

Why are Medicare supplement plan rates increasing so significantly?

We still believe that Medicare supplement plans are the preferred plan to be on if/when you have a significant health event. Nothing else gives you unfettered access to every hospital in the US and about 98% of the physicians **without** having to get an insurance company's approval.

We are in a phase of Medicare supplement rate increases. We see rate increase this year of over 10%. This is the 3rd year in a row for double digit rate hikes.

This article is primarily focused on plans for California.

First, you should know that most Medicare supplement plans have 2 components that cause the rates to rise:

1. As you get older your rates increase. This is true with most plans in the marketplace. Some carriers stop raising rates based on age changes. UHC stops at age 78. Anthem California stops at age 81. Blue Shield of California 84.
2. Medicare supplement plans also have across the board rate increases. Typically, yearly. Anthem changes rates March 1. United Health changes June 1 and Blue Shield July 1.

In past years we saw total rate increases of 3-5%. For each of the last 3 years we have seen rate increase of 10-15% (when you add the 2 above components together).

If you are new to Medicare, you typically get a new to Medicare discount that lasts for 12 months. We get lots of calls from clients that forget about this and get hit with an age rate increase, the across-the-board increase and loss of their new to Medicare discount.

Why are Medicare rates increasing so much now? There are several factors in this perfect storm.

1. Many procedures are now being done on an outpatient basis rather than inpatient. This dramatically increases the cost for Medicare supplement plans as they have a 20% share of cost with no maximum under Part B, whereas under Part A (in patient hospitalization) their maximum exposure was around \$1700. Think knee or hip replacement.
2. Part B drugs. Some very expensive therapies involve Part B drugs that are injected in a doctors' office or infusion clinic. These are injections, infusions and formulated biologics. These sometimes yield dramatic results but are very costly. Think eye injections for macular degeneration or Prolia for bone loss.
3. Covid A. We are still seeing the affects of Covid in the marketplace. Lots of people skipped their routine and other visits during Covid and are still catching up.

4. Covid B. Many diagnostic tests were skipped, and people have now been diagnosed with cancer and other issues that are much worse than if they had been caught sooner.
5. Group health and under age 65 individual plans have had dramatic increases in out-of-pocket costs. People look ahead to the much lower out of pocket costs under Medicare and Medicare supplement plans. They postpone all kinds of medical procedures until they turn 65.
6. We are at the peak of people turning 65. Roughly 11000 people a day in the US. 1100 people a day in California. So, all these effects are exaggerated.
7. Generalized inflation contributes to the underlying cost of everything including all aspects of healthcare.
8. Tariffs. Inevitably some things being used in the medical field are subject to tariffs and increased cost.
9. Service Area Reductions for Medicare Advantage plans increased dramatically over the past 2 years. When someone's Medicare Advantage plan terminates it typically generates a guaranteed issue into a Medicare supplement plan without having to prove good health.
10. Birthday rules and other guaranteed enrollment rules have been enacted in more states. These are great for consumers who chose to go with a Medicare Advantage plan when they had no health issues, but now prefer a Medicare supplement plan for treatment flexibility going forward. This leads to significantly increased claims as these Medicare beneficiaries have intense medical treatment and procedures.

Adverse selection would be a term to describe this and other trending issues.

- a. California has had a birthday rule for decades that allows someone on a Medicare supplement plan to change to a similar or lesser Medicare supplement plan on their birthday.
- b. Some states allow anyone to enroll in a Medicare supplement plan anytime they want. California has had proposals advanced allowing anyone on a Medicare Advantage plan to change to a Medicare supplement plan during an open enrollment period. This would significantly increase the cost for Medicare supplement plans for all subscribers and would likely reduce the number of options in the marketplace.
- c. I've heard from agents in other states that have introduced transfer rules. Their rates have jumped, the number of plan options have been diminished and agent compensation has been reduced or eliminated.

What to do?

- a. This is the exact issue a competent health insurance agent can help you evaluate. Years ago, we systematically moved our clients from plans I and J to plan F. And, we have been moving most clients from plan F to plan G. Those older plans are significantly more expensive and it's virtually a "no brainer" to make that change. In California, you can make this change on your birthday with no health questions.
- b. If your Medicare supplement plan is becoming unaffordable make sure you have shopped the marketplace to make certain there is no better priced option for the same plan.
- c. If you can't find an affordable version of your same plan, you could consider a downgrade to a high deductible plan, or plan N. The downside is that once you make this change you cannot easily go back to your richer plan.
- d. If you are severely challenged by the cost of your plan, you can consider a Medicare Advantage plan during the Annual Election Period (10/15 to 12/7). Reach out to your agent in August or September to broach this subject.
- e. If you can easily afford the premiums of your plan G, we recommend you stay the course. We still see a benefit to being on a Medicare supplement plan when you face a significant health challenge. And, you just never know when that's going to happen.
- f. If you are self-employed or can file a schedule C, you should be able to deduct all your Medicare premiums. That helps a bit.
- g. If you are paying Income Related Monthly Adjustment Amount (IRMAA), make sure you have filed an appeal if you have had a life changing event and reduction in income. Send us a request for our informative email about IRMAA.

I welcome any feedback or suggestions. info@pdinsure.com.

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