Medigap Reform Could Reduce Costs for 4 out of 5 Seniors

In July 2011, the Kaiser Family Foundation KFF) released a report evaluating various proposed Medigap reforms. As the report noted, "in 2008, about one in six Medicare beneficiaries, over 7 million, had an individually purchased Medicare supplemental insurance policy, known as Medigap (and no other source of supplemental coverage)."[1]

This executive summary of that report only tracks what the KFF report described as "Option 1" (see Exhibit 1). As KFF noted in their report:

> "The Congressional Budget Office (CBO) has described an option that would prohibit Medigap policies from paying the first $550 of enrollees' cost sharing and requiring that they cover no more than half of Medicare's additional required cost sharing up to a fixed out-of-pocket limit. CBO estimates this would produce savings of $3.7 billion in 2013 and $53.4 billion over the nine year period from 2013-2021."[2]

	AMOUNT ENROLLEE PAYS	AMOUNT MEDIGAP PAYS
OPTION 1 Based on CBO option; similar to Bowles-Simpson	First $550 of any required cost sharing for services covered under Parts A or B; 50% of additional required cost sharing up to $3,025 limit on out-of-pocket spending	50% of required cost sharing after the first $550 paid by enrollee up to $3,025 out-of-pocket spending limit; 100% of costs for Part A/B cost sharing above out-of-pocket limit

This reform is similar –not identical too – the proposal outlined by Senators Lieberman and Coburn, and the bipartisan National Commission on Fiscal Responsibility and Reform. (See Appendix 1).

The data sets and methodology for the report are sound. According to KFF, "the analysis, based on data from the Medical Expenditure Panel Survey (MEPS) and other sources, takes into account expected changes in utilization, and the likely effects of Medigap reforms on insurers' costs for Medicare-covered services and on Medigap premiums. The analysis assumes full implementation of Medigap reforms in 2011 to better understand the likely effects on program and out-of-pocket spending once fully implemented, although in all likelihood such a policy would be phased in over the course of several years." [3]

The KFF report revealed several interesting facts:

- **Four out of 5 seniors would save money from Medigap reform**. "The majority of Medigap enrollees are projected to see a reduction in net out-of-pocket costs (including premiums), but about one in five Medigap enrollees would pay more."[4]

- **Some seniors would save more than $1,000 from Medigap reform**. "….as enrollees' costs increase, Medigap insurers' claims costs would drop, and insurers would be likely to reduce premiums. When compared to the base case, enrollees would face the largest average reduction in their Medigap premium under Option 1, from $1,984 to $731. If premium reductions were fully proportionate to the drop in expenses, the savings for the *average* beneficiary would be sufficient to more than offset his or her new direct outlays for Medicare cost sharing."[5]

- **More than 8 in 10 seniors with Medigap plans currently have plans that cover all deductibles and copays, or all except the Part B deductible.** "In 2009, 88 percent of people covered by

[1] Page i.
[2] Page i.
[3] Page i.
[4] Page iii.
[5] Page ii.

standardized plans were in plans that covered 100 percent of Medicare's required deductibles and coinsurance, or all except the Part B deductible."[6]

- **Even if insurers did not pass savings from Medigap reform directly to seniors, most seniors would still save money.** "As noted earlier, the premium estimates here assume that policies under both the base case and Option 1 have a loss ratio of 77.5 percent, which is substantially higher than the 65 percent required by law. This analysis assumes that insurers would pass their savings from reduced claims costs to enrollees to retain market share….In sum, the premium estimates presented here may be optimistic. But even in the worst case, with loss ratios dropping to the minimum required 65 percent, most enrollees would still see a net savings. Under Option 1, for example, the average premium would go from $731 to $871 with the lower loss ratio. But this would still translate into average premium savings of $1,113 from the base-case premium ($1,984), more than enough to offset the increased cost sharing."[7]

- **Even if modeling on behavioral impacts is in error and seniors make NO behavioral changes, the average senior could still realize savings.** "If Medigap enrollees made no change in their behavior at all (Column B results), there would be no savings to the Medicare program; it would still be paying for the same mix of services as before. But the average enrollee would still have net savings, because the new cost-sharing expense of $889 (Column B, Row d) would be more than offset by the premium reduction ($1,984 - $836). As suggested earlier, the exact size of the offset depends on the extent to which insurers pass on their own claims savings. But most consumers are likely to see at least some savings. This fact is important when thinking about how enrollees might respond to Medigap policy changes and how total Medicare spending might be affected."

- **It is unlikely that increasing cost-sharing will have a negative impact on most seniors.** "Many studies have shown that increasing cost sharing in any kind of health insurance plan deters enrollees from obtaining some services.[26] Two recent studies have focused specifically on Medicare beneficiaries….[However], in the studies cited, and in most similar analyses, the enrollees were faced with a *new cost.* They either had to reduce their utilization, spend money that they were previously using for other household expenses, or draw on savings. But the Medigap changes modeled here would merely retarget money that Medigap enrollees *are already spending for medical care.* In effect, each enrollee is being handed a lump sum, in the form of a premium reduction. The enrollee then has a choice of using this money to cover the new cost-sharing expenses or reducing use of medical services and spending the amount they saved on something else."[8]

- **This non-partisan analysis shows that Medigap reforms can result in savings to most seniors and the Medicare program.** "As policymakers consider Medigap reforms as part of a broader strategy to reduce the growth in Medicare spending, this analysis shows that restrictions on Medigap coverage can be expected to reduce both Medicare spending and net average out-of-pocket spending, including cost sharing and Medigap premiums, for most but not all Medigap enrollees."[9]

[6] Page 3.
[7] Page 8.
[8] Page 12.
[9] Page v.

Appendix 1

Comparison of Medigap Reforms (Includes other Medicare Reforms for Context)			
Source	CBO 2011	Fiscal Commission	Lieberman-Coburn
Details	• Single combined annual deductible of $550 covering all Part A /B services. • Uniform coinsurance rate of 20 percent for amounts above that deductible (including inpatient expenses), and an annual cap of $5,500 on each enrollee's total cost-sharing liabilities. • In 2013, bar Medigap policies from paying any of the first $550 of an enrollee's cost-sharing liabilities and limit to 50 percent of the next $4,950 in Medicare cost sharing. • (All further cost sharing would be covered by the Medigap policy, so enrollees in such policies would not pay more than about $3,025 in cost sharing in that year.)	• Single combined annual deductible of $550 for Part A and Part B services, along with 20 percent uniform coinsurance on health spending above the deductible. • Catastrophic protection for seniors by reducing the coinsurance rate to 5 percent after costs exceed $5,500 and capping total cost sharing at $7,500. • Prohibit Medigap plans from covering the first $500 of an enrollee's cost-sharing liabilities and limit coverage to 50 percent of the next $5,000 in Medicare cost-sharing.	• The Lieberman/Coburn proposal would bar Medigap policies from paying any of the first $550 of an enrollee's cost-sharing liabilities and would limit coverage to half of the remaining coinsurance up to the newly created $7,500 max out-of-pocket. • The Lieberman/Coburn proposal would also add an annual "out-of-pocket maximum" of $7,500 so that each Medicare recipient would now have a cap on annual medical costs to protect them from financial hardship or bankruptcy in the event of a major illness. Medicare enrollees do not have this protection now.