

# The Future of Medicare Supplement

## 3<sup>rd</sup> Annual Market Projection

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# CSG Actuarial

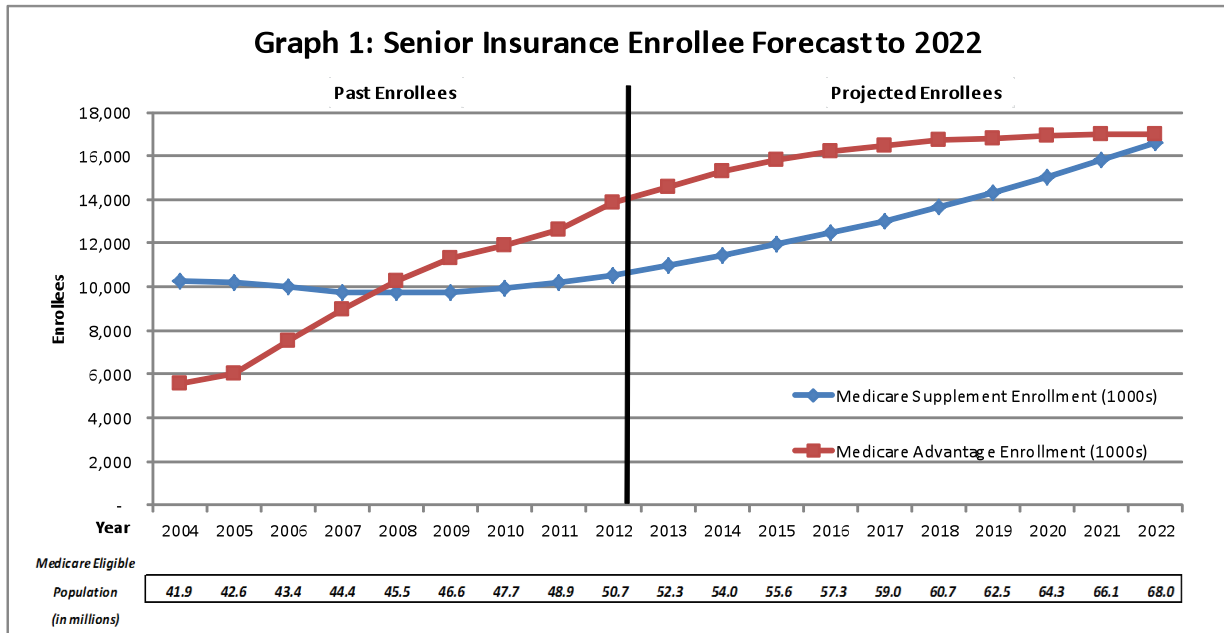
Research Paper



## Introduction

The Medicare Supplement market continues to offer long-term sustainability. Almost 68 million individuals are expected to be enrolled in the Medicare program by 2022.

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



## Methodology

There is a minimal amount of information available regarding Medicare Supplement market projections. 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 Medicare Supplement would grow over the next 10 years, we first evaluated the current Medicare population using the following demographic factors:

- Age
- Eligibility Status
- Gender
- Income Level
- Area of Residence
- Reported Health Status
- Plan Type (Medicare Supplement, Medicare Advantage, Other)

**Table 1**, following, provides a current percentage snapshot of each of these characteristics used in our projection.

Table 1						
Medicare Beneficiary Data (in 1000s) - 2012						
Category	All Enrollees		Medicare Supplement		Medicare Advantage	
	Number	% Dist	Number	% Dist	Number	% Dist
<b>Total Enrollment</b>	50,655		10,549		13,877	
<b>Eligibility Status</b>						
Aged	42,160	83.2%	10,211	96.8%	12,781	92.1%
Disabled	8,495	16.8%	337	3.2%	1,096	7.9%
<b>Age</b>						
Under 45 Years	2,042	4.0%	38	0.4%	80	0.6%
45-64 Years	6,453	12.7%	300	2.8%	1,016	7.3%
65-74 Years	22,919	45.2%	5,061	48.0%	6,847	49.3%
75-84 Years	14,211	28.1%	3,741	35.5%	4,498	32.4%
85 Years or Older	5,030	9.9%	1,408	13.3%	1,435	10.3%
<b>Gender</b>						
Male	22,972	45.4%	4,326	41.0%	6,272	45.2%
Female	27,683	54.7%	6,223	59.0%	7,605	54.8%
<b>Annual Income</b>						
\$10,000 or Less	7,269	14.4%	658	6.2%	881	6.4%
\$10,001-\$20,000	13,130	25.9%	2,457	23.3%	3,890	28.0%
\$20,001-\$30,000	9,361	18.5%	2,075	19.7%	3,379	24.4%
\$30,001-\$40,000	11,367	22.4%	2,891	27.4%	3,419	24.6%
\$40,001 or More	9,528	18.8%	2,470	23.4%	2,349	16.9%
<b>Area of Residence</b>						
Urban	38,726	76.5%	7,413	70.3%	12,314	88.7%
Rural	11,929	23.6%	3,151	29.9%	1,563	11.3%
<b>Health Status</b>						
Excellent	7,335	14.5%	1,814	17.2%	2,165	15.6%
Very Good	13,454	26.6%	3,277	31.1%	4,543	32.7%
Good	15,870	31.3%	3,407	32.3%	3,994	28.8%
Fair	9,437	18.6%	1,451	13.8%	2,298	16.6%
Poor	4,559	9.0%	601	5.7%	877	6.3%
<b>Chronic Conditions</b>						
None	2,735	5.4%	501	4.7%	730	5.3%
One or Two	16,159	31.9%	3,237	30.7%	4,491	32.4%
Three or Four	19,300	38.1%	4,287	40.6%	5,491	39.6%
Five or More	12,461	24.6%	2,525	23.9%	3,165	22.8%
<b>Utilization</b>						
≥ 1 Inpatient Hosp. Stay	8,662	17.1%	1,958	18.6%	1,818	13.1%
≥ 1 Outpatient Hosp. Stay	35,712	70.5%	8,106	76.8%	8,840	63.7%
≥ 1 Physician Service	48,376	95.5%	10,376	98.4%	13,364	96.3%
<b>Smoker Status</b>						
Smoker	7,137	14.1%	803	7.6%	1,563	11.3%
Never-Smoked	20,541	40.6%	4,678	44.3%	5,580	40.2%
Former-Smoker	22,977	45.4%	5,067	48.0%	6,733	48.5%

**Sources:** 2013 Medicare Trustees Report, Medicare Beneficiary Survey, Medicare and Medicaid Statistical Supplement

**Disclaimer:** Limited information was available for some of the categories and certain assumptions have been made based on analysis of the data.

## Medicare Eligibility Projection

**Table 2** features the overall Medicare beneficiary projection. The growth projected by the 2013 Medicare Trustees Report is being driven by the well-documented influx of baby boomers now turning 65 and joining the Medicare program.

Table 2		
Total Medicare Beneficiaries		
Year	(1000s)	% Increase By Year
2004	41,902	
2005	42,606	1.7%
2006	43,436	1.9%
2007	44,368	2.1%
2008	45,500	2.6%
2009	46,604	2.4%
2010	47,720	2.4%
2011	48,884	2.4%
2012	50,655	3.6%
2013	52,294	3.2%
2014	53,961	3.2%
2015	55,629	3.1%
2016	57,289	3.0%
2017	58,987	3.0%
2018	60,713	2.9%
2019	62,469	2.9%
2020	64,272	2.9%
2021	66,105	2.9%
2022	67,975	2.8%

**Source:** 2013 Medicare Trustees Report

## 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 the past four years - fueled by an increase in annualized new premiums. The increase in annualized new business premiums has caused a leveling of the Medicare Supplement market penetration percentage since 2009.

Table 3					
Historical Medicare Supplement #'s (in 1000s)					
Year	Total Policies Inforce	Total Premium	Average Premium	% of Medicare Beneficiaries	New Annualized Premium
2004	10,296	18,572,678	1,804	24.6%	2,000,000
2005	10,178	19,194,221	1,886	23.9%	2,100,000
2006	10,001	18,872,022	1,887	23.0%	2,100,000
2007	9,718	18,926,289	1,948	21.9%	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	23,144,010	2,194	20.8%	3,100,000

The growth in the Medicare Supplement market during the past four years can mostly be attributed to three things:

1. **The number of Medicare enrollees has grown by 11%** (Table 2).
2. **Growth in the Medicare Advantage program has slowed**, which left more lives in traditional Medicare with the need to purchase a Medicare Supplement plan. Enrollment in non-Medicare Advantage plans has increased since growth in Medicare Advantage plans slowed the past four years (Table 4).
3. **Employers have continued to remove Medicare-aged retirees from their employer health plans**, while providing them with a stipend to purchase individual coverage.

Table 4				
Historical non-Medicare Advantage Growth - #s in 1000s				
Year	Medicare Beneficiaries			Annual Chg in Other
	Total	Med Adv	Other	
2004	41,902	5,571	36,331	
2005	42,606	6,005	36,601	0.7%
2006	43,436	7,557	35,879	-2.0%
2007	44,368	8,933	35,435	-1.2%
2008	45,500	10,283	35,217	-0.6%
2009	46,604	11,303	35,301	0.2%
2010	47,720	11,885	35,835	1.5%
2011	48,884	12,628	36,256	1.2%
2012	50,655	13,877	36,778	1.4%

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.

## Medicare Supplement Projection

CSG Actuarial’s Medicare Supplement projection is featured in **Table 5**, following. Assumptions include:

- Demographics of current Medicare Beneficiaries are accurate.
- Demographics of future Medicare Beneficiaries will not experience a material change in the future.
- Mortality Rates – 2000 U.S. life table with mortality improvements.
- Current policy lapse rate and replacement rates will not experience a material change in the future.
- Annual Medicare Supplement claim and rate increase trends will not experience material changes in the future.
- Structure of Medicare and Medicare Supplement plans will continue as currently designed.

Also considered in this projection was the effect of trends in Medicare Advantage, retiree health benefits, and other types of supplemental coverage.

Table 5					
Historical Medicare Supplement #'s (in 1000s)					
Year	Total Policies Inforce	Total Premium	Average Premium	% of Medicare Beneficiaries	New Annualized Premium
2004	10,296	18,572,678	1,804	24.6%	2,000,000
2005	10,178	19,194,221	1,886	23.9%	2,100,000
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2007	9,718	18,926,289	1,948	21.9%	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	23,144,010	2,194	20.8%	3,100,000
2013	11,007	24,269,537	2,205	21.0%	3,350,000
2014	11,444	25,359,300	2,216	21.2%	3,500,000
2015	11,949	26,610,877	2,227	21.5%	3,700,000
2016	12,491	27,957,849	2,238	21.8%	3,900,000
2017	13,001	29,244,766	2,249	22.0%	4,100,000
2018	13,644	30,844,617	2,261	22.5%	4,300,000
2019	14,340	32,580,214	2,272	23.0%	4,600,000
2020	15,064	34,396,772	2,283	23.4%	4,900,000
2021	15,812	36,284,112	2,295	23.9%	5,200,000
2022	16,618	38,324,439	2,306	24.4%	5,500,000

## Conclusions

Data continues to suggest the Medicare Supplement market offers strong opportunities for growth for carriers, marketing organizations, and agents. We expect there will be three factors fueling this future growth.

### **Factor 1 – Overall Medicare Growth**

The ongoing growth in the Medicare market from incoming Baby Boomers will increase the number of Medicare beneficiaries by 17 million enrollees over the next 11 years. The number of Medicare beneficiaries in 2022 will be 34% higher than it was in 2012 and Medicare Supplement plans will grab their share of this expanded market.

### **Factor 2 - Medicare Advantage Funding Reductions**

Enrollment growth in Medicare Advantage plans has slowed the past few years. The 2013 Medicare Trustee report predicts that Medicare Advantage enrollment will plateau when additional bonus payments from the quality based demonstration program end after 2014.

CSG Actuarial expects some further growth in Medicare Advantage enrollment after the quality demonstration program ends and has enrollment leveling off at around 17 million by 2022.

### **Factor 3 – Decrease in Retiree Health Benefits**

Economic issues and accounting changes continue to force many companies and municipalities to eliminate or alter health care benefits for their retirees. Many of these companies are offering their Medicare-aged retirees a monthly stipend to purchase their own individual Medicare Supplement or Medicare Advantage coverage. CSG Actuarial expects this trend to continue in the future.

## About the Authors

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Doug is Principal and Consulting Actuary for CSG Actuarial. He is a well-known industry expert, primarily responsible for creating and managing top-of-the-line services for the Medicare market. Doug has more than 23 years of actuarial experience, primarily in the Medicare Supplement market. Doug is an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries. He holds a Bachelor's degree in Mathematics from Northwestern College.

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Bryan is President and founder of CSG Actuarial. With more than 14 years of actuarial experience, at all levels, he provides uniquely relevant and business-smart services. Bryan is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. He holds a Bachelor of Science in Actuarial Science from the University of Nebraska, Lincoln.

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Brien is as scrappy as they come at researching the Medicare market and knowing who's doing what. Before joining CSG Actuarial, Brien excelled in a similar role at Mutual of Omaha. And when he's not buried in Medicare-related information, he's painted red and going nuts at a University of Nebraska Cornhusker football game. Brien holds a Bachelor of Science in Marketing from Creighton University in Omaha.