

SUMMARY

MEDICARE SUPPLEMENT



# U.S. Medicare Supplement Market Survey Summary

2016/2017 Results

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## PARTICIPATING COMPANIES

- Aetna<sup>1</sup>
- Aflac
- American Enterprise<sup>2</sup>
- American National Life Insurance Company of Texas
- American Retirement Life Insurance Company (A Cigna Company)
- Americo Financial Life and Annuity
- Arkansas Blue Cross Blue Shield
- Bankers Fidelity Life Insurance Company
- Bankers Life and Casualty
- Blue Cross and Blue Shield of Alabama
- Blue Cross and Blue Shield of Minnesota<sup>3</sup>
- Blue Cross Blue Shield of Michigan
- Blue Cross Blue Shield of North Carolina
- Blue Cross of Idaho Health Services, Inc.
- Capital BlueCross<sup>4</sup>
- CareFirst BlueCross BlueShield<sup>5</sup>
- Central States Indemnity (CSI)<sup>6</sup>
- Cigna Health and Life Insurance Company
- Colonial Penn Life Insurance Company
- Combined Insurance Company of America
- Everence
- Family Life Insurance Company
- Gen Re<sup>7</sup>
- Guarantee Trust Life Insurance Company
- Health Care Service Corporation (HCSC)
- Humana<sup>8</sup>
- Liberty Bankers Life Insurance
- Manhattan Life Insurance Company
- Mutual of Omaha Insurance Company<sup>9</sup>
- New Era Life Insurance Company
- New Era Life Insurance Company of the Midwest
- Oxford Life Insurance Company<sup>10</sup>
- Paramount Insurance Company
- Pekin Life Insurance Company
- Philadelphia American Life Insurance Company
- Physicians Mutual Insurance Company<sup>11</sup>
- Premera Blue Cross
- Security Health Plan
- Sentinel Security Life Insurance Company
- Standard Life & Accident Insurance Company
- State Farm
- The Order of United Commercial Travelers of America (UCT)
- Thrivent Financial
- Torchmark Corporation<sup>12</sup>
- Transamerica Premier Life Insurance Company
- Unified Life Insurance Company
- United National Life Insurance Company
- UnitedHealthcare
- USAA Life Insurance Company
- Washington National Insurance Company
- Wellmark Blue Cross Blue Shield
- WPS Health Insurance<sup>13</sup>

### Notes

1. Includes Aetna, American Continental Insurance Company, Continental Life Insurance Company, First Health Life and Health Insurance Company, Coventry Health and Life Insurance Company and Genworth Life Insurance Company
2. Includes American Enterprise, American Republic and Medico
3. Includes BlueCross Blue Shield of Minnesota and Blue Plus
4. Includes Capital BlueCross, Capital Advantage Insurance Company and Avalon Insurance Company
5. Includes CareFirst Blue Cross Blue Shield, FirstCare, Inc. and Group Hospitalization and Medical Services
6. Includes Central States Indemnity and CSI Life Insurance Company
7. Includes closed blocks of business reinsured by Gen Re (six companies reported separately but listed under Gen Re)
8. Includes Humana Ins. Co. and Kanawha Ins. Co.
9. Includes Mutual of Omaha Insurance Company, United World Life Insurance Company, United of Omaha Life Insurance Company and Omaha Insurance Company
10. Includes Oxford Life Insurance Company, North American Insurance Company and Christian Fidelity Insurance Company
11. Includes Physicians Mutual and Physicians Life
12. Includes United American Insurance, Globe Life of New York (formerly First United American), Globe Life and Liberty National Life
13. Includes WPS Health Insurance and EPIC Life Insurance

## BACKGROUND

Gen Re is pleased to present this summary of results for our *2016/2017 U.S. Medicare Supplement Market Survey*. The full survey captures Medicare Supplement results and market trends for 2016 by examining sales and in-force numbers, claims trend, underwriting tools and practices, rate increase activity as well as movement across distribution channels. The full report is made available only to participants.

A total of 57 questionnaires were completed for this year's survey, representing 81 companies with Medicare Supplement (Med Supp) business. Throughout this report, the percentage of companies or number of companies refers to the 57 completed questionnaires. Additionally, depending on the type of question, not all companies were eligible to answer. To aid in your review, the number of responding companies is displayed as R=. Results were excluded from the report if less than four companies provided data.

A majority of the participants in this year's survey are actively selling Med Supp, with seven companies (12%) actively selling and managing closed blocks of business. (Exhibit A)

### Exhibit A. Participating Company Status

	% of Companies
Actively Selling	70%
Closed Blocks (companies no longer selling Med Supp)	18%
Both Actively Selling and Managing Closed Blocks	12%

R=57

In-force and sales growth results for the industry and size segments were weighted by company size, which is based on in-force premium. All other results in the study were not weighted by the size of a company's block of business. Each company has equal weight on the results for the industry and their size segment.

## SUMMARY OF RESULTS

### Total Annualized In-force Premium and Lives for 2016

Participating companies in this year's survey reported a total of \$21.7 billion of in-force premium for 2016. This represents a growth of 7.4% over 2015. (Exhibit B) The growth rate increases, however, when focusing only on those companies that were actively selling Medicare Supplement insurance in 2016. The actively selling participants experienced a growth rate of 8.2% in premium and 8.3% in lives.

#### Exhibit B. In-force Growth Rates (2016 vs. 2015)

All Companies			Active Companies		Closed Companies		
	Premium	Lives		Premium	Lives	Premium	Lives
Total	7.4%	7.6%	Total	8.2%	8.3%	-9.3%	-11.0%
R=57			R=47		R=17		

### Total Annualized Sales Premium and Lives for 2016

Total sales premium for actively selling companies totaled approximately \$2.4 billion in 2016, an increase of 6.9% from 2015. (Exhibit C) Included in the premium sales growth results is an estimate for one company. The estimated premium figures for 2015 and 2016 were calculated by Gen Re.

#### Exhibit C. Annualized Sales Growth Rates (2016 vs. 2015 for Active Companies)

	Premium	Lives
Total	6.9%	15.9%

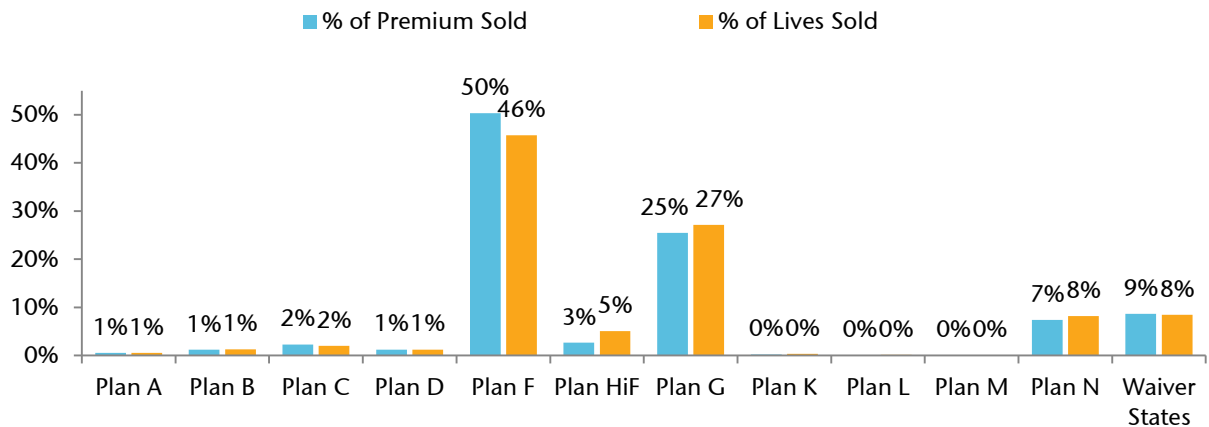
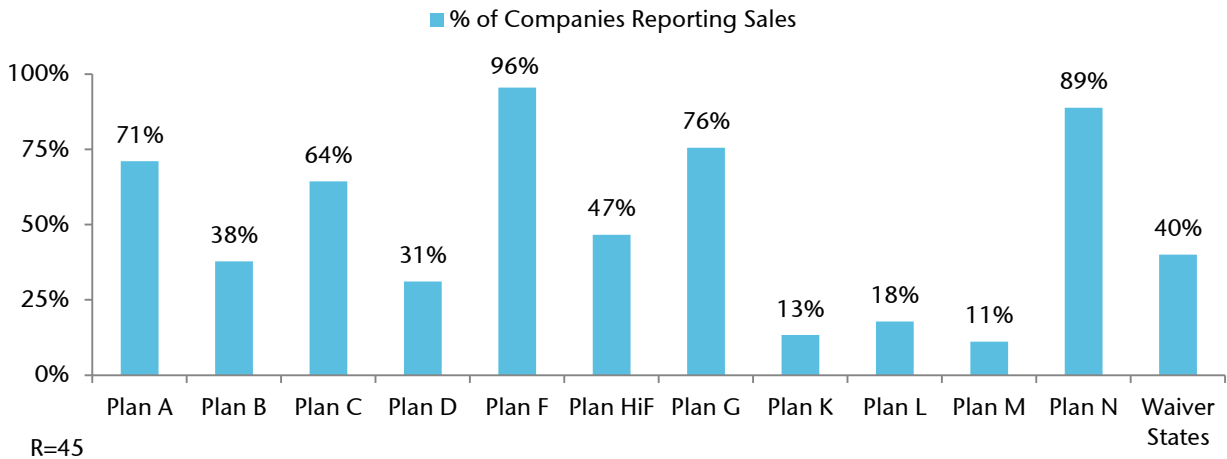
R=Premium: 46; Lives: 46

While 21 out of 42 companies experienced an increase in sales premium, a few had a disproportionate impact on growth results.

## SUMMARY OF RESULTS

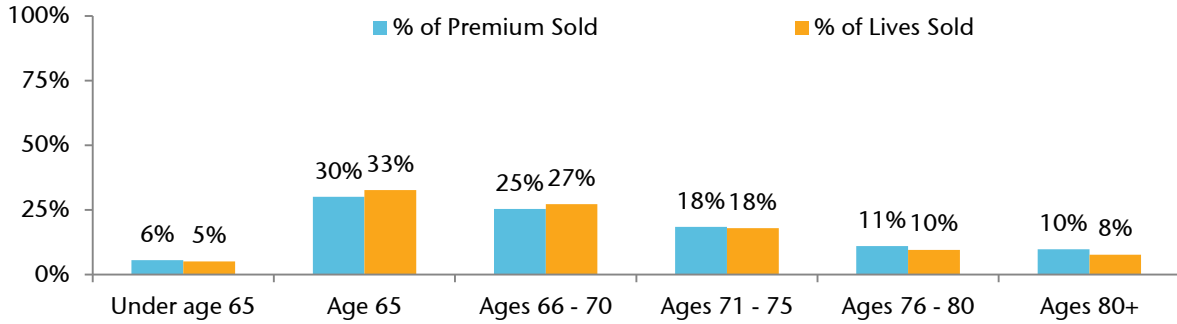
As previously reported, Plan F remains the most sold plan, accounting for 50% of the total premium sold in 2016. (Exhibit D) Additionally, this was the most widely sold plan with 100% of the participating companies selling this plan, excluding the two companies that only sell in waiver states. In comparison, more than 70% of the participating companies reported selling Plans A, G and/or N; however, these three plans only represented 33% of sold premium in 2016.

Exhibit D. 2016 Sales Premium and Lives by Plan Type



# SUMMARY OF RESULTS

Exhibit E. Percentage of 2016 Sales Premium and Lives by Age



R=Premium: 44; Lives: 44

When reviewing 2016 sales by application type, underwritten applications accounted for more sales premium in 2016 than open enrollment applications. (Exhibit F)

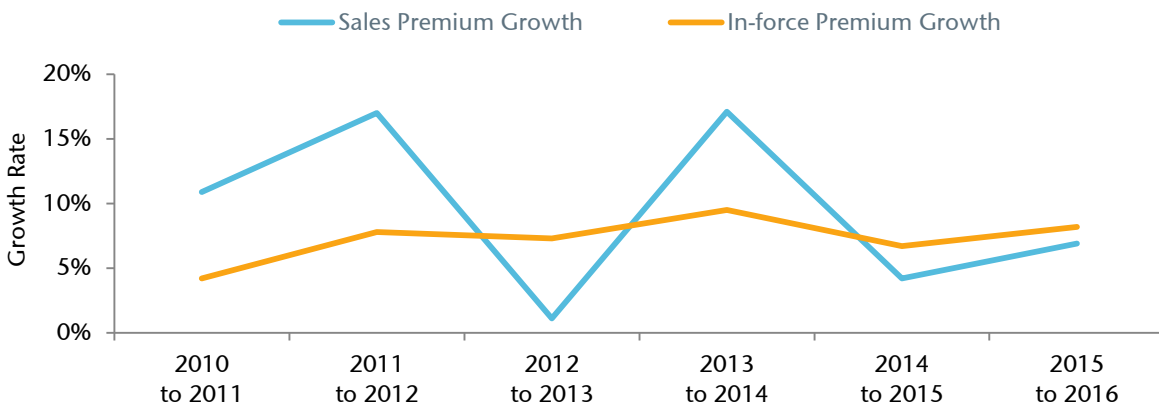
Exhibit F. Percentage of Sales Premium by Source (Comparison of Companies Providing 2015 and 2016 Data)

	Open Enrollment	Guarantee Issue	Underwritten
% of Premium Sold in 2015	37.5%	19.2%	43.3%
% of Premium Sold in 2016	38.6%	16.6%	44.8%

R=27

When comparing to historical growth rates, in-force premium has seen more steady growth compared to sales premium, which has been more volatile. (Exhibit G)

Exhibit G. Historical Sales and In-force Premium Growth Rates (Active Companies)



R=Sales Growth: 32, 34, 38, 40, 39, 46; In-force Growth: 35, 37, 39, 42, 40, 47

## SUMMARY OF RESULTS

### 2016 Claims Trend

For this year's survey, some questions were restricted to the most widely held plans (1992 and 2010 Standardized Plans). In comparing these plans for active companies, 2010 Standardized Plans averaged a higher claims trend at 3.1%. (Exhibit H)

Looking to 2017, active companies expect the claims trend to average 4.7% for both 1992 Standardized Plans and 2010 Standardized Plans.

#### Exhibit H. 2016 Average Claims Trend by Plan Type

	Active Companies	Closed Companies
	Total	Total
1992 Standardized Plans	2.5%	3.9%
2010 Standardized Plans	3.1%	5.3%

R=1992 Standardized: 32, 16; 2010 Standardized: 41, 6



## SUMMARY OF RESULTS

### 2016 Lapse Rates

The average 2016 lapse rate was 10.9% for active companies and 14.0% for closed companies. (Exhibit I) Compared to 2015, 48% of the active companies experienced a decrease in their lapse rate while 29% experienced an increase. A majority of the closed companies (53%) also reported a decline in their lapse rate.

Exhibit I. 2016 Average Lapse Rate

	Active Companies	Closed Companies
	Total	Total
Average Lapse Rate	10.9%	14.0%

R=42, 17

### 2016 Decline and Not Taken Rates (Active Companies Only)

In 2016, on average, 4.2% of open enrollment and guarantee issue applications were not taken. (Exhibit J)

For underwritten applications, on average, 74.8% were approved and placed in 2016, while 16.2% were declined. (Exhibit K) When focusing just on those companies that provided data for 2015 and 2016 (29 companies), the decline rate increased from an average of 15.2% in 2015 to 15.7% in 2016.

Exhibit J. 2016 Not Taken Rate for Open Enrollment and Guarantee Issue Applications

Total
4.2%

R=36

Exhibit K. 2016 Metrics for Underwritten Applications

	Approved and Placed	Approved but Not Taken	Declined	Incomplete
Total	74.8%	5.5%	16.2%	3.6%

R=41

## SUMMARY OF RESULTS

### Underwriting Resources and Guidelines

The average turnaround time on an underwritten application in 2016 was 5.3 business days. (Exhibit L)

Seven out of 45 companies reported using an automated underwriting system, with four additional companies planning to add this system in the next 24 months. An automated underwriting system was defined in the questionnaire as a system to approve underwritten, web-based applications without human involvement. Of the applications going through this automated underwriting system, on average, 15% were approved.

#### Exhibit L. Average Business Days to Process Underwritten Applications

Total	Range
5.3	1 to 15 days

R=43

### Distribution (Active Companies)

In this year's survey, over half of the companies reported they were selling direct-to-consumer. (Exhibit M) This was defined as selling a Medicare Supplement policy over the phone, online, through the mail, or a combination of these methods without assistance from a traditional agent that is paid a traditional compensation.

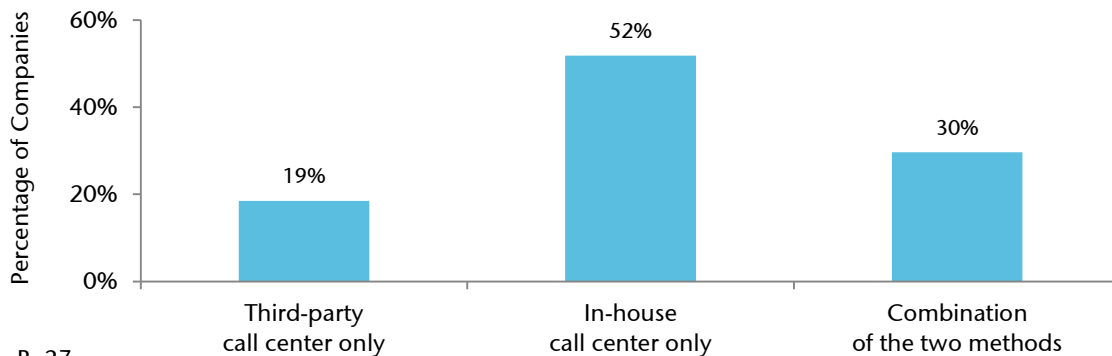
#### Exhibit M. Percentage of Companies Selling Direct-to-Consumer Without Agent Involvement

Total	Percentage of Companies
Total	57.4%

R=47

Most companies support their direct-to-consumer business using an in-house call center, although five companies reported relying completely on a third-party call center. (Exhibit N)

#### Exhibit N. Percentage of Companies by Method to Support their Direct-to-Consumer Business (Out of Those Companies Selling Direct-to-Consumer)



R=27

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