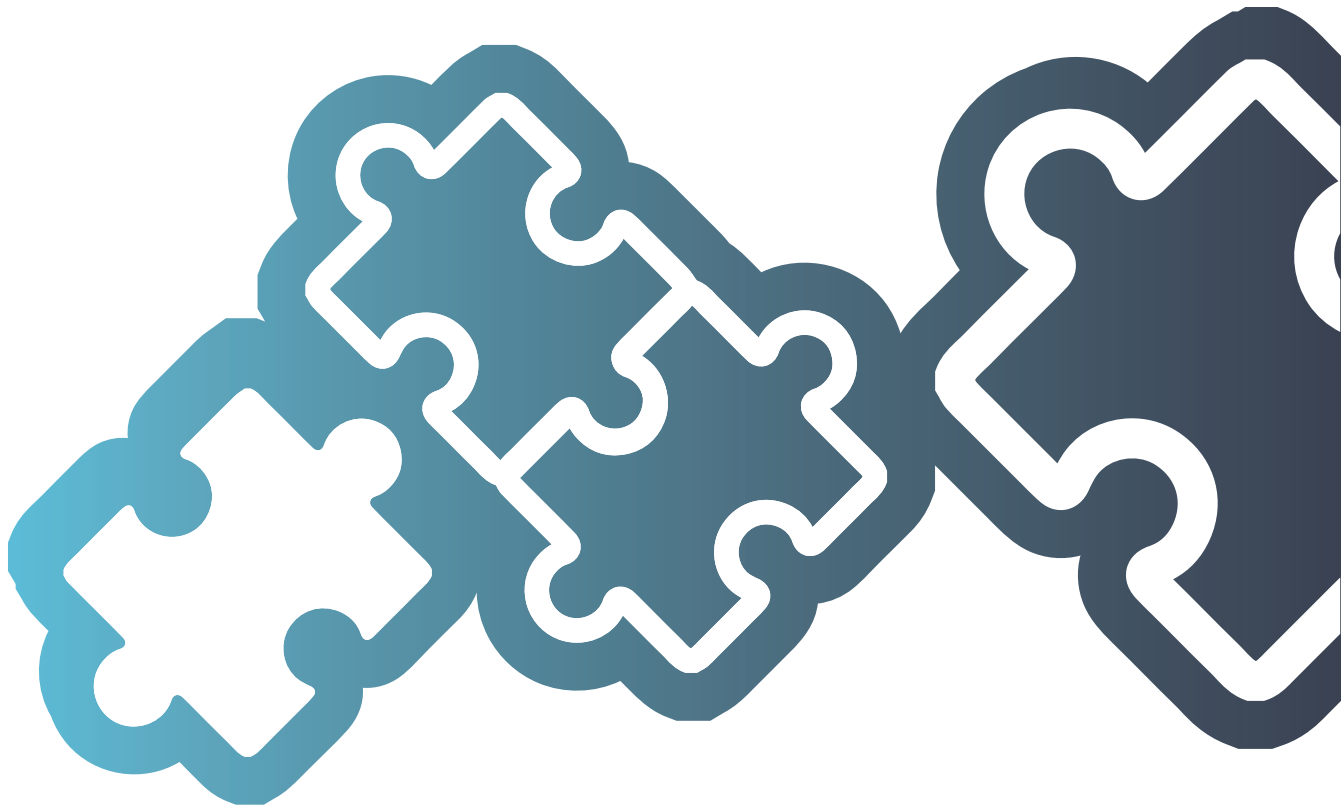


# The Future of Medicare Supplement

## 8th Annual Market Projection

---

2018



Brenton Pyle, FSA, MAAA  
Jared Strock, FSA, MAAA, CERA

CSG Actuarial

Authors

**Brenton Pyle**, FSA, MAAA  
**Jared Stroock**, FSA, MAAA, CERA

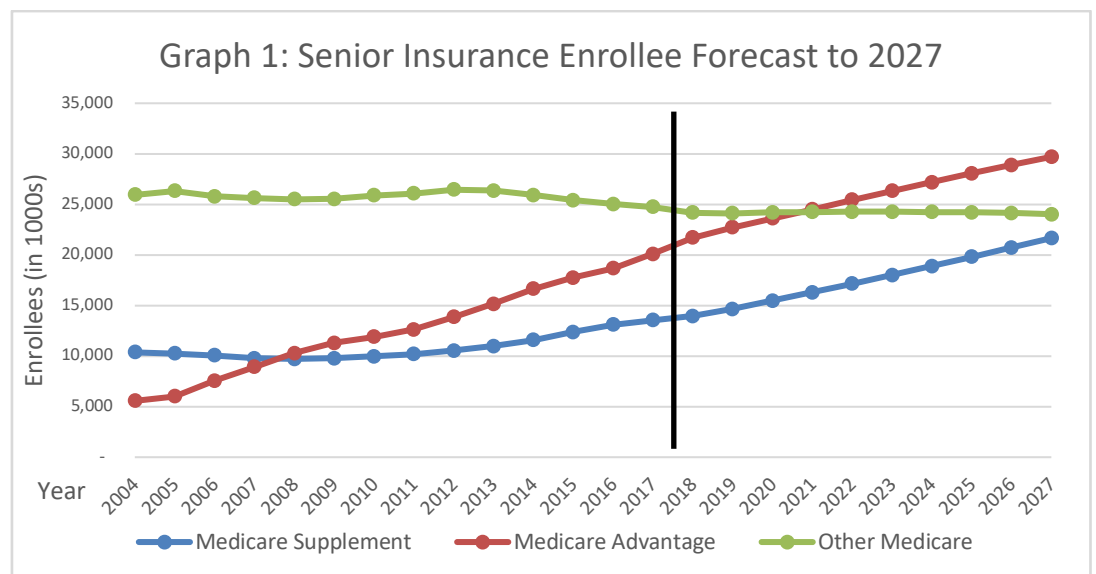
## Introduction

The Medicare program continues to offer sustainable, long-term growth and opportunities. Over 75 million individuals are expected to be enrolled in the Medicare program by 2027. This means that roughly 17 million more individuals will be added to the Medicare program over the next 10 years, a 29% increase. Beyond 2027, an additional 11.5 million are projected to be added by 2040 (Table 2).

CSG Actuarial research indicates Medicare Supplement enrollments will continue to grow at a rate exceeding Medicare enrollment growth over the next 10 years, creating ever-increasing opportunities for insurance carriers, agents and marketing organizations in the Medicare Supplement market (Graph 1).

Sources

1. 2018 Medicare Trustees Report
2. NAIC Medicare Supplement Experience Exhibits
3. CMS.gov
4. Other Public Company Sources
5. CSG Actuarial Projections



## Methodology

There is a minimal amount of market projection information available regarding Medicare Supplement business. CSG Actuarial has compiled data from various sources and developed actuarial models to project future Medicare Supplement enrollments and premium levels over the next 10 years.

## Current Medicare Eligibility Assessment

To determine how the Medicare Supplement market is expected to grow over the next 10 years, we first evaluated the current Medicare population using the following demographic factors:

- Plan Type
- Eligibility Status
- Age, Gender
- Income Level
- Area of Residence
- Health Status
- Living Arrangement

Table 1 provides a snapshot of each of these characteristics used in our projections.

Sources

1. 2018 Medicare Trustees Report
2. 2015 Medicare Current Beneficiary Survey
3. NAIC Medicare Supplement Experience Exhibits
4. CMS.gov
5. Other Public Company Sources

Disclaimers

Limited information is available for some of the categories, and assumptions have been made based on analysis of the data.

Totals may not sum to 100% due to rounding.

Table 1						
Medicare Beneficiary Data (in 1000s) – 2017 Year-End						
Category	All Enrollees		Medicare Supplement		Medicare Advantage	
	Number	% Dist	Number	% Dist	Number	% Dist
<b>Total Enrollment</b>	58,393		13,557		20,102	
<b>Age</b>						
Under 65	9,057	15.5%	1,120	8.3%	2,661	13.2%
65-74 Years	27,900	47.8%	7,757	57.2%	9,632	47.9%
75 Years or Older	21,436	36.7%	4,680	34.5%	7,809	38.8%
<b>Gender</b>						
Male	26,608	45.6%	5,957	43.9%	8,750	43.5%
Female	31,785	54.4%	7,601	56.1%	11,352	56.5%
<b>Annual Income</b>						
Less than \$25,000	23,641	40.5%	3,123	23.0%	9,087	45.2%
\$25,000 or more	34,752	59.5%	10,434	77.0%	11,015	54.8%
<b>Area of Residence</b>						
Urban	46,466	79.6%	10,577	78.0%	17,457	86.8%
Rural	11,909	20.4%	2,970	21.9%	2,643	13.1%
<b>Health Status</b>						
Excellent	9,828	16.8%	2,845	21.0%	3,224	16.0%
Very Good	16,440	28.2%	4,341	32.0%	5,861	29.2%
Good	17,145	29.4%	3,979	29.4%	5,803	28.9%
Fair	10,237	17.5%	1,717	12.7%	3,781	18.8%
Poor	4,304	7.4%	602	4.4%	1,336	6.6%
<b>Living Arrangement</b>						
Lives Alone	17,170	29.4%	3,587	26.5%	6,069	30.2%
With Spouse Only	22,818	39.1%	6,661	49.1%	7,550	37.6%
With Spouse and Others	6,724	11.5%	1,553	11.5%	2,405	12.0%
With Children Only	3,502	6.0%	578	4.3%	1,271	6.3%
With Children and Others	2,406	4.1%	285	2.1%	879	4.4%
With Others Only	3,436	5.9%	461	3.4%	1,136	5.7%
With Non-Relative	2,337	4.0%	433	3.2%	792	3.9%

**Key Observations from Table 1:**

- The proportion of Medicare Supplement buyers who live outside of a metro area is higher than that same proportion of those with a Medicare Advantage plan. Data does indicate that the proportion of Medicare Supplement purchasers residing in an urban area has increased, though not to the level observed for Medicare Advantage purchasers. This increase in urban buyers may be contributing to the fraction of Medicare Supplement buyers who are under age 65.

- Income distribution data indicate that Medicare Supplement plans tend to appeal to insureds with higher income on average.
- The Medicare Supplement market still has a higher proportion of healthier individuals compared to the Medicare Advantage market.
- Over 73% of all Medicare Supplement beneficiaries live with someone else, compared to just under 70% of Medicare Advantage beneficiaries. The majority of carriers selling Medicare Supplement today offer some type of household discount.

## Medicare Eligibility Projection

Table 2 features the overall Medicare beneficiary projection. The growth projected by the 2018 Medicare Trustees Report is being driven by the well documented influx of baby boomers now turning 65 and joining the Medicare program.

Source

1. 2018 Medicare Trustees Report

Table 2			
Historical and Projected Medicare Beneficiaries - #s in 1000s			
Year	Total Medicare Beneficiaries (1000s)	% Increase By Year	
2007	44,368	2.1%	
2008	45,500	2.6%	
2009	46,604	2.4%	
2010	47,720	2.4%	
2011	48,896	2.5%	
2012	50,874	4.0%	
2013	52,504	3.2%	
2014	54,115	3.1%	
2015	55,542	2.6%	
2016	56,800	2.3%	
2017	58,393	2.8%	
2018	59,862	2.5%	
2019	61,495	2.7%	
2020	63,278	2.9%	
2021	65,055	2.8%	
2022	66,855	2.8%	
2023	68,611	2.6%	
2024	70,318	2.5%	
2025	72,058	2.5%	
2026	73,769	2.4%	
2027	75,395	2.2%	
:	:	:	
2040	86,935	1.1%	

## Historical Medicare Supplement Assessment

To project the future of the Medicare Supplement market, we started by evaluating historical trends. Table 3 indicates Medicare Supplement policies in-force and premiums have rebounded over the past decade, fueled by annualized new premiums

more than doubling since 2007. After a leveling of the Medicare Supplement market penetration percentage from 2009-2013, we see an increase each year thereafter.

Sources

1. NAIC Medicare Supplement Experience Exhibits
2. 2018 Medicare Trustees Report
3. Other Public Company Sources

Table 3					
Historical Medicare Supplement Values - #s in 1000s					
Year	Total Policies Inforce	Total Premium	Average Annual Premium	% of Medicare Beneficiaries	New Annualized Premium
2004	10,370	18,706,808	1,804	24.7%	2,000,000
2005	10,254	19,339,544	1,886	24.1%	2,100,000
2006	10,078	19,018,522	1,887	23.2%	2,100,000
2007	9,791	19,067,408	1,947	22.1%	2,100,000
2008	9,721	19,588,131	2,015	21.4%	2,200,000
2009	9,767	20,237,384	2,072	21.0%	2,500,000
2010	9,963	21,148,239	2,123	20.9%	2,850,000
2011	10,199	22,106,005	2,167	20.9%	2,850,000
2012	10,549	23,142,217	2,194	20.7%	3,100,000
2013	10,987	24,312,519	2,213	20.9%	3,350,000
2014	11,572	25,732,303	2,224	21.4%	3,600,000
2015	12,372	27,334,334	2,209	22.3%	3,900,000
2016	13,094	29,039,669	2,218	23.1%	4,200,000
2017	13,557	30,967,343	2,284	23.2%	4,400,000

Sources

1. NIAC Medicare Supplement Experience Exhibits
2. CMS.gov

Table 4						
Historical Medicare Advantage & Medicare Supplement Growth - #s in 1000s						
Year	Medicare Advantage			Medicare Supplement		
	Beneficiaries	Annual Growth Rate	Average Growth Rate	Beneficiaries	Annual Growth Rate	Average Growth Rate
2005	6,005			10,254		
2006	7,557	25.8%		10,078	-1.7%	
2007	8,933	18.2%	19.7%	9,791	-2.8%	-1.8%
2008	10,283	15.1%		9,721	-0.7%	
2009	11,303	9.9%		9,767	0.5%	
2010	11,885	5.1%		9,963	2.0%	
2011	12,628	6.3%	7.8%	10,199	2.4%	2.1%
2012	13,877	9.9%		10,549	3.4%	
2013	15,146	9.1%		10,987	4.2%	
2014	16,632	9.8%		11,572	5.3%	
2015	17,761	6.8%	7.7%	12,372	6.9%	5.2%
2016	18,658	5.1%		13,094	5.8%	
2017	20,102	7.7%		13,557	3.5%	

## Sources

1. 2018 Medicare Trustees Report
2. NAIC Medicare Supplement Experience Exhibits
3. CMS.gov
4. Other Public Company Sources

Table 5				
Historical non-Med Adv & Med Supp Market Penetration - #s in 1000s				
Year	Total Medicare	Med Advantage & Med Supplement	Other	Other % of Total
2004	41,902	15,941	25,961	62.0%
2005	42,606	16,260	26,346	61.8%
2006	43,436	17,635	25,801	59.4%
2007	44,368	18,724	25,644	57.8%
2008	45,500	20,004	25,496	56.0%
2009	46,604	21,070	25,534	54.8%
2010	47,720	21,848	25,872	54.2%
2011	48,896	22,827	26,069	53.3%
2012	50,874	24,426	26,448	52.0%
2013	52,504	26,133	26,371	50.2%
2014	54,115	28,204	25,911	47.9%
2015	55,542	30,133	25,409	45.7%
2016	56,800	31,752	25,048	44.1%
2017	58,393	33,659	24,734	42.4%

The annual growth rate of Medicare Supplement beneficiaries slowed in 2017 following two years of the highest rates of increase in recent years (Table 4). Much of that slowdown was claimed by Medicare Advantage products, with the annual growth rate of Medicare Advantage beneficiaries increasing to 7.7% for 2017. This is likely due to higher average Medicare Supplement rate increases for 2017 (Table 3), and to the moratorium on the "ACA Fee" for 2017. This fee is intended to help fund the provisions of the Affordable Care Act, and must be paid by Medicare Advantage carriers. Medicare Supplement business is exempt. Various estimates suggest that premiums are generally 2-3% higher due to this fee.

Despite the slowdown in 2017, the Medicare Supplement market has displayed sustained growth over time, mostly attributable to three factors:

1. **The number of Medicare beneficiaries has grown by about 28% since 2008** (Table 2).
2. **Employers have continued to remove Medicare-aged retirees from their employer health plans**, with some providing them with a stipend to purchase individual coverage. These actions have resulted in a steady decline in the percentage of Medicare beneficiaries without a Medicare Advantage or Medicare Supplement plan ("Other" column in Table 5 & "Other Medicare Enrollees" in Graph 1), including in 2017. The number of Medicare beneficiaries without one of these products has remained fairly flat for over a decade, even as the beneficiary count has climbed.
3. **Relatively low increases in average Medicare Supplement premiums** have been observed in recent years. This is likely driven by a shift to more Plan G and Plan N, by lower medical trend rates compared to historical averages, and by

competitive pressures in the market as more new entrants attempt to gain market share.

These factors and our expectation of the degree to which they would continue were included in the development of CSG Actuarial's Medicare Supplement market projection.

### Prior Projection Comparisons

In last year's version of the Medicare Supplement projection, CSG Actuarial projected 13.67 million policies would be in force at the end of 2017, whereas actual results were lower by about 100,000. The 2017 Earned Premium was projected to be \$30.42 billion, but the actual total was \$30.97 billion (Table 3).

### Cost Sharing Plans, First Dollar Coverage and MACRA

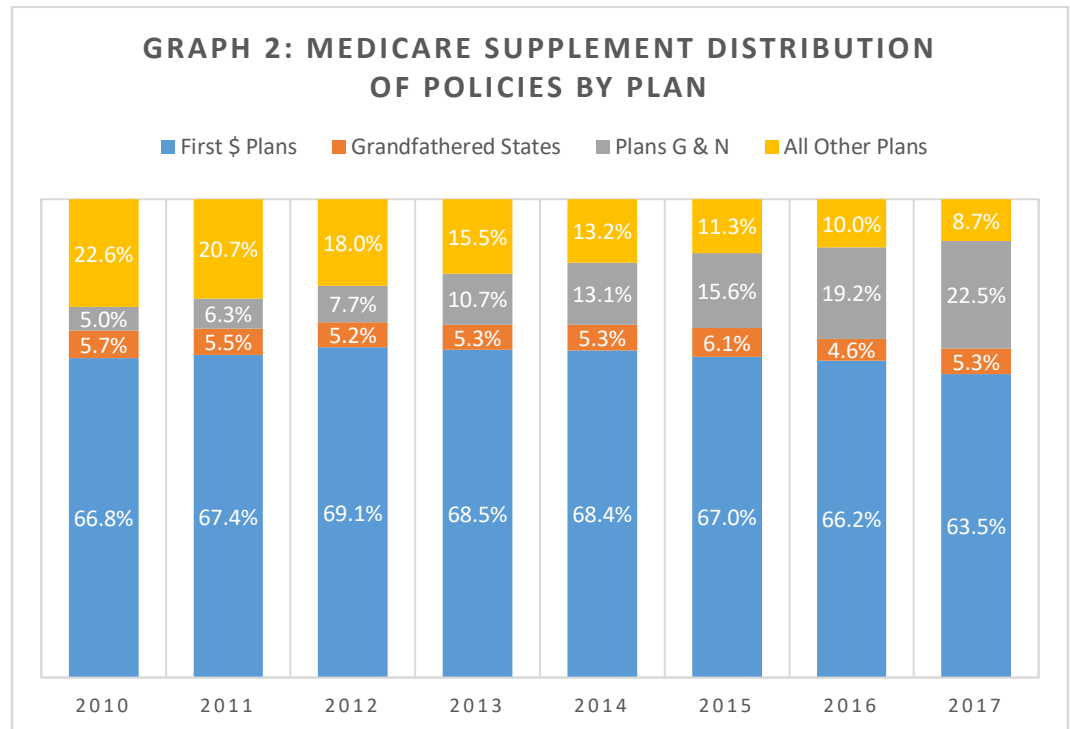
As commonly reported, Medicare Supplement market share for Plans G and N continues to increase. In 2017, Plans G and N made up over 22% of the lives in the Medicare Supplement market, up from only 5% in 2010. A large portion of the growth in market share for Plans G and N is at the expense of plans providing first dollar coverage (Graph 2).

Using data from the NAIC, CSG Actuarial grouped the Medicare Supplement lives for 2010 to 2017 into 4 categories:

1. Plans providing first dollar coverage (Plans C, F, and J)
2. Plans in Grandfathered States
3. Plans G and N
4. All Other Plans

Source

- 1. NAIC Medicare Supplement Experience Exhibits

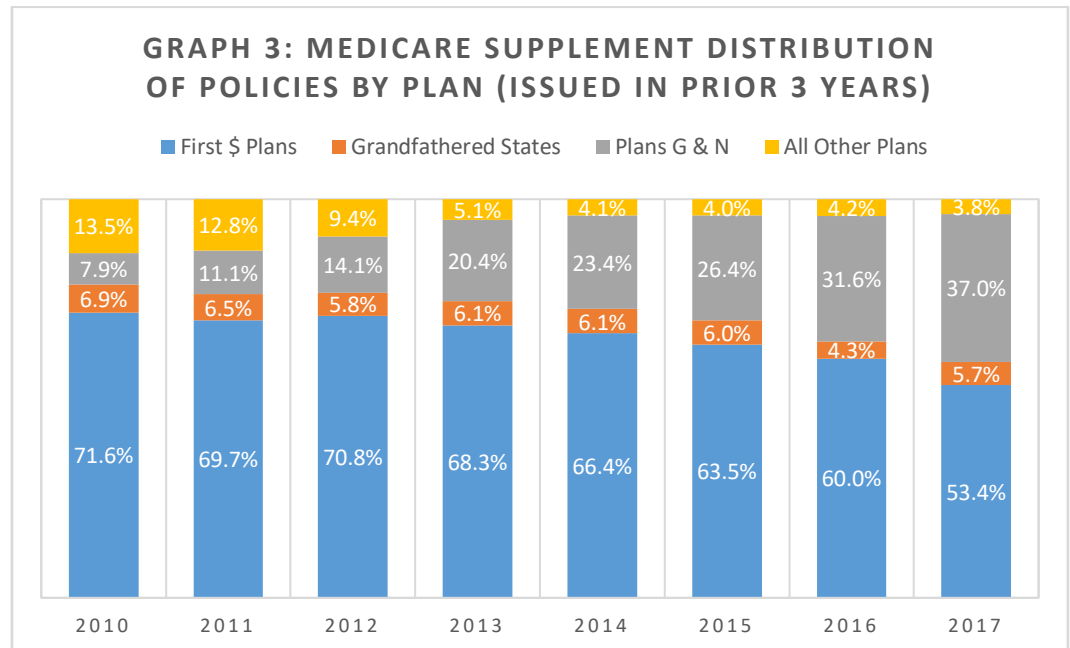


This shift to Plans G and N is more obvious when looking at recently-issued Medicare Supplement policies. Graph 3 below displays the same information as Graph 2, but only includes the prior 3 issue years for each experience year. In 2017, Plans G and N made up 37% of the lives issued between 2015 and 2017 compared to 8% in 2010 (for lives issued between 2008 and 2010). While growth has occurred for both Plans G and N, Plan N has leveled out in recent years while Plan G has continued to grow. Over that same timeframe, first dollar coverage plans (largely Plan F) have decreased from 72% in 2010 to 53% in 2017.



Source

1. NAIC Medicare Supplement Experience Exhibits



With the passage of H.R.2 – Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), Medicare Supplement policies will no longer be able to provide coverage for the Part B deductible in policies sold to those newly eligible for Medicare as of January 1, 2020 or later. This effectively eliminates first dollar coverage plans as an option for individuals who become newly eligible for Medicare in 2020 or later.

Resulting revisions to the Medicare Supplement model regulation were adopted by the NAIC in 2016, and the NAIC recommends that states adopt the updates to their regulations as soon as possible. Some additional effects of MACRA and the updated model regulation include:

- Plans C, F and high deductible F can still be sold after 2020 to individuals who were eligible for Medicare prior to 2020.
- Existing policyholders can keep their existing policies in 2020 and beyond, including those with plans covering the Part B deductible (Plans C and F).
- Individuals who are newly eligible in 2020 or after will be able to purchase Plans D and G in guarantee issue situations.
- Carriers will be able to offer a high deductible Plan G to both existing and newly eligible beneficiaries starting in 2020.

The responses of states, carriers and consumers to these changes is not yet clear. But carriers, reinsurers, agents and marketing organizations will need to carefully consider the effects of pricing and selling approaches in the market leading up to and after 2020.

**Based on past trends and these upcoming regulatory changes, CSG Actuarial expects a continued shift to plans not providing first dollar benefits up to and beyond 2020, when plans providing first dollar coverage will not be available to new entrants. These trends and expectations are taken into account in our projected new annualized premium and total premiums in Table 6 (Page 9).**

## Medicare Supplement Projection

CSG Actuarial's Medicare Supplement projection is featured in Table 6 below.

Assumptions include:

- Demographic characteristics of current Medicare beneficiaries are reported accurately and do not materially change.
- Current policy lapse and replacement rates will not materially change in the future, including after MACRA implementation in 2020.
- Annual Medicare Supplement claim and rate increase trends will not materially change in the future.
- Any significant, out-of-the-ordinary changes in Medicare Supplement premium rates for existing business will be offset by rate changes for newly eligible beneficiaries in 2020 and after.
- Regulatory requirements for Medicare Advantage plans remain substantially static.

This projection assumes average premiums will experience moderate increases over the projection horizon. The effect of trends in Medicare Advantage, retiree health benefits, and other types of supplemental coverage were also considered.

### Sources

1. 2018 Medicare Trustees Report
2. NAIC Medicare Supplement Experience Exhibits
3. Other Public Company Sources
4. CSG Actuarial Projections

Year	Total Policies Inforce (End of Year)	Total Earned Premium	Average Premium	% of Medicare Beneficiaries	New Annualized Premium
2004	10,370	18,706,808	1,804	24.7%	2,000,000
2005	10,254	19,339,544	1,886	24.1%	2,100,000
2006	10,078	19,018,522	1,887	23.2%	2,100,000
2007	9,791	19,067,408	1,947	22.1%	2,100,000
2008	9,721	19,588,131	2,015	21.4%	2,200,000
2009	9,767	20,237,384	2,072	21.0%	2,500,000
2010	9,963	21,148,239	2,123	20.9%	2,850,000
2011	10,199	22,106,005	2,167	20.9%	2,850,000
2012	10,549	23,142,217	2,194	20.7%	3,100,000
2013	10,987	24,312,519	2,213	20.9%	3,350,000
2014	11,572	25,732,303	2,224	21.4%	3,600,000
2015	12,372	27,334,334	2,209	22.3%	3,900,000
2016	13,094	29,039,669	2,218	23.1%	4,200,000
2017	13,557	30,967,343	2,284	23.2%	4,400,000
2018	13,970	32,169,776	2,303	23.3%	4,700,000
2019	14,656	34,025,102	2,322	23.8%	4,900,000
2020	15,473	36,180,448	2,338	24.5%	5,100,000
2021	16,302	38,429,496	2,357	25.1%	5,400,000
2022	17,148	40,756,019	2,377	25.7%	5,800,000
2023	18,010	43,153,737	2,396	26.2%	6,100,000
2024	18,888	45,628,022	2,416	26.9%	6,400,000
2025	19,802	48,225,540	2,435	27.5%	6,800,000
2026	20,732	50,904,108	2,455	28.1%	7,100,000
2027	21,662	53,622,170	2,475	28.7%	7,300,000

## Current Activity and Possible Impacts to Future Medicare Supplement Business

After separate proposed merger deals involving Aetna and Cigna were called off last year, the two insurers are again part of proposed acquisitions. CVS Health is currently in the process of acquiring Aetna, a deal which has been approved by shareholders of both companies. Cigna has filed paperwork to acquire pharmacy benefit manager Express Scripts. Once again, some groups have expressed concerns about the deals reducing competition and driving up costs. Neither deal has received Department of Justice approval.

In addition, Amazon, J.P. Morgan and Berkshire Hathaway earlier this year announced plans to create a business focused on reducing healthcare costs for over 1 million employees of the three firms. A stated long-term goal for the business is to make anticipated healthcare cost savings available to other workers as well.

The “ACA Fee,” which is payable for Medicare Advantage business but not Medicare Supplement business, is suspended for 2017 and 2019 under current regulations. Without further legislative action, this fee will be payable for 2018, and then again in 2020 and after.

## Conclusions

Recent results and future projections continue to suggest the Medicare Supplement market offers strong growth opportunities for carriers, marketing organizations, and agents. As covered in detail in this paper, some of the primary drivers of this future growth and opportunity will be 1) the overall growth in Medicare, 2) a decrease in company-provided retiree health benefits, and 3) a long-term slowdown in growth in the Medicare Advantage program compared to early years of the program. The requirements of MACRA are known, but the ultimate effects of these changes within the Medicare Supplement market will become increasingly apparent over the next few years.

As the number of Medicare beneficiaries continues to grow, from 58 million in 2017 to 75 million in 2027 (Table 2), it is anticipated that an increasing proportion of those individuals will turn to private insurance to help cover their healthcare needs through purchase of either Medicare Supplement or Medicare Advantage coverage. While some individuals will receive retiree health benefits, get coverage through Medicaid, or choose traditional Medicare coverage without any sort of supplemental coverage (these combined are labeled “Other Medicare” in Graph 1 and labeled “Other” in Table 5), these individuals will increasingly make up a smaller proportion of the total Medicare beneficiaries.

Beyond those primary drivers, CSG Actuarial believes other factors such as overall market stability and low barriers to market entry will also result in continued growth in the Medicare Supplement market. Stability in the market in recent years has been driven by lower claim trends, resulting in lower annual premium rate increases and

higher company profits. Additionally, many experienced administrators, distributors and reinsurers are available to provide support as needed for companies wishing to enter the market. Adding it all up, CSG Actuarial believes the future outlook for the Medicare Supplement market continues to be very positive.

CSG Actuarial, LLC | 11011 Q St. #101B | Omaha, NE 68137  
(855) 861-8776 | [www.csgactuarial.com](http://www.csgactuarial.com)