

COVERING THE UNINSURED:

The Promise and Pitfalls of the Individual Medical Market

**Market fundamentals
drive insurers' ability to
reach a growing number
of uninsured.**

BY KATHRYN WEISMANTEL

IN MANY WAYS the individual market is a derivative marketplace made up of Americans not eligible for benefits through employment or a government program. As such, this market waxes and wanes in tandem with macroeconomic shifts and changes in the employer-sponsored marketplace. The recent macroeconomic environment, benefit belt-tightening by employers, and budget constraints limiting government programs like SCHIP have resulted in unprecedented growth in the individual insurance marketplace—and this appears to be a longer-term trend.

To get a true sense of the promise of the individual marketplace, it's helpful to understand the current market landscape and the segments driving growth. The primary buyers of individual medical are employed: the self-employed, part-time workers, those not eligible for employer-sponsored coverage (due to waiting periods and exemption status), and those buying policies for family members left uninsured when employers dropped dependent coverage. As offer rates continue to decline, particularly among small employers, and all firms tighten eligibility requirements, more employed workers will turn to the individual marketplace for coverage.

DIGITAL VISION

Among the unemployed are early retirees, recent graduates, and those temporarily laid-off, groups who typically have purchased insurance. Several macroeconomic trends such as declining retirement health coverage, an influx of retiring baby boomers, slower job growth, and changing industry mix drive these groups to the individual marketplace for health insurance.

Taking into account both the current landscape and the economic trends that cause individuals to move from employer- and government-sponsored health benefit programs into the individual medical market, the nearly 19 million people with individual medical insurance (75 percent of whom are employed) could grow to more than 26 million by 2007. Chart 1 shows the makeup and growth projections for the major categories of individual medical members both on an unemployed and employed basis.

These employed and unemployed segments also represent a significant portion of the uninsured population. The challenge for health insurance plans lies in converting those who typically have purchased insurance. Given limited budgets and resources, health insurers must prioritize the segments of the individual market and apply appropriate targeting strategies. Chart 2 provides one framework for this segmentation using membership growth rates and the propensity to buy insurance as the primary axes, with segment size as the third dimension. The upper right quadrant represents mature markets. Innovators will target groups in the lower right quadrant to capture the conversion opportunity, recognizing that public health insurance programs best serve the market in the lower left.

Market Scenarios

Various market scenarios could emerge that could temper or fuel growth in the individual market. Awareness of these forces allows health insurers to gauge the need to increase the speed to market or hold back, taking a “wait and see” approach.

A “bear” view of future growth in the individual market involves some combination of these factors:

- Government mandates requiring employers to offer health insurance—a “play or pay” system
- Increased employment among firms offering health benefits
- Product and distribution gaps
- Adoption of legislation authorizing association health plans that could siphon off a sizable number of the self-employed.

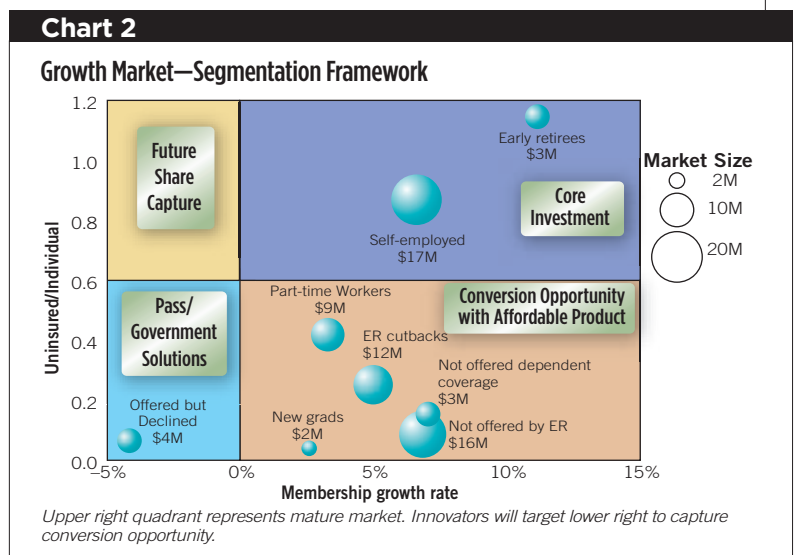
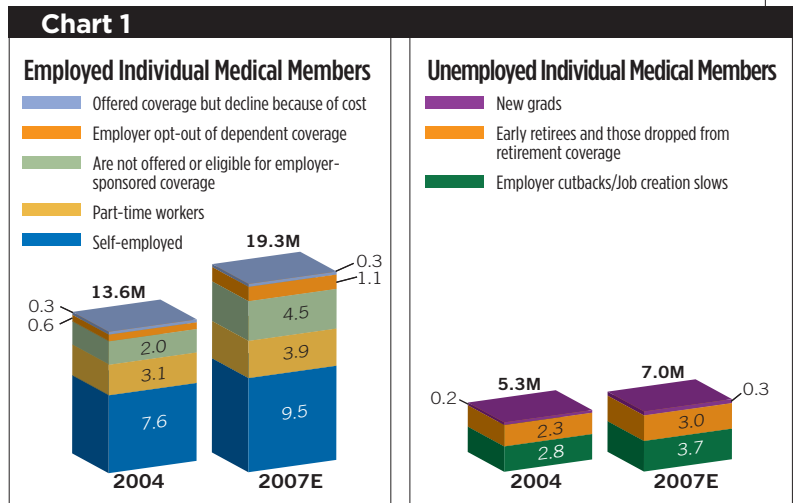
Conversely, a “bull” view of the individual market involves:

- Government tax incentives to buy individual health insurance
- Successful promotion of Health Savings Accounts (HSAs) and education in its use
- Growth in consumer-driven health care, providing the educational tools and technology critical to the individual marketplace
- Continued erosion of employer sponsorship
- Products and marketing that reach the uninsured
- Continued slow job growth.

Competitive Landscape

The competitive landscape is changing. While the individual marketplace was once controlled mainly by a handful of health insurance plans, some new suitors have begun courting consumers and more insurers are attracted to that market. Beyond a growing base of prospective purchasers, several other factors make the individual medical marketplace appealing to insurers:

Lower costs. Enhanced technology, improved underwriting, and expanded marketing channels have all contributed to reduced administrative costs, making the economics of the individual marketplace more attractive than in the past.



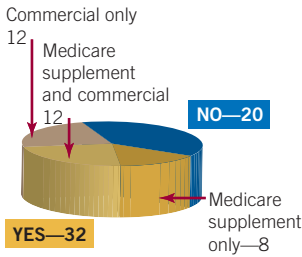
Synergy. With the rise of consumer accountability and consumer-directed health care, individual medical is a natural extension. HSAs then add a significant financial incentive that’s a “no brainer” in the individual marketplace while also having applicability for certain employer-funded plans. And for some large commercial health plans, strong name recognition and image lends itself to the brand mentality of individual purchasing.

Limited competition—for now. The number of health insurers offering individual coverage has dropped over the past five

Chart 3

Commercial Regional Carriers (Non-Blue/Non-National)

62% of respondents offer individual products



Future Plans by Carrier Size

Membership	Responses	Individual Products	Future Plans
>500K	12	YES 10	3 expanding
		NO 2	No plans to enter
200-499K	14	YES 11	4 Expanding
		NO 3	No plans to enter
100-199K	13	YES 5	1 expanding
		NO 8	1 entering
<100K	13	YES 6	1 expanding, 1 considering reduction
		NO 7	2 entering

ChapterHouse's survey responses from over 50 top regional carriers showed that a sizeable number (25%+) of the medium and large companies are increasing their focus on the individual market while smaller companies are taking a "wait and see" approach.

years, creating a window of opportunity to garner share. Early indicators show a surge of new players (e.g., Humana One, Aetna's Individual Advantage, United's purchase of Golden Rule) and heightened focus by some of the dominant incumbents. Moreover, as Chart 3 indicates, larger regional carriers are active in the individual market, and many have plans for expansion.

While the individual medical market presents much opportunity, health insurers must overcome a number of possible pitfalls.

PITFALL ONE: Proper timing is critical for health insurers considering entering or increasing focus on the individual medical marketplace.

Enter too early with a poor plan design and pricing, the distribution channel remembers it. Enter too late, lose the opportunity to garner share of mind, capture profitable segments, and recognize valuable synergies.

Current market segmentation strategies, based primarily on income, life circumstance (e.g., in-between jobs), or age (e.g., early retiree, student), are a nascent version of things to come. The consumer-directed movement, with its required accountability for health and wellness, will

"fast track" a segmentation model that incorporates personalized health and lifestyle needs. And with the advent of HSAs, risk profiles and financial situations will be additional considerations. Ultimately, a multidimensional picture will emerge inclusive of all the major factors shaping consumer benefit needs and decisions. (See illustration at right.)

PITFALL TWO: Health plans entering the individual market must quickly adapt to the marketing learning curve.

Savvy carriers are taking cues from other industries—like financial services, consumer products, and retail—with proven success in the sophisticated marketing strategies and tactics required to reach a wide array of individual consumers.

A convergence of trends—shrinking Medicaid rosters, an influx of early retirees from the baby boomer generation, increasing corporate right-sizing resulting in mass layoffs, and the inability of employees to shoulder employer cost-shifting are just a few—has created a growing and diverse population with a large unmet need. Given the varying income levels and time frames, health plans and insurers are offering a wide range of price

points and plan designs to successfully address this diversity.

In the near future, consumer segmentation trends and the need for broad product lines will blend. Innovators will engage in microsegmentation, identifying consumer segments and developing products, services, distribution, and pricing models to reach their selected markets. The result will be a proliferation of products, challenging health insurers to gain "mind share" among consumers and "shelf space" with producers.

PITFALL THREE: Individual medical products and services require innovative funding and pricing arrangements as well as organizational speed and flexibility.

HSAs represent one of the biggest catalysts for growth in the individual medical market. According to the IRS, 73 percent of new medical savings accounts

(MSAs)—the predecessors to HSAs—are established by individuals uninsured for more than six months. Unlike MSAs, which have limitations on who can purchase them, HSAs are available to the masses. More than 16 million individuals affected by an employer not offering insurance could benefit greatly from HSAs. Understandably, those with moderate incomes are better able to afford the high deductible. As the tools and education that facilitate better health care decision making become mainstream, the remaining population may be better equipped to manage their limited health care dollars while leveraging the tax benefits of the HSA.

With the advent of HSAs, financial service companies are entering on the fringes of health care, serving as partners with established health insurers. While the health plan will be in the more powerful position (it's more difficult for a financial services company to create a high-deductible health plan than for a health plan to manage an HSA), developing an effective partnership is still an important component of a successful strategy.

Enhanced technology, improved underwriting, and expanded marketing **have all contributed to reduced administrative costs,** making the economics of the individual market **more attractive than in the past.**



Wholesale/Retail Channel Dynamics

PITFALL FOUR: A challenge for health plans will lie in selecting and integrating partners that align well with their own business models and are able to provide seamless administration despite evolving HSA requirements.

A key barrier to health plans' individual medical insurance sales in the past has been marketing and distribution. A retail model entails one-on-one, tailored discussions, with a "kitchen table" approach. At the other end of the spectrum, the wholesale model relies on a "cafeteria" tactic, targeting groups of potential purchasers using generic materials and messages. While each option has its limitations, the more upstream a health plan can position itself, the

better—particularly for reaching the employed uninsured. Once an individual leaves the workplace, the process of reaching that person is difficult and requires more innovative methods in terms of direct marketing and new alliances.

A host of advantages emerge when insurance producers can work through employers to sell individual medical. The employers' sponsorship of the producer creates trust, creating the opportunity for higher penetration rates. Meanwhile, the health insurer benefits from a potentially lower cost of distribution. And, by giving producers access to their uninsured employees, employers fulfill their sense of responsibility that constrained budgets may not otherwise allow them to support. The growth in voluntary products (60 percent of which are indi-

vidually based) stands as an early indicator of the viability of the wholesale channel for individual medical insurance.

When innovations in the retail space—particularly online tools and education that deliver tailored information—supplement the wholesale approach, health insurers have a cost-effective and efficient way to reach a sizable share of potential individual medical buyers.

The Implications

A host of business implications emerge from the opportunities and challenges presented by the individual medical market. While the promise is considerable—millions of potential members—so too are the requirements for success. Successful health plans and insurers seeking to participate in the individual market will need to define their product agenda, focus on target marketing, address price compression with new entrants, properly align their business model, improve speed to market, and pioneer new channel models.

The challenges in the individual medical market are significant. But successfully tackling them will position health insurance plans as a primary solution for a major social and political issue—providing affordable coverage to millions of uninsured Americans—while at the same time capturing a significant business opportunity. **C**

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