Bulletin 327

Standardized Medicare Supplement Rate Relationships to Benefits Covered

Title 24-A MRSA §2736 (2) and Maine Bureau of Insurance Rule chapter 275 §14(C) require carriers to file rates for Medicare supplement insurance products annually. For approval, these rates cannot be excessive, inadequate or unfairly discriminatory. In addition, pursuant to 24-A MRSA §5004 (2), policies must return to policyholders benefits that are reasonable in relation to the premium charged. This Bulletin provides guidelines to account for premium relationships that exist between standardized Medicare supplement plans due to the benefits covered.

1. Insurers submitting rate filings for individual or group Medicare supplement coverage must take into account the value of the benefits covered by each plan in relation to the premium differences between plans. A plan should not cost more than a second plan if the second plan has all of the benefits of the first plan plus additional benefits. For example, Plan B should not have a higher premium than Plans C through J, and Plan C should not have a higher premium than Plan F. If the annual premium difference between plans exceeds the calendar year value of the additional benefits covered, such as a deductible, justification should be provided with the rate filing. The justification may include expected differences in utilization based on credible experience, industry studies, or other relevant information.

2. For currently marketed plans, if the rate differential between two plans exceeds the maximum possible difference in benefits, it should be clearly disclosed in writing to prospective policyholders as well as to renewing policyholders under the more expensive plan. In the case of the Part B deductible, the value at the end of the 12-month period beginning on the issue date may be used. If that value is not yet known, it can be estimated. An example of such disclosure in 2004 is, “The annual premium for Plan C exceeds that for Plan D by $125. The only additional benefit under Plan C is coverage of the Medicare Part B annual deductible, which is $100 this year and will be $110 in 2005. Therefore, you may want to consider purchasing Plan D instead of Plan C to save money.” (For a renewal situation, replace “purchasing” with “switching to.”) This disclosure should be displayed on the outline of coverage and renewal notices. An example of the disclosure should be provided as part of the rate filing. Rates for different frequencies of payment must be taken into consideration in determining whether disclosure is necessary. For example, if the Part B deductible is $110 and the monthly rate for Plan C exceeds the monthly rates for Plan D, E, or G by more than $9.16, the disclosure would be appropriate.

3. Underwriting differences between plans may be used as justification for rates to exceed the difference in the value of benefits covered by the plan. As an example, Plan A is required to be available for guaranteed issue one month each calendar year. As a result, experience under the plan could justify premiums for Plan A that do not reflect the relationship to benefits compared to other plans.

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