

**GAO**

Fact Sheet for the Chairman,  
Subcommittee on Health,  
Committee on Ways and Means,  
House of Representatives

November 1989

# MEDICARE CATASTROPHIC ACT

## Estimated Effects of Repeal on Medigap Premiums and Medicaid Costs





United States  
General Accounting Office  
Washington, D.C. 20548

Human Resources Division

B-236852

November 6, 1989

The Honorable Fortney H. (Pete) Stark  
Chairman, Subcommittee on Health  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

Your letter of October 17, 1989, asked us to survey commercial Medicare supplemental insurance (Medigap) companies and state Medicaid agencies to obtain their estimates of the effect that repeal of the Medicare provisions of the Medicare Catastrophic Coverage Act of 1988 (MCCA) would have on Medigap premiums and Medicaid budgets.<sup>1</sup> We contacted 29 of the commercial insurers that had over \$10 million of earned premiums on Medigap policies during calendar year 1987 (the latest year for which we had reasonably complete data). We also asked the Medicaid offices in the 50 states and the District of Columbia to estimate how their 1990 Medicaid budgets would be affected if the Congress repealed the Medicare benefit changes contained in MCCA.

We asked each insurance company to estimate (1) its 1990 Medigap insurance monthly premium for its largest selling policy assuming MCCA was not repealed and (2) the effect repeal would have on the 1990 premium. Twenty companies, listed in appendix I, provided data. Their data covered approximately 2.5 million Medigap insurance subscribers. Appendix II shows the estimated effect on monthly premiums for the 20 insurers. These insurers asked that we not directly identify them with their estimates, so the data reported in appendix II are in a different order than are the company names in appendix I. As reported by the insurance companies, repeal of MCCA would result in an average increase of 15.4 percent in monthly premiums. The estimated monthly increases ranged from 6.3 percent to 41.3 percent. Considering the reported number of subscribers, the companies' estimates would result in total premium increases of about \$250 million for the 2.5 million subscribers in 1990 if MCCA is repealed.

Appendix III contains information on the estimated effect repeal would have on Medicaid budgets for the 37 states (and the District of Columbia) that were able to provide data. The dollar effects are expressed as

<sup>1</sup>Our September 15, 1989, report to the Chairman, House Committee on Ways and Means, covered details on coverage of services and financing under MCCA and discussed possible effects of modifying or repealing the act. See GAO/HRD-89-156, Medicare Catastrophic Act: Options for Changing Financing and Benefits.





# Estimated Effect on Monthly Premiums of Medigap Insurance Policies If MCCA Is Repealed

Company	1989 monthly premium	Expected 1990 monthly premium	Increase in monthly premium if MCCA is repealed	Increase as a percentage of expected 1990 premium
Company A	\$90.00	\$94.66	\$6.00	6.3
Company B	68.00	69.78	5.02	7.2
Company C	73.96	75.20	6.09	8.1
Company D	73.96	75.20	6.09	8.1
Company E	59.94	58.14	5.39	9.3
Company F	43.84	52.47	4.93	9.4
Company G	68.00	68.00	7.00	10.3
Company H	83.09	77.51	9.69	12.5
Company I	57.50	57.50	8.62	15.0
Company J	43.29	46.32	7.36	15.9
Company K	52.80	60.72	9.65	15.9
Company L	50.00	53.00	8.50	16.0
Company M	81.00	81.00	13.00	16.0
Company N	47.85	46.66	8.64	18.5
Company O	32.95	44.95	9.00	20.0
Company P	39.25	39.25	8.25	21.0
Company Q	44.75	42.95	10.20	23.7
Company R	38.00	38.00	10.00	26.3
Company S	57.65	57.65	15.53	26.9
Company T	68.45	62.97	26.02	41.3
<b>Average</b>	<b>\$58.71</b>	<b>\$60.10</b>	<b>\$9.25</b>	<b>15.4</b>

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# Estimated Effect of Repeal of MCCA on 1990 Medicaid Budgets

State	Federal share	State share	Total
Alabama	\$7,321,000	\$2,679,000	\$10,000,000
Arizona	14,383,696	9,200,000	23,583,696
California	28,413,000	28,413,000	56,826,000
Colorado	6,263,922	5,756,654	12,020,576
Connecticut	15,500,000	15,500,000	31,000,000
Delaware	310,900	310,900	621,800
District of Columbia	3,261,000	3,261,000	6,522,000
Florida	14,112,600	11,687,400	25,800,000
Georgia	19,848,204	12,118,624	31,966,828
Idaho	2,239,926	815,074	3,055,000
Illinois	989,460	989,460	1,978,919
Indiana	21,770,214	12,373,786	34,144,000
Kentucky	13,714,600	5,085,400	18,800,000
Louisiana	2,510,660	922,956	3,433,616
Maine	6,079,900	3,245,100	9,325,000
Maryland	3,000,000	3,000,000	6,000,000
Massachusetts	46,000,000	46,000,000	92,000,000
Michigan	9,217,260	7,682,740	16,900,000
Minnesota	4,463,817	4,000,000	8,463,817
Missouri	6,904,492	4,762,443	11,666,935
Nebraska	2,389,792	1,520,208	3,910,000
New Hampshire	1,357,375	1,357,375	2,714,750
New Jersey	5,810,320	5,810,320	11,620,640
New York	158,450,000	158,450,000	316,900,000
North Carolina	8,292,562	4,000,000	12,292,562
North Dakota	410,048	197,250	607,298
Ohio	13,577,648	9,215,114	22,792,762
Pennsylvania	30,000,662	22,761,670	52,762,332
Rhode Island	2,206,000	1,794,000	4,000,000
South Carolina	31,269,509	11,524,400	42,793,909
Tennessee	37,852,822	16,502,178	54,355,000
Texas	22,655,100	14,344,900	37,000,000
Utah	6,623,732	2,243,379	8,867,111
Vermont	251,080	148,920	400,000
Virginia	1,262,000	1,262,000	2,524,000
Washington	4,048,543	3,465,457	7,514,000
West Virginia	32,559,250	9,940,750	42,500,000
Wisconsin	1,770,931	1,216,469	2,987,400
<b>Total</b>	<b>\$587,092,025</b>	<b>\$443,557,926</b>	<b>\$1,030,649,951</b>

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# Insurance Companies That Responded to Our Request for Data

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Prudential Insurance Company of America  
United American Insurance Company  
Bankers Life  
Mutual of Omaha  
Union Fidelity Life Insurance Company  
National Home Life Assurance Company  
Union Bankers Insurance Company  
Standard Life and Accident Insurance Company  
The Principal Mutual Life Insurance Company  
Pioneer Life Insurance Company of Illinois  
Pyramid Life Insurance Company  
Associated Doctors Health and Life Insurance Company  
Colonial Penn Franklin  
Federal Home Life  
Continental Casualty Company  
Central States Health and Life of Omaha  
New York Life Insurance Company  
Provident Companies  
American Republic  
Atlantic American Life Insurance Company

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## Abbreviations

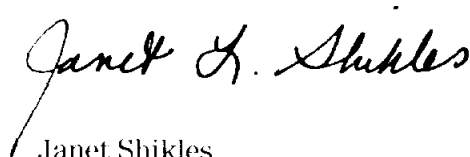
GAO	General Accounting Office
MCCA	Medicare Catastrophic Coverage Act of 1988

annual amounts. Overall, these states estimated that repeal of MCCA would increase Medicaid budgets by about \$1 billion, of which about \$444 million would be state funds and about \$587 million would be federal matching funds. State Medicaid officials attribute the increases to the increased Medicaid payments for Medicare parts A and B deductibles and coinsurance, skilled nursing facility costs, and the costs incurred by the additional elderly people who will be eligible for Medicaid benefits.<sup>2</sup>

Due to the short period we had in which to collect these data, we did not verify the accuracy of the information furnished by either the insurance companies or state governments; however, where data appeared to be questionable, we asked for clarification from the organization that provided the data.

We are sending copies of this fact sheet to other interested congressional committees and parties and will make copies available to others on request. If you have any questions about this fact sheet, please contact me on (202) 275-5451. Major contributors to this fact sheet are listed in appendix IV.

Sincerely yours,



Janet Shikles  
Director, Health Financing  
and Policy Issues

<sup>2</sup>MCCA included a provision under which states have to pay under Medicaid the Medicare premiums, deductibles, and coinsurance of Medicare beneficiaries with incomes below the poverty level. The House-passed repeal of MCCA and the Senate-passed modifications to MCCA would not change this requirement.

