

September 27, 2004

ANNOUNCEMENT

Deductible Amount for Medigap High Deductible Options for Calendar Year 2005

SUMMARY: The annual deductible amount for the Medicare supplemental health insurance (Medigap) high deductible options for 2005 is \$1,730. High deductible policy options are those with benefit packages classified as “F” or “J” 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 \$1,730 high deductible amount is effective January 1, 2005.

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. In addition, Medicare currently does not cover most outpatient prescription drugs, custodial nursing home care, or preventive care. A beneficiary must either pay the full cost of these services, or he or she may purchase additional private health insurance to help pay these costs. Medigap policies offer coverage for some or all of the deductibles and coinsurance amounts required by Medicare. Additionally, Medigap policies may provide coverage for some items, such as outpatient prescription drugs, that are not currently covered under the Medicare program.

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.”

There are ten 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.
- Preventive care.

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. Beneficiaries who qualify for both Medicare and Medicaid (full-benefit dual eligibles) will automatically receive the Medicare drug benefit.

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 2 new Medigap policies that eliminate first-dollar coverage for most Medicare cost-sharing. 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. A Medigap policy with benefits for outpatient prescription drugs in existence prior to January 1, 2006 shall be renewed, at the option of the policyholder, in the case of a policyholder who does not enroll in Medicare Part D. In addition, beneficiaries who do not enroll in Medicare Part D during the Initial Enrollment Period, 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. Additional information on the MMA changes that affect Medigap policies can be found in the proposed rule to implement the new Medicare Prescription Drug Benefit that was published in the *Federal Register* on August 3, 2004 (69 Fed. Reg. 46,632).

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 the high deductible version of Plan J, 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 2004, the high deductible amount was \$1,690. For 2005, the high deductible amount is increased by the percent increase in the CPI-U for the 12-month period ending August 2004. As reported by the Bureau of Labor Statistics, Department of Labor, the CPI-U index was 184.6 in August 2003 and 189.5 in August 2004, resulting in a 2.65 percent increase from the 2004 deductible amount of \$1,690. A 2.65 percent increase in \$1,690.00 is \$1,734.79. Section 1882(p)(11)(C)(ii) of the Act stipulates that this amount be rounded to the nearest multiple of \$10. After rounding \$1,734.79 to the nearest \$10 multiple, the 2005 deductible for the Medigap high deductible options is \$1,730.

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