

The Future of Medicare Supplement

11th Annual Market Projection

2021



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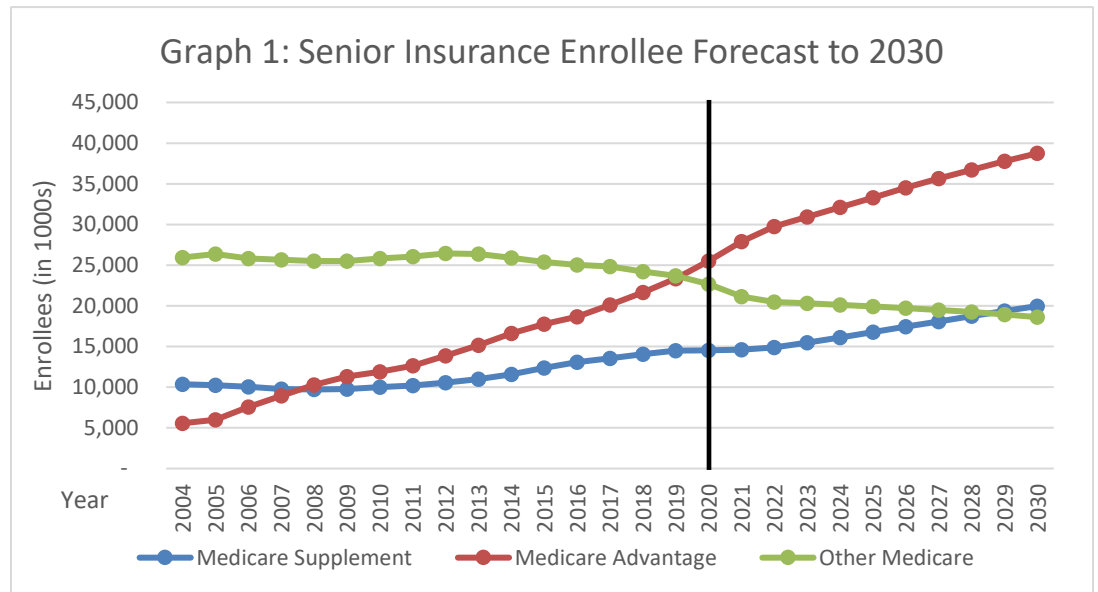
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Introduction

The Medicare program continues to offer sustainable, long-term growth and opportunities. Over the next ten years it is expected that 33.4 million individuals will turn age 65 and that the Medicare-eligible population will grow from 63.7 million beneficiaries to 77.4 million beneficiaries. This means that roughly 14 million more individuals will be added to the Medicare program over the next 10 years, a 22% increase. Beyond 2030, an additional 6.4 million are projected to be added by 2040 (Table 2).

CSG Consulting 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

- 2021 Medicare Trustees Report
- NAIC Medicare Supplement Experience Exhibits
- CMS.gov
- Other Public Company Sources
- CSG Consulting Projections

Methodology

There is a minimal amount of market projection information available regarding Medicare Supplement business. CSG Consulting 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. 2021 Medicare Trustees Report
2. 2018 Medicare Current Beneficiary Survey
3. NAIC Medicare Supplement Insurance 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) – 2019 Year-End						
Category	All Enrollees		Medicare Supplement		Medicare Advantage	
	Number	% Dist	Number	% Dist	Number	% Dist
Total Enrollment	62,608		14,533		25,509	
Age						
Under 65	8,675	13.9%	501	3.4%	3,327	13.0%
65-74 Years	30,673	49.0%	8,175	56.2%	12,115	47.5%
75 Years or Older	23,260	37.2%	5,858	40.3%	10,067	39.5%
Gender						
Male	28,593	45.7%	6,105	42.0%	11,089	43.5%
Female	34,015	54.3%	8,428	58.0%	14,421	56.5%
Annual Income						
Less than \$25,000	21,604	34.5%	2,859	19.7%	10,478	41.1%
\$25,000 or more	41,004	65.5%	11,675	80.3%	15,031	58.9%
Area of Residence						
Urban	50,583	80.8%	11,161	76.8%	22,073	86.5%
Rural	12,025	19.2%	3,373	23.2%	3,436	13.5%
Health Status						
Excellent	10,636	17.0%	3,001	20.6%	4,015	15.7%
Very Good	18,855	30.1%	4,951	34.1%	7,545	29.6%
Good	18,897	30.2%	4,214	29.0%	7,789	30.5%
Fair	10,700	17.1%	1,845	12.7%	4,855	19.0%
Poor	3,519	5.6%	522	3.6%	1,306	5.1%
Living Arrangement						
Lives Alone	17,766	28.4%	4,138	28.5%	7,519	29.5%
With Spouse Only	26,049	41.6%	7,450	51.3%	9,836	38.6%
With Spouse and Others	6,061	9.7%	1,062	7.3%	2,311	9.1%
With Children Only	6,182	9.9%	953	6.6%	2,939	11.5%
With Children and Others	2,459	3.9%	336	2.3%	890	3.5%
With Others Only	1,104	1.8%	179	1.2%	537	2.1%
With Non-Relative	2,987	4.8%	416	2.9%	1,478	5.8%

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.
- Income distribution data indicate that Medicare Supplement plans tend to appeal to insureds with higher income on average.
- The Medicare Supplement market continues to have a higher proportion of healthier individuals compared to the Medicare Advantage market.

Medicare Eligibility Projection

Table 2 features the overall Medicare beneficiary projection. The growth projected by the 2021 Medicare Trustees Report is being driven by the influx of baby boomers turning 65 and joining the Medicare program. Actual growth from 2019 to 2020 is down slightly from prior projected amounts due to the excess mortality at older ages as a result of the COVID-19 pandemic. The 2021 Medicare Trustees Report projected lower growth than what was projected in the prior year's Report. The 2021 Medicare Trustees Report is projecting 83.8 million Medicare beneficiaries in 2040, while the 2020 Report projected 84.6 million.

Source

1. 2021 Medicare Trustees Report

Table 2			
Historical and Projected Medicare Beneficiaries - #s in 1000s			
Year	Total Medicare Beneficiaries (1000s)	% Increase By Year	
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	58,517	3.0%	
2018	59,920	2.4%	
2019	61,529	2.7%	
2020	62,608	1.8%	
2021	63,674	1.7%	
2022	65,124	2.3%	
2023	66,788	2.6%	
2024	68,400	2.4%	
2025	70,036	2.4%	
2026	71,716	2.4%	
2027	73,260	2.2%	
2028	74,740	2.0%	
2029	76,136	1.9%	
2030	77,366	1.6%	
:	:	:	
2040	83,797	1.0%	

Historical Medicare Supplement Assessment

To project the future of the Medicare Supplement market, we started by evaluating historical trends. Table 3 shows the growth of Medicare Supplement policies in-force and premiums over the past decade. This growth is due to both increases in the size of the Medicare Beneficiary population in Table 2 and an increase in the market penetration rate.

Sources

1. NAIC Medicare Supplement Insurance Experience Exhibits
2. 2021 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
2009	9,786	20,275,802	2,072	21.0%	2,500,000
2010	10,006	21,239,556	2,123	21.0%	2,850,000
2011	10,227	22,165,195	2,167	20.9%	2,850,000
2012	10,555	23,155,774	2,194	20.7%	3,100,000
2013	10,992	24,324,613	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	14,046	32,393,125	2,306	23.4%	4,500,000
2019	14,478	33,966,407	2,346	23.5%	4,400,000
2020	14,533	35,056,236	2,412	23.2%	4,100,000

Sources

1. NIAC Medicare Supplement Insurance 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
2009	11,303	9.9%		9,767	0.5%	
2010	11,885	5.1%		9,981	2.2%	
2011	12,628	6.3%	7.8%	10,224	2.4%	2.1%
2012	13,877	9.9%		10,551	3.2%	
2013	15,146	9.1%		10,990	4.2%	
2014	16,632	9.8%		11,572	5.3%	
2015	17,761	6.8%	7.7%	12,372	6.9%	5.6%
2016	18,658	5.1%		13,094	5.8%	
2017	20,102	7.7%		13,557	3.5%	
2018	21,669	7.8%		14,046	3.6%	
2019	23,339	7.7%	8.1%	14,478	3.1%	2.7%
2020	25,509	9.3%		14,533	0.4%	

Table 5				
Historical non-Med Adv & Med Supp Market Penetration - #s in 1000s				
Year	Total Medicare	Med Adv & Med Supp	Other	Other % of Total
2009	46,604	21,089	25,515	54.7%
2010	47,720	21,891	25,829	54.1%
2011	48,896	22,855	26,041	53.3%
2012	50,874	24,432	26,442	52.0%
2013	52,504	26,138	26,366	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	58,517	33,660	24,857	42.5%
2018	59,920	35,715	24,205	40.4%
2019	61,529	37,817	23,712	38.5%
2020	62,608	40,043	22,565	36.0%

Sources

1. 2021 Medicare Trustees Report
2. NAIC Medicare Supplement Insurance Experience Exhibits
3. CMS.gov
4. Other Public Company Sources

The annual growth rate of Medicare Supplement beneficiaries decreased slightly from 2018 to 2019. This slowdown is directly attributable to the growth in Medicare Advantage market. Many Medicare Advantage plans have grown in popularity due to the availability of \$0 monthly premium plans with simplified enrollment processes. Growth in the Medicare Supplement market slowed even further in 2020 as many carriers weren't prepared for the rapid change in the number of clients that wanted to conduct business on an electronic basis.

Despite its relative slowdown over the last two years, 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 34% since 2009** (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 2020. The number of Medicare beneficiaries without a Medicare Advantage or Medicare Supplement plan had remained fairly flat from 2009-2017 but has seen a marked decline over the past three years.
3. **Relatively low increases in average Medicare Supplement premiums** have been observed in recent years. This is 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 Consulting's Medicare Supplement market projection.

Cost Sharing Plans and First Dollar Coverage

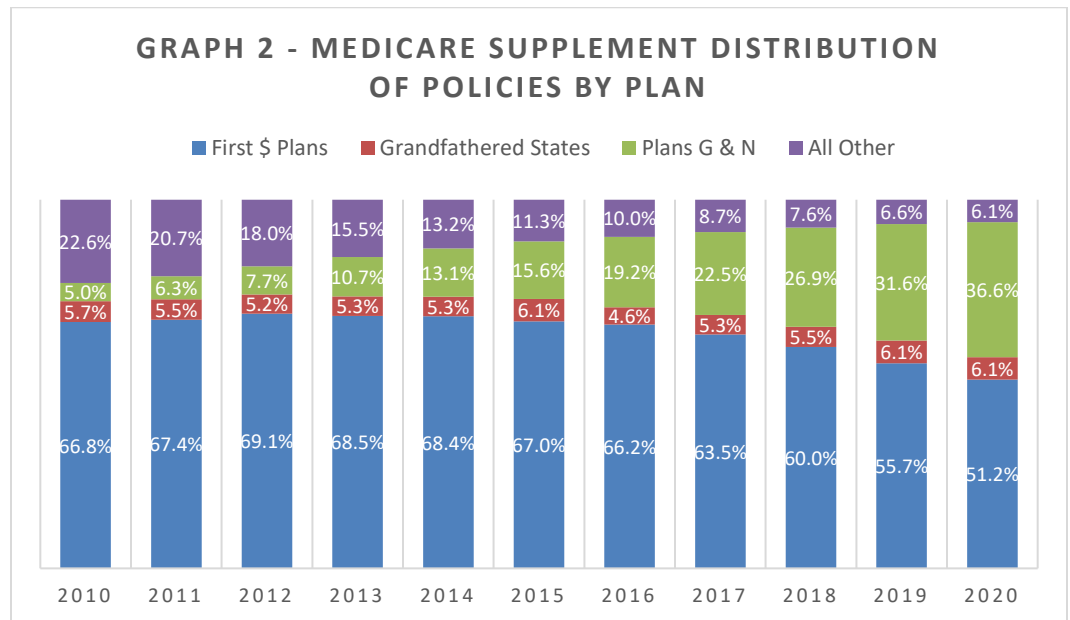
Plans G and N began to see significant increases in market share starting in 2013. Over that time period the enrollment in these plans has increased from 10.7% of covered lives to 36.6%. In 2020. A large portion of the growth in market share for Plans G and N is at the expense of plans providing first dollar coverage (Graph 2).

Using data from the NAIC, CSG Consulting grouped the Medicare Supplement lives for 2010 to 2020 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

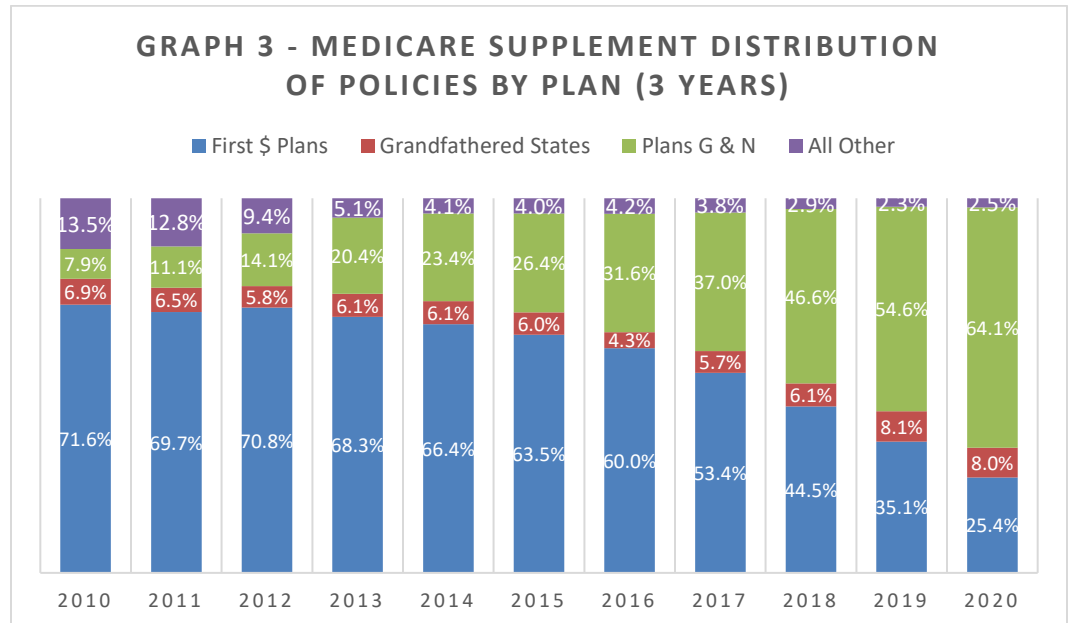
1. NAIC Medicare Supplement Insurance Experience Exhibits



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 2020, Plans G and N made up over 64% of the lives issued between 2018 and 2020 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 25% in 2020.

Source

1. NAIC Medicare Supplement Insurance Experience Exhibits



The Impact of MACRA

In 2016 the NAIC revised the Medicare Supplement model regulation to conform to the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA). Under this new regulation Medicare Supplement policies are no longer 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 change effectively eliminates first dollar coverage plans as an option for individuals who become newly eligible for Medicare in 2020 or later. However, Plans C, J, F, and high deductible F can still be sold after 2020 to individuals who were eligible for Medicare prior to 2020. Existing policyholders with these plans can also retain their policies in 2020 and beyond.

MACRA also requires that carriers offer Plans D and G in guarantee issue situations to individuals who are newly eligible in 2020 or after. Additionally, carriers have the opportunity to offer a high deductible Plan G to both existing and newly eligible beneficiaries starting in 2020.

Based on our current observations of carrier behavior in response to MACRA, CSG Consulting has seen the following developments in the market regarding the two primary plans being sold:

- Plan F is no longer sold to age 65 open enrollment individuals. Therefore, Plan F blocks have shifted towards having a higher proportion of replacement (largely underwritten) business. We have seen several carriers position their Plan F premiums to reflect the improved risk profile of the MACRA Plan F sales.
- A large percentage of the age 65 open enrollment sales have been shifting from Plan F to Plan G. This will most likely lead to higher claim costs for Plan G, resulting in the need for higher Plan G premiums. However, the average Plan G premiums for the most competitive Plan G products in the market have remained fairly steady as carriers position themselves to capture the growth of this plan.

COVID-19

Source

1. SOA.org
2. Statista.com
3. Other Public Company Sources

The COVID-19 pandemic began to spread in the United States beginning in March of 2020. The pandemic led to an immediate decrease in non-essential and elective services such as surgeries, doctors' visits, etc. This resulted in significantly lower reported claims in April and May of 2020. Lower claims experience continued throughout 2020 despite the reopening of many healthcare facilities. 2021 has cycled through periods of favorable and unfavorable experience as some municipalities and healthcare systems have placed limits on available services.

The COVID-19 pandemic has also impacted the persistency experience on Medicare Supplement plans. The Society of Actuaries ("SOA") reported that 2020 Q1 mortality experience for ages 65+ was lower than expected but then death claims were higher than expected in Q2 and Q3. The level of excess mortality varied significantly by geographic area and by calendar period. While there is no certainty in the long-term mortality implications of COVID-19 the market was impacted by the virus in 2020. It is estimated that over 525,000 Medicare beneficiaries died as a result of the virus.

Our projections do not consider any additional future impacts of COVID-19 on the market's growth.

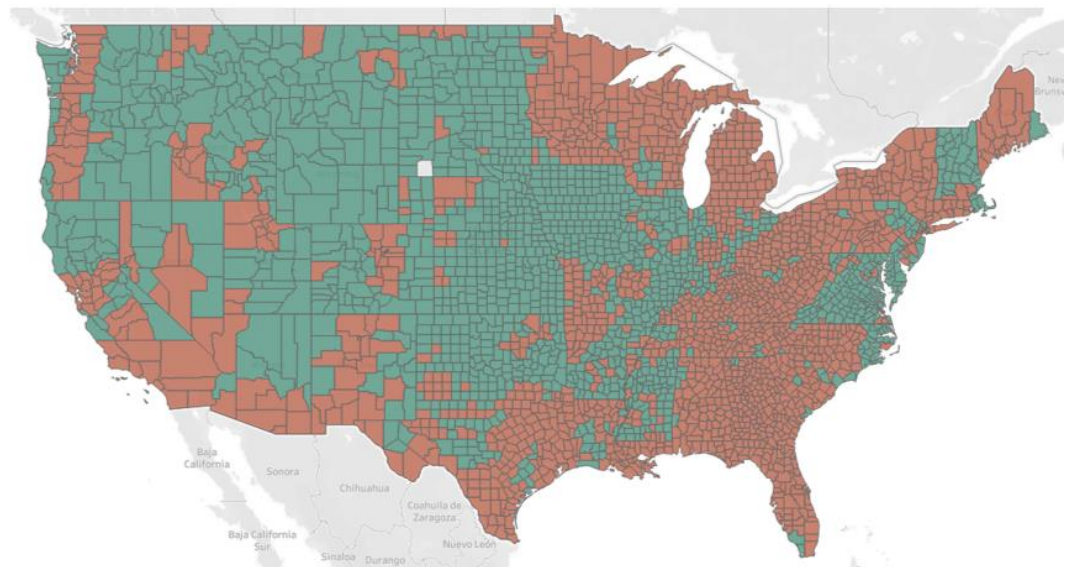
Medicare Advantage vs. Medicare Supplement

With the growth in the number of Medicare enrollees over the past decade, both Medicare Advantage and Medicare Supplement have been growing at a faster rate than the overall Medicare market. Both products play an important role in providing health insurance coverage for seniors in the U.S., but do so in different ways and in different areas of the country.

The display below shows counties where Medicare Advantage has higher enrollment in red and counties where Medicare Supplement enrollment is higher in green. Medicare Advantage tends to have a higher penetration in urban areas, and Medicare Supplement tends to have higher penetration in rural areas. 55% of the counties in the U.S have higher Medicare Advantage enrollment, and 45% have higher Medicare Supplement enrollment.

Source

1. NAIC Medicare Supplement Insurance Experience Exhibits
2. CMS.gov
3. Other Public Company Sources



As the overall Medicare market continues to grow, CSG expects both Medicare Supplement and Medicare Advantage to continue to play important roles in the overall Medicare market.

Medicare Supplement Projection

CSG Consulting’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.
- Annual Medicare Supplement claim and rate increase trends will not materially change in the future. We have observed a slightly higher claim trend in recent years, but this does not materially impact our estimates of future claim trends.
- 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 2021 and after.
- Regulatory requirements for Medicare Supplement and Medicare Advantage plans do not materially change

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. 2021 Medicare Trustees Report
2. NAIC Medicare Supplement Insurance Experience Exhibits
3. Other Public Company Sources
4. CSG Consulting Projections

Year	Total Policies Inforce (End of Year)	Total Earned Premium	Average Premium	% of Medicare Beneficiaries	New Annualized Premium
2009	9,786	20,275,802	2,072	21.0%	2,500,000
2010	10,006	21,239,556	2,123	21.0%	2,850,000
2011	10,227	22,165,195	2,167	20.9%	2,850,000
2012	10,555	23,155,774	2,194	20.7%	3,100,000
2013	10,992	24,324,613	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	14,046	32,393,125	2,306	23.4%	4,500,000
2019	14,478	33,966,407	2,346	23.5%	4,400,000
2020	14,533	35,056,236	2,412	23.2%	4,100,000
2021	14,606	35,878,398	2,456	22.9%	4,200,000
2022	14,872	37,201,638	2,501	22.8%	4,400,000
2023	15,497	39,478,126	2,547	23.2%	4,700,000
2024	16,123	41,827,199	2,594	23.6%	5,000,000
2025	16,770	44,303,402	2,642	23.9%	5,300,000
2026	17,446	46,936,420	2,690	24.3%	5,600,000
2027	18,091	49,563,766	2,740	24.7%	5,900,000
2028	18,735	52,272,564	2,790	25.1%	6,200,000
2029	19,372	55,041,541	2,841	25.4%	6,500,000
2030	19,972	57,787,897	2,893	25.8%	6,800,000

Prior Projection Comparisons

In last year's version of the Medicare Supplement projection, CSG Consulting projected 14.9 million policies would be inforce at the end of 2020, whereas actual results were lower by about 375,000 policies. The 2020 Earned Premium was projected to be \$35.5 billion, but the actual total was \$35.1 billion due to lower inforce policy counts.

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) the presence of opportunities presented by a general shakeup of the market following the introduction of MACRA.

As the number of Medicare beneficiaries continues to grow, from 62 million in 2020 to 77 million in 2030 (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.

The effects of COVID-19 on the market's future growth are still uncertain at this point but it is clear that carriers experienced lower claims and higher mortality in 2020. This could have a short term impact on the level of rate increases that are approved and it could have a long term impact on the size of the Medicare population.

Beyond those primary drivers, CSG Consulting 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. 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 Consulting believes the future outlook for the Medicare Supplement market continues to be very positive.

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