

MEDIGAP INSURANCE: INCREASINGLY UNAFFORDABLE?

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Because Medicare has substantial cost-sharing requirements and offers limited benefits, most Medicare beneficiaries obtain supplemental health insurance coverage from employers or through Medicaid or private purchase. Thirty-six percent of all beneficiaries hold individually purchased policies, also known as Medigap insurance.

The ability to purchase Medigap coverage, however, depends on insurance industry practices with regard to poor health risks and premium rates. As Lisa Alexih and colleagues at the Lewin Group write in a new Fund report, *Key Issues Affecting Accessibility to Medigap Insurance*, future access to Medigap may be increasingly limited, leaving beneficiaries vulnerable to mounting costs and limited choices.

The Lewin Group's analysis included interviews with 22 insurers with large nationwide Medigap market shares, and reviews of insurance department filings of top-selling Medigap insurers in Arizona, Ohio, and Virginia.

The authors found that standardization of Medigap policy benefits through the Omnibus Reconciliation Act of 1990 (OBRA-90) has improved beneficiaries' ability to choose among plans.

Market forces, however, have adversely affected access to Medigap insurance in several ways: individuals with certain health problems have very limited choices; most

premiums now automatically increase as consumers age; premium rates are rising; the large number of consumers with policies issued before OBRA-90 face dramatic premium hikes and may be unable to switch to new policies; and the growth of Medicare managed care could lead to a rising spiral in Medigap premiums.

The authors review options to address the growing problems in Medigap insurance. These include consumer education on potential premium hikes for different types of policies; requiring rating structures that do not cause rates to rise automatically with age; and requiring open enrollment periods to enable beneficiaries to switch plans without risking loss of coverage.

Facts and Figures

- Of the insurance companies surveyed, nearly 70 percent predicted double-digit annual rate increases in the near future.
 - AARP Prudential, the plan with the largest market share and often the only option for individuals with health conditions, increased its rates an average of 27 percent nationwide in 1996.
 - An 80-year-old with health conditions in the study would pay from 41 to 70 percent more in premiums to get the same plan from a company other than AARP.
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