesota, and Wisconsin) offer standard Medigap plans, but are exempt from the OBRA 1990 standard plan provisions. Individuals who purchase Medigap plans in one of these three states may keep their plans if they move to another state.

**Pre-Standard Plans:** Medigap policies sold prior to the OBRA 1990 provisions are guaranteed renewable, and some beneficiaries still have these policies. OBRA 1990 prohibited the sale of new pre-standard plans.

For a complete description of Medicare Supplement insurance, including cost sharing and benefits, please see the AHIP report *Medigap: What You Need to Know*, March 2008.

## KEY FINDINGS

According to the NAIC data, roughly 87 percent of Medigap purchasers in 2006 had standard plans. The total number of individuals with Medigap dropped slightly (2.5 percent) from 2004 to 2006 (see Table 1). However, the number of individuals with standard plans increased by three percent during that time period, while the number of people with

**TABLE 1. NUMBER OF INDIVIDUALS WITH STANDARD AND PRE-STANDARD MEDIGAP PLANS, AS REPORTED TO THE NAIC, DECEMBER 2004 THROUGH DECEMBER 2006**

	Dec. 2004	Dec. 2005	Dec. 2006
All Medigap Plans	10,361,243	10,260,308	10,102,924
<i>Percent Change from Previous Year</i>		-1.0%	-1.5%
Standard Medigap Plans	8,501,195	8,600,575	8,744,184
<i>Percent Change from Previous Year</i>		1.2%	1.7%
Pre-Standard Medigap Plans	1,858,940	1,658,785	1,358,660
<i>Percent Change from Previous Year</i>		-10.8%	-18.1%

Source: AHIP analysis of the National Association of Insurance Commissioners' (NAIC) Medicare Supplement Insurance Experience Exhibit, for December 2004 through December 2006.

Notes: The NAIC dataset did not provide the plan type for a small percentage of policies (.01%), therefore the sum of standard and pre-standard policies does not equal the total number of Medigap policies in force. The data for standard policies include Medicare SELECT plans, as well as those issued in three states (MA, MN, WI) that received waivers from the standard product provisions of OBRA 1990.

pre-standard plans -- which are no longer offered -- decreased by 27 percent from 2004 to 2006, likely due to attrition as a result of policy lapses or mortality.

Among people with Medigap standard plans, Plan F continues to be the most popular, covering around 40 percent of policyholders in 2006; Plan C had the second-highest share, with approximately 19 percent of the market, and Plan J had approximately 8 percent of the Medigap standard plan market in 2006 (see Table 2). Plans F, C, and J are the only Medigap plans that provide complete first-dollar coverage for covered services. Prior to 2006, Plan J offered prescription drug coverage.

Thus far, about 6,000 Medigap purchasers have chosen one of the new Medigap Plans K or L. These two plans differ

from plans A through J in several ways: Plans K and L do not cover the Medicare Part B deductible; beneficiaries have higher out-of-pocket costs on Medicare-covered expenditures; and consequently, the premiums are generally lower than for Plans A through J. However, unlike other Medigap plan types, there is a limit on beneficiaries' annual out-of-pocket costs -- \$4,449 and \$2,220 for K and L respectively in 2008.

Approximately half of all Medigap carriers had policyholders in multiple states. In 2006, 11 percent of carriers covered individuals with standard Medigap plans in 41 to 50 states, including the District of Columbia; 13 percent of carriers covered individuals in 26 to 40 states; 12 percent covered individuals in 11 to 25 states; and 16 percent of carriers covered individuals with standard Medigap plans in 2 to 10

**TABLE 2. DISTRIBUTION OF INDIVIDUALS WITH STANDARD MEDIGAP PLANS, BY TYPE OF PLAN, AS REPORTED TO THE NAIC, DECEMBER 2004 THROUGH DECEMBER 2006**

Medigap Plan Type	Percent of Individuals		
	Dec. 2004	Dec. 2005	Dec. 2006
A	4%	4%	4%
B	8%	7%	7%
C	20%	19%	19%
D	6%	6%	5%
E	3%	3%	3%
F	36%	38%	40%
G	4%	4%	4%
H	2%	1%	1%
I	2%	2%	2%
J	7%	7%	8%
K	-	-	0.04%
L	-	-	0.04%
Waiver State Plans	8%	8%	8%
Totals	100%	100%	100%

Source: AHIP analysis of the National Association of Insurance Commissioners' (NAIC) Medicare Supplement Insurance Experience Exhibit, for December 2004 through December 2006.

Notes: The data for standard policies include Medicare SELECT plans and those issued in three states (MA, MN, WI) that received waivers from the standard product provisions of OBRA 1990. Percentage may not sum to 100% due to rounding.

**TABLE 3. DISTRIBUTION OF MEDIGAP CARRIERS WITH STANDARD MEDIGAP POLICIES IN FORCE, BY MARKET SIZE, AS REPORTED TO THE NAIC, DECEMBER 2004 THROUGH DECEMBER 2006**

Number of States (includes District of Columbia)	Percent of Carriers		
	Dec. 2004	Dec. 2005	Dec. 2006
41 to 51 States	11%	12%	11%
26 to 40 States	12%	11%	13%
11 to 25 States	8%	11%	12%
2 to 10 States	18%	18%	16%
1 State	50%	48%	48%
Totals	100%	100%	100%

Source: AHIP analysis of the National Association of Insurance Commissioners' (NAIC) Medicare Supplement Insurance Experience Exhibit, for December 2004 through December 2006.

Notes: Data in this table depicting the number of states is based on companies with standard Medigap policies in force; it does not include companies with only pre-standard policies in force. The data for standard policies include Medicare SELECT plans, and those issued in three states (MA, MN, WI) that received waivers from the standard product provisions of OBRA 1990. The number of carriers with standard Medigap policies in force reporting to the NAIC for 2004 was 247; for 2005 was 248; and for 2006 was 247. For this report the District of Columbia is counted as a "state". Percentages may not sum to 100% due to rounding.

states. Nearly half of all carriers (48 percent) had Medigap standard policies in force in a single state only (see Table 3).

across the country in almost all 50 states and the District of Columbia.

Medicare SELECT plans are identical to standard Medigap plans but require policyholders to use provider networks to receive the full insurance benefits. For this reason, Medicare SELECT plans generally cost less than other Medigap plans. Table 4 shows the number of carriers with Medicare SELECT policies in force, and the number of Medicare beneficiaries having a Medicare SELECT policy from 2004 to 2006.

Carriers with Medicare SELECT policies in force are located

Table 5 displays the percentage of reporting carriers with standard Medigap policies in force by each of the standard product types. Thus far, the percentage of carriers covering individuals with the new Plans K or L is relatively low.

**TABLE 4. NUMBER OF CARRIERS WITH MEDICARE SELECT POLICIES IN FORCE AND NUMBER OF INDIVIDUALS WITH MEDICARE SELECT PLANS, AS REPORTED TO THE NAIC, DECEMBER 2004 THROUGH DECEMBER 2006**

	Dec. 2004	Dec. 2005	Dec. 2006
Number of Carriers with Medicare SELECT Policies in Force	101	103	105
Number of Individuals with Medicare SELECT Policies	1,140,137	1,143,900	1,120,663

Source: AHIP analysis of the National Association of Insurance Commissioners' (NAIC) Medicare Supplement Insurance Experience Exhibit, for December 2004 through December 2006.

**TABLE 5. DISTRIBUTION OF CARRIERS WITH STANDARD MEDIGAP POLICIES IN FORCE, BY PLAN TYPE, AS REPORTED TO THE NAIC, DECEMBER 2004 THROUGH DECEMBER 2006**

Standard Plan Type	Dec. 2004	Dec. 2005	Dec. 2006
A	85%	85%	86%
B	58%	59%	61%
C	75%	77%	78%
D	35%	40%	43%
E	28%	31%	32%
F	71%	74%	75%
G	32%	35%	37%
H	25%	26%	26%
I	26%	26%	27%
J	24%	24%	26%
K	-	-	6%
L	-	-	6%
Waiver State Plans	26%	26%	28%

Source: AHIP analysis of the National Association of Insurance Commissioners' (NAIC) Medicare Supplement Insurance Experience Exhibit, for December 2004 through December 2006.

Notes: The NAIC dataset did not distinguish whether Plans F or J were high-deductible and did not distinguish between plans H, I, and J with or without a prescription drug benefit. The data for standard policies include Medicare SELECT plans, and those issued in three states (MA, MN, WI) that received waivers from the standard product provisions of OBRA 1990. The number of carriers with standard Medigap policies in force for 2004 was 247; for 2005 was 248; and for 2006 was 247.

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This document can be accessed via the web at <http://www.ahipresearch.org/pdfs/MedigapTrendReport.pdf>.



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