



AHIP BOARD OF DIRECTORS' STATEMENT ON THE VALUE OF MEDICARE SUPPLEMENT INSURANCE

Approved by AHIP Board of Directors on November 17, 2008

Year after year, seniors' out-of-pocket costs for Medicare services increase. Medicare Supplement insurance (Medigap) is a vitally important product for seniors who choose Medicare's original fee-for-service program, as it provides a range of highly valued benefits.

Today, nearly 10 million Medicare beneficiaries have Medigap coverage, and that figure is expected to increase over time. And fully one-third of the Medicare population has employer-sponsored insurance that supplements Medicare. As financial pressures on companies mount, more and more employers are finding it difficult to maintain health benefits for their retired employees. If seniors lose their employer-sponsored benefits, many will turn to Medigap for financial protection, especially in rural areas where there may be fewer options available.

VALUE OF MEDICARE SUPPLEMENT INSURANCE COVERAGE

Consumer satisfaction surveys consistently have shown that Medicare beneficiaries highly value their Medigap coverage. In a recent survey conducted by American Viewpoint, 89 percent of beneficiaries said they were either very satisfied or generally satisfied with their Medicare supplemental insurance. The text below points out a number of Medigap's valued features.

- **Predictability**

Supplemental coverage allows seniors to budget for the predictable and unpredictable medical costs that Medicare does not cover. Most Medicare beneficiaries have additional coverage from some source to protect themselves from exposure to unpredictable out-of-pocket health care costs. Medigap is the chosen source of supplemental coverage for millions of beneficiaries, making their medical care expenses predictable year-round.

Financial Protection

Unlike the typical health benefits available to the working population, Medicare does not protect beneficiaries from catastrophic costs. In the absence of a limit on out-of-pocket expenses, individuals with high medical costs are left at significant financial risk. A serious or prolonged illness can result in loss of a lifetime of savings. An important feature of Medigap coverage is that after exhaustion of hospital benefits under Medicare, Medigap provides an extra year of hospital benefits. With Medigap coverage, policyholders enjoy peace of mind from knowing that they have good insurance protections.

Even for more routine medical care, Medicare has substantial cost-sharing obligations. On average, today's Medicare program pays about 75 percent of the cost of Medicare covered services, leaving the beneficiary to pay the remaining one quarter. Medigap policies cover a significant portion of this gap.

- **Reliability**

Medigap, introduced shortly after the Medicare program began in 1965, is a stable, reliable product that is widely available. Federally-mandated product standardization sets the Medigap policy options that are available, which facilitates product comparisons, and beneficiaries are assured that their policy's benefits will not change from year to year.

All beneficiaries, when they qualify for Medicare at age 65, are guaranteed access to any Medigap plan offered in their state, and every state has numerous offerings. Medigap is state-regulated, so if policyholders have problems or concerns, they may seek assistance from the state. That said, complaints to states about Medigap policies are very low.

More than 20 percent of beneficiaries with Medigap coverage hold "prestandardized" policies issued before 1992. This fact and the high persistency that characterizes standardized policies (i.e. beneficiaries tend to hold onto their Medigap policies) illustrate the value to seniors of familiar, stable sources of supplemental coverage.

Medigap coverage pays benefits for services already determined to be "medically necessary" by Medicare, so benefits are paid under Medigap policies without further questioning of the necessity of medical services.

- **Guaranteed Renewability**

Beneficiaries who purchase a Medigap policy may keep the policy as long as desired, provided that premiums are paid. Even if an insurer ceases to offer Medigap policies to new applicants, it must continue to renew and provide service to its current policyholders.

- **Wide Choice of Providers**

Most Medigap policies cover any Medicare provider. Consequently, Medigap policyholders can choose from a wide range of providers, and they usually are not required to use a designated provider network or to obtain referrals to specialists from a primary care provider.

- **Ability to Avoid Bill-Paying Paperwork**

Anyone who has first-hand experience or who has assisted beneficiaries can attest that dealing with Medicare claims can be a big job. Under many Medigap policies, beneficiaries can assign their benefits directly to providers, and be spared from receiving bills from numerous Medicare providers and suppliers and filing claims with their Medigap insurer. Being relieved of this burdensome and frustrating paperwork is an invaluable benefit to many seniors.