



BUREAU OF INSURANCE

June 23, 2000

ADMINISTRATIVE LETTER 2000- 9

TO: All Carriers Licensed to Market Accident and Sickness Insurance in Virginia

RE: Medicare Supplement Insurance

On April 7, 2000, the U.S. Department of Health and Human Services, Health Care Financing Administration (HCFA) published a final rule in the Federal Register (Vol. 65, No 68 p. 18434) that will implement a prospective payment system for hospital outpatient services provided to Medicare beneficiaries. The prospective payment system was established by the Balanced Budget Act of 1997 (BBA). This system changes the manner in which coinsurance payments are calculated under section 1882 of the Social Security Act, which governs Medicare Supplement Insurance. Under the prospective payment system, coinsurance for hospital outpatient department services will no longer be based on a percentage of the cost of Medicare eligible expenses under Part B, but instead will be paid according to an established fixed copayment amount for the particular service provided.

The purpose of this letter is to notify all carriers marketing Medicare Supplement Insurance in Virginia as well as carriers with existing Medicare Supplement business in force in Virginia that the Bureau of Insurance (the Bureau) will expect and require full compliance with this federal standard on its

effective date, August 1, 2000, both with respect to contracts in force as well as contracts issued on and after this date. In order to effect compliance with this standard, carriers must provide coverage for applicable copayments related to hospital outpatient department services under a prospective payment system.

Virginia's *Rules Governing Minimum Standards for Medicare Supplement Policies*, 14 VAC 5-170-10, et seq., will be amended to address this coverage change. It is anticipated that the additional coverage requirement will be addressed in 14 VAC 5-170-70 C 5 concerning the standards for basic (core) benefits common to all benefit plans, and 14 VAC 5-170-150 C 4 concerning required disclosure in the outline of coverage. Until such time as the rules are amended, carriers are expected and required to revise policy forms and outlines of coverage accordingly. All forms revised to comply with these requirements must be submitted to the Bureau for approval prior to their use in the Commonwealth of Virginia. Insurance companies are obligated to follow the federal law regardless of the status of form filings with the Bureau.

Questions regarding this matter may be directed **IN WRITING** to:

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Very Truly Yours,

Alfred W. Gross
Commissioner of Insurance

AWG/jkc