

Opportunities for Senior Dental

Market Projection

2018



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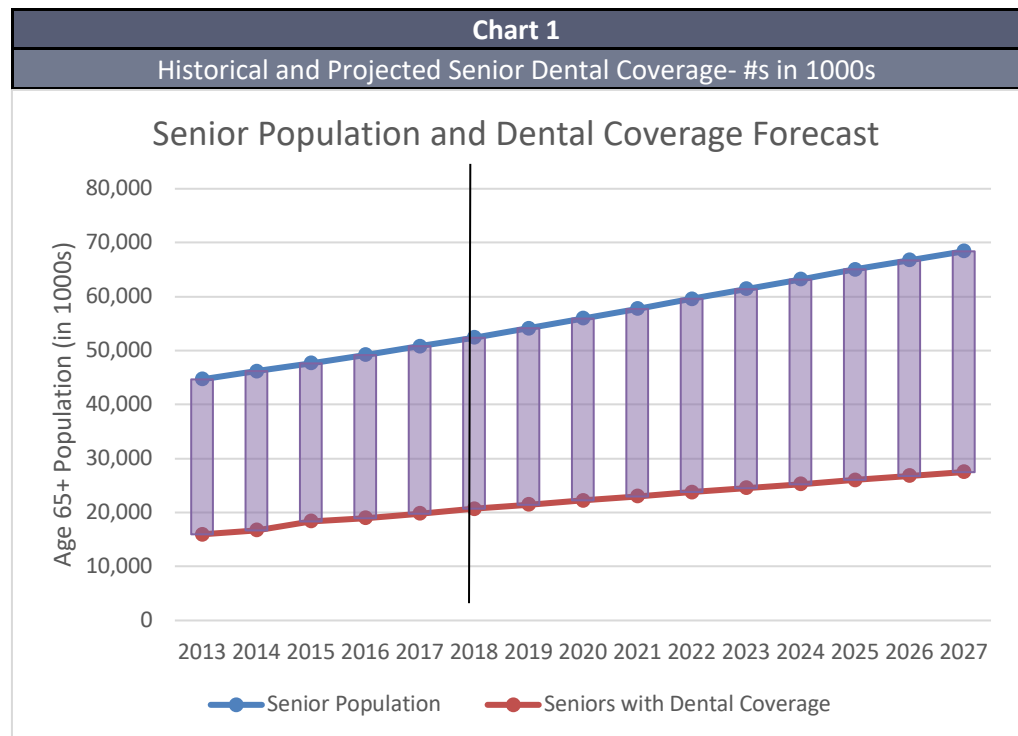
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Sources

1. MEPS Research Findings #38
2. U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements
3. 2018 Medicare Trustees Report
4. 2015 Medicare Current Beneficiary Survey
5. CSG Actuarial Projections

Introduction

Census data indicates there are currently just under 51 million individuals aged 65+, and that number is expected to increase to over 68 million over the next ten years. The Medicare program is well-known as a primary source of medical benefits for many seniors. Awareness of the limitations of Medicare coverage has slowly increased, and one of those limitations is dental care. However, only 40% of seniors currently have dental insurance coverage, leaving a sizeable opportunity for insurance carriers, agents and marketing organizations in the senior market.



Methodology

Available data specific to the senior dental market is limited. CSG Actuarial has compiled data from various sources and developed actuarial models to project future dental enrollments, premium levels and experience for the senior population.

Senior Dental Coverage Prevalence

To determine how the senior dental market is expected to grow over the next 10 years, we evaluated the current status of dental coverage among seniors. Historically, seniors have obtained dental coverage either through public programs (Medicaid) or through privately-purchased sources. Private coverage may be purchased individually by seniors, provided to a group of employees or retirees, or may be included with health coverage. Many seniors receive health coverage through Medicare, but one of the limitations of the Medicare program is the lack of coverage for routine dental care.

A historical review of senior dental coverage is shown in Table 1 below

Sources		Table 1			
		Historical Senior Dental Coverage- #s in 1000s			
		Seniors with Private Dental Coverage	Seniors with Public Dental Coverage	Senior Dental Coverage Increase By Year	Senior Population Increase By Year
1. MEPS Research Findings #38		2003 8,190	3,428	-3.1%	1.4%
2. U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements		2004 8,539	3,733	5.6%	1.2%
3. 2015 Medicare Current Beneficiary Survey		2005 8,927	4,193	6.9%	1.6%
4. 2018 Medicare Trustees Report		2006 8,818	3,787	-3.9%	0.8%
		2007 8,299	3,959	-2.7%	1.5%
		2008 8,889	3,550	1.5%	2.1%
		2009 8,887	3,705	1.2%	2.7%
		2010 9,546	3,890	6.7%	2.2%
		2011 10,595	3,951	8.3%	1.5%
		2012 11,173	4,419	7.2%	6.3%
		2013 12,240	4,795	9.3%	3.6%
		2014 12,879	4,650	2.9%	3.3%
		2015 13,336	4,998	4.6%	3.3%
		2016 13,886	5,159	3.9%	3.2%
		2017 14,507	5,831	6.8%	3.2%

In recent years, the number of seniors with dental coverage has increased at a greater rate than the senior population; growth in senior dental coverage has averaged 5% in recent years, while senior population growth has averaged just over 3%. At least some of this growth was likely fueled directly or indirectly by one-time changes associated with the Affordable Care Act (ACA), such as an expansion in dental benefits provided to Medicaid beneficiaries, confusion associated with the introduction of an individual mandate, and moratoriums on the "ACA Fee." This fee is intended to help fund the provisions of the Affordable Care Act, and must be paid by both dental carriers and Medicare Advantage (MA) plans. Various estimates suggest that dental plan premiums are generally 2-3% higher due to this fee.

Other observations regarding this display:

- Many of the individuals who turned 65 in 2012 also gained dental coverage in 2013; both public and private dental coverage increased significantly in 2013.
- The growth in senior dental coverage averaged nearly 8% in the years prior to the advent of the ACA exchanges in 2014. The moratorium on the ACA fee in 2017 may have contributed to an uptick in the growth in coverage that year, most likely through MA plans adding dental coverage.

Considerations

Listed below are key elements to consider regarding dental insurance coverage for seniors.

Availability and Cost to Seniors

Group dental coverage options are plentiful through employer groups, but coverage options for those not part of an employer group are currently more limited. About 40% of currently-available individual dental policies are only available through age 65. Of those that are available to seniors, two-thirds have a higher premium rate for those above a set issue or attained age, usually 50 or 60. This differential reflects the more frequent need for more costly dental procedures among the senior populations. Rate differentials for higher ages range from 10% to 40%, averaging 26%.

Plan Design

Unlike many sources of senior health coverage, there is no standardized set of benefits that must be provided by all dental plans. The majority of individual dental products available today utilize a benefit structure similar to that provided by most employer group plans. This structure typically includes an annual deductible, an annual maximum and waiting periods for more significant services that may be waived if the insured can demonstrate previous dental coverage. Dental services are often divided into three broad categories, with differing coinsurance levels for each category: preventive, basic and major. See the table below for a summary of typical dental plan characteristics for each category. Many variations exist in coinsurance rates, waiting periods, deductibles, annual limits, and even the service type category where specific dental services are classified.

Sources

1. 2017 CSG Actuarial Competitive Intelligence Guide: Dental Vision and Hearing

Service Type	Common Dental Service Examples	Typical Coinsurance	Other Notes
Preventive	Exams, Cleanings, Bitewing X-rays	100%	Usually no waiting period, annual limit on number of covered exams and cleanings, costs may not count towards annual maximum
Basic	Fillings, Non-surgical extractions	80%	Often subject to 3-6 month waiting period or graduated coinsurance
Major	Crowns, Dentures, Bridges, Root canals, Inlays/Onlays	50% - 60%	Usually subject to 6-12 month waiting period or graduated coinsurance, may include frequency limits on timing of dentures and denture repair services

Network

The availability of a dental network can be a differentiating factor for dental coverage. Plan benefits are often higher at in-network providers, reducing out-of-pocket costs for enrollees who visit an in-network dentist. Carriers should consider whether the additional cost associated with providing their policyholders with network access is worthwhile. Another consideration is network coverage locations relative to insureds; if in-network providers are not available in areas convenient to policyholders, the additional value of the network may not be realized.

The chart below gives a high-level indication of how many of the current top individual dental carriers offer dental networks with their coverage.

Sources

1. NIAC Accident and Health filing data
2. Other Public Sources

	Network Included	Optional Network	No Network
2017 Earned Premium (1000s)	421,040	116,340	208,270
% of Total	56%	16%	28%

ACA Considerations

The ACA made health insurance coverage available to more individuals, but not necessarily dental coverage. One of the ten essential health benefits required for ACA plans is pediatric dental care (which must be offered with ACA plans, but can be refused by purchasers), but there is no requirement for dental coverage to be offered to adults with ACA plans. However, there are dental plans providing coverage to adults available on ACA insurance marketplaces.

With the passage of the ACA also came the advent of the "ACA Fee", which is intended to fund provisions of the Affordable Care Act. See the Projection section above for additional commentary on the application of ACA Fee in recent years. This fee 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.

The majority of the ACA Fee is covered by health insurance plans, but dental and vision premiums did make up 4% of the premiums subject to the ACA fee in 2016. For individual carriers, the first \$25 million in dental premium is exempt from the fee, half of the next \$25 million is subject to the fee, and all premiums above \$50 million are subject to the fee. Various estimates suggest that this fee adds 2%-3% to premiums, and recent public filing information suggests that these estimates are in line with what current carriers are assuming.

Senior Dental Projected Opportunities

CSG Actuarial's Senior Dental projection is featured in Table 2 below. Assumptions include:

- Current dental policy lapse and replacement rates will not materially change in the future.
- Annual dental cost, claim and rate increase trends will not materially change in the future.
- Coverage provided by individual dental plans sold to seniors in the future will remain materially similar to those sold in the past.
- No significant changes in the delivery of dental care.
- No significant changes in health care coverage available to seniors or in the systems providing that coverage.

This projection assumes that only seniors with income exceeding 300% of the Federal Poverty Level have income available to purchase dental coverage. The effect of trends in Medicare Advantage, retirement ages, and other types of supplemental coverage were also considered. An initial average annual premium of \$503 was assumed, which is typical for individual dental plans currently in the market. Future product performance assumptions are similar to recent individual dental plan experience and filings: loss ratios of 55%-65%, lifetime commissions of 15%-20%, and resulting pre-tax profits of 4%-10%.

Sources

1. MEPS Research Findings #38
2. U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements
3. NAIC Accident and Health filing data
4. Other Public Company Sources
5. Dental Insurance Visits and Expenditures Among Older Adults, American Journal of Public Health, May 2004, Vol. 94, No. 5
6. Older Americans in Poverty: A Snapshot, AARP Public Policy Institute, April, 2010
7. CSG Actuarial Projections

Table 2			
Projected Senior Dental Opportunities- #s in 1000s			
Year	Potential Purchasers	Annual Commissions	Annual Pre-Tax Profits
2018	13,300	1,004,977	285,196
2019	13,703	1,050,910	298,231
2020	14,126	1,099,630	312,057
2021	14,538	1,148,700	325,982
2022	14,967	1,200,340	340,637
2023	15,388	1,252,554	355,455
2024	15,794	1,304,901	370,310
2025	16,215	1,359,793	385,887
2026	16,607	1,413,577	401,150
2027	16,966	1,465,822	415,977

Conclusions

Many seniors currently lack dental coverage and the senior population will continue to grow significantly, providing growth opportunities in the senior dental market for carriers, marketing organizations, and agents. Recent individual dental results have been stable and consistent, and various research studies and appeals to add dental coverage to the Medicare program demonstrate seniors' need for dental coverage. Robust marketing systems for private senior health insurance products already exist, as do dental benefit and network administrators. Considering all of these factors, CSG Actuarial believes that the potential for adding profitable growth in the senior dental market is an appealing prospect for carriers.

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