THE HIGH DEDUCTIBLE MEDICARE SUPPLEMENT INSURANCE PLAN: EXPLORING THE POTENTIAL

HDF

The graying of America has begun, and with it comes an increased need for guidance in navigating healthcare choices for the expanding senior market. Census reports show the growth in the number and proportion of older adults is unprecedented in the history of the United States, and there's every expectation for the trend to continue. Two factors — longer life spans and aging baby boomers — will combine to double the population of Americans aged 65 years or older during the next 25 years to about 72 million. If projections are correct, by 2030 older adults will account for roughly 20 percent of the U.S. population.

What does this mean for the insurance industry's Medicare sector? Two words: 'Opportunity' and 'challenge'. While the opportunity to expand an agent's client base will grow, the process of helping seniors choose a supplemental plan that's right for them may become more challenging due to potential changes in the Medicare landscape coupled with changing healthcare needs of aging seniors. A knowledgeable agent with a strong product portfolio and good client communication skills will be equipped to meet that challenge.

Medicare beneficiaries can choose a Medicare Advantage plan or a Medicare Supplement insurance policy, and an agent can choose to sell either or both options. There are many types of Medicare Advantage plans. Some plans have no monthly premium, but include high out-of-pocket risk exposure. In some cases those expense limits are as high as $6,700, and the plan holder must choose a doctor and hospital in his or her network. However, seniors can own a traditional Medicare Supplement policy that requires NO network participation, covers Medicare-approved out-of-pocket medical expenses, and is guaranteed renewable as long as premiums are paid on time.

WHAT ARE TODAY'S MEDICARE SUPPLEMENT INSURANCE PLAN CHOICES?

MEDICARE PLANS / BENEFITS	A	B	C	D	F*	G	K	L	M	N
Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Part B coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓***
Blood (first 3 pints)	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Part A hospice care coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Skilled nursing facility care coinsurance	✗	✗	✓	✓	✓	✓	50%	75%	✓	✓
Part A Deductible	✗	✓	✓	✓	✓	✓	50%	75%	50%	✓
Part B Deductible	✗	✗	✓	✗	✓	✗	✗	✗	✗	✗
Part B excess charge	✗	✗	✗	✗	✓	✓	✗	✗	✗	✗
Foreign travel exchange (up to plan limits)	✗	✗	80%	80%	80%	80%	✗	✗	80%	80%
Out-of-Pocket Limit**	N/A	N/A	N/A	N/A	N/A	N/A	$4,960	$2,480	N/A	N/A

Plan availability may vary by state.

✓ = the plan covers 100% of this benefit | ✗ = the policy doesn't cover that benefit | % = the plan covers that percentage of this benefit | N/A = not applicable

* Plan F also offers a high-deductible plan. If you choose this option, this means you must pay for Medicare-covered costs up to the deductible amount of $2,180 in 2016 before your Medicare plan pays anything.

** After you meet your out-of-pocket yearly limit and your yearly Part B deductible, the Medicare plan pays 100% of covered services for the rest of the calendar year.

*** Plan N pays 100% of the Part B coinsurance, except for a copayment of up to $20 for some office visits and up to a $50 copayment for emergency room visits that don't result in inpatient admission.

Chart #1

In 2016, ten Medicare Supplement insurance plans are available: **A**, **B**, **C**, **D**, **F** (and **high deductible F**), **G**, **K**, **L**, **M**, and **N**. Not all carriers offer all plans, and availability of plans varies by state. While the informed agent should understand the benefits of each plan available in his or her state, and be able to discuss the suitability of each plan with clients, this paper will explore the potential of the high deductible Medicare Supplement insurance plan (known as high deductible F or HDF) in meeting the needs of today's Americans age 65 and older.

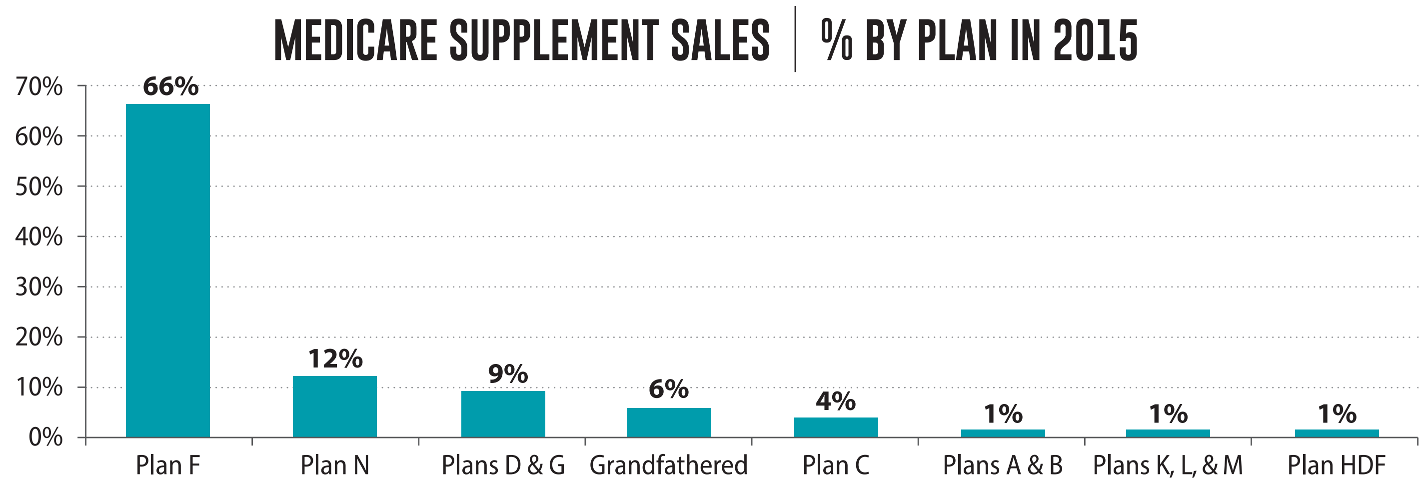

Chart #2 *Source: CSG Actuarial, LLC. 2015*

Of seniors who purchased Medicare Supplement insurance in 2015, 66 percent selected a Medicare Supplement Plan F to cover their health needs, according to CSG Actuarial, LLC. As shown in Chart #1, Plan F is a comprehensive coverage option of supplemental coverage. It pays basic benefits: the coinsurance and deductibles for Part A and Part B, skilled nursing coinsurance, a foreign travel emergency benefit, plus 100 percent of excess charges. Plan F provides real value to seniors who can afford this plan and have health conditions that require them to see a doctor regularly.

Another option for the senior seeking comprehensive coverage is the high deductible Plan F (HDF). After the annual deductible ($2,180 in 2016), it covers the same expenses as the traditional Plan F. Though HDF accounted for only 1 percent of Medicare Supplement insurance plan sales nationally in 2015, as shown in Chart #2, the plan may be a viable option for certain seniors.

WHICH SENIORS MAY FIND HDF A GOOD FIT?

In general, seniors who have the following qualities could find that the high deductible Plan F meets their needs:

- ✓ An interest in keeping the premium amount low
- ✓ Relatively good health with infrequent doctor visits
- ✓ The financial ability to pay out-of-pocket expenses
- ✓ A desire to use the premium savings for other needs

However, seniors enrolling in Medicare for the first time may not be aware of their needs or priorities, as they sort through an avalanche of information to learn as much as possible about their new heath care options. Seniors participating in a study from The Henry J. Kaiser Family Foundation said they found it frustrating and difficult to compare plans due to the volume of information they receive in the mail and through media (television and radio) and their inability to organize the information to determine which plan is best for them.

Beneficiaries wanted to make well-informed and financially sound decisions but did not feel confident in their ability to do so under the current system, the study reported. While they tried to compare costs, coverage, and provider networks, beneficiaries found the process frustrating and confusing. Many said they wanted advice from experts, so they relied on input from an insurance agent or a plan representative, or suggestions from family, friends, and medical professionals.

THE AGENT'S BEST ASSESSMENT TOOL: QUESTIONS

Agents can gain the most insight into their clients' current health, financial status, and interests by asking lots of questions in the meeting to discuss plan options. These questions may include:

- ✓ What do they like or dislike about their current coverage?
- ✓ How would they describe their health care needs?
- ✓ Are they comfortable with cost-sharing?
- ✓ Do they want to stay with their current doctor?
- ✓ How many times did they visit their doctor last year?
- ✓ Did they see any specialists?
- ✓ Are there are any chronic conditions that would affect their health in 5, 10, or 15 years?

The knowledgeable agent will be able to sort through the answers and guide the client, or prospective client, to the choices that would best fit their needs. If it's concluded that a high deductible F plan is a viable option, there may be a question about how often the deductible is raised. HDF was introduced in 1999 with a $1,500 deductible; in 2016 the deductible was $2,180. This is an average increase of $40 per year.*

Another common question is 'How are benefits paid?' High Deductible Plan F benefits begin after out-of-pocket expenses exceed the calendar year deductible. It's important to remember that Medicare pays its portion of approved expenses whether or not the policyholder has met the calendar year deductible. The following hypothetical case shows how benefits would be paid under an HDF plan.

HYPOTHETICAL CASE

For illustrative purposes only. Past performance is not indicative of future results.

Mary has a couple of Part A claims.

In January, Mary spends three nights in the hospital for the first time of the year. The bill for Part A charges was $20,000 with no excess charges. How does the $20,000 get paid?

Medicare Pays	**$18,712**	$20,000 minus the Part A deductible ($1,288).
Mary Pays	**$1,288**	This is her Part A deductible.
HDF Pays	**$0**	Plan pays nothing since she hasn't reached her $2,180 deductible yet.

Mary goes back in the hospital three months later for two days for the same issue. Her bill for Part A charges was $10,000 with no excess charges. How does the $10,000 get paid?

Medicare Pays	**$8,712**	$10,000 minus Part A deductible ($1,288).
Mary Pays	**$892**	She is required to pay her Part A deductible again of $1,288.
HDF Pays	**$396**	Between the two claims, she has reached her HDF $2,180 deductible, so the HDF now covers the balance of the amount due ($396), and will cover any successive claims for the remainder of the year.

** Past performance is not indicative of future deductible increases.*

It may also help to compare plans F and HDF by showing a premium savings example:

PREMIUM SAVINGS EXAMPLE

For illustrative purposes only; calendar year deductible may affect premium savings. Based on average nationwide rates for a male, non-smoker.

$ 214	Plan F age 65 average rate
− 37	Plan HDF age 65 average rate
$ 177	Monthly Premium Savings
× 12	Months
$ 2,124	Annual Premium Saved (as of 3/16)

WHAT COULD A SENIOR DO WITH PREMIUM SAVINGS FROM AN HDF PLAN?

The just-turned-65 set is likely to have many ideas on how they could spend premium savings, once they budget for the annual high deductible. (It's important to remember the high deductible is not paid all at once, but as cost-sharing is accumulated.) The good news is many of today's seniors are strongly optimistic about what the future holds for their health, according to the results of the Inaugural United States of Aging Survey. The National Council on Aging (NCA) reports that more than 25 percent of Americans ages 65 to 69 say their health is better than normal, and the vast majority of all senior age groups expect their health to get better or stay about the same over the next five to 10 years.

A large majority of seniors give themselves high marks when it comes to maintaining their health: 92 percent say they manage stress very well or somewhat well, and 84 percent say they are confident they will be able to do what is needed to maintain their health over the next five to 10 years.

However, the NCA also reports many aging experts believe today's seniors face challenges unlike those experienced by previous generations, particularly in living with long-term chronic health conditions and the need for longer-term financial security.

With an eye towards the future, a senior who opts for a high deductible Medicare supplement plan could consider using their premium savings to purchase additional policies.*

Depending on their needs, he or she may want to consider:

- ✓ A modest life insurance plan
- ✓ Cancer or critical illness coverage
- ✓ An annuity

Seniors need information about all their options so they can make informed decisions about which insurance plan provides the best value to suit their needs and budget.

AGENTS SHOULD ASK QUESTIONS, LISTEN FOR THE ANSWERS, AND USE THEIR KNOWLEDGE TO GUIDE THE WAY.

Sources:

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** Restrictions on marketing other products with Medicare Supplement insurance policies may apply, so agents must be sure to follow state regulations.*