



MIND THE MEDIGAP OPPORTUNITY

How to Succeed in the Senior Market

A blurred background image of a train platform. A yellow safety line runs diagonally across the frame. The words "MIND THE GAP" are painted in white, block letters on the ground surface, following the curve of the platform. The background shows a train with blue and red sections, slightly out of focus.

MIND THE GAP

*A guide to growing your
business with Medigap*

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Introduction

When it comes to insurance, it's all about the gaps. After all, its purpose is to fill the financial holes created when a loved one is seriously ill or injured and cannot work—or worse, leaves behind those who depend on that individual to make ends meet. Insurance in the highest sense is a gift, to ensure those loved ones don't suffer potential gaps in their quality of life despite a change in their situations.

The insurance industry has its own need for filling gaps. For instance, the aging distribution channel inevitably has a shortage of people selling insurance (a big gap). Or we struggle with the holes left when Boomers age out of some insurance products, and not enough younger customers are purchasing benefits at adequate levels. Insurers are focused on preventing gaps in their product portfolios, too, so that they can remain strong and grow profitably.

Medigap can be considered a gap-filling opportunity for insurers and customers alike. With more than 57 million people eligible for Medicare in the U.S. as of 2016,

a significant number of seniors are looking at their finances with a heightened level of scrutiny.¹ They need to mind their financial gaps, and a Medigap policy is designed to help them do just that with what's not covered by Medicare.

For insurers, the chance to access a market where 10,000 individuals turn age 65 each day is a significant opportunity to fill gaps that other products may not be as well positioned to fill.

At Gen Re, we've been focused on helping carriers successfully grow their business with Medicare Supplement insurance for over 25 years. From our extensive pricing and underwriting expertise to our leading-edge market research, analytics tools and strategic partnerships, our aim is to position companies for long-term and sustainable success.

Learn about Medigap



Overview

1

Medicare (or Original Medicare) began in 1965 when it was signed into law by President Lyndon Johnson with H.R. 6675. A budget of \$10 billion was set and 19 million Americans signed up during that first year. Its purpose then was simply to provide health coverage to people age 65 and older. It took until an expansion of Medicare in 1972 under President Richard Nixon for it to include people under age 65 with long-term disabilities and End Stage Renal Disease (ESRD). Significantly later (2001), Amyotrophic Lateral Sclerosis (ALS) was included as well as prescription drug coverage. Today the program provides protection against costs of many healthcare services.

How Does Medicare Work?

The Medicare program includes the following:

> Part A (Hospital Insurance)

Medigap coverage of hospital costs is almost totally proportional to deductible.

> Part B (Physician Costs)

Medicare generally covers 80% of claims. Medigap covers deductible in addition to 20% not paid by Medicare.

> Part C (Medicare Advantage)

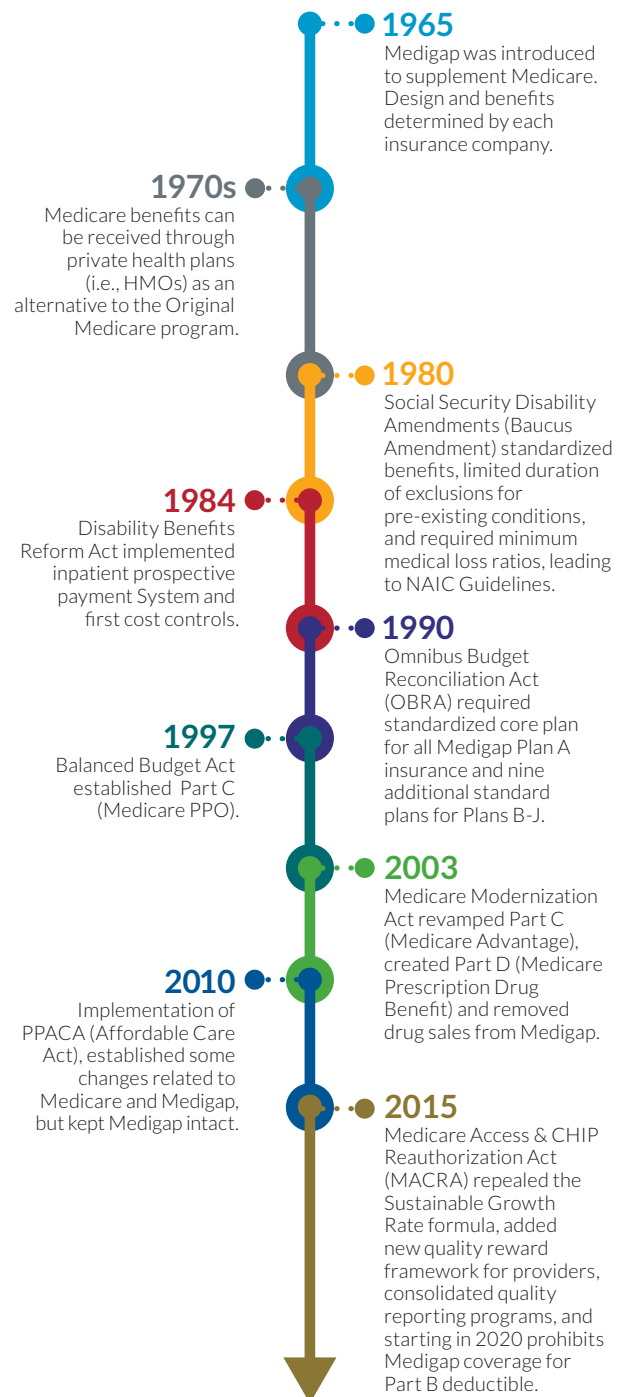
Instead of Parts A & B—Medicare PPO

> Part D (Prescription Drug coverage)

Medicare Drug Program

Parts A and B cover fee-for-service (FFS) benefits, including inpatient hospital stays, hospice care, skilled nursing facility care, outpatient treatment of mental health services and other charges.²

Timeline of Medicare Regulations



Beyond Original Medicare—Other Options

Medicare Advantage (Part C) is available through private insurance, and that replaces coverage from traditional Medicare. Med Advantage is an additional plan option that replaces Parts A and B (except hospice care). Beyond this, the differences in what's included depend on the insurer.

Med Advantage features a physician network to which enrollees are limited and therefore must work within to receive their benefits. Drug coverage is also included, replacing Part D.

Med Advantage replaces the need to enroll in both Medicare and Medigap. While the plans are initially

cheaper when an individual is healthy, out-of-pocket costs can add up if a policyholder gets sick.

Medigap (Medicare Supplement) is an optional private insurance plan that covers some healthcare costs not covered by Original Medicare, such as copayments, coinsurance and deductibles.⁴

Medigap helps consumers budget their medical expenses with predictable out-of-pocket costs throughout the year. This coverage is guaranteed renewable, meaning the insurer cannot cancel the Medigap policy as long as premiums are paid.⁵

A FEW FACTS...

Med Advantage³

- > 31% of Medicare beneficiaries were enrolled in Med Advantage in 2015.
- > 87% of Med Advantage plans include Part D benefits.
- > 2,174 plans available nationally as of 2016.

Medigap

- > A Medigap policy is guaranteed renewable even if the policyholder has health problems.
- > More than 11.9 million Medicare beneficiaries were enrolled in a Medigap plan as of 2015.⁶
- > Plan F is the most popular plan, with 66% of customers selecting this option.⁷

Sources: Mark Farrah Associates, 2016; Bankrate, 2016

Customers

2

There are currently 57.1 million Medicare-eligible beneficiaries, with the number expected to grow to 74.3 million by 2025.⁸ Nearly one in four Medicare beneficiaries as of 2010 had a Medigap policy.⁹

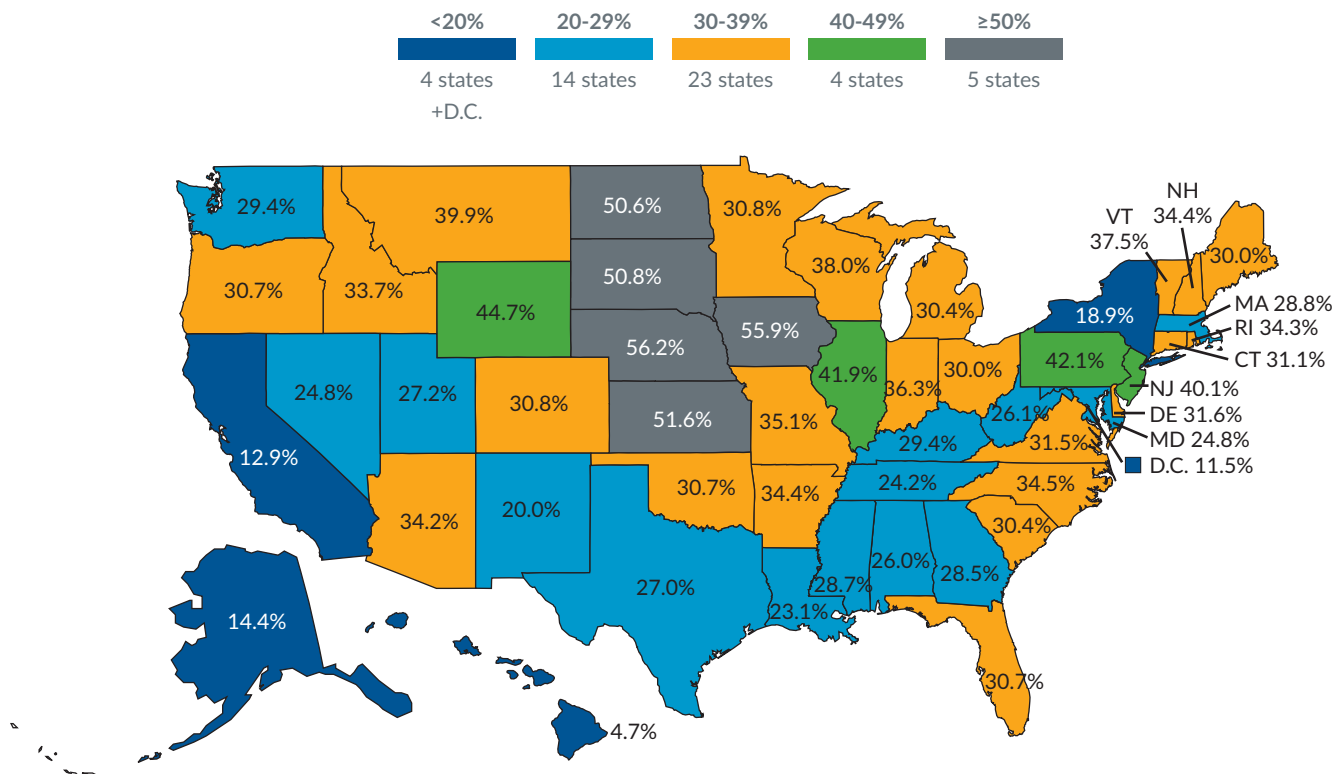
Many of these policyholders tend to have a higher income, with 30% averaging \$40,000 or more annually.¹⁰ However, about one-third live in a rural area, and half of those have annual incomes below \$30,000.¹¹ As far as racial composition, about one-fifth of all Medicare-eligible adults age 65 and older were people of color as of 2012 (black, Hispanic, Asian and other races).¹²

Concerning technology use, more than half of older adults (65+) are active online, and 27% own a smartphone (although that percentage has been increasing).¹³

Many eligible beneficiaries acquire Medigap coverage with some sort of assistance. In fact, nearly 60% of consumers surveyed by Gen Re in 2014 said they received assistance from a professional when deciding on a Medigap plan. For those that received assistance, nearly 40% selected an agent based on a friend's or family member's recommendation. Overall, 30% of those surveyed said they were seeking considerable or high-level assistance from a professional (see chart on next page).¹⁴

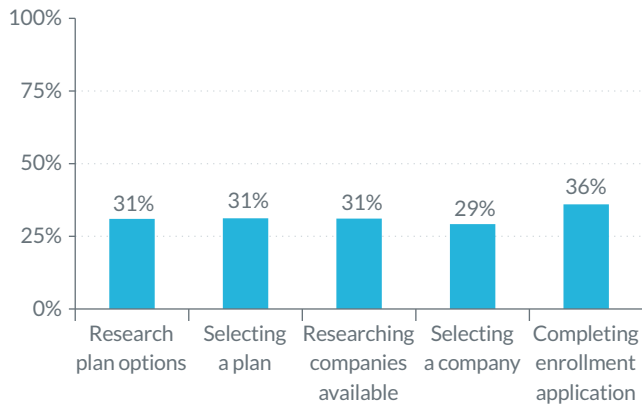
Percent of Medicare FFS Beneficiaries Enrolled in Medigap Plans by State

as of December 2014¹—National Average² 2010 = 23%



Sources: (1) AHIP, Trends in Medigap Enrollment and Coverage Options, 2014, released October 2015; Centers for Medicare and Medicaid Services, State/County Penetration, for December 2014 (Gen Re analysis of state penetration percentages). (2) Kaiser Family Foundation, Medigap Reform: Setting the Context for Understanding Recent Proposals, January 2014.

Areas Where Professional Assistance is Desired by Those Choosing a Medigap Plan



Source: Gen Re, 2014

In talking with agents, we sought to identify the most important criteria in helping a customer evaluate coverage options. At the top of the list was whether the customer felt restricted in choice of medical provider, followed by monthly premium.

In a 2015 study by Deft Research, most existing Medigap customers shared they were overwhelmingly satisfied with their coverage, with more than 9 in 10 saying they would recommend Medigap to a friend or relative.¹⁶

Agent Feedback:

“Most people that select Medigap do not want restrictions on what providers they can see, and they like the lack of out-of-pocket exposure.

Most people that pick Medicare Advantage like the lower premiums and that their doctors are in the network. They also like not having to pay for a separate Rx (prescription drug) plan.”¹⁵

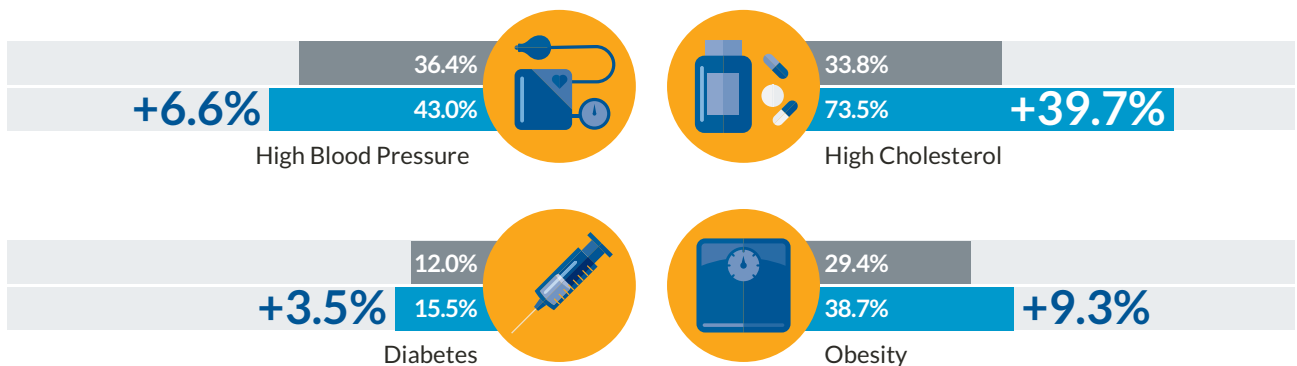
—based on Gen Re qualitative research conducted in 2014 with agents selling to Medicare-eligible seniors

Baby Boomers vs. Silent Generation—Prevalence for Disease

Boomers have higher prevalence for disease than the previous generation.

THEY LEAD ACTIVE LIFESTYLES BUT FACE SERIOUS HEALTH ISSUES:

● Silent Generation ● Baby Boomers



Source: JAMA Internal Medicine, “The Status of Baby Boomers’ Health in the United States, 2013”
 Note: Compiled from two studies, both reflecting respondents between 46–64 years old, 1988–1994 and 2007–2010.

The Aging Boomers and Their Impact

Today's newly eligible beneficiaries come from the formidable Baby Boomer cohort. Totaling 25% of the U.S. population, all will be age 65 or older by 2030.¹⁷ The majority of Boomers are married couples, and 84% own their own homes.¹⁸

Among the key issues facing Baby Boomers as they age is their health. Compared to the Silent Generation, they have a higher prevalence of disease (see prior page). They also tend to have multiple chronic conditions, with a projected 60% expected to fall into this category by 2030.¹⁹

Meanwhile, Baby Boomers are living longer than previous generations. In fact, for every 100,000 who are ages 55–64, there were 77 fewer deaths than in the previous decade (based on 2013 numbers). This, coupled with the decreasing quality of health for this cohort, means an ever-growing need for healthcare. Unfortunately all but the highest earning income group (400% above poverty) have shown an increase in being uninsured.²⁰

Multiple Chronic Conditions Utilization/Spending State Report

All Fee-for-Service Beneficiaries (age 65 and over), 2014

| Per Capita Spending—Actual (\$) | | |
|---------------------------------|----------|----------|
| Males | | |
| 2 to 3 | 4 to 5 | 6+ |
| 5,196.8 | 11,026.7 | 32,535.9 |
| Females | | |
| 2 to 3 | 4 to 5 | 6+ |
| 5,213.8 | 10,797.9 | 30,279.4 |

Source: Center for Medicare and Medicaid Services, 2016

A result of this is increased utilization rates for Medicare services, as higher numbers of newly eligible consumers enroll each year.

The projected average growth rate for Medicare spending is 6% for the years 2020–2025, and Boomers are expected to drive a higher utilization rate for Medicare services during that period at a 7.6% average growth rate.²¹

In relation to Medigap, it's important for those who are seeking specialized medical services to have the option of seeing doctors outside of a network. It can also be seen as an advantage for those who need regular care and those who travel outside the U.S.

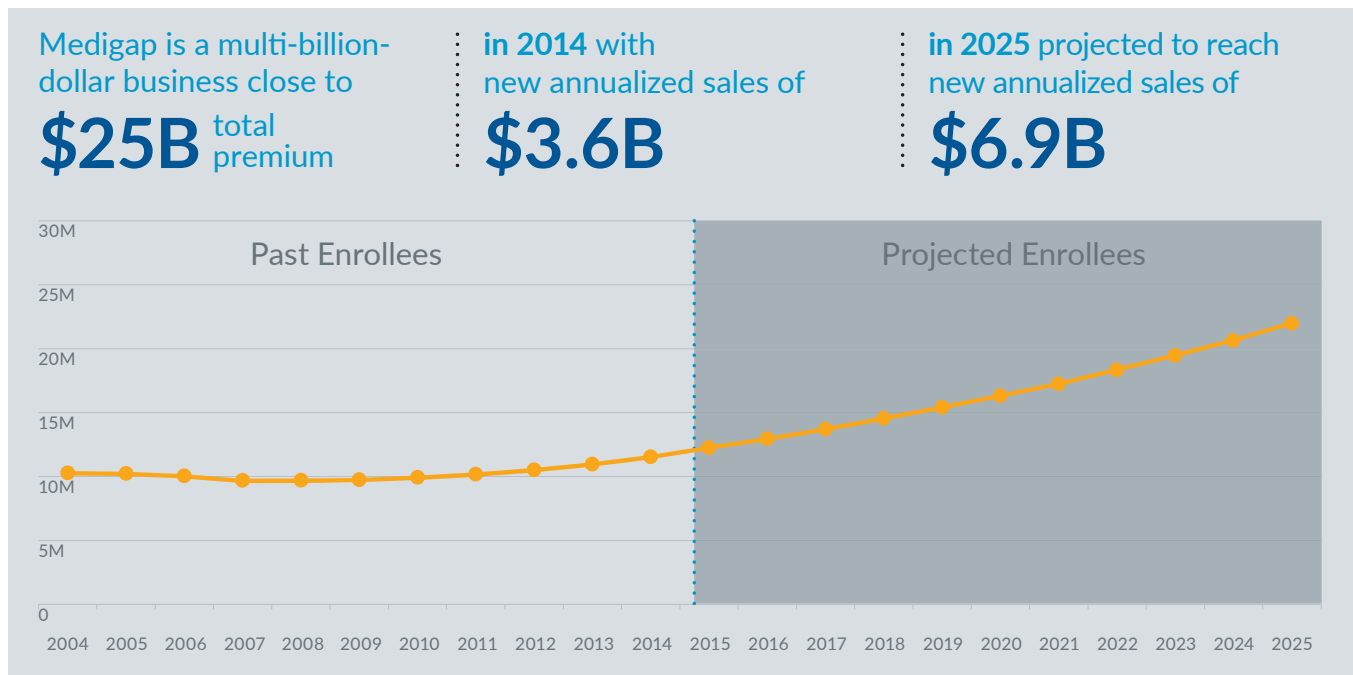
Why Medigap

3

The Medicare Supplement insurance market has made a steady climb upward over the past five years, and the trend is expected to continue through 2025 (see chart).²² Given the immense number of Baby Boomers

approaching age 65 in the U.S.—about 365,000 annually—insurers in the life and health industry have begun to realize the rich opportunity found in adding this product to their portfolio.

Medigap Market Outlook



Source: CSG Actuarial, *The Future of Medicare Supplement, 5th Annual Market Projection, 3rd Quarter 2015*

Medigap offers more flexibility and financial stability for seniors considering Medicare coverage options.

Advantages of Medigap Coverage:



Medigap allows policyholders to visit any provider who accepts Medicare. There are no network restrictions.



Since there are no network constraints, there are no concerns with traveling throughout the U.S. If a provider accepts Medicare, Medigap policies will cover the payment.



Out-of-pocket costs may be capped (depending on the plan), which allows policyholders to budget for medical expenses.

How Can Medigap Help Your Business?

1 Diversify Your Portfolio

By expanding your product portfolio, you can better weather challenging market conditions and demonstrate to ratings agencies that your company is being proactive.

Due to a low interest rate environment, combined with increased volatility in global markets, insurers need to effectively limit their exposure to risk. Having a book of business heavily weighted in one or two products or markets can compound these challenges. The less diverse a business, the more likely ratings agencies will view a company's financials less favorably.

Having Medigap policyholders can help insurers seeking to broaden their current product or market portfolio, and also help to diversify their risk. This may also be seen as a positive step by ratings agencies.

2 Attract and Retain Senior Customers

For carriers with a significant block of clients who are reaching retirement age, having a product that addresses their needs for this life stage will help retain them, as well as help to expand your relationship with them.

Innovation in the customer experience is a key objective for many seeking to attract more buyers from this segment. Senior customers are reevaluating their insurance needs as they approach retirement years. In fact, ownership of individual policies by households age 55–64 dropped 8% since 2010.²³ Making additional products available to meet their health and lifestyle needs is important at this stage, and a Medigap policy can address both. Ensuring your company has a variety of offerings can strengthen your relationship and also attract new customers you may not have otherwise gained.

3 Expand Distribution Reach

A broader product portfolio that includes Medigap can position you well with your current distribution as well as open new channels.

While life insurers are struggling to improve and find new ways to handle distribution, Medigap is a different story. There are several options for a carrier to distribute this product—ranging from current channels to entirely new ones. Expanding distribution can be a positive for other products in your portfolio as well. If using a captive sales force, expanding your product offering means the agents are going “outside” less often to meet their clients' needs, increasing loyalty and ideally improving sales results. If your current distribution channel already sells another carrier's Medigap policy, there's also an opportunity to expand your relationship with them.

4 Achieve Consistent Profitable Growth

Many products require upfront costs and expenses that outweigh sales revenue for the first year or so. Medigap is a product that requires relatively low upfront investment costs.

Why You Win With Medigap

The capital requirements for Medigap are modest and STAT capital strain is reduced due to relatively low first-year commissions. Active life reserves are also very low. In addition, premiums are predominantly based on attained age and are annually renewable (and regular rate increases allow for consistent profitability and long-term risk protection).

3 Gaps to Watch for Medigap Success

1 There Can Be a Downside to Launching a Product on Your Own.

It may seem more efficient to rely on internal resources to bring a Medigap product to market, with the ability to limit cost and retain control over the process as additional benefits. However, there can be a downside to taking the “do it yourself” approach. Don’t dismiss the level of expertise that’s needed to implement this new product line: from pricing to underwriting, and from administration to sales and marketing, the multiple areas must be overseen and managed in order to coordinate a successful market entry and sustainable business.

Gen Re Solution: Working with an experienced reinsurance partner that has relationships with outside resources and a proven track record for success can remove the potential pitfalls experienced by new entrants.

2 You Have the Lowest Rates on the Street—Now What?

Developing competitive rates is key to successfully entering the market, especially since Medigap policies are standardized for all carriers in this market. However, long-term profitable growth requires a balanced risk and rate management strategy. Critical success factors include leveraging data analytics that consider company experience, medical trend, market conditions and underwriting mix.

Gen Re Solution: Our analytics tools are state of the art and take these and other important factors into consideration.

3 You Just Don’t Understand the Senior Market.

Getting inside the mind of the customers is more important than ever. Carriers can benefit from the increased understanding that comes from knowing what motivates a client to make a particular purchase decision, or knowing how to motivate them to be honest during the underwriting process—and, of course, knowing which messages resonate during a sales conversation.

Gen Re Solution: We’ve conducted research that delves into the consumer decision-making process when it comes to Medigap and reveals ways that agents can help. We have also conducted a study to learn how to increase disclosure rates on Medigap insurance applications.



Endnotes

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