Medigap Pricing Methods: What Are the Differences?

Description

If youâ??ve ever gotten quotes for a Medigap plan, you might have noticed that there are different rate types listed for each insurance company. Thatâ??s because Medicare Supplement (Medigap) companies, utilize various Medigap pricing methods (see below). The medical underwriters of insurance companies play a big role in determining M

d the method of rate calculation they use has a big impact on their rates.

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All insurance companies increase Medigap policy rates every year or so to keep up with inflation. However, they are usually conservative increases, since before issuing any rate increase, they must first be approved by the state insurance department. In addition, increased rates are applied to existing policyholders as well, so a company that wants to â??keepâ?• policyholders is incentivized to make modest increases.

Insurance companies that sell Medigap policies utilize three distinct **Medigap pricing methods** when determining premiums. The consumer should take into consideration which system is being used as they compare insurance quotes from the myriad of competing providers. The three types of Medigap pricing methods are described below:

Attained-Age Rating for Medigap Policies

Attained-age rating is the most common Medigap pricing method used today. With this rating system, the premium payments are set according to the policy holderâ??s age at the time of enrollment. Generally, the rates increase in conjunction with the policyholderâ??s age. As the policyholder gets older, the premium gets higher. The rates will be lower when you first enroll, but prices may increase as you get older. This type of policy may appear to be less expensive at the outset, due to lower initial expenses. However, in the long run, it could turn out to be more expensive than the other two rating methods. This can be illustrated best in the following example:

Letâ??s say Betty buys a Medigap policy at the age of 68. Her premium rate would be the same price as what any other 68-year old customer would pay. Then when she turns 69, she will pay whatever the premium would be for a 69-year old customer. As she gets older (and statistically more likely to incur more medical bills), the rates will go up.

Although rates on this type of policy are guaranteed to go up as you get older, this should not automatically dissuade someone from purchasing an attained-age rated plan. This is because the attained-age rated plans are generally considerably lower-priced than plans that are figured using one of the following two pricing methodologies. In other words, if youâ??re turning 65 and your choice is a $100/mo attained-age policy that will cost you $30/mo more at age 75, it is likely still a better option than an issue-age or community-rated plan that costs $140/mo at age 65. Keep in mind that rates for all three types of pricing methodologies will go up over time, based on inflation and changes to Medicare.

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Issue-Age Rating for Medigap Policies

The premium of an issue-age policy is calculated based upon the age of the individual when they enroll, or in other words, when they buy the policy. Thus, the younger you are, the cheaper the policy is and vice-versa. However, there will be no further increases based on your age. The premiums can only be increased if the insurance company increases all policies in that state. Increases that may result in the future will be due to the cost of healthcare service increases, as well as other factors, i.e. inflation, administrative costs, or regulatory changes. Insurance companies that do issue-age policies associate policy cost with age, since older policyholders tend to require more frequent medical treatment. Consequently, they will incur higher medical bills. See example below:

At age 75, Doug buys a Medigap policy for which he pays $162 per month. The following year his policy goes up to $171, but only because his insurance company raised rates due to inflation, not because of his age. Doug will always pay the premium that the company charges a 75-year old person, no matter how old he is.

The premiums for issue-age rated Medigap policies are generally higher in the beginning, sometimes they are significantly higher. However, rates will not go up based on your age on this type of policy.

Community Rating for Medigap Policies

With this pricing model, all policyholders will pay the same premium within a given area, regardless of age. In addition, the premium rate will be the same for everyone regardless of gender, occupation or medical underwriting history.

An example would be: John lives in zip code 33905 and is 71 years old. He buys a community-rated policy at a cost of $145. Jane is also 71 and lives in the same zip code. She will also pay $145 for her policy. Although the premium will not increase based on the above factors, it will increase if there are across-the-board changes. These types of policies generally start out more expensive, but over time, balance out and may be less expensive as you age.

In the past, community-rated policies were more popular than they are now. This is due to the rise in Medicare costs and healthcare in general. Insurance companies which used this type of rating determined that older policyholders presented a greater risk of generating higher expenses than younger ones. Thus, the younger policyholders were forced to pay those higher rates, which was not a fair and balanced situation. Subsequently, many companies stopped using this rating method.

Summary of Medigap Pricing Methods

Another factor that plays into the Medigap pricing methods is state law. For example, state laws in some states require insurance companies offering plans in their state to use a certain pricing methodology (usually issue-age or community-rated). This has a tremendous affect on the overall costs of plans in that state, and it also eliminates the need to consider this variable when comparing plans.

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Since Medigap policy premiums are calculated based upon three different Medigap pricing methods, in states that donâ??t require a certain pricing method, it is wise to compare this variable when looking at quotes from the various insurance companies. There are other factors that may affect the premium rate: If you are a smoker, you will pay more, and you might be eligible for a household discount if you are married. Nevertheless, no matter which system is used, it is inevitable, that all Medigap companies will raise premium rates each year. It is advisable to consult someone, like an independent broker, who can give you the rates from multiple options and provide the ability to compare historical rate stability and future rate outlooks.

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