

September 29, 2005

ANNOUNCEMENT

Deductible Amount for Medigap High Deductible Options for Calendar Year 2006

SUMMARY: The annual deductible amount for the Medicare supplemental (Medigap) health insurance high deductible options for 2006 is \$1,790. High deductible policy options are those with benefit packages classified as “F” or “J” (“J” policies with and without outpatient prescription drug coverage) that have a high deductible feature. The deductible amount represents the annual out-of-pocket expenses (excluding premiums) that a beneficiary who chooses one of these options must pay before the policy begins paying benefits. The \$1,790 high deductible amount is effective January 1, 2006.

SUPPLEMENTARY INFORMATION:

I. Background

A. Medicare Supplemental Insurance

A Medicare supplemental, or Medigap, policy is private health insurance that a beneficiary may purchase to cover certain expenses that Medicare does not cover. For example, the beneficiary is responsible for deductibles and coinsurance amounts for both Part A (hospital insurance) and Part B (supplementary medical insurance) of the Medicare program and Medigap policies offer coverage for some or all of these amounts. Additionally, Medigap policies may provide coverage for some items that are not currently covered under the Medicare program. For example, Medicare currently covers very few outpatient prescription drugs, and Medigap plans H, I and J (including high deductible plan J) have provided some coverage for those costs. Under the Medicare Modernization Act of 2003 (MMA), as of January 1, 2006, Medicare will offer optional prescription drug coverage, and Medigap policies that include outpatient prescription drug benefits can no longer be sold after December 31, 2005. However, a beneficiary whose policy was in effect before that date, and who chooses not to sign up for Medicare prescription drug benefits, may keep his or her Medigap policy that includes outpatient prescription drug coverage.

Section 1882 of the Social Security Act (the Act) establishes that no Medigap policy may be issued in a State unless the policy complies with the standards and requirements described in that section.

The Omnibus Budget Reconciliation Act of 1990 (OBRA '90) amended the Act by requiring that Medigap benefits be standardized, and that no more than 10 Medigap benefit packages be offered nationwide. Three States (Wisconsin, Minnesota, and Massachusetts) experimented with standardizing benefits before the enactment of Federal standards. These States were permitted to keep their alternative forms of Medigap standardization and are referred to as the “waivered States.”

Therefore, until recently there have been ten permissible benefit packages, designated as plans “A” through “J”. Plan “A” is the basic benefit package. It covers Medicare Part A hospital coinsurance, plus coverage for 365 additional days of inpatient hospital care after Medicare hospital benefits are exhausted; Medicare Part B coinsurance (generally 20 percent of the Medicare-approved amount or, in the case of hospital outpatient department services under a prospective payment system, the applicable copayment); and coverage for the first 3 pints of blood per year. Medigap Plans “B” through “J” contain this basic benefit package, as well as different combinations of additional benefits. Plans “F” and “J” provide coverage for:

- Medicare Part A inpatient hospital deductible.
- Skilled-nursing facility coinsurance.
- Part B deductible.
- Foreign travel health emergencies.
- 100% of Medicare Part B excess charges.

In addition, Plan “J” includes coverage for:

- At-home recovery.
- Some prescription drug coverage (for policies in effect before January 1, 2006, in cases where the policyholder has not signed up for Medicare prescription drug coverage).
- Some preventive care not covered by Medicare.

B. Legislative Changes Affecting Medigap Policies

Section 101 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub. L. 108-173) amended title XVIII of the Social Security Act (the Act) by redesignating Part D as Part E and inserting a new Part D, which establishes a Voluntary Prescription Drug Benefit Program. Effective January 1, 2006, the new program establishes an optional prescription drug benefit for individuals who are entitled to or enrolled in Medicare benefits under Part A and/or Part B.

In connection with the addition of a prescription drug benefit to Medicare, the MMA also prescribes changes to the law applicable to Medigap policies. The most significant changes include the prohibition against the sale of new Medigap policies with prescription drug coverage (Medigap Rx policies) after December 31, 2005 and the establishment of two new Medigap policies that eliminate first-dollar coverage for most Medicare cost-sharing. These new policies may be available in some states starting in 2005. As of January 1, 2006, section 1882(v) of the Act will prohibit the sale of new Medigap Rx policies and require the elimination of drug coverage from Medigap Rx policies held by beneficiaries who enroll under Medicare Part D. If a beneficiary holds a Medigap Rx policy that was issued before January 1, 2006, and does not enroll in Medicare Part D, the policy may retain the drug coverage, and must be renewed at the option of the policyholder. In addition, beneficiaries who do not enroll in Medicare Part

D when they are first eligible and choose to enroll later, will be charged higher Part D premiums unless they can establish that they had creditable prescription drug coverage prior to enrolling in Part D. In most cases, Medigap Rx policies will not qualify as creditable coverage. Additional information on the MMA changes that affect Medigap policies can be found in the final rule to implement the new Medicare Prescription Drug Benefit that was published in the *Federal Register* on January 28, 2005 (70 Fed. Reg. 4194), and in the National Association of Insurance Commissioners' (NAIC) Model Standards for Regulation of Medicare Supplemental Insurance, as recognized by the Centers for Medicare & Medicaid Services for the purpose of Section 1882 of the Act in the *Federal Register* on March 25, 2005 (70 Fed. Reg. 15,394).

C. High Deductible Medigap Policies

Section 4032 of the Balanced Budget Act of 1997 (BBA) authorized high deductible versions of Plans "F" and "J" and their closest counterparts in the waived States. Unlike the regular versions of Plans "F" and "J," the high deductible versions of these policies do not begin paying benefits until the deductible amount is met. Out-of-pocket expenses that can be applied toward this deductible are expenses that would ordinarily be paid by the policy, including Medicare coinsurance and deductibles for Parts A and B, emergency foreign travel expenses, and, in the case of any high deductible Plan J policy in effect prior to January 1, 2006, that is held by an individual who is not enrolled in the Medicare prescription drug program, outpatient prescription drug costs. However, even though foreign travel emergency expenses and prescription drug expenses may be applied toward meeting a high deductible plan's overall deductible, these types of expenses will only be paid after a separate \$250 deductible for each benefit has been met.

II. Calculation of the High Deductible Amount

The high deductible amount is determined in accordance with section 1882(p)(11)(C)(i) of the Act. That provision prescribed a deductible of \$1500 for 1998 and 1999, and directed that the amount increase each subsequent year by the percent increase in the Consumer Price Index for all urban consumers (CPI-U), all items, U.S. city average. For 2005, the high deductible amount was \$1,730. For 2006, the high deductible amount is increased by the percent increase in the CPI-U for the 12-month period ending August 2005. As reported by the Bureau of Labor Statistics, Department of Labor, the CPI-U index was 189.5 in August 2004 and 196.4 in August 2005, resulting in a 3.64 percent increase from the 2005 deductible amount of \$1,730. A 3.64 percent increase in \$1,730.00 is \$1,792.97. Section 1882(p)(11)(C)(ii) of the Act stipulates that this amount be rounded to the nearest multiple of \$10. After rounding \$1,792.97 to the nearest \$10 multiple, the 2006 deductible for the Medigap high deductible options is \$1,790.

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