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# How Medicare's individual market empowers smarter choices

**alight**

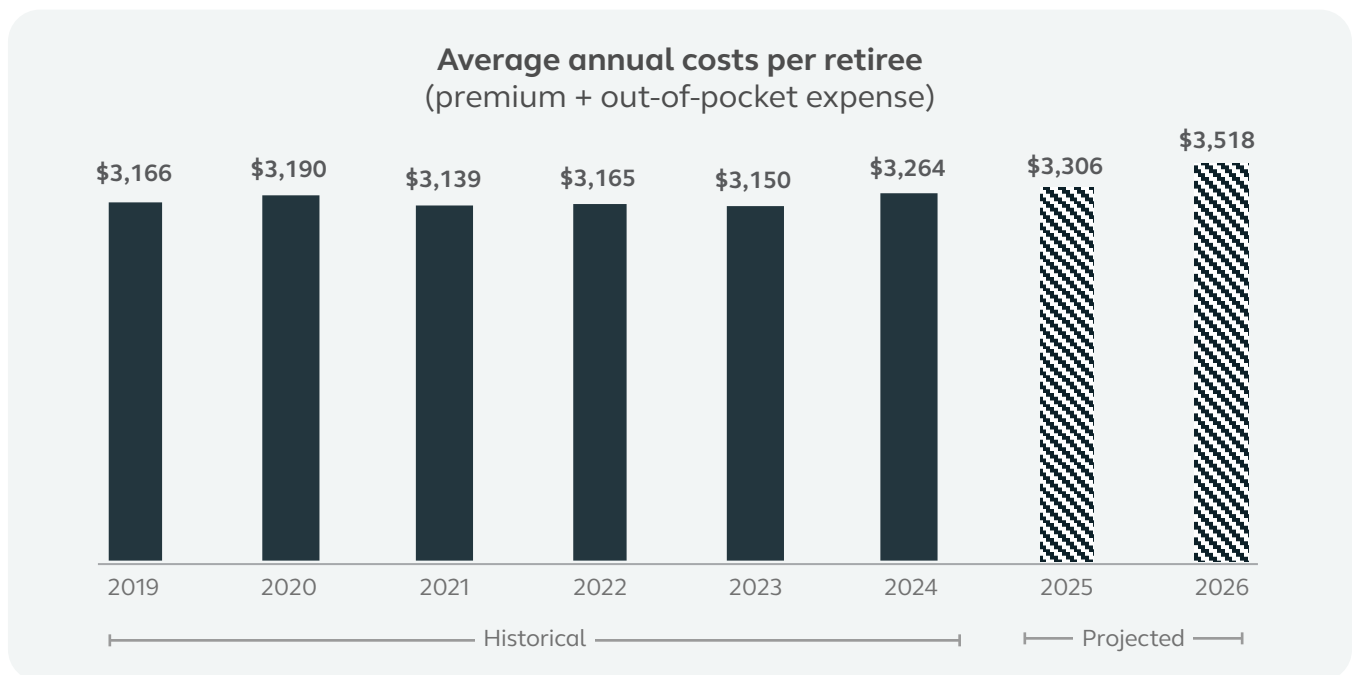
# Individual Market Strategies Create Ongoing Savings, Compared to Group Plans

Employers subsidizing retiree health care in the Medicare Individual Market realize significant savings compared to employer Group plans.<sup>1</sup> When an employer transitions from Group to Individual Market, the burden of administration shifts from the employer to an Exchange, such as Alight Retiree Health Solutions (Alight). By choosing the Individual Market, an employer's total cost, initially and **over time**, is virtually always reduced even while benefits are *increased* for retirees.

## Individual market health care costs have increased, on average, by 0.6% annually from 2019 to 2024, slower than general inflation<sup>2</sup>

Exhibit 1 below, compiled from real data from 2019 to 2024, shows how average annual Individual Market costs per retiree (premium plus out of pocket expenses) have changed over time.<sup>3</sup> A detailed description of data sources used in this study is included in the Assumptions and Methods section.

### Exhibit 1



Projections from 2024 to 2025 and 2026 include the expected impact of the Inflation Reduction Act and Medicare Advantage Payment Reform.<sup>4</sup>

<sup>1</sup> Based on financial feasibility studies performed by Alight actuaries for Alight clients and prospects since 2018.

The 2023 data is summarized here: [Employers reduce retiree health care costs by 40% with Medicare Individual Market](#)

<sup>2</sup> <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

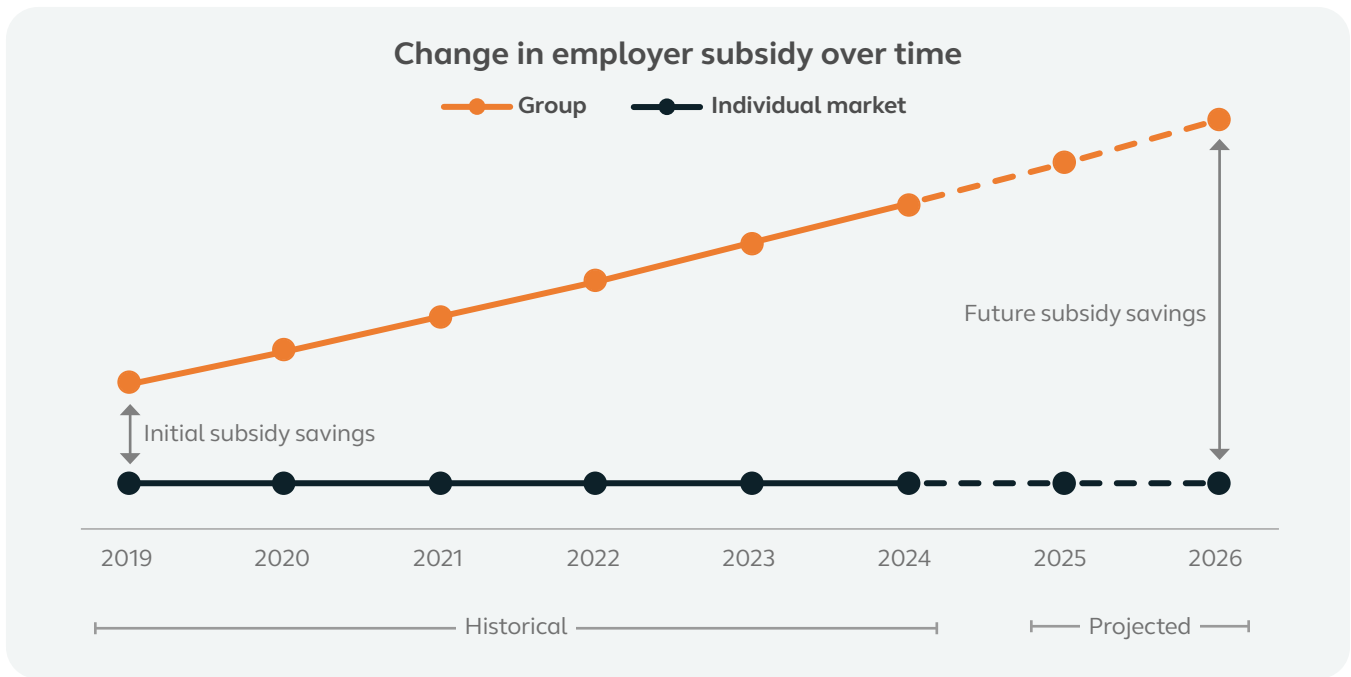
<sup>3</sup> Based on the enrollment-weighted average of MAPD and Medigap + PDP costs for retirees enrolled through Alight, ignoring employer subsidies.

<sup>4</sup> Suggested reforms from [The Medicare Advantage program: Status report – MedPAC](#) will affect both Group and Individual Market plans.

## Low individual market cost trends maintain level employer subsidy requirements

The favorable trends shown in Exhibit 1 have allowed most Alight clients in the Individual Market to maintain a **level subsidy** as shown here in Exhibit 2. This creates significant accounting savings, compared to a 4.5%+ subsidy trend typically used for Group plans.<sup>5</sup> In addition, employers who fund retiree health care, both in public and private sectors, can reduce funding requirements and/or extend the life of their health care fund.<sup>6</sup>

### Exhibit 2



In the above example, an employer started in the Individual Market in 2019 with a 20% employer savings, and those savings are expected to triple by 2026.

<sup>5</sup> [Study of Economic Assumptions | Deloitte US](#)

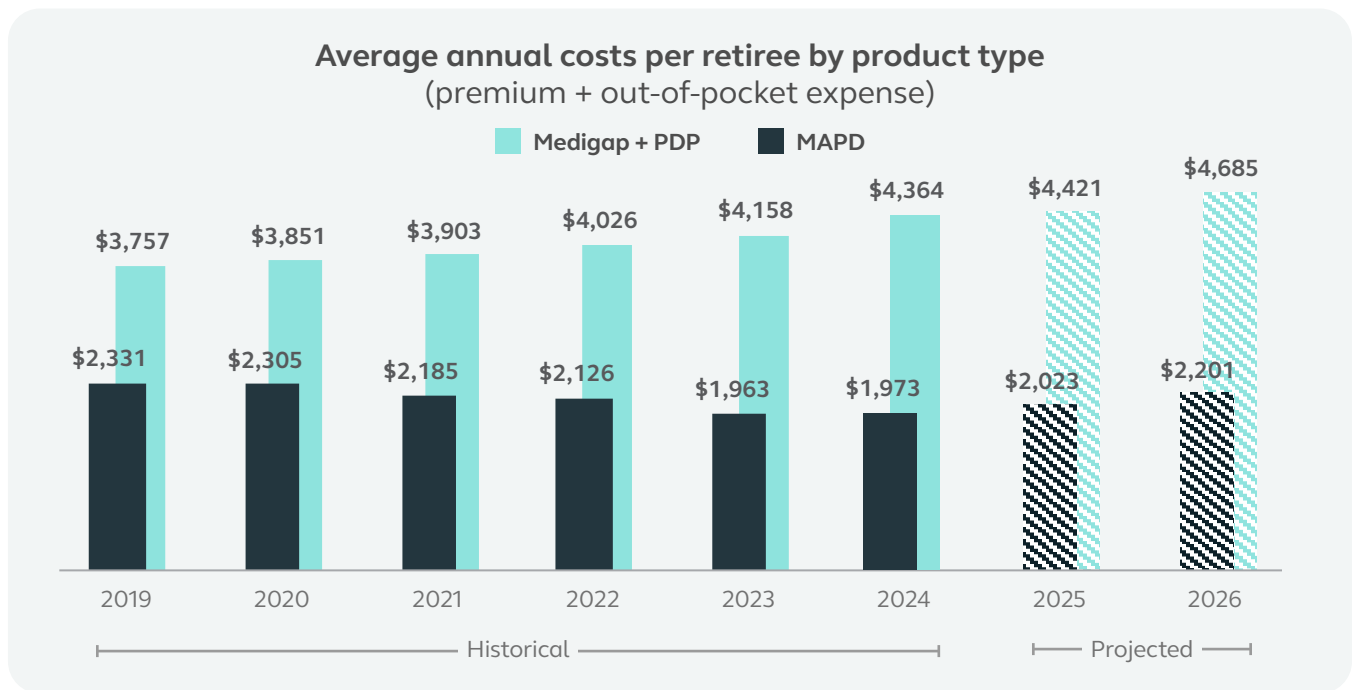
<sup>6</sup> Typically, a VEBA or 401(h) plan

## Retirees in Individual Market MAPD plans are expected to pay less in 2026 than they did in 2019, while Medigap + PDP costs have increased

Two product types dominate the Individual Market. The vast majority of retirees enroll in either Medigap and a stand-alone prescription drug plan (**Medigap + PDP**), or in Medicare Advantage Prescription Drug (**MAPD**) plan. As shown in Exhibit 3, cost reductions for MAPD plans are the primary driver for the low trends shown in Exhibit 1.

Exhibit 3 below shows average annual per retiree costs by product type, for retirees enrolled through Alight.<sup>7</sup>

### Exhibit 3



On average, as shown above, Individual Market MAPD plan per retiree costs have **decreased** by about **3.3%** annually from 2019 to 2024 while Individual Market Medigap + PDP plans have **increased** by about **3.0%** annually. The projected uptick from 2025 to 2026 is primarily due to higher medical expense trends projected by CMS actuaries in the 2024 Medicare Trustee’s report.<sup>8</sup> In particular, Medigap premiums are very sensitive to any changes in underlying medical costs because they insulate retirees from increases in out-of-pocket costs.

Compared to prior projections,<sup>9</sup> actual MAPD costs came in lower than expected and Medigap + PDP costs came in higher than expected.

<sup>7</sup> Exhibit 1 shows the enrollment-weighted average of the costs in Exhibit 3.

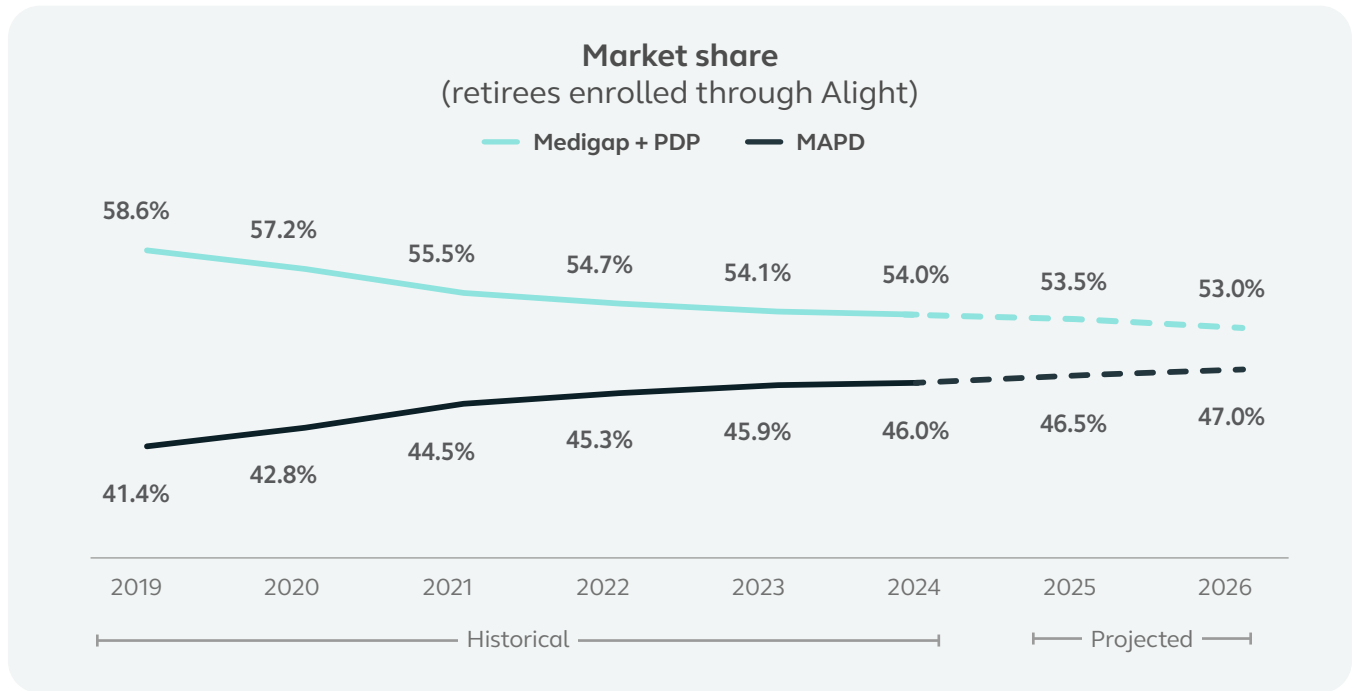
<sup>8</sup> See 2024 [Medicare Trustees Report \(cms.gov\)](https://www.cms.gov/medicare/medicare-trustee-report)

<sup>9</sup> See [Medicare Individual Market helps control retiree health care costs](#)

## Market share for Individual Market MAPD plans has increased steadily since 2019

The cost trends shown in Exhibit 3 may help explain why more and more retirees select MAPD over Medigap, as shown in Exhibit 4.

### Exhibit 4



MAPD enrollment is increasing as Medigap + PDP is decreasing, which may be partially due to new enrollments choosing MAPD and partially due to migration from Medigap to MAPD. Currently, about 53% of new enrollees through Alight, will enroll in MAPD. More broadly, over 54% of Medicare beneficiaries enroll in MAPD.<sup>10</sup>

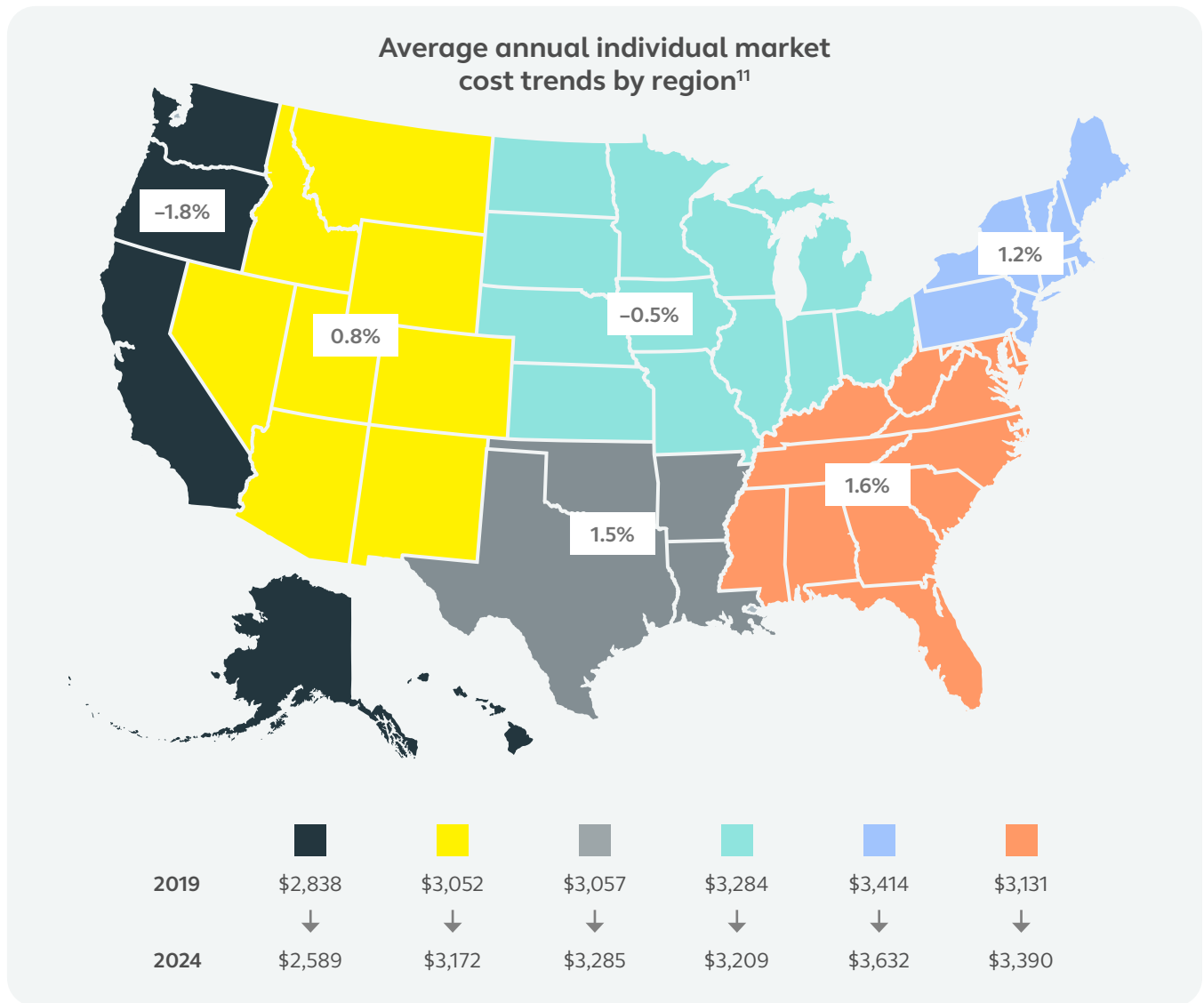
<sup>10</sup> See [Medicare Advantage in 2024: Enrollment Update and Key Trends | KFF](#)



## Individual Market cost trends are low across all regions

Although there is some cost variation across regions, all regions are experiencing low trends. The dollar amounts below represent average costs for retirees enrolled through Aight including both premium and estimated out-of-pocket expense.

### Exhibit 5



Overall, year over year cost trends in the Individual Market is low across all regions of the country. In addition, Aight data shows that rural costs have increased by about **0.8%** annually from 2019 to 2024, while urban areas increased by **0.6%**. This is favorable for employers with retirees in multiple locations.

<sup>11</sup> Regions by U.S. Census Bureau: [us\\_regdiv.pdf \(census.gov\)](https://www.census.gov/regdiv)

## What makes the Individual Market so effective compared to Group plans?

Key reasons include:

- **Effective retiree purchasing decisions reduce wasteful spending.** Retirees in the Individual Market can personalize their coverage to get the best value for premium spent.<sup>12</sup>
- **Competition in the Individual Market results in more retiree-friendly plans.** Every year, carriers compete for retiree enrollment. The number of available MAPD plans has increased from 2,669 total plans in 2019 to 3,959 in 2024, particularly PPOs which may be more attractive to retirees due to providing out-of-network coverage. In addition, many MAPD plans attract retirees by offering additional benefits that are not available through traditional Medicare.<sup>13</sup>
- **CMS has made affordability a key priority for Medicare retirees in the Individual Market.** Each year, CMS sets annual county-specific funding for these programs based only on the individual marketplace plan financial bid process, and explicitly excludes group plans. This results in the most efficient Medicare funding approach as the individual plans operate in the most competitive health care marketplace and leverage cost-management techniques which group plans do not typically deploy. This includes locally optimized networks, plan designs which encourage efficient program use, tighter prescription drug formularies, and more compulsory care management programs. Excluding group plans from this process produces an explicit disconnect between group plan claims experience and Medicare funding, which may contribute to higher group plan costs and trends.
- **Diversification in the Individual Market leads to stability.** For Group plans, adverse regulatory or legislative changes, reduction in Group Medicare Advantage Star ratings, or unanticipated large claims, can contribute to cost volatility. That is because in the Group market, all retirees are generally with the same carrier and unable to switch carriers to reduce costs. By contrast, in the Individual Market, employers providing a subsidy have a **fixed cost**, and retirees, who have access to a diversified portfolio of carriers and plan types, can shop around and select a plan that best meets changing budget and health needs, or a carrier who has been able to navigate market changes better.
- **A more diverse risk pool may contribute to lower costs.** Fewer and fewer employers offer Group plans,<sup>14</sup> many have frozen their plans to new entrants, and many have capped their subsidy. This can cause Group plan costs to increase as risk pools deteriorate. In contrast, the Individual Market enjoys a steady influx of younger, healthier baby-boomers which helps keep costs low.<sup>15</sup>

<sup>12</sup> [White paper: Effective healthcare purchasing supports a more secure retirement | Alight \(Published 2023\)](#)

<sup>13</sup> [Medicare Advantage 2024 Spotlight: First Look | KFF](#)

<sup>14</sup> [Employer Health Benefits Survey 2023 Annual Survey \(kff.org\)](#)

<sup>15</sup> [2024 Medicare Statistics and Fast Facts | MedicareAdvantage.com](#)

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## What do we expect going forward?

There are two new key legal requirements which will have a dramatic impact on the Group and Individual Markets over the next couple of years.

- The **Inflation Reduction Act (IRA)** has introduced new benefits and cost controls, which have reduced retiree out-of-pocket expense in the Individual Market starting in 2024. At the same time, the IRA limits Medicare Part D premium growth to no more than 6.0% annually. These provisions will reduce costs for the retirees with the highest claims costs.<sup>16</sup>
- **Medicare Advantage Payment Reform** will slow CMS funding for both Group and Individual Market Medicare Advantage plans over the next few years, partially driven by CMS changes to risk adjustment.<sup>17</sup> The competitive nature of the Individual Market has allowed it to weather similar funding cuts in the past without adversely impacting retirees.<sup>18</sup>

## How does this benefit the employer?

In the Individual Market, **employers have full control over their subsidy increases and lower compliance risk**. Due to low Individual Market cost trends, the vast majority of Alight clients have maintained the same subsidy for years. Prior to signing with Alight, our clients receive a free legislative overview and financial analysis which will help determine their specific opportunity for subsidy reductions. To learn more, please visit [alight.com/solutions/retiree-health-solutions](https://alight.com/solutions/retiree-health-solutions).

<sup>16</sup> [Explaining the Prescription Drug Provisions in the Inflation Reduction Act | KFF](#)

<sup>17</sup> [The Medicare Advantage program: Status report – MedPAC](#)

<sup>18</sup> [Is the Biden Administration Proposing Cuts to Medicare Advantage? | KFF](#)



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## Assumptions and methods

- This study uses actual plan selections for retirees enrolled in the Individual Market through Alight from 2019 to 2024. We utilized a random sample of 100,000 members for each year.
- We studied the two benefits configurations – Medigap with a stand-alone Medicare Part D Prescription Drug Plan (Medigap + PDP), and Medicare Advantage Prescription Drug (MAPD) plans, which represent virtually all retirees with both medical and pharmacy coverage. We have excluded members who elect medical but not pharmacy, or visa-versa, or who have Medicare Advantage without an integrated drug benefit.
  - Medigap is a medical plan which supplements Medicare and covers most out-of-pocket costs left over after Medicare. Members must also enroll in a stand-alone PDP. Within Medigap, we included the 3 most prevalent options: Plans F, G and N (or state equivalents). This represents over 90% of all Medigap enrollments.
  - MAPD are integrated medical and pharmacy managed care plans which replace Medicare. We included the most prevalent plan types: HMO, HMO-POS, and PPO. We have excluded less common plan types such as Cost and Special Needs Plans.
- The annual cost of coverage includes both premium and estimated out-of-pocket (OOP) expenses. OOP expense refers to deductibles, copays, and coinsurance required by the health care plan.
- We calculated OOP expenses using actual 2019-2024 plan designs, as well as health care utilization data from the 2019 Merative Marketscan Medicare database. We used this data to retain consistent utilization with our prior study. Unit costs were trended each year using Medicare FFS trends.<sup>19</sup>
- The average annual 4.5% trend used for Group plan subsidies is derived from the Getzen Model<sup>20</sup> and is consistent with long-term trends used in retiree medical accounting valuations.<sup>21</sup>
- Commentary concerning employer subsidies in the Individual Market is based on the Alight book of business.
- Future projections take into consideration historical trends as well as upcoming changes due to the Inflation Reduction Act and Medicare Advantage Payment Reform, to the extent possible based on available information. Actual experience may be different.
- Our projections include the impact of the Inflation Reduction Act (IRA) starting in 2025, by limiting out-of-pocket costs for drug benefits to \$2,000 for 2025.

<sup>19</sup> [FFS Trends | CMS](#)

<sup>20</sup> [Getzen Model of Long-Run Medical Cost Trends Update for 2022-2030+ \(soa.org\)](#)

<sup>21</sup> [Study of Economic Assumptions | Deloitte US](#)

The content of this document is the consultative perspective of Alight Retiree Health Solutions and is provided based on internal analyses of the current Medicare plan marketplace as we understand it. This material is intended for use by plan sponsors and is not intended to promote or market any particular plan.

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## About Alight Solutions

Alight is a leading cloud-based human capital technology and services provider that powers confident health, wealth and wellbeing decisions for 36 million people and dependents. Our Alight Worklife® platform combines data and analytics with a simple, seamless user experience. Supported by our global delivery capabilities, Alight Worklife is transforming the employee experience for people around the world. With personalized, data-driven health, wealth, and wellbeing insights, Alight brings people the security of better outcomes and peace of mind throughout life's big moments and most important decisions. Learn how Alight unlocks growth for organizations of all sizes at [alight.com](https://alight.com).

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