Bulletin 90-2

Medicare supplement policies

June 1, 1990

In order to implement the Medicare Catastrophic benefit changes required for medicare supplement policies, the South Dakota Division of Insurance has adopted the following policies:

Medicare supplement insurers *must offer* medicare supplement coverage which provides the new benefits to existing policyholders. This coverage may be in the form of either an endorsement to the existing policy or a new policy. The benefits under the new coverage should be substantially similar to the benefits provided by the existing policy. Each policyholder must be given the option to retain the existing policy.

Medicare supplement insurers *may only sell* policies which contain the new benefit standards created by the repeal of the Medicare Catastrophic Act on new policies issued on or after January 1, 1990.

All medicare supplement policies issued on or after July 1, 1982, must provide benefits which coincide with current Medicare deductibles and co-payment percentage factors.

Although a policy does not have the new benefit standards, the policy is still considered a medicare supplement policy and insurers and agents must comply with all other rules and statutes which apply to medicare supplement policies.

Mary Jane Cleary
Director of Insurance

ATTACHMENT — MEMORANDUM

REMARKS ON SOUTH DAKOTA BULLETIN 90-2

A number of Medicare Supplement insurers have expressed their concerns with the Division's position that existing Medicare Supplement policies be brought into compliance with the new minimum benefit standards for Medicare Supplement policies. The major concern centers on the increase in premiums to which existing policyholders would be exposed. In an effort to address these concerns, the Division has revised the requirements for existing Medicare Supplement policies and is releasing Bulletin 90-2.

Bulletin 90-2 requires that all policyholders currently insured under a Medicare Supplement policy which does not meet the new minimum benefit standards be given the option of purchasing coverage which complies with the 1990 minimum benefit standards. This coverage must be issued without evidence of insurability and with no pre-existing condition limitations, waiting periods, or contestable periods. If a new policy is issued to the policyholder, an endorsement which

waives these limitations and periods will probably have to be attached. Such endorsement must receive Division approval. Expedited review will be provided by the Division for these forms. If your company has already brought existing policies up to the new minimum benefit standards, this offer does not have to be made.

The coverage offered to the policyholders must provide benefits similar to those provided by the existing policy. That is, if an existing policy covers the deductibles for Part A and B, and 100% of the usual, customary, and reasonable (UCR) charges under part B, the coverage offered must cover the deductibles and 100% of the UCR.

The notice to the policyholder should be in the form of the attached letter. Variations will be allowed to accommodate the specific circumstances. For example, if a company sells by direct mail, no reference to contacting the agent need be included. Also, the reference to the policyholder service department may be revised to reflect the appropriate department in your company. Note that variable language regarding the billing procedure appears in brackets towards the end of the notice.

The premium comparison must be in terms of the insured's current payment mode. That is, if the insured is paying on a quarterly basis, the comparison should be on a quarterly premium basis.

The enclosed acceptance form must be included with the letter to the policyholder. The company may either bill the insured for the difference between the old and new premium, or require payment of the difference with the acceptance form. The acceptance form should be printed with the appropriate phraseology to implement your company's selected billing procedure.

Notice must be sent to existing insureds no later than July 16, 1990. The insured will have 60 days to respond to this offer.

The Division will not require that the notice to the policyholder be submitted to the Division for approval. However, the notice may not vary from the language set forth by the Division except to conform to your company's specific circumstances. Those portions of the letter in capital letters and/or bold print must appear in the same manner in your company's notice. The Division does request that a sample of the notice used by your company be submitted for informational purposes.

If any questions regarding this procedure arise, contact the Division of Insurance.

Date

John Doe
1313 Elm St.
Anytown, SD 57000

Policy #

Dear Policyholder:

As you know, the Medicare Catastrophic Care Act of 1988 was repealed. Because of this repeal, the minimum benefits which must be provided by a Medicare Supplement policy have changed. To qualify as a Medicare Supplement policy, a plan must cover at least:

• Either all or none of the Part A inpatient hospital deductible ($592 in 1990)

• The hospital copayment for the 61st day through the 90th day in a benefit period ($148 in 1990)

• The hospital copayment during Medicare's reserve days ($296 in 1990)

• 90% of eligible expenses for hospitalization not covered by Medicare after the lifetime reserve is exhausted (up to 365 days lifetime maximum)

• The reasonable cost of the first three pints of blood (unless replaced in accordance with federal regulations)

• 20% of eligible expenses under part B, subject to a maximum calendar-year deductible of $75

After careful review of your Medicare Supplement policy, we have determined that **YOUR EXISTING POLICY DOES NOT MEET THE NEW STANDARDS FOR MEDICARE SUPPLEMENT POLICIES.**

You have the option of continuing your present coverage, or changing to a policy which complies with the new minimum benefits. You do not have to submit any evidence of good health in order to change policies.

THERE IS A DIFFERENCE IN PREMIUM BETWEEN YOUR EXISTING POLICY AND THE NEW POLICY, AS WELL AS A DIFFERENCE IN BENEFITS. A COMPARISON OF YOUR EXISTING PREMIUM AND THE PREMIUM FOR THE NEW POLICY IS PROVIDED BELOW. FOR A COMPLETE COMPARISON OF BENEFITS BETWEEN YOUR EXISTING POLICY AND THE NEW POLICY, CONTACT YOUR AGENT OR OUR POLICYHOLDER SERVICE DEPARTMENT. IT IS IMPORTANT THAT YOU UNDERSTAND YOUR BENEFITS. If you wish to maintain your existing coverage, you need not contact the company. In no event should you have more than one Medicare Supplement policy.

If you wish to change policies you must inform us on or before 60 DAYS FROM THE DATE OF THIS LETTER. *This offer may NOT be repeated in the future. If you were to retain your existing policy now, and wish to purchase a complying Medicare Supplement Policy in the future, you may have to qualify on a medical basis.* [You will be billed for any additional premium due to changing policies.] OR [You must submit a payment in the amount of $XXX.XX in order to change to a new policy.]

Existing Policy Premium: $XXX.XX per [appropriate model]
New Policy Premium: $XXX.XX per [same as above]
Existing Policy Premium: $XXX.XX per [appropriate mode]
New Policy Premium: $XXX.XX per [same mode as above]

I, _____, accept the offer of
Insured's Name

COMPANY NAME

to change from my existing Medicare Supplement Policy to a new Medicare Supplement Policy which complies with the minimum benefit standards which resulted from the repeal of the Medicare Catastrophic Care Act of 1988. I understand that my premium will change due to the change in benefits.

[I have enclosed the required premium with this acceptance.]

OR

[I understand that the company will bill me for the required additional premium.]

_____ _____
Insured's Signature Date