Learn How To Handle Rate Increases
Without The Worry!

Medicare Supplement rate increases occur every year, and even though these changes occur, it always seems to take Agents by surprise. But it shouldn't!

The first impulse of an Agent or client may be to find coverage with a competing company at a lower rate. This may not be a good solution.

There will always be cheaper premiums! Some companies simply charge less to gain market share. These companies believe once market share has been gained, they can raise rates to increase profit levels. This is not true. The only way a company can get a rate increase is to have enough premium in force on a particular plan and be able to illustrate they are paying out, in the form of claims, in excess of 65 percent of that incoming premium. Other companies offering cheaper prices eventually have to increase their rates just to avoid losing money.

Rapidly and frequently increasing rates can lead to "anti-selection." Anti-selection is when healthy people cancel their policy and the sick people have to keep it. The insurance company is then left with a smaller number of insureds and a greater proportion of sick people. For this reason many companies are forced to leave the market altogether. (See article on facing page *Short-Term Cost Versus Long-Term Value*).

Rate changes mean coverage is performing well for the insureds. *Federal law will not allow a rate change unless a company's loss ratio is proven to exceed the 65 percent minimum payout. What this means is that for every dollar in premium paid, 65 cents must go back to the customer in the form of claims. A company cannot just ask for more money to increase profits.*

The rate of medical inflation each year essentially necessitates a change in premium rates. As Agents, we must be able to explain to customers in a positive manner why this occurs, and we should not assume the client will drop coverage because rates go up. (See article on facing page *How to Explain Rate Increases*).

It is our hope, at United American, that future Medicare Supplement rate increases will be moderate. If a rate increase is required, and a state grants the necessary increase, the increases will be moderate assuming that medical inflation is moderate as well. UA does not ask for rate changes that are not justified by the federally mandated 65 percent loss ratio.

The lesson we must learn is that there is no magical way to provide health care coverage at a continuous flat rate. The premiums must cover losses and provide the Company enough revenue to operate. This is why it is important to remember the Agent is the main influence on which insurer the client selects — you must believe in the company you represent so your customers can too. It is also important to reassure your customers of UA's long-term commitment to the Med-Supp market and in providing automatic, secure claims service.

Do not underestimate the intelligence of the customer. They can better accept and understand truthful explanations of rate changes. Let them know with United American they are buying the best coverage at the right price.

Short-Term Cost Versus Long-Term Value

In a competitive market, many companies initially offer cheaper premiums because they are trying to make a name for themselves. In doing this, these companies sacrifice long-term value for short-term market share which creates a cause and effect cycle. Below are other reasons why some competing companies may offer lower rates.

CAUSE:

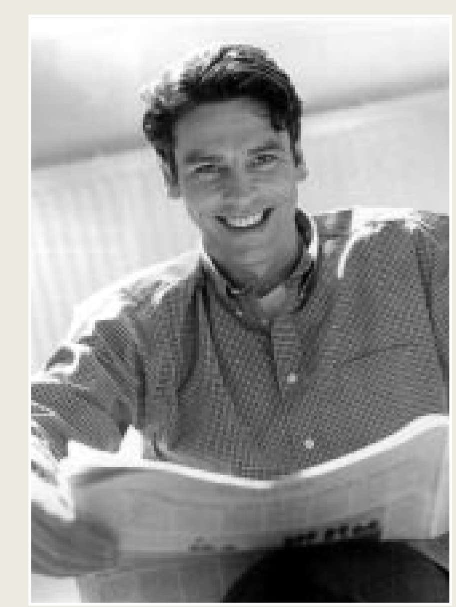
- Some companies may be behind on filing for individual state rate increases.
- Some look only at the competition and charge less to acquire market share which does not work in the long-run. If a policy's price is based solely on beating the competition, it may be too low to pay claims and operating expenses.
- In America, companies have the freedom to choose to fail. Many companies let the marketing department call the shots on rate increases rather than using sound actuarial reasons. These companies have to operate with financially risky high-loss ratios, or cut corners on customer service and claims.

EFFECT:

Based on the scenarios above, many companies that started out with "cheaper" premiums eventually price themselves out of the market or close up shop altogether leaving Seniors scrambling for coverage. Others who continue to offer cheaper rates must make cuts in order to break even, and service is usually the first to go. Because your clients have been with UA already, you do not have to convince them that our service is unmatched within the industry. There is more to value than just the lowest rates.

How To Explain Rate Increases

A major priority at UA is to serve the customer well with coverage that is secure, stable and a good value for the premium dollars spent. Below are points Agents can bring up when talking to customers about their premium increases.



- The rate of medical inflation each year essentially guarantees a change in Medicare Supplement premiums for all companies. United American is no different. Medical costs are on the rise, and it costs more today for quality health care than it did two years ago.
- Rate increases mean the coverage is working for the policyholders.
- A lower premium may be easier to sell, but such sales are of no value if the company cannot pay the claims.
- Companies are regulated by Federal Law. Rates cannot be changed unless claims losses exceed 65 percent of premiums. This means for every dollar paid in premium, 65 cents must go back to customer in the form of claims.
- UA establishes premiums based on actuarial assumptions, not based on the competition. Claims rates are constantly analyzed to stay ahead of changing trends.