Overview

Choosing the right health insurance coverage is largely dependent on two factors; risk tolerance and budget. The more risk an individual is willing to assume, the lower the monthly cost is likely to be. With that assumption in mind, there are steps to consider in making the appropriate coverage choice.

Step 1 – Medicare Alternatives

In this first "Medicare" phase of the decision, there are two alternatives:

1. The combination of Medicare Part A (Hospital Insurance), Medicae Part B (Medical Insurance), and Medicare Part D (Prescription Drugs), or

2. Medicare Part C (Medicare Advantage).

Alternative 1 (the combination of Medicare Parts A, B, and D) is more commonly chosen over the Medicare Advantage option. This is primarily due to the restrictions and risks of Medicare Advantage plans. However, for the individual whose budget is tight, and whose health is excellent, a Medicare Advantage plan may be the best course.

The risks associated with the Medicare Advantage alternative include the potential inability to go the hospital or see the doctor that may be best for a particular medical issue. Also, Medicare Advantage plans have geographic restrictions. If an individual moves outside the boundaries, that person will have to select a different plan. In addition, the cost of prescription drugs received through the Medicare Advantage plan may be significantly higher than the cost for the same drugs through a Medicare Part D plan. Finally, while the monthly premium for a Medicare Advantage plan may be low, the out-of-pocket charges that will be realized in the event of a serious accident or illness can be substantial (deductibles, coinsurance, and co-payments). In the end, the total cost of a Medicare Advantage plan can be greater than the total cost of the combination alternative.

A Medicare Advantage plan may be the most appropriate choice for an individual who has a very limited budget, does not contemplate moving, is comfortable with the restricted list of hospitals and doctors that are "in network," is in very good health, and has reason to believe (based on family history) that good health will continue. However, most people do not choose the Medicare Advantage alternative.

Step 2 – Medicare Supplement (Medigap) Options

If a Medicare Advantage plan is selected, then no Medicare Supplement coverage can be purchased. Medicare Supplement coverage is specifically designed to address the deductibles and coinsurance costs of Medicare Parts A and B. The three Medicare Supplement plans that are most commonly selected are Plans F, G, and N.

An important fact to keep in mind is that all Medicare Supplement plans are the same, regardless of which insurance company provides the coverage. A Plan F – is a Plan F – is a Plan F. The plans are defined by the federal government and regulated by the Illinois Department of Insurance. The only

difference between plans from the insured individual's perspective is the monthly premium.

- **Plan F** covers all Medicare approved charges that are not paid for by Medicare Parts A and B. With this plan, the individual never sees a bill from a hospital or doctor, for any medically required Medicare approved procedure. The only out-of-pocket medical costs for the individual who enrolls in a Medicare Supplement Plan F (other than the cost of Medicare itself) is the Medicare Supplement's monthly premium.

- **Plan G** addresses the same medical costs as Plan F, but the individual is responsible for the annual Medicare Part B deductible. The deductible is the same for all insurance companies and is set by the federal government. In 2017, that deductible is $183.

- **Plan N** addresses the same medical costs as Plan F, but the individual is responsible for (a) the annual Medicare Part B deductible, (b) excess charges, and (c) co-payments for office and emergency room visits. A Medicare-participating doctor can charge up to 115% of the approved Medicare amount for a medical procedure. That extra 15% (excess charges) is covered by Plans F and G, while they are not covered by Plan N. Individuals with Plan N coverage are subject to co-payment charges; up to $20 for an office visit, and up to $50 for an emergency room visit.

The monthly premiums for Medicare Supplement plans reflect their coverages. Plan F is more expensive than Plan G, which is more expensive than Plan N. Monthly premiums, however, should not be the primary cost factor considered when determining which Plan is appropriate. It is more important to think about the potential total out-of-pocket cost. An individual who has a medical condition that requires a lot of attention (hospital tests, office visits, etc) would be ill-advised to enroll in a Plan N, since coinsurance and co-payments could quickly overshadow the single monthly premium of one of the other plans.

A special note about Plan F – Congress has decreed that Plan F will no longer be offered starting in 2020. While those individuals who are enrolled in Plan F will continue to have that coverage, no new individuals will be allowed to enroll. The premiums for Plan F are expected to rise at a greater rate than the premiums of other plans. As a result, Plan G has become the most popular plan. The difference in premiums between Plan F and Plan G typically is greater than the Medicare Part B Annual Deductible, and that differential is likely to expand in future years.

Step 3 – Insurance Company Selection

It is very important to select an insurance company carefully. While it may appear at first glance that an individual should just choose the carrier with the lowest premium, there are other factors that should be considered such as the company's business practices, premium increase experience, and the length of time the company has been in the Medicare Supplement business.

- **Business Practices –** Some companies should be avoided because of the way they do business. For example, one company enters the market with artificially low rates to “buy” customers. Over time, the company's rates increase faster than those of other companies, until the rates are so high that nobody enrolls in that company's plans. When that happens the company ceases offering their Medicare Supplement plans using the existing business title, and initiates new

offerings at artificially low rates using a new business title. Those individuals with policies under the original business title who are healthy can terminate their coverage and enroll with another insurance company. Those individuals with policies under the original business title who are not healthy are stuck. And, because the healthy individuals are no longer paying premiums, it is harder and harder for the insurance company to be profitable without raising their rates even more to cover the benefits paid out for the unhealthy individuals who are left.

It may seem incongruous, but a company's financial strength (as measured by such indices as A.M. Best) is not of paramount importance. This is because the Illinois Department of Insurance monitors every company for a basic level of financial strength. The companies doing business in Illinois could not be doing so if the Department of Insurance believed that they presented a financial risk. If the Department of Insurance is wrong, and an insurance company files for bankruptcy, the individuals who are insured by that company would qualify for enrollment with any other company under the provisions of "Guaranteed Issue" without any consideration of medical issues.

The Affordable Care Act eliminated underwriting for major medical coverage – for individuals under 65. The ACA did not eliminate underwriting for Medicare Supplement coverage.

All but one insurance company work to enroll only healthy individuals. During the "Open Enrollment Period" there is no choice; medical questions are not included in the application process. But, after an individual's OEP, companies can be asked about their medical history. The goal of these companies is to minimize benefits being paid out by selecting healthy individuals who will not make many claims. This practice works to keep their premiums low. Blue Cross Blue Shield, on the other hand, never asks any medical questions. Their business model includes reduced underwriting costs and higher premiums. It is very rare that a Blue Cross Blue Shield premium will be less than that of any other insurance company. But, for those individuals who get "trapped" with higher and higher premiums from an insurance company who keeps raising their rates, Blue Cross Blue Shield is a way out.

- **Premium Increase Experience –** An insurance company that institutes regular rate increases that are in line with or that are below industry averages is a company that should be considered. This trend proves that the company is efficient and will likely be an industry leader into the future.

- **Length of Time in the Business –** Experience is a great indicator of company quality. Those companies that have been in the Medicare Supplement business for a long time, and who have rates that are competitive (not necessarily the lowest) are companies to consider.

Sometimes there are surprises! Companies with "household names" don't always live up to their expectations. For example, in October, 2012, Aflac began selling Medicare Supplement plans in Illinois. They were immediately hailed as a leader – name recognition, deep pockets, other profitable lines of insurance. Their rates were excellent, their agent support was excellent, and their administration was excellent. Industry experts pointed to Aflac as a model of a new company coming into the Illinois market place. Then, in September, 2013, Aflac unexpectedly announced that they would no longer solicit new business in Illinois. Nobody saw the decision coming. Those individuals

who enrolled with Aflac went shopping for replacement coverage, much to the embarrassment of their brokers!

Conclusion – A Personal Note

Choosing the right health insurance coverage is a unique process for every individual. The factors that I have discussed in this summary are common to most people, but inevitably there are particular issues that affect each individual's decisions.

My hope is that you will allow me to assist with your decision process. As an independent broker I am affiliated with numerous companies and my allegiance is to my clients. My promise to you is that I will represent your best interests. Some brokers will steer clients to their most profitable carrier – I won't.

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