United States General Accounting Office 140341

GAO

Testimony

For Release
on Delivery
Expected at
Harrisburg, PA,
9:00 a.m. EST
Monday
January 8, 1990

MEDIGAP INSURANCE:
Expected 1990 Premiums after Repeal of the Medicare Catastrophic Coverage Act

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Before the
Special Committee on Aging
United States Senate

SUMMARY

Almost from the beginning of Medicare in 1966 private insurance companies have offered Medigap policies designed to pay some or all beneficiaries' deductibles and coinsurance. Policies may also provide benefits for services not covered by Medicare.

In 1988, the Congress passed the Medicare Catastrophic Coverage Act, one of the most significant expansions of the program since its beginning. The changes contained in that Act significantly reduced the liability of beneficiaries who require a substantial amount of health care services.

In November 1989, the Congress repealed the Act and restored Medicare benefits to what they were before the Catastrophic Coverage Act.

As a result of repeal of the Catastrophic Coverage Act, Medigap policies must now provide benefits that the insurers did not expect to provide in 1990. Also, the National Association of Insurance Commissioners has revised its minimum benefit standards to require Medigap policies to cover some expenses of policyholders that were not required before, such as part B coinsurance after the beneficiary pays the annual part B deductible of $75.

GAO surveyed 29 commercial Medigap insurers in preparation for these hearings. The insurers each had at least $10 million in earned premiums for Medigap policies in 1987 (the latest year for which GAO had reasonably complete data). Twenty insurers responded and told GAO that they expect to increase their 1990 premiums for Medigap insurance by an average of 19.5 percent over their 1989 premiums. The companies attributed about half of this increase to increased benefits and administrative costs necessitated by repeal of the MCCA. The companies said that the other half of the increase was due to other factors, such as inflation, increased utilization of medical services, and prior years' claims experience. For 19 companies, the increases will range from a low of 5.0 percent to a high of 51.6 percent, and one company said it expects its 1990 premium to remain unchanged.

The Blue Cross and Blue Shield Association also surveyed its member organizations. Thirty-eight of these responded, representing two-thirds of the total Blue Cross and Blue Shield Medigap enrollment. After summarizing the responses, the Association found that the median increase in 1990 non-group Medigap insurance premiums would be about 29 percent.

Senator Heinz and Members of the Committee:

We are pleased to be here today to discuss the effect of repeal of the Medicare Catastrophic Coverage Act (MCCA) of 1988 (P.L. 100-360) on premiums for Medicare supplemental, or Medigap, insurance. Twenty of the larger commercial Medigap insurers we surveyed told us they expect their 1990 premiums to be an average of about 20 percent higher than their 1989 premiums. The companies attributed about half of this increase to increased benefits and administrative costs necessitated by repeal of the MCCA. The companies said that the other half of the increase was due to other factors, such as inflation, increased utilization of medical services, and prior years' claims experience.

THE MEDICARE PROGRAM AND MEDIGAP INSURANCE

Medicare provides coverage for a broad range of health services for most people 65 years of age or older and some disabled persons. The program has two parts. Part A, hospital insurance, covers inpatient hospital, skilled nursing facility, hospice, and home health care. Part B, supplementary medical insurance, covers many types of noninstitutional services, such as physicians, clinical laboratory, X-ray, and physical therapy services. Both parts require beneficiaries to share in the cost of their care through deductibles and coinsurance.

Almost from Medicare's beginning in 1966, private insurance companies have offered Medigap policies to cover some of the out-of-pocket costs incurred by Medicare beneficiaries. Policies may also provide benefits for services not covered by Medicare. Because of abuses identified in marketing Medigap policies, the

Congress in 1980 added section 1882 to the Medicare law. This section, commonly known as the Baucus amendment, sets forth requirements that must be met before a policy can be marketed as Medigap insurance. The Baucus amendment incorporated model Medigap regulations adopted by the National Association of Insurance Commissioners (NAIC) as federal standards. The Baucus amendment retained the traditional role of the states as the regulators of insurance, as long as they have regulatory standards at least as stringent as the federal requirements.

THE MCCA AND ITS REPEAL

The MCCA, which became law in July 1988, provided for the most significant expansion of Medicare benefits since the program's beginning. Beneficiary out-of-pocket costs for covered services were to be capped, and additional services would have been covered when the law was fully implemented.

In June and April 1989, we testified before committees of both houses of Congress on the effects of the MCCA on benefits provided by the Medicare program and Medigap insurance[1]. In both instances, we noted that the MCCA expanded Medicare benefits and thus reduced the coverages required of Medigap policies.

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[1]See "MEDIGAP INSURANCE: Effects of the Catastrophic Coverage Act of 1988 on Future Benefits", Statement of Mr. Michael Zimmerman before the Senate Committee on Finance (GAO/T-HRD-89-22, June 1, 1989) and "MEDIGAP INSURANCE: Effects of the Catastrophic Coverage Act of 1988 on Benefits and Premiums", Statement of Mr. Michael Zimmerman before the Subcommittee on Commerce, Consumer Protection, and Competitiveness, House Committee on Energy and Commerce (GAO/T-HRD-89-13, Apr. 6, 1989).

In November 1989, the Congress passed legislation to repeal the MCCA and to restore Medicare benefits to what they were before the Act became effective. The repeal legislation reversed the reduction in coverage required of Medigap policies.

THE EFFECT OF REPEAL OF MCCA ON MEDIGAP POLICIES

As a result of Congress' passage and repeal of MCCA, NAIC revised its model Medigap law and regulation twice. The first revision recognized the changes in Medicare contained in the MCCA. The second revision, adopted in early December 1989, changed the minimum standards to reflect the Act's repeal. The minimum benefit standards for Medigap policies, however, are different from those required before the MCCA was enacted. For example:

-- For services covered under part A of Medicare. Current NAIC standards require Medigap policies to cover either all or none of the part A deductible ($592 per benefit period in 1990). The NAIC standard in effect before the MCCA did not contain a minimum requirement for coverage of the part A deductible, and thus a policy could have covered just a portion of that deductible.

-- For services covered under part B of Medicare. NAIC's current standards require Medigap policies to cover all policyholders' coinsurance for services covered by part B of Medicare, after the policyholder has paid the part B deductible of $75 per year. This coinsurance is 20 percent of the Medicare-approved charge for services. Prior to the MCCA, the NAIC standards required Medigap policies to pay part B coinsurance after the policyholder paid $200 (the $75 annual part B deductible plus $125 in part B coinsurance), and Medigap policies could limit coverage to $5,000 in benefits in any calendar year.

THE EFFECT OF REPEAL OF MCCA ON MEDIGAP PREMIUMS

In November 1989, we reported to the Chairman, Subcommittee on Health, House Committee on Ways and Means, on expected Medigap premium changes if the MCCA were repealed[2]. In our survey, we contacted 29 of the commercial insurers that had over $10 million of earned premiums on Medigap policies during calendar year 1987 (the latest year for which we had reasonably complete data). We asked each company to estimate its 1990 premium for its largest selling policy. At that time, 20 of the 29 commercial Medigap insurers told us that they expected their premiums for Medigap policies in 1990 to be, on average, 2.4 percent higher than their 1989 premium if the MCCA remained in effect. Those insurers also told us they expected to increase their 1990 premium an average of an additional 15.4 percent over what the premium would be if the Congress repealed the Act. In combination, these increases would result in an average increase of $10.64 per month (18.1 percent) over 1989 premiums if Congress repealed the Act. The policies sold by these 20 companies covered about 2.5 million policyholders.

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[2]Medicare Catastrophic Act: Estimated Effects of Repeal on Medigap Premiums and Medicaid Costs (GAO/HRD-90-48FS, Nov. 6, 1989).

In preparation for these hearings, we contacted those 29 companies again to obtain (1) their current estimate of their 1990 premium and (2) their reasons for premium changes.

Twenty companies responded to our latest request and are listed in appendix I to this statement. The policies sold by these 20 companies covered about 2.6 million policyholders. Eighteen of these companies had provided us data for our survey for the Subcommittee on Health. The 20 companies now estimate their 1990 premiums will, on average, be 19.5 percent higher than premiums in 1989. The average increase is $11.44 per month. The increases range from 5.0 percent to 51.6 percent, and one company reported that it expected its 1990 premium to be the same as its 1989 premium. Appendix II to this statement shows the current estimates from the twenty companies.

There are four general reasons why these companies expect to increase their premiums. General inflation within the medical sector of the economy, increased utilization of medical services by senior citizens, and higher than expected claims experience in prior years accounted for about half of the increase. The companies attributed the other half of the increase to repeal of the MCCA. The companies said that changes required by repeal of the MCCA included: (1) additions to benefits, such as coverage of the part A deductible or reducing the policy deductible for part B coinsurance coverage from $200 to $75, and (2) administrative costs associated with repeal of the MCCA, such as modifications to policies and notices to policyholders. No companies told us they were increasing premiums to "catch-up" because they did not increase or insufficiently increased their premiums in 1989.

The Blue Cross and Blue Shield Association also surveyed its member organizations. Thirty-eight organizations responded, representing two-thirds of the total Blue Cross and Blue Shield Medigap enrollment. After summarizing the responses, the Association found that the median increase in 1990 non-group Medigap insurance premiums would be about 29 percent. The Association said that a 9 percent increase was projected prior to repeal of the MCCA. The Association said that plan rate increases reflect numerous factors, including growth in costs and utilization, benefit changes, and adjustments for prior rate inadequacies.

In sum, many factors affect premiums for Medigap insurance. In the legislation to repeal the MCCA, the Congress restored coverage under the Medicare program to what existed before the Act was passed. Repeal of the Act had the effect of placing benefit requirements on Medigap policies that the insurers did not expect to face in 1990. Also, the NAIC has revised its minimum benefit standards to require Medigap policies to cover some expenses of policyholders that were not covered before, such as the lower policy deductible on part B coinsurance.

Senator, this concludes my prepared remarks. I will be happy to answer any questions you have.

INSURANCE COMPANIES THAT RESPONDED TO OUR REQUEST FOR DATA

Prudential Insurance Company of America
United American Insurance
Bankers Life
Mutual of Omaha
Union Fidelity Life Insurance Company
National Home Life Assurance Company
Union Bankers Insurance Company
Standard Life and Accident Insurance Company
The Principal Mutual Life Insurance Company
Pioneer Life Insurance Company of Illinois
Pyramid Life Insurance Company
Associated Doctors Health and Life Insurance Company
Colonial Penn Franklin
State Farm Mutual Auto Insurance Company
Continental Casualty Company
American Integrity Insurance Company
New York Life Insurance Company
Provident Companies
American Republic
Atlantic American Life Insurance Company

EXPECTED INCREASES IN 1990 MONTHLY MEDIGAP INSURANCE PREMIUMS AFTER REPEAL OF THE MEDICARE CATASTROPHIC COVERAGE ACT

Company	1989 monthly premium	1990 expected monthly premium	Increase (percentage)
Company AA	$50.00	$50.00	0.0
Company AB	83.09	87.26	5.0
Company AC	59.93	65.32	9.0
Company AD	73.96	81.29	9.9
Company AE	73.46	80.79	10.0
Company AF	61.65	70.15	13.8
Company AG	68.00	78.00	14.7
Company AH	81.00	94.00	16.0
Company AI	39.25	45.95	17.1
Company AJ	58.75	70.39	19.8
Company AK	68.00	81.52	19.9
Company AL	33.90	41.00	20.9
Company AM	57.65	70.33	22.0
Company AN	38.00	46.36	22.0
Company AO	43.29	53.68	24.0
Company AP	90.00	115.00	27.8
Company AQ	50.82	67.59	33.0
Company AR	43.84	59.67	36.1
Company AS	62.82	90.93	44.7
Company AT	32.95	49.95	51.6
Average	$58.52	$69.96	19.5