



# The Future of Medicare Supplement

13th Annual Market Projection | 2023

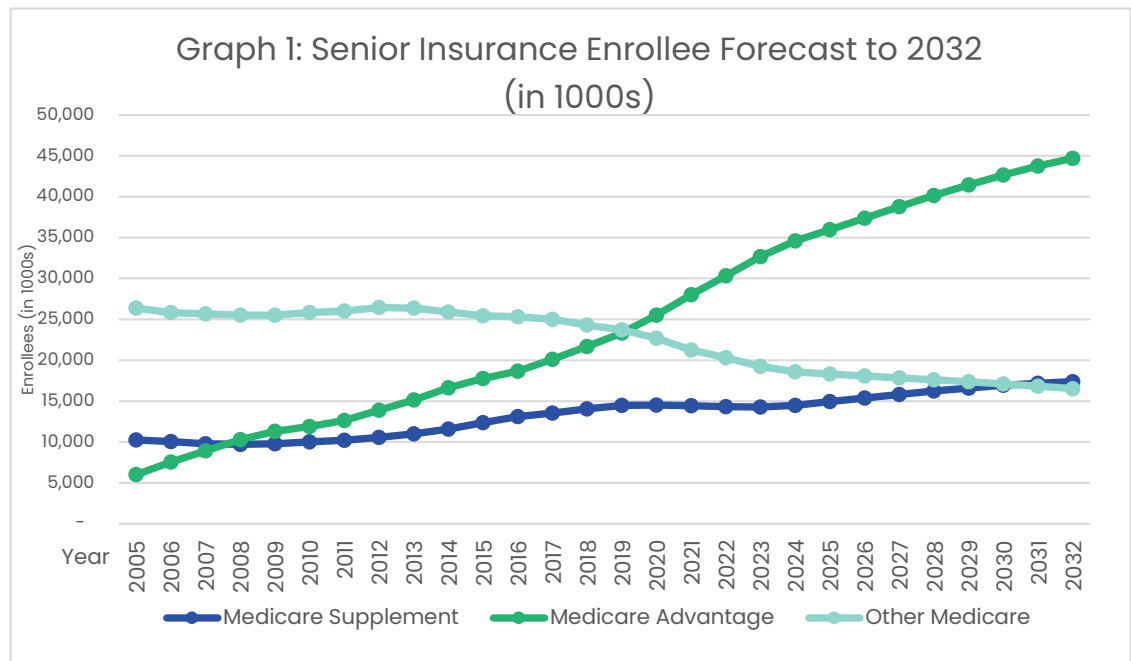
## Introduction

The Medicare program continues to offer sustainable, long-term growth and opportunities. Over the next ten years it is expected that 40.6 million individuals will turn age 65 and that the Medicare-eligible population will grow from 65.0 million beneficiaries to 78.7 million beneficiaries. This means that over 13.7 million more individuals will be added to the Medicare program over the next 10 years, a 21% increase. Beyond 2032, an additional 4.7 million are projected to be added by 2040 (Table 2).

While Telos Actuarial research indicates a slight decrease in Medicare Supplement enrollments in 2023, it is anticipated that enrollments will return to growth in 2024 and a growth rate in 2025 and beyond that exceeds the Medicare enrollment growth rate, creating robust opportunities for insurance carriers, reinsurers, agents, and marketing organizations in the Medicare Supplement market (Graph 1).

### Sources

1. 2023 Medicare Trustees Report
2. NAIC Medicare Supplement Experience Exhibits
3. CMS.gov
4. Other Public Company Sources
5. Telos Actuarial Projections



## Methodology

There is a minimal amount of market projection information available regarding Medicare Supplement business. Telos Actuarial has compiled data from various sources and developed actuarial models to project future Medicare Supplement enrollments and premium levels over the next 10 years.

## Current Medicare Eligibility Assessment

To determine how the Medicare Supplement market is expected to grow over the next 10 years, we first evaluated the current Medicare population using the following demographic factors:

- Plan Type
- Eligibility Status
- Age, Gender
- Income Level
- Area of Residence
- Health Status
- Living Arrangement

Table 1 provides a snapshot of each of these characteristics used in our projections.

### Sources

1. 2022 Medicare Trustees Report
2. 2021 Medicare Current Beneficiary Survey
3. NAIC Medicare Supplement Insurance Experience Exhibits
4. CMS.gov
5. Other Public Company Sources

### Disclaimers

Limited information is available for some of the categories, and assumptions have been made based on analysis of the data.

Totals may not sum to 100% due to rounding.

Table 1						
Medicare Beneficiary Data (in 1000s) – 2022 Year-End						
Category	All Enrollees		Medicare Supplement		Medicare Advantage	
	Number	% Dist	Number	% Dist	Number	% Dist
<b>Total Enrollment</b>	<b>65,042</b>		<b>14,323</b>		<b>30,322</b>	
<b>Eligibility Status</b>						
Aged	56,856	87.4%	13,891	97.0%	26,382	87.0%
Disabled	8,186	12.6%	432	3.0%	3,941	13.0%
<b>Age</b>						
Under 65	8,186	12.6%	432	3.0%	3,941	13.0%
65–74 Years	32,385	49.8%	8,145	56.9%	14,633	48.3%
75 Years or Older	24,471	37.6%	5,746	40.1%	11,749	38.7%
<b>Gender</b>						
Male	29,684	45.6%	6,098	42.6%	13,249	43.7%
Female	35,358	54.4%	8,225	57.4%	17,073	56.3%
<b>Annual Income</b>						
Less than \$25,000	21,436	33.0%	2,614	18.3%	12,348	40.7%
\$25,000 or more	43,606	67.0%	11,709	81.7%	17,974	59.3%
<b>Area of Residence</b>						
Urban	52,614	80.9%	10,979	76.7%	26,220	86.5%
Rural	12,428	19.1%	3,344	23.3%	4,102	13.5%
<b>Health Status</b>						
Excellent	11,224	17.3%	2,951	20.6%	4,943	16.3%
Very Good	20,038	30.8%	5,093	35.6%	9,179	30.3%
Good	19,327	29.7%	4,127	28.8%	9,068	29.9%
Fair	10,833	16.7%	1,688	11.8%	5,382	17.7%
Poor	3,620	5.6%	463	3.2%	1,751	5.8%
<b>Living Arrangement</b>						
Lives Alone	18,865	29.0%	3,973	27.7%	8,987	29.6%
With Spouse Only	26,675	41.0%	7,505	52.4%	11,329	37.4%
With Spouse and Others	6,413	9.9%	1,067	7.5%	3,077	10.1%
With Children Only	5,986	9.2%	831	5.8%	3,275	10.8%
With Children and Others	2,712	4.2%	368	2.6%	1,339	4.4%
With Others Only	1,207	1.9%	193	1.3%	724	2.4%
With Non-Relative	3,184	4.9%	387	2.7%	1,591	5.2%



## Key Observations from Table 1:

- The distribution information presented remains consistent with prior years with no material shifting.
- The proportion of Medicare Supplement buyers who live outside of a metro area is higher than that same proportion of those with a Medicare Advantage plan.
- Income distribution data indicates that Medicare Supplement plans tend to appeal to insureds with higher income on average.
- The Medicare Supplement market continues to have a higher proportion of healthier individuals compared to the Medicare Advantage market.
- The Medicare Advantage market has a significantly higher percentage of under age 65 individuals than the Medicare Supplement market.

## Medicare Eligibility Projection

Table 2 features the overall Medicare beneficiary projection. The growth projected by the 2023 Medicare Trustees Report is being driven by the influx of baby boomers turning 65 and joining the Medicare program. Although the actual growth rate from 2021 to 2022 is down slightly (1.7% actual vs. 1.9% projected) from prior projected amounts, the overall total number of Medicare beneficiaries is up slightly (65.042 million actual 65.003 million projected).

The 2023 Medicare Trustees Report projects a lower growth rate in 2023 (1.9%) than what was projected in the prior year's Report (2.5%). Additionally, the 2023 report is projecting 66.3 million Medicare beneficiaries in 2023 compared to 66.6 million in the 2022 report. These lowered projections are causing the total projected Medicare beneficiaries in 2040 to be 83.4 million compared to the 83.9 million projected in the 2022 report.

Source  
1. 2023 Medicare Trustees Report

<b>Table 2</b>			
Historical and Projected Medicare Beneficiaries - #s in 1000s			
Year	Total Medicare Beneficiaries (1000s)	% Increase By Year	
2011	48,896	2.5%	
2012	50,874	4.0%	
2013	52,504	3.2%	
2014	54,114	3.1%	
2015	55,589	2.7%	
2016	57,073	2.7%	
2017	58,683	2.8%	
2018	60,020	2.3%	
2019	61,526	2.5%	
2020	62,887	2.2%	
2021	63,974	1.7%	
2022	65,042	1.7%	
<b>2023</b>	<b>66,298</b>	<b>1.9%</b>	
2024	67,717	2.1%	
2025	69,299	2.3%	
2026	70,967	2.4%	
2027	72,542	2.2%	
2028	74,080	2.1%	
2029	75,533	2.0%	
2030	76,814	1.7%	
2031	77,851	1.4%	
2032	78,739	1.1%	
:	:	:	
2040	83,437	0.7%	



## Historical Medicare Supplement Assessment

To project the future of the Medicare Supplement market, we started by evaluating historical trends. Table 3 shows the growth of Medicare Supplement policies in-force and premiums over the past decade. This growth is due to both increases in the size of the Medicare Beneficiary population in Table 2 and an increase in the market penetration rate.

### Sources

1. NAIC Medicare Supplement Insurance Experience Exhibits
2. 2023 Medicare Trustees Report
3. Other Public Company Sources

Table 3					
Historical Medicare Supplement Values - #s in 1000s					
Year	Total Policies In Force	Total Premium	Average Annual Premium	% of Medicare Beneficiaries	New Annualized Premium
2011	10,227	22,165,195	2,167	20.9%	2,850,000
2012	10,555	23,155,774	2,194	20.7%	3,100,000
2013	10,992	24,324,613	2,213	20.9%	3,350,000
2014	11,572	25,732,303	2,224	21.4%	3,600,000
2015	12,372	27,334,334	2,209	22.3%	3,900,000
2016	13,094	29,039,669	2,218	22.9%	4,200,000
2017	13,557	30,967,343	2,284	23.1%	4,400,000
2018	14,046	32,393,125	2,306	23.4%	4,500,000
2019	14,478	33,966,407	2,346	23.5%	4,400,000
2020	14,533	35,056,236	2,412	23.1%	4,100,000
2021	14,438	35,646,440	2,469	22.6%	4,000,000
2022	14,330	36,295,792	2,533	22.0%	4,100,000

### Sources

1. NAIC Medicare Supplement Insurance Experience Exhibits
2. CMS.gov

Table 4						
Historical Medicare Advantage & Medicare Supplement Growth - #s in 1000s						
Year	Medicare Advantage			Medicare Supplement		
	Beneficiaries	Annual Growth Rate	Average Growth Rate	Beneficiaries	Annual Growth Rate	Average Growth Rate
2011	12,628	6.3%		10,227	2.2%	
2012	13,877	9.9%		10,555	3.2%	
2013	15,146	9.1%	8.4%	10,992	4.1%	3.2%
2014	16,632	9.8%		11,572	5.3%	
2015	17,761	6.8%		12,372	6.9%	
2016	18,658	5.1%	7.2%	13,094	5.8%	6.0%
2017	20,102	7.7%		13,557	3.5%	
2018	21,669	7.8%		14,046	3.6%	
2019	23,339	7.7%	7.7%	14,478	3.1%	3.4%
2020	25,509	9.3%		14,533	0.4%	
2021	28,036	9.9%		14,438	-0.7%	
2022	30,322	8.2%	9.1%	14,330	-0.7%	-0.3%



Table 5				
Historical non-Med Adv & Med Supp Market Penetration - #s in 1000s				
Year	Total Medicare	Med Adv & Med Supp	Other	Other % of Total
2011	48,896	22,855	26,041	53.3%
2012	50,874	24,432	26,442	52.0%
2013	52,504	26,138	26,366	50.2%
2014	54,114	28,204	25,910	47.9%
2015	55,589	30,133	25,456	45.8%
2016	57,073	31,752	25,321	44.4%
2017	58,683	33,660	25,023	42.6%
2018	60,020	35,715	24,305	40.5%
2019	61,526	37,817	23,709	38.5%
2020	62,887	40,043	22,844	36.3%
2021	63,974	42,474	21,500	33.6%
2022	65,042	44,652	20,390	31.3%

#### Sources

1. 2023 Medicare Trustees Report
2. NAIC Medicare Supplement Insurance Experience Exhibits
3. CMS.gov
4. Other Public Company Sources

Consistent with 2021, the number of Medicare Supplement beneficiaries experienced a decrease from 2021 to 2022. The decrease followed the slowing annual growth rates that were realized in 2019 and 2020. This slowdown can be directly attributable to the growth in the Medicare Advantage market. Many Medicare Advantage plans have grown in popularity due to the availability of \$0 monthly premium plans, additional supplemental benefits, and presence of simplified enrollment processes. Carriers in the Medicare Supplement market are continuing to seek ways to match the simplification of the Medicare Advantage enrollment process.

Despite the recent slowdown, the Medicare Supplement market has demonstrated sustained growth over time, attributable to several factors:

1. The number of Medicare beneficiaries has grown by 33% since 2011, averaging an additional 1.47 million beneficiaries per year (Table 2).
2. Employers have continued to remove Medicare-aged retirees from their employer health plans, with some providing them with a stipend to purchase individual coverage. These actions have resulted in a steady decline in the percentage of Medicare beneficiaries without a Medicare Advantage or Medicare Supplement plan (“Other” column in Table 5 & “Other Medicare Enrollees” in Graph 1), including a 4.4% decrease in 2022.



- Medicare Supplement plans offer consistent benefits year over year. After paying premium rates and satisfying any Medicare deductibles, Medicare supplement beneficiaries have minimal concern about potential out of pocket medical expenses. Medicare Supplement plans provide the same benefits on an annual basis, all without the restrictions of a provider network.

These factors and our expectation of the degree to which they would continue were included in the development of Telos Actuarial’s Medicare Supplement market projection.

### Cost Sharing Plans and First Dollar Coverage

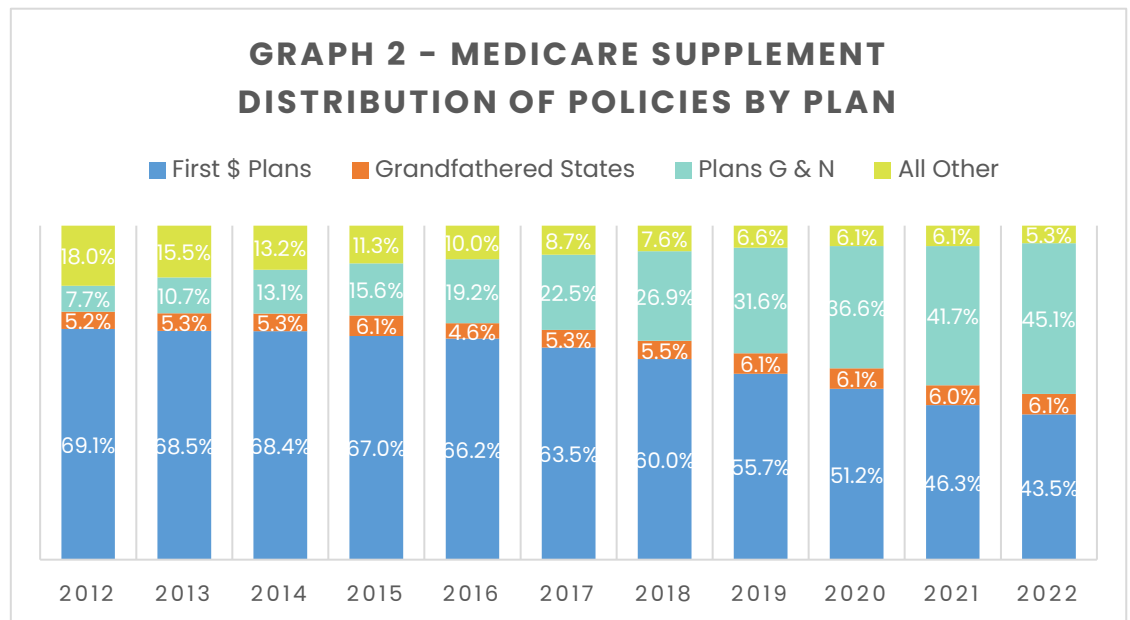
Plans G and N began to see significant increases in market share beginning in 2013. Over that time period the enrollment in these plans has increased from 10.7% of covered lives to 45.1% in 2021. A large portion of the growth in market share for Plans G and N is at the expense of plans providing first dollar coverage (Graph 2).

Using data from the NAIC, Telos Actuarial grouped the Medicare Supplement lives for 2012 to 2022 into 4 categories:

- Plans providing first dollar coverage (Plans C, F, and J)
- Plans in Grandfathered States
- Plans G and N
- All Other Plans

**Source**

- NAIC Medicare Supplement Insurance Experience Exhibits

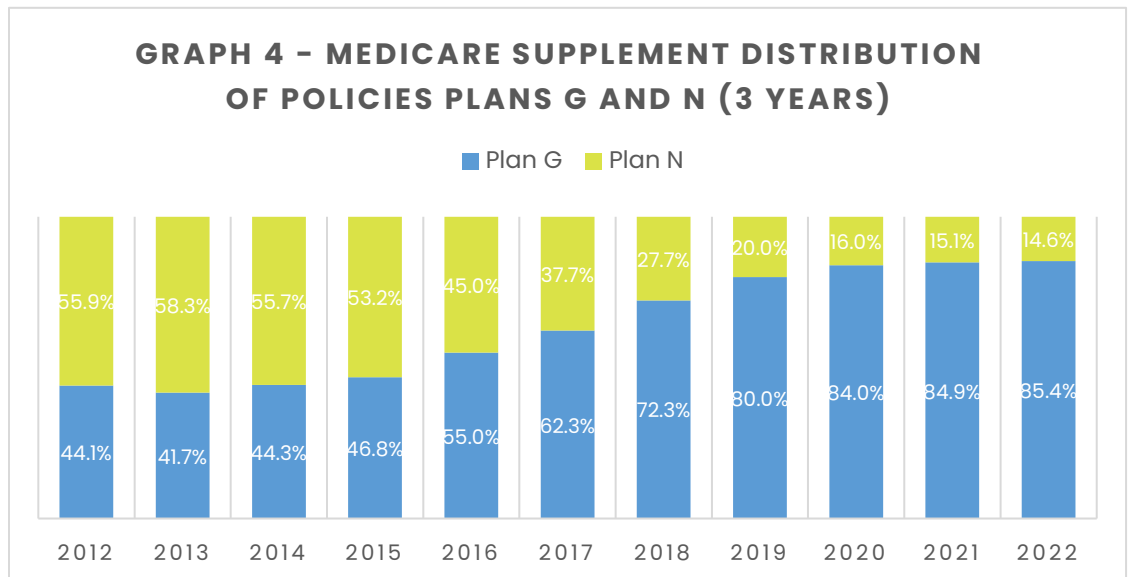
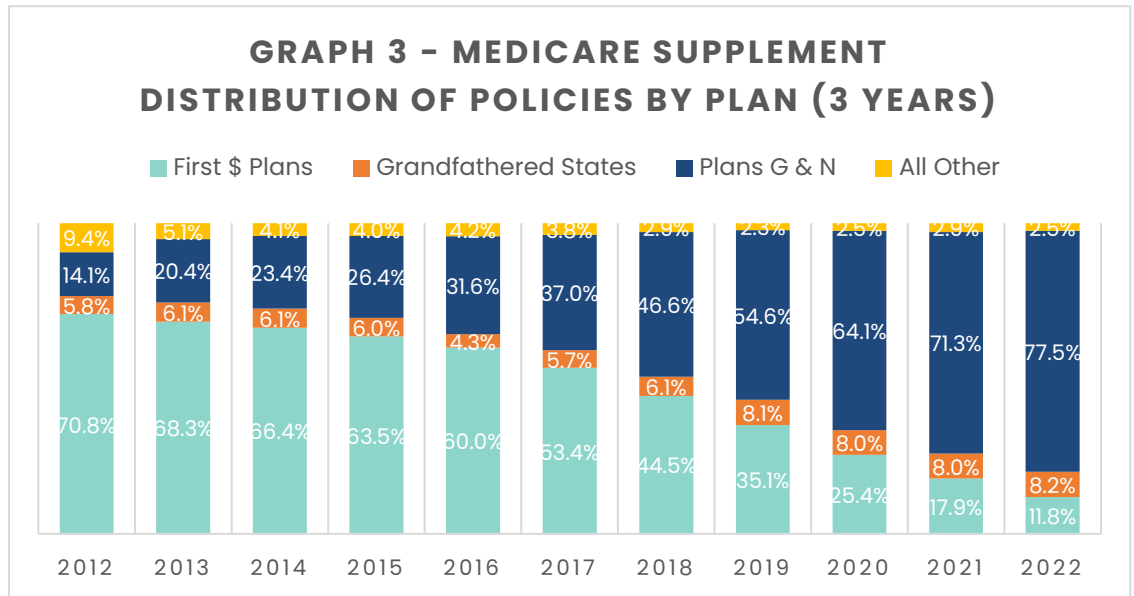


This shift to Plans G and N is more pronounced when considering recently issued Medicare Supplement policies. Graph 3 below displays the same information as Graph 2, but only includes the prior 3 issue years for each experience year. In 2022, Plans G and N made up over 77% of the lives issued between 2020 and 2021 compared to 14% in 2012 (for lives issued between 2010 and 2012). Over that same timeframe, first dollar coverage plans (largely Plan F) have decreased from 71% in 2012 to 12% in 2022.

Upon further analysis of the Plan G and Plan N aggregate cohort, Plan N continued to steadily add lives each year since 2012 but has demonstrated a slowdown in recent years while Plan G has continued to surge. Graph 4 below shows the distribution between Plan G and Plan N for the prior 3 issue years' cohorts. As demonstrated in this graph, the 2022 14.6% distribution for Plan N is down significantly from its recent high of 58.3% in 2013.

Source

- 1. NAIC Medicare Supplement Insurance Experience Exhibits





## The Impact of MACRA

In 2016 the NAIC revised the Medicare Supplement model regulation to conform to the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA). Under this new regulation Medicare Supplement policies are no longer able to provide coverage for the Part B deductible in policies sold to those newly eligible for Medicare as of January 1, 2020 or later.

This change effectively eliminates first dollar coverage plans as an option for individuals who become newly eligible for Medicare in 2020 or later. However, Plans C, J, F, and high deductible F can still be sold after 2020 to individuals who were eligible for Medicare prior to 2020. Existing policyholders with these plans can also retain their policies in 2020 and beyond.

MACRA also requires that carriers offer Plans D and G (previously C and F) in guaranteed issue situations to individuals who are newly eligible in 2020 or after. Additionally, carriers have the opportunity to offer a high deductible Plan G to both existing and newly eligible beneficiaries starting in 2020.

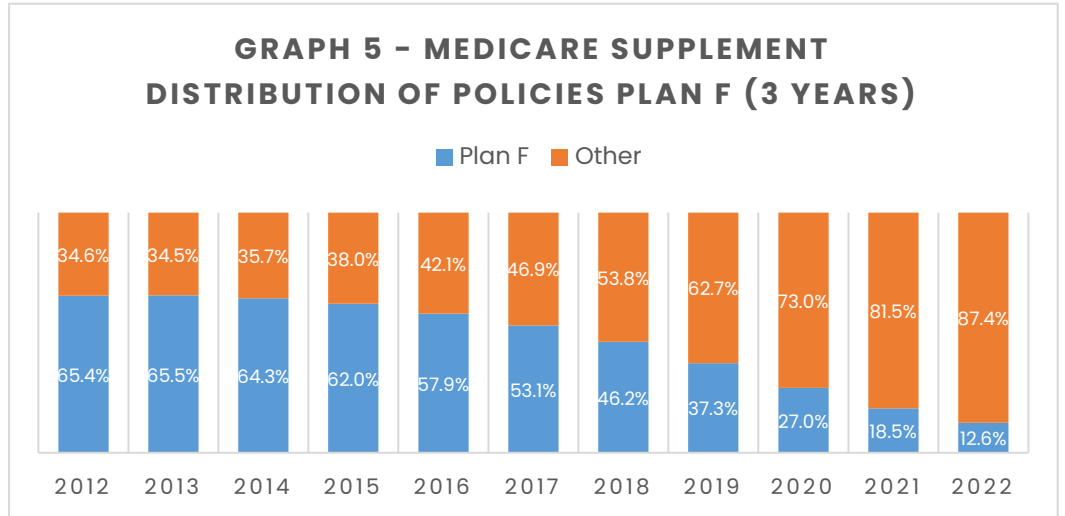
Based on current observations of carrier behavior in response to MACRA, Telos Actuarial has seen the following developments in the market regarding the two primary plans being sold:

- Plan F is no longer sold to age 65 open enrollment individuals. Therefore, Plan F blocks have shifted toward having a higher proportion of replacement (largely underwritten) business. While many carriers positioned their Plan F premiums to reflect the improved risk profile of the MACRA Plan F sales, it does not appear to have resulted in robust sales as evidenced by the significant decline of Plan F sales relative to other plans as displayed in Graph 5.
- A large percentage of the age 65 open enrollment sales have been shifting from Plan F to Plan G. This will most likely lead to higher claim costs for Plan G, resulting in the need for higher Plan G premiums. In reviewing the data for the 3-year issue cohort, Plan G claims per life have increased an average of 10.0% annually between 2020 and 2022. However, premium per life only increased by 4.0% annually on average.



Source

1. NAIC Medicare Supplement Insurance Experience Exhibits



## COVID-19

The COVID-19 pandemic began to spread in the United States beginning in March of 2020. The pandemic led to an immediate decrease in non-essential and elective services such as surgeries, doctors' visits, etc. This resulted in significantly lower reported claims in 2020 as evidenced by the industry wide reported incurred loss ratio of 72%, which was down from 80% in 2019. For reference, the lowest reported loss ratio reported going back to 2006 was 77%. Lower claims experience continued throughout 2021 but by year end had begun to return to a level more in line with historical data as evidenced by the 2021 industry loss ratio of 77%.

While the decreased loss ratio in 2020 represented an immediate impact of COVID-19, there is still uncertainty around how it will impact the Medicare market in the long term:

- Will there be prolonged upward pressure on claims experience due to "COVID long haulers"? The increase in loss ratios for 2021 and 2022 suggests this is a real possibility.
- Will COVID-19 impact how Medicare beneficiaries view their need for medical benefits? Will they be more apt to favor the consistent benefit structure of Medicare Supplement plans? The enrollment counts for 2021 and 2022 suggest that this possibility has yet to generate meaningful roots.

Our projections do not consider any additional future impacts of COVID-19 on the market's growth.

## Medicare Advantage vs. Medicare Supplement

With the growth in the number of Medicare enrollees over the past decade, both Medicare Advantage and Medicare Supplement have experienced significant growth during that time period. Both products play an important

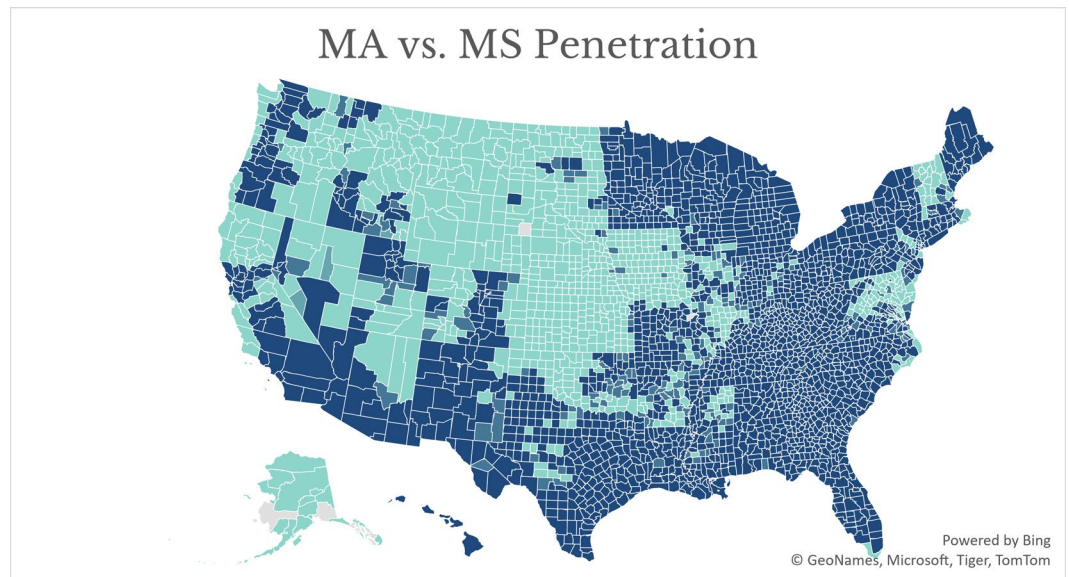


role in providing health insurance coverage for seniors in the United States but do so in different ways and in different areas of the country.

The display below shows counties where Medicare Advantage has higher enrollment in dark blue and counties where Medicare Supplement enrollment is higher in light blue. Medicare Advantage tends to have a higher penetration in urban areas, and Medicare Supplement tends to have higher penetration in rural areas. 70% of the counties in the U.S have higher Medicare Advantage enrollment, and 30% have higher Medicare Supplement enrollment. These are up from the 2021 values of 64% for Medicare Advantage and 36% for Medicare Supplement.

#### Source

1. NAIC Medicare Supplement Insurance Experience Exhibits
2. CMS.gov
3. Other Public Company Sources



As the overall Medicare market continues to grow, Telos Actuarial expects both Medicare Supplement and Medicare Advantage to continue to play important roles in the overall Medicare market. Each product offers advantages and disadvantages, offering seniors the opportunity to choose the one that best fits their needs.

### Medicare Supplement Projection

Telos Actuarial's Medicare Supplement projection is featured in Table 6 below. Assumptions include:

Demographic characteristics of current Medicare beneficiaries are reported accurately and do not materially change.

- Current policy lapse and replacement rates will not materially change in the future.
- Annual Medicare Supplement claim and rate increase trends will not materially change in the future. We have observed a slightly higher claim trend in recent years, but this does not materially impact our estimates of future claim trends.

- Any significant, out-of-the-ordinary changes in Medicare Supplement premium rates for existing business will be offset by rate changes for newly eligible beneficiaries in 2023 and after.
- Regulatory requirements for Medicare Supplement and Medicare Advantage plans do not materially change

This projection assumes average premiums will experience moderate increases over the projection horizon. The effect of trends in Medicare Advantage, retiree health benefits, and other types of supplemental coverage were also considered.

- Sources
1. 2023 Medicare Trustees Report
  2. NAIC Medicare Supplement Insurance Experience Exhibits
  3. Other Public Company Sources
  4. Telos Actuarial Projections

Table 6					
Historical and Projected Medicare Supplement Values - #s in 1000s					
Year	Total Policies Inforce (End of Year)	Total Earned Premium	Average Premium	% of Medicare Beneficiaries	New Annualized Premium
2011	10,227	22,165,195	2,167	20.9%	2,850,000
2012	10,555	23,155,774	2,194	20.7%	3,100,000
2013	10,992	24,324,613	2,213	20.9%	3,350,000
2014	11,572	25,732,303	2,224	21.4%	3,600,000
2015	12,372	27,334,334	2,209	22.3%	3,900,000
2016	13,094	29,039,669	2,218	22.9%	4,200,000
2017	13,557	30,967,343	2,284	23.1%	4,400,000
2018	14,046	32,393,125	2,306	23.4%	4,500,000
2019	14,478	33,966,407	2,346	23.5%	4,400,000
2020	14,533	35,056,236	2,412	23.1%	4,100,000
2021	14,438	35,646,440	2,469	22.6%	4,000,000
2022	14,330	36,295,792	2,533	22.0%	4,100,000
2023	14,290	36,841,564	2,578	21.6%	4,100,000
2024	14,471	37,976,011	2,624	21.4%	4,200,000
2025	14,936	39,896,189	2,671	21.6%	4,300,000
2026	15,397	41,864,400	2,719	21.7%	4,400,000
2027	15,819	43,780,886	2,768	21.8%	4,500,000
2028	16,227	45,712,618	2,817	21.9%	4,600,000
2029	16,607	47,617,998	2,867	22.0%	4,700,000
2030	16,934	49,424,026	2,919	22.0%	4,800,000
2031	17,185	51,054,152	2,971	22.1%	5,000,000
2032	17,398	52,609,643	3,024	22.1%	5,100,000

### Prior Projection Comparisons

In last year’s version of the Medicare Supplement projection, Telos Actuarial projected 14.4 million policies would be in force at the end of 2022, whereas actual results were lower by about 75,000 policies. The 2022 Earned Premium was projected to be \$36.2 billion, but the actual total was \$36.3 billion.

## Conclusions

Despite the two year decrease in total Medicare Supplement enrollment, future projections continue to suggest the Medicare Supplement market offers strong growth opportunities for carriers, reinsurers, marketing organizations, and agents. As covered in detail throughout this paper, some of the primary drivers of this future growth and opportunity will be 1) the overall growth in Medicare beneficiaries, 2) a decrease in company-provided retiree health benefits, and 3) the consistent benefit structure of Medicare Supplement plans that limit the potential financial risk for policyholders.

As the number of Medicare beneficiaries continues to grow, from 65 million in 2022 to nearly 79 million in 2032 (Table 2), it is anticipated that an increasing proportion of those individuals will turn to private insurance to help cover their healthcare needs through purchase of either Medicare Supplement or Medicare Advantage coverage. While some individuals will receive retiree health benefits, get coverage through Medicaid, or choose traditional Medicare coverage without any sort of supplemental coverage (these combined are labeled “Other Medicare” in Graph 1 and labeled “Other” in Table 5), these individuals will increasingly make up a smaller proportion of the total Medicare beneficiaries.

The long-term effects of COVID-19 on the market’s future growth are still uncertain at this point but it was evident that the lower claim levels experienced in 2020 have begun to return to levels more consistent with historical values. This could potentially impact the size of rate actions that carriers take in 2023 as well as level of premium rates new entrants come to market with. The long-term impact is more uncertain as it is not clear how COVID-19 will impact the healthcare decisions of Medicare beneficiaries in how they receive their benefits.

Telos Actuarial believes other factors such as overall market stability and low barriers to market entry will also result in continued growth in the Medicare Supplement market. Additionally, many experienced administrators, distributors, and reinsurers are available to provide support as needed for companies wishing to enter the market. In summation, Telos Actuarial believes the future outlook for the Medicare Supplement market continues to be very favorable for entities looking to seize on the robust opportunity.





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