United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

November 3, 2008

Via Electronic Transmission

William D. Novelli
Chief Executive Officer
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601 E Street, NW
Washington, DC 20049

Dear Mr. Novelli:

Thank you very much for the briefing provided to staff members of the United States Senate Committee on Finance ("Committee") regarding AARP-sponsored health insurance policies that have been sold to about 500,000 Americans. That briefing was very informative and shed much needed light upon the disturbing chain of events suffered by Ms. Lisa Kelly, a purchaser of an AARP-sponsored insurance product. As was apparent from the investigation of the Lisa Kelly case, underinsurance is a significant and growing problem for Americans. As part of ongoing work related to the uninsured and health care reform, I am seeking more information about the policies AARP sells to better understand whether they contribute to these problems in the way they are marketed and what they cover.

My investigation of tax-exempt hospitals has led me to examine further how these hospitals treat indigent patients. I have looked into an April 28, 2008, *Wall Street Journal* article, "Cash Before Chemo: Hospitals Get Tough," which chronicled the challenges faced by a patient at M.D. Anderson Cancer Center in Houston, Texas (M.D. Anderson).[1] The patient, Lisa Kelly, also described her experience to the Finance Committee at a hearing on health reform held on June 10, 2008.

The Wall Street Journal story reported, and Ms. Kelly's subsequent Congressional testimony confirmed, that she was initially diagnosed with leukemia by her personal physician in Lake Jackson, Texas. She was then immediately referred to M.D. Anderson due to its superior facilities in treating patients with leukemia. When scheduling her first appointment, Ms. Kelly was instructed to bring a cashier's check for $45,000 to the appointment because M.D. Anderson would not honor her health insurance policy. The article went on to illustrate some disturbing practices that reportedly occurred, including an instance in which the hospital staff refused to change Ms. Kelly's chemotherapy IV until her husband demonstrated clear proof of payment.

During the course of my inquiry, I learned that Ms. Kelly purchased an AARP Medical Advantage Plan (MAP) policy. It was this policy that M.D. Anderson refused to honor. The MAP policy as I understand it is a supplemental indemnity plan that pays a flat amount to plan holders for out-of-pocket health care costs, rather than a "major medical" health insurance policy that covers significant percentages or portions of health care costs. With supplemental indemnity plans, the plan holder is responsible for the difference between the flat amount and the costs charged by the healthcare provider. So, in the case of Ms. Kelly, she was required by M.D. Anderson to pay most of her medical costs up front and then AARP would pay her directly a maximum of $7,500 per procedure – a far cry from the hundreds of thousands of dollars that her chemotherapy and other treatment would cost.

It is apparent from interviews conducted with Ms. Kelly, and her congressional testimony, that she believed that, while the policy did not provide comprehensive coverage, it would cover much more than it ended up covering. Instead, when she was diagnosed with cancer, she discovered her policy was so inadequate that M.D. Anderson would not even accept assignment for any of the minimal cash payments that the plan would apparently provide. In light of this, I initiated an inquiry into why Ms. Kelly found herself in the circumstances that led her to testify before Congress. Set forth below are a number of my observations regarding the marketing of AARP health insurance products as well as a number of questions.

Supplemental Indemnity Plans as Described by AARP Materials

First I would like to discuss some of the information that those seeking affordable insurance would learn if they go to AARP's website. Specifically, AARP's website, http://aarpmedadvantage.com, describes MAP as a "smart option for the health care insurance you need."[2] In a smaller font that could be illegible for an elderly individual, the MAP policy is described as "an indemnity plan that pays you fixed cash benefits for covered doctor's appointments, prescriptions, hospital stays, surgeries, outpatient lab tests, emergency room visits and more – *even though it's not a major medical plan*" (emphasis added). The website goes on to instruct individuals to apply for MAP if they "don't have health coverage," need "a 'bridge' to Medicare or until other coverage is available," or "need to lower [their] medical expenses." The website directs potential customers to call a toll-free number if they have additional questions.

Committee staff also reviewed AARP's promotional materials for these plans. One AARP publication for potential enrollees is titled, "Let me tell you how your plan works!"[3] This document is provided by AARP to potential enrollees and includes examples of how the "Essential Plus Health Insurance PLAN" (EPHIP) plan would function in a series of examples. EPHIP, according to AARP materials, is a plan that is the same or closely similar to the MAP policy that Lisa Kelly purchased.[4] The first section of this document provides two examples under the heading "Surgery Benefit." The first example explains how the EPHIP plan would cover an outpatient diagnostic colonoscopy performed at an ambulatory surgery center, which the document describes as costing $2,320 less provider discounts of $348. In this example, the EPHIP plan

benefit to the enrollee is cited as $1,413, for a remaining out-of-pocket cost of $559, with EPHIP covering 76 percent of the cost. The second example explains how the EPHIP plan would cover an outpatient diagnostic colonoscopy performed in an outpatient hospital setting. In this example, the document outlines a total cost of $3,730, no provider discount. In this example, the EPHIP plan benefit to the enrollee is still cited as $1,413, and the remaining out-of-pocket cost is $2,317, with EPHIP covering 38 percent of the cost. The document offers no other examples of how the EPHIP benefit works for a surgery other than the two described here for a relatively lower cost procedure, diagnostic colonoscopy, which is not typically referred to as surgery. Moreover, the AARP document provides not a single example of how the benefit would apply to an inpatient hospital stay.

In contrast to the examples provided by AARP in this document, the cost of a surgery would commonly cost thousands more. For example, the cost of a typical surgery such as a laproscopic gallbladder removal on an outpatient basis can range from $6,000 to $13,000 and the cost of an inpatient surgical procedure like knee replacement can cost around $32,000. Nowhere in the "Let me tell you how your plan works!" document is there an example of a more realistic cost of a surgery and the amount the benefit would provide.

September 11, 2008 Briefing on AARP Supplemental Indemnity Plans

As mentioned earlier, I greatly appreciate the September 11, 2008 briefing provided to my staff by those AARP staff members who are most experienced regarding the insurance products marketed nationally by AARP. Representatives from AARP discussed AARP's supplemental indemnity plans and the situation regarding insurance like that purchased by Lisa Kelly. These representatives emphasized that indemnity plans, like the one purchased by Lisa Kelly for nearly $200 per month, were designed to be purchased *in addition to* other health insurance, and that the MAP policy was, at least, "better than nothing." They went on to say that they believed that these fixed indemnity plans, which are targeted to people between 50 and 65 years of age, are purchased mostly by those who have no other health insurance. Clearly these two representations are inconsistent.

The representatives noted further that some of the products were underwritten, while others were not, and that even in the underwritten policies the underwriting was less stringent than what had been the industry standard. Finally, my staff learned from the AARP representatives that the plans had been sold through AARP telephone representatives and that a decision was recently made to utilize insurance brokers in the future.

Calls to AARP Toll-Free Number Regarding Health Insurance Options

To learn more about AARP's insurance products, Committee staff called the website's toll-free number on September 10 and 12, 2008. On September 10, my staff called and inquired about purchasing health insurance for a 51-year-old male living in

Iowa whose health insurance plan was expiring. The AARP representative told my staff that "major medical" wasn't available in Iowa, and EPHIP was presented as an alternative. The AARP telephone representative went on to tell the caller that the plan, which is substantially similar to that purchased by Ms. Kelly, was an "excellent choice" for someone seeking a "less expensive option" to "major medical." Asked twice, the AARP representative reiterated to the caller that the plan was indeed "health insurance" and went on to explain that the plan would be accepted at most hospitals, and only after direct questioning did the representative say that the caller would be responsible for any difference between the fixed amount and the charges. Explaining the range of benefits, the representative only informed the caller of payment amounts for "Level 3," the highest amount, even though the caller was later told that he would probably be approved for Level 1.

On September 12, Committee staff again called AARP's toll-free number. This time, they asked about purchasing health insurance for a 64-year-old man from Texas. Immediately after asking about available health insurance, the caller was directed toward EPHIP, again described as an "affordable option to major medical." When asked for the difference between the two, the representative simply said that the EPHIP "pays a set dollar amount." When the AARP representative was asked whether most hospitals accept the plan, the representative said that at preferred providers the caller would get "an additional discount," and if the caller chose a different provider, the check would be sent directly to him. The representative insisted that the plan was "good health insurance," and that AARP "consider[s] this an excellent option as a bridge between retirement and Medicare." The representative also told the caller that the plan "covers cancer," as long as it was diagnosed after the coverage was in effect. Again, the representative informed the caller only of the highest possible "Level 3" benefits, and not the two other lower tiers of benefits.

Finally, again on September 12 Committee staff made a third call to AARP's toll-free number. This time staff asked about a 59-year old woman in Florida who was retiring and needed to purchase health insurance. The representative immediately explained that a variety of plans were available, ranging from major medical to hospital indemnity plans. After asking about the woman's circumstances, the AARP representative transferred the caller to an insurance advisor to discuss major medical plans.

Based upon a review of, among other things, AARP sales materials, I am writing to learn more about AARP insurance products so that I can better understand how they are marketed, sold and managed. It is my understanding that about 44,000 Americans have purchased policies identical or similar to the one purchased by Ms. Kelly and I am concerned. During research on AARP's Medical Advantage products, my staff learned that AARP marketed and sold a supplemental fixed indemnity product to Medicare beneficiaries, even ones who already had Medicare supplemental insurance. Therefore, please provide answers to the following questions:

1. The AARP marketing materials for the supplemental limited benefit policies describe them as "essential benefits you deserve," as "best-in-class products for people age 50 and over," "the security you want," and "a good option for anyone unable to afford or qualify for major medical insurance."[5]

    a. Please describe the extent to which AARP markets these policies, particularly the supplemental policies, to those who have no other form of insurance coverage.

    b. Please provide AARP's rationale for marketing limited service coverage to this population and what steps, if any, that AARP takes to ensure that potential purchasers of these products are not misled or left with the impression that these policies provide comprehensive coverage.

    c. Please provide any scripts, manuals, or other guidance given to AARP employees or other individuals responsible for answering calls to AARP regarding insurance policies.

    d. Please explain why two of three AARP representatives presented this coverage as the only plan choice to the committee's investigations staff and why they characterized this coverage as "good health insurance."

    e. Please explain what coverage these policies are intended to "bridge" and what AARP means by that term.

    f. Please explain why AARP representatives would suggest, as their first recommendation to a person seeking comprehensive health insurance, a policy AARP describes as "supplemental" coverage.

2. Please provide a detailed description of any sales commissions, inducements, incentives, or other compensation offered to agents for the sale of each of the AARP insurance products.

3. Please provide to the Committee a list of complaints received by AARP by purchasers of either the Gold, Silver, and/or Bronze EPHIP/MAP policies from the time of their inception. Please be sure to describe the nature of the complaint, the current status of the complaint, and the resolution reached, if any.

4. According to the AARP website and other materials, AARP markets a number of health insurance policies to its members.

    a. Please provide a complete list of those policies, the number sold each year from inception to the present, the monthly premium cost in each

of those years, and the revenues that AARP receives for the sale of each type of policy.

b. Please also provide a breakdown of the number of policies sold by state for each of those years and provide a description of the characteristics of those who purchased these policies including their age, gender, annual income (if available), and whether the policyholders are known to carry other health coverage in addition to the AARP policy itself (e.g., Medicare). How many of these specific policies were sold? Please provide a state-by-state distribution of the sales of these policies.

5. Please describe in detail whether and to what extent AARP benefits financially from the sale of these policies and, if so, please provide the annual gross and net revenues to AARP from the point in time when the policies were first marketed up to the present.

6. The AARP "HIP" policies are marketed to individuals who are over age 65 and enrolled in Medicare. My understanding is that these policies offer cash payments to Medicare beneficiaries when they obtain medical care and that these cash payments are made in addition to Medicare's payment for services and in addition to Medicare supplemental or Medigap coverage the beneficiary may have purchased. So, for example, if a beneficiary with a type C standard Medigap policy is hospitalized for three days, that Medigap policy covers the beneficiary's out-of-pocket costs in full for that hospital stay and then the AARP "HIP" policy makes a cash payment to the beneficiary on top of that. In a case like this the beneficiary would incur a net financial gain from seeking medical care.

   a. Please provide the rationale for marketing these policies to seniors who may already have purchased a Medicare supplemental policy and the policy rationale for offering such a product.

   b. In addition, as surveys conducted by America's Health Insurance Plans (AHIP) indicate that purchasers of Medicare supplemental policies are disproportionately rural and of low or moderate incomes, please provide a description of what safeguards, if any, that AARP has in place to prevent vulnerable seniors from needlessly purchasing and incurring costs for duplicative coverage.

   c. Provide a breakdown of the number of policies sold to seniors over age 65 in each of the previous five years.

7. According to AARP materials, the "HIP" policies, which are marketed to Medicare beneficiaries, provide a prescription drug benefit that covers 50

percent of the cost for medications provided after a hospital stay up to an annual maximum of $500.

a. Please provide an explanation of how these policies are marketed and sold to Medicare beneficiaries and whether the coverage pays cash for prescription drugs that may otherwise be covered under Medicare Part D.

b. Please provide what steps, if any, that AARP takes to comply with the true out of pocket (TrOOP) limits established under Part D.

Please provide the information and documents requested above by November 24, 2008. In complying with this request, respond by repeating the enumerated request, followed by the accompanying response; attach and identify all relevant documents or data by title and the number(s) of the enumerated request(s) to which they are responsive. Secondly, in complying with this request, please refer to the attached definitions concerning the questions set forth in this letter. Finally, in cooperating with the Committee's inquiry, no documents, records, data, or other information related to these matters, either directly or indirectly, shall be destroyed, modified, removed, or otherwise made inaccessible to the Committee.

Any questions or concerns should be directed to Christopher Armstrong or Kristen Bass of my Committee staff at (202) 224-4515. All correspondence responsive to this request should be sent electronically in searchable PDF format to Brian_Downey@finance-rep.senate.gov or delivered to the Committee's main office on compact disc. All deliveries should be coordinated with Brian Downey at (202) 224-6447, and delivered in accordance with his instructions.

Sincerely,

Charles E. Grassley
Ranking Member

ENDNOTES AND SUPPLEMENTAL MATERIALS

[1] Barbara Martinez, *Cash Before Chemo: Hospitals Get Tough*, WALL ST. J., April 28, 2008, at A1.
[2] *The AARP Medical Advantage Plan*, at http://www.aarpmedadvantage.com.
[3] AARP, Let Me Tell You How the Plan Works! (2008).
[4] AARP, Untitled Chart of Plan Benefits (2008).
[5] AARP, The AARP Medical Advantage Plan, Sample A Sample's How-To Guide (2008).

Additional Materials:

[6] AARP, SHIP Indemnity Product Suite (2008).
[7] AARP, AARP Health Care Options, Product Availability (2008).
[8] AARP, Standard Limits by Benefit and Product (2008).
[9] AHIP, Low-Income & Rural Beneficiaries with Medigap Coverage (2007).