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We write with great concern over proposals that slash coverage for Medicare beneficiaries choosing to budget for their out-of-pocket health care costs through the purchase of Medicare Supplement (Medigap) insurance. The undersigned carriers and trade associations represent the vast majority of the Medigap market, which covers approximately 20 percent of all Medicare beneficiaries with affordable, popular coverage options that provide predictable and reliable coverage for seniors and other beneficiaries. Medigap is the one form of private supplemental insurance available to all Medicare beneficiaries, protecting them from the significant out-of-pocket costs that can result from Medicare's cost-sharing obligations and benefit limitations.

While we understand Congress' need to find cost savings in this budgetary environment, we believe this approach will have several unintended consequences:

- Medigap is particularly important to low-income and rural seniors¹. Eliminating this option would result in financial hardship for millions of seniors, who on average already spend 15 percent of their income on health care².
- Without an appropriate level of coverage, there is an increased chance that many, especially the most vulnerable of beneficiaries, will forego necessary services early, requiring more costly care in the long term.
- Seniors are bound to see this as a cost-shift: we estimate a potential increase of more than \$4,000 out-of-pocket for a senior buying Medigap, which will be seen as a punishment to a beneficiary who was simply trying to finance and budget for his/her health care needs.

In addition to the unintended impact to seniors, we believe the underlying assumptions to this proposal are misguided:

- Medigap carriers do NOT make medical necessity determination decisions and therefore cannot impact utilization. Medigap simply pays the claims that Medicare has reviewed, found medically necessary and payable, and passed along to us. If overutilization exists, the way to get at it is through the Medicare claim review process. This proposal at best shifts these costs to seniors and at worst cuts medically necessary care.
- Several studies have noted that once patients enter the health care system, cost sharing has little effect on the episode of care. Physicians drive utilization at that point, which is yet another place to explore possible overutilization³.

¹ Low-Income & Rural Beneficiaries with Medigap Coverage, 2008 (AHIP Study 2010), citing data from the Medicare Current Beneficiary Survey Access to Care files 2008 (CMS).

² Medicare Rights Center Press Release (June 16, 2011).

³ See Brook, Robert H., Ware Jr., John E., et. al., "The Effect of Coinsurance on the Health of Adults: Results from the Rand Health Insurance Experiment (HIE)," (December 1984), Rand Health Insurance Experiment Series. Also see Wallace NT, McConnell KJ, Gallia CA, Smith JA, "How Effective Are Copayments in Reducing Expenditures for Low-Income Adult Medicaid Beneficiaries? Experience from the Oregon Health Plan," (April 2008), Health Services Research, vol. 43, no. 2.

- The majority of today's Medigap plans already include cost-sharing features. Under a PPACA requirement, the NAIC is reviewing cost-sharing increases for the two most popular Medigap plans, the only two that currently have little to no cost sharing. Any Medigap cost sharing measures should be crafted through the traditional legislative/regulatory process, under which state insurance regulators (the NAIC), the insurance industry, and consumer representatives achieve detailed solutions within the broad outlines established by Congress. This process will help to avoid incentivizing unintended consequences, such as lower utilization of less costly services that ultimately results in greater utilization of expensive acute care.

Medigap is a vitally important product for millions of seniors. As Medigap carriers and distributors, with millions of policyholders and thousands of agents and employees, we want to be helpful during this budgetary crisis. We just don't believe that introducing a drastic measure that shifts costs to seniors with Medigap coverage is the appropriate path to deficit reduction. We stand ready to advise and expand on these and other Medigap-related issues, and we urge you to make use of our data and expertise in formulating legislative policy. Particularly in the current situation, where time is the enemy of thorough consideration, we believe this input is vitally important.

We appreciate your consideration of our position and that of our policyholders.

Respectfully,

AEGON USA
Aetna
America's Health Insurance Plans
American Enterprise
Blue Cross Blue Shield Association
CNO Financial
Equitable Life Casualty
Great American Supplemental Benefits Group
Highmark, Inc.
Liberty National Life Insurance Company
Medico Insurance Company
Mutual of Omaha
National Association of Health Underwriters
National Association of Insurance and Financial Advisors
Old Surety Life Insurance Company
Physicians Mutual Insurance Company
State Mutual Insurance Company
Sterling Life Insurance Company
United American Insurance Company
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