



January 9, 2006 Edition

Turn Medicare Advantage Into Sales Advantage

By Lindsay R. Resnick

Since the first Medicare HMOs were made available in the 1970's, private health plans have bounced in and out of the market. The last great influx of plans was the result of the Balanced Budget Act of 1997, which allowed private plans to offer Preferred Provider Organizations - PPOs, Provider Sponsored Organizations – PSOs, and Private Fee-For-Service plans - PFFS, as well as Medicare HMOs.

As a result, by 1999 enrollment in private Medicare managed care plans peaked at approximately 16% of all Medicare beneficiaries. However, around the same time plans were realizing that Medicare reimbursement rates were insufficient to allow them to operate profitably. Thus, the great mass exodus of private insurers from the Medicare program began.

Today, enrollment in private Medicare managed care plans is about 12% of Medicare eligibles. And, new legislation has been put in place to move seniors en masse from the traditional Medicare program to private insurance, or "Medicare Advantage" plans.

But the question remains: Do private health insurance plans finally have the advantage they need to succeed in this expanding and potentially highly profitable market?

A Whole New Ball Game

The Medicare Modernization Act of 2003 has changed the playing field for private health insurers. Finally, it seems, the right structure and incentives are in place to help health plans succeed. For instance:

- **New payment rates are designed to provide adequate compensation**
Based on the 2006 national per capita Medicare Advantage payment growth rate of 4.8 percent, many plans will see an increase in reimbursements right off the bat. Plus, beginning in 2006, Medicare will use a risk adjusted reimbursement methodology, ensuring that plans are adequately compensated for caring for beneficiaries with complex medical conditions.
- **Established Medicare Advantage regions make it easier for smaller plans to play**
Medicare has established 26 regions in which Medicare Advantage plans can compete. Plans can serve at the local level (usually an HMO) or regional level, sometimes spanning several states (usually a PPO or PFFS). As a result, plans have access to adequate populations of Medicare eligibles without necessarily having to expand their networks. Furthermore, more Medicare eligibles have greater access to more plans.
- **Medicare-subsidized drug benefit allows for more robust product offering**
Under the new Medicare Part D (prescription drug coverage), private health plans will provide the Medicare drug benefit. Under Part D, Medicare will pay 50 percent or more of a typical beneficiary's drug costs. Low-income seniors can get even more help.

In short, private health insurers have more incentives than ever to contract with Medicare to provide benefits. And, plans have taken notice. According to the Kaiser Family Foundation, there are now 273 Medicare Advantage contracts nationwide, up from approximately 160 at the beginning of 2005.

How Part D can Drive Medicare Advantage Enrollment

Of course, Medicare Part D prescription drug coverage has been the big story for seniors. Now, many health plans are using this new benefit as an entryway into Medicare Advantage. Plans are citing the benefits of joining Medicare Advantage instead of buying a stand-alone prescription drug plan. These benefits include:

1. **All benefits in one place.** There is no need to coordinate between original Medicare (A & B), Part D and Medigap.
2. **Opportunity for greater savings.** The average cost for a stand-alone drug plan is about \$32. Sign up for a Medicare Advantage plan, however, and the senior could end up with a significantly lower, or even no, plan premium.
3. **More benefits than Medicare alone.** Many Medicare Advantage plans offer benefit packages that are much more extensive than Medicare alone. Coverage for hospital stays, home care, preventive care and other services have traditionally been stronger with Medicare Advantage plans.

Who's Buying?

Smart shoppers are already looking more closely at Medicare Advantage plans. Who are the most likely buyers?

1. **Younger seniors, including age-ins.** This group, that are just becoming Medicare eligible, has most recently been exposed to managed care in the workplace, taking advantage of employer-sponsored HMOs and PPOs. Medicare Advantage plans will be familiar territory for them.
2. **Lower-income seniors.** For this group, Medicare Advantage offers a low-cost alternative to Medigap policies. They can get more benefits than are available through Medicare alone, including drug coverage, at a reasonable price.
3. **Beneficiaries with Medigap policies.** In most instances, beneficiaries with Medigap policies will be able to find equivalent or better coverage with a Medicare Advantage plan, often at a lower cost.

Turn Medicare Advantage into a Sales Advantage

The Medicare Modernization Act of 2003 offers a unique opportunity to anyone selling in the senior market. But, to make the most of it, marketers and advisors need to do three important things:

1. **Segment your audience.** This is not a one-size-fits-all marketplace. To close, assess the needs of prospects and deliver the plan that best meets their specific situation.
2. **Consult, don't sell.** There are enough players out there making a hard sell. By taking a more consultative approach—understanding customer needs and finding just the right plan—marketers and advisors will have an easier time closing the sale.
3. **Be the expert.** Seniors can get a sales pitch from just about anyone these days. What they need is a Medicare expert who can help them understand the ins and outs of Part A, B and D and, Medicare Advantage. If marketers and advisors give seniors a reason to trust them, they'll have a customer for life.

With an informed, consultative sales approach, you can turn Medicare Advantage into your sales advantage.

Medicare Advantage Pros and Cons

| Pros | Cons |
|---|--|
| Extensive plan options mean there's something for everyone | Too many choices may lead to confusion among benefit offerings |
| Heightened awareness and sense of urgency in market due to Part D | Part D "overload" may make Medicare Advantage cross-sell more difficult |
| Price points bring new affordability and availability considerations | Many people taking a "wait and see" approach given past market exits |

Reproduced from National Underwriter Life & Health Edition, January 9, 2006. Copyright © 2006 by The National Underwriter Company in the serial publication. All rights reserved. Copyright of this article as independent work may be held by the author.

Lindsay R. Resnick is Senior Vice President of Finelight Strategic Marketing Communications. He can be reached at 312.419.1973 or lresnick@finelight.com.