

Substantiation of Advertising Claims Concerning AARP Medicare Supplement Insurance Plans

REPORT PREPARED FOR:

UnitedHealthcare
Insurance Company
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Background

UnitedHealthcare Insurance Company (UnitedHealthcare Insurance Company of New York for NY residents), together herein shown as “UnitedHealthcare,” insures the AARP Medicare Supplement Insurance Plans marketed to AARP members. In promoting these plans, UnitedHealthcare wishes to make certain advertising claims, and has asked ORC to substantiate their truthfulness.

About ORC

ORC, originally Opinion Research Corporation and now part of Infogroup, was founded in 1938 and is now a leading global research and information services company with focused industry expertise in:

- Healthcare & Pharmaceutical
- Technology
- Energy and Utilities
- Financial Services & Private Equity
- Industrial
- Legal: Survey/Trademark & Claims Substantiation
- Public Services
- Advertising & Professional Services
- Consumer Products & Services

ORC Qualifications for Claim Substantiation

ORC has been substantiating advertising claims for more than 20 years. In the U.S., guidelines for substantiating advertising claims were first published by the three largest TV networks. Starting in 1971, under the sponsorship of the Federal Trade Commission, the National Advertising Division of the Council of Better Business Bureaus Inc., (NAD) has adjudicated disputes concerning such claims as the advertising industry's self-regulation arm. ORC is a subscribing member and has reviewed and retained the decisions which the NAD has published over the years.

Much of ORC's experience in claims substantiation studies has been in the areas of consumer products. ORC has conducted more than 200 successful studies to substantiate advertising claims about food and beverage products, health and beauty aids, household products and electronics.

Substantiating advertising claims about insurance services is a new area for ORC but the principles for substantiation are the same as in the areas where ORC has been active for many years. The basic principle is trust in advertising. Consumers are entitled to believe that the common sense meaning of the advertising claims which they see and hear on public media have been appropriately tested and found to be truthful.

Qualifications of the Report's Author

The author of this report is Robert N. Reitter, the Senior Vice President of ORC's Claim Substantiation practice. As detailed in his bio which is attached to this report, Mr. Reitter has been accepted as an expert witness and has testified in court and at NAD proceedings on many occasions.

Claim: The Number of Insured Members of AARP Medicare Supplement Insurance Plans Equals or Exceeds 2.8 Million

Overview of the Substantiation Process

To audit this claim, a random sample of all insured members on file was created, and payment records were examined for each of the insured members who fell into the sample. At the time of this audit in October 2010, the total of insured members on file was 2.9 million. For the audit of this total to be considered successful in substantiating the claim, every person in the selected sample had to pass inspection in each of the following ways: 1) the payment record for the selected insured members had to show a recent payment, and 2) there had to be no other person with the same name and address among the insured members on file.

Considerations Leading to the Specification of the Sample Size

Records for 150 insured members chosen at random were examined in detail. This sample size was selected because it is sufficiently large to provide 95% confidence that at least 98% of the insured members on file are unduplicated persons whose account was current at the time the audit was made.

The proof for this is as follows. Suppose that as many as 2% of the supposed insured members on file are nonexistent, or have not made recent payments, or are duplicated in the file. Then the probability that a sample of 150 will miss all of these fake or defective records is $1 - (0.98 \text{ to the power of } 150)$ or 5%.

Thus a sample size of 150 is sufficiently large to provide 95% certainty that if the claim is inflated at all, it is not inflated by as much as 2%.

Method of Sampling

The 2.9 million insured members on record as of October 2010 were sorted by their zip code of residence. The 36,651 zip codes in the U.S were arranged in ascending order and the number of insured members in each was listed. Then the number of insured members was cumulated from the number in the first, lowest numbered zip code to the cumulative number of 2.9 million in a zip code designated in the file as 99999.¹

The sampling interval was set at 19,400, since this is the total number of insured members, 2,910,414 divided by the specified sample size, 150. Using the column of the cumulative number of insured members, a zip code was flagged for selection if it contained in the cumulative column a multiple of the number 19,400. The resulting sample of 150 zip codes is a random sample weighted by the population of insured members across all U.S. zip codes.

The 150 zip codes selected contained no duplicates, because none of them had as many insured members as the sampling interval, 19,400. They contained anywhere from 4 to 4,265 insured members. In total, the 150 selected zip codes contained 58,890 records, for an average of 392.6 each. Just one record was selected for detailed examination in each zip code, the middle one in the order of its "tag" number.

Results of the Audit

A sort by name within zip code for each of the 150 selected zip codes showed that there were no duplicates. There were many addresses with two insured members, typically married couples, but there were no instances of the same person being listed more than once.

Each of the selected records satisfied the requirement that there was a record of recent payments. The amounts varied, and where the amount seemed low, it turned out that the insured members was partially subsidized by an employer.

¹ There is no zip code 99999, but this designation was used where an insured member of record provided a zip code so new it had not yet registered in the system, or provided a foreign address.

Since none of the 150 records selected at random duplicated any other record, and since each one turned out to identify a named person whose payment records were actually examined, the audit validated the veracity of the entire list of 2.9 million insured members. Thus the claim that the number of AARP Medicare Supplement Insurance insured members equals or exceeds 2.8 million is substantiated.

**Claim: AARP Medicare Supplement Insurance Plan Annual Rate
Increases
Have Been Less than 6% on Average between 2006 and 2010**

Overview of the Substantiation Process

Base rate increases for each year between 2006 and 2010 were tabulated by specific plan within each state. Rates for a year across plans and across states were weighted by the number of insured members. From year to year, base rate increases by state and for the total US were computed as if the number of insured members had remained the same from the earlier year to the later year. Thus the computed average base rate increases were not influenced by a change in the number of people enrolled in a specific plan within any specific state, or across states.

All standardized plans A through L were included in the analysis. In addition *Medicare Select* plans and *Waiver* plans in Massachusetts, Minnesota and Wisconsin were included. Not included in the analysis were pre-standardized plans which were sold before 1992 and are no longer made available.

Results of the Audit

On average, base rates increased by 5.4% annually between 2006 and 2010. In some years, specifically from 2005 to 2006 and from 2006 to 2007, base rates increased by between 6% and 7%. However, during the ensuing three years within the audited range, 2008-2010, base rate increases were below 5% each year. Thus over the entire period 2006-2010 the increases annually were 5.4% on average.

These base rate increases varied widely among the many insured members whose base rates were examined. Between 2005 and 2006 in particular, a significant minority of insured members experienced base rate increases of 9% or more. But these instances were counterbalanced by those for which base rates increased by much less than 6%. For example, from 2009 to 2010, most insured members experienced increases of less than 6% and some experienced base rate increases of less than 3%.

Thus while it is true that the average base rate increase was less than 6% from 2006 through 2010, there is considerable variation around this average. This is why, when publicizing the accurate claim that the average rate increase was less than 6%, mention is made that base rate increases vary by specific plan, by state and by year.

It should be noted that the claim was audited and substantiated for base rates. The total amounts being charged to insured members may vary more than do the base rates. This is because some insured members receive discounted rates for early enrollment, and these discounts wear off over the years.

The audit therefore substantiated a claim being made specifically for *base* rate increases. The substantiated claim is that, on average, base rates have increased by less than 6% annually from 2006 through 2010, while varying by specific plan, state and year.

The average base rate increases between 2006 and 2010 on a state-by-state basis were as follows:

AK	5.4%		KY	6.4%		OH	6.1%
AL	4.9%		LA	1.9%		OK	4.9%
AR	5.4%		MA	6.6%		OR	5.1%
AZ	6.3%		MD	6.7%		PA	4.7%
CA	3.8%		ME	7.0%		PR	5.5%
CO	6.6%		MI	5.1%		RI	3.2%
CT	7.0%		MN	6.7%		SC	3.6%
DC	4.9%		MO	5.4%		SD	4.7%
DE	3.7%		MS	4.3%		TN	5.2%
FL	4.3%		MT	5.3%		TX	5.5%
GA	5.3%		NC	4.7%		UT	4.6%
GU	6.6%		ND	6.7%		VA	5.2%
HI	2.8%		NE	7.8%		VI	8.2%
IA	6.1%		NH	7.7%		VT	6.1%
ID	4.5%		NJ	6.9%		WA	4.8%
IL	5.4%		NM	4.7%		WI	5.7%
IN	6.8%		NV	5.3%		WV	5.5%
KS	6.3%		NY	5.2%		WY	4.3%

Claim: 99.2% of AARP Medicare Supplement Insurance Plan Claims are Processed in 10 Days or Less

Overview of the Substantiation Process

UnitedHealthcare has processed 88.9 million claims to date for AARP Medicare Supplement Insurance Plans in 2010. The vast majority of these claims are submitted and are processed electronically, but some categories of claims arrive on paper and require keypunching. It can be expected that processing time would vary by how claims arrive as well as by other variables, such as whether the claims are submitted for hospital charges, doctors' fees or charges for prescription drugs. It was therefore decided that a sample of the 88.9 million claims processed so far in 2010 (up through December 15) would be examined and stratified by the claim source and claim type. A count would then be made of the number of claims across the total of all types that took more than 10 days to process.

Method of Sampling

A random sample of 70 claims was selected from each of 7 categories, from Medicare EC (comprising 81.32% of the claims processed to date in 2010), Medicare Part B front-end keyed claims (comprising 11.29%), down to front-end keyed claims for prescription drugs (comprising only 0.01%). The sampling process made use of the Random Selection function of the Oracle database program. For each of these 490 randomly selected claims for the stratified sample, the following statistics were supplied:

Claim number (first four digits reflect day of year received)
Receipt date in normal calendar notation
Response processing date in normal calendar notation
Service days

Service days were computed so as to count one-half a day for the date of receipt and one-half for the processing date. Thus if a claim were received on January 11, 2010 and the response was sent on January 15, 4 service days would have elapsed, so it would be considered as having taken 4 days to process. Weekend and holiday days were not counted in service days.

For the category of front-end keyed prescription drug claims, the “cross-reference” date was used, since this is earlier than the date of receipt, which records the electronic delivery of the keypunched data.

Results of the Audit

Of the 490 claims examined, 14 took more than 10 days to process. These 14 claims were very unequally distributed across the claim types. The most numerous claims type categories, Medicare EC and Medicare Part B front-end keyed claims, comprising between them 92.61% of the claims processed to date in 2010, had no claims at all taking more than 10 days to process. By contrast, 8 of the 14 claims taking more than 10 days to process belonged to the category of unkeyable claims which is by definition a category reflecting a snag of some sort in the system of processing. For three additional categories of claims, namely Medicare Part A front-end keyed, Fasttrieve manual and Clearinghouse EC, there were 2 claims in each category out of the 70 that were examined that took more than 10 days.

As-weighted average was computed across the sample of 490 claims that removed the distortion in the composition of these claims created by the stratification of the sample. Thus the 8 out of 70 figure for the unkeyable claims was weighted by 1.13%, which is the proportion of 2010 claims belonging to this category, and the categories for which 2 out of 70 claims were found to have taken more than 10 days to process were weighted by 0.99%, 2.83% and 2.43% respectively. The composite percent resulting from these calculations was 0.3%. Conversely, 99.7% of the 490 claims were processed in 10 days or less. The statement that 99.2% of AARP Medicare Supplement Insurance Plan claims are processed in 10 days or less is therefore fully supported by this audit of a sample of recent claims processed by UnitedHealthcare.

APPENDIX

Biography of Report's Author

Robert N. Reitter

Employment

- 1990 - Senior Vice-President, ORC, formerly Guideline
- Designed and supervised more than five hundred surveys intended to withstand adversarial scrutiny, including Claims Substantiation, Trademark, Trade Dress, and Advertising Perception studies.
 - Accepted on numerous occasions as an expert witness, and has had many surveys credited by Federal and State courts, by the U.S.P.T.O., Federal Trade Commission, the NAD (National Advertising Division of the Better Business Bureau) and the NARB (National Advertising Review Board).
- 1968 - 1990 President, Reitter, Wilkins & Associates, Inc.
- Planned and interpreted market research for companies in the food, beverage, fashion, and travel industries
- 1967 - 1968 Associate, Land-Reitter Associates
- 1966 - 1967 Assistant Director of Research, PKL Advertising
- 1963 - 1966 Product Research Assistant, General Foods Corporation

Education

- 1962 Master of Industrial Administration, Yale University
- 1960 French National Scholar, University of Paris
- 1959 Bachelor of Arts *cum laude*, Yale College

Testimony as an Expert at Trial or by Deposition since 2006

2010	TestMasters v. Test Masters	U.S.P.T.O.
2009	Coryn Group v. O.C. Seacrets	USDC Southern District of NY
2009	GAP Inc. v. G.A.P. Adventures	USDC Southern District of NY
2009	LG Electronics v. Whirlpool Corporation	USDC Northern District of IL
2009	Playtex Products v. Procter & Gamble	USDC Southern District of NY
2008	ComponentOne v. ComponentArt	USDC Western District of PA
2008	University of Kansas v. Joe College	USDC for the District of Kansas
2007	Louis Vuitton v. Dooney & Bourke	USDC Southern District of NY
2007	Sunscreen Cases (Rule 1550B)	Superior Court of California LA
2007	Verizon CA v. Maltuzi	USDC Central District of CA
2006	IMIG, Inc. v. Electrolux	USDC Eastern District of NY
2006	Enterprise Rent-a-Car v. U-Haul	USDC Eastern District of MO
2006	Life is Good v. LG Electronics	USDC District of MA
2006	Monaco Coach v. Mitsubishi	U.S.P.T.O.
2006	Unique Sports v. Babolat	USDC Northern District of GA
2006	Kettle Foods v. Classic Foods	USDC Southern District of CA

Publications and Speeches since 1999

What You Need to Know to Be Successful before the NAD The 8th National Advanced Forum for Advertising Law, New York, 2001

ASTM Standards for Claim Substantiation from a Research Practitioner's Perspective Presentation to an ASTM Committee, Salt Lake City, 2004

Survey Research and Dilution Presentation to the Practicing Law Institute, New York, 2004