

POINT OF VIEW

INSIDE THE UNINSURED

OLIVER WYMAN'S
NEW SURVEY
OF AMERICANS
WITHOUT HEALTH
INSURANCE FINDS
THEM READY TO
PARTICIPATE IN
HEALTHCARE
REFORM, OPEN
TO INNOVATION,
BUT EXTREMELY
SENSITIVE TO PRICE.

A principal goal of the Affordable Care Act of 2010 was to reduce the number of Americans who lack health coverage. To do that, the law calls for the creation of regulated healthcare exchanges where the uninsured can purchase insurance, and a system of subsidies and penalties to encourage and assist them to buy.

But will they? Traditionally, not much has been known about the uninsured. There have been estimates of their demographics and health status but little real knowledge. And we have known far too little about their attitudes, preferences, and needs in regard to healthcare—factors that could have a great impact on how well the system works and how the exchanges should be designed and regulated.

To find out, Oliver Wyman conducted what we believe to be the first major market survey of the consumers most likely to purchase coverage in the under-65 healthcare exchanges in their first few years of operation.¹ Part of the project consisted of detailed surveys of nearly 1,000 currently uninsured individuals. We asked about their health status, their income, and their attitudes toward the health system. To discover how they would make buying decisions we presented them with a battery of choice scenarios, featuring realistic descriptions of the sort of products we expect to see offered when the exchanges open in 2014. These fictional offerings carried

¹ The survey was an independent project, not conducted on behalf of any client.

actuarially appropriate pricing, subsidies that reflected respondents' actual income levels, and the penalties consumers would actually pay if they chose not to buy.² They included a variety of coverage options, including some innovative ones, such as discounts for losing weight, options for patient-centered medical homes, 24/7 access, Web-based doctor visits, and so forth.

The results show a system that has better prospects of success than many had predicted—but also some serious challenges.

(1) THE UNINSURED ARE READY TO BUY HEALTH COVERAGE

When asked to choose between buying insurance and paying a penalty, 76 percent of the uninsured in our sample elected to purchase coverage. To the extent our survey simulates the under-65 exchange marketplace that emerges in 2014, nearly 39 million of the 51 million uninsured are likely to buy coverage—reducing the number of uninsured from 16.6 percent of the U.S. population to 3.9 percent.

This suggests that ACA may in fact be able to meet its goal of substantially reducing the number of the uninsured. But there are additional implications for healthcare. The most important, from our perspective: The uninsured entering the healthcare market potentially represent a critical mass of consumers that could help push insurers and healthcare providers toward lower costs and higher quality. These 39 million newly insured Americans represent 12 percent of the U.S. population—a segment nearly the size of the Generation X segment (with 45 million Americans) and slightly larger than the current 65+ seniors market. They will wield more than \$150 billion of purchasing power in the exchanges. We expect them to demand new products and services unavailable in today's market, where employers make most health insurance decisions.

But there are hurdles. While our research shows that uninsured Americans overwhelmingly see value in coverage, few really understand their options or even what a regulated product exchange is. "Consumers need to be educated," says Terry Stone, a partner in Oliver Wyman's Health & Life Sciences practice. "If that doesn't happen, consumers will be slow to come to the exchanges, and there's a good chance they will make uninformed choices when they get there."

(2) THE UNINSURED ARE ACUTELY PRICE SENSITIVE

In our survey one factor had a major impact on whether consumers bought insurance or turned it down: cost, specifically the net cost of insurance premiums after subsidies, relative to family income.

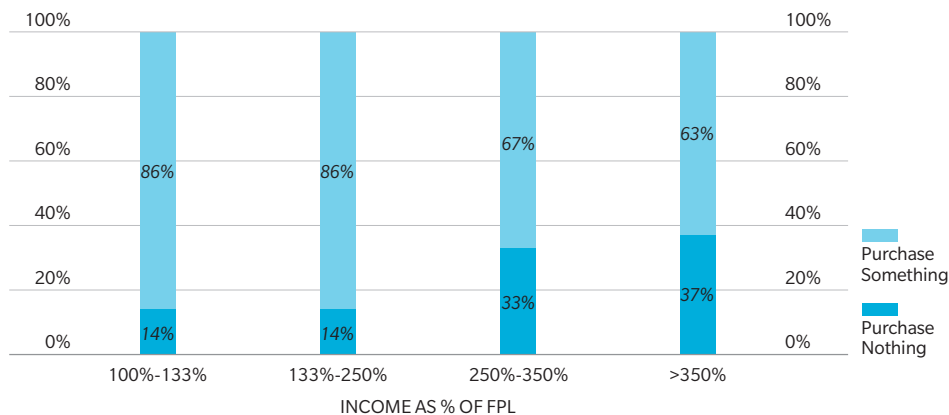
² For purposes of the survey, we priced premiums to match current actuarial reality. Because penalties are steeply discounted in the first year of the exchanges, we based our simulation on the full penalties of year three.

The net cost of premiums after subsidies had a major impact on whether consumers bought insurance or turned it down. Because federal premium subsidies are lower for those with higher incomes, this means that middle-income consumers are less likely to purchase insurance than the lowest-income group. Only 14 percent of those with incomes between 100 percent and 133 percent of the federal poverty level (or between \$22,000 and \$29,000 for a family of four, using the 2010 guidelines) said they would not buy insurance. The figure rose to 33 percent for those between 250 and 350 percent of FPL, and 37 percent for those greater than 350 percent of FPL. As disposable incomes rose past this point, consumers opted back into the market. For those earning more than 600 percent of FPL (about \$130,000 for a family of four), the likelihood to opt out dropped back down to 19 percent.

This price sensitivity could work against ACA. Healthcare costs are rising two and a half times faster than the Consumer Price Index and the tax revenue that ultimately pays for government programs. It will be difficult for the federal government to increase subsidies at the same pace as medical trend—especially if the eligible uninsured numbers continue to grow through layoffs and continuing unemployment.

“In today’s political and economic climate, we can expect pressure to reduce subsidies,” says Stone. “If that happens we’re likely to see more people go without insurance—and unable to purchase coverage on their own. And the group most affected will not be the poorest, but middle-income Americans.”

EXHIBIT 1: LIKELIHOOD TO BUY INSURANCE BY INCOME LEVEL



(3) THE UNINSURED HAVE DIFFERENT NEEDS AND PREFERENCES

The world of employer-based insurance tends to be one-size-fits-all, but there is no reason why the exchanges need to take that approach. To find out what consumers actually want, we offered our respondents the opportunity to customize their coverage. We offered a series of \$50-a-month upgrades to coverage or service, but also scenarios in which consumers would receive a \$50-a-month discount for agreeing to change how they accessed the healthcare care system or for embracing healthy lifestyle choices.

Many found the deals attractive:

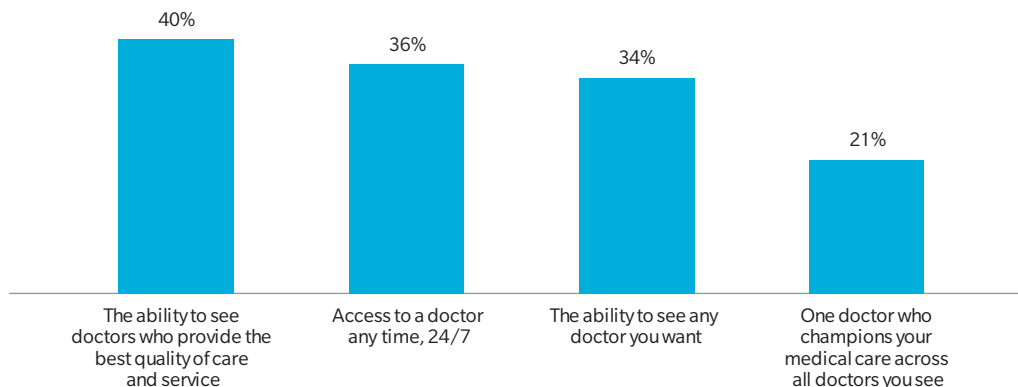
- 41 percent were willing to receive a majority of their medical care at a retail clinic located in a pharmacy or retail store
- 52 percent were willing to reach a healthy body weight
- 38 percent of those who smoked were willing to quit
- 48 percent were willing to interact with their doctor primarily online.

Other consumers were looking for premium service and willing to pay for it.

- 38 percent were willing to pay extra for 24-hour-a-day, seven-day-a-week access to doctors
- 26 percent would pay for coverage and access to alternative medicine.

It remains to be seen whether any or all of these specific alternatives will ultimately be permitted in the exchanges. But we think it is significant that large numbers of the currently uninsured seem prepared to make tradeoffs to get their insurance to suit their needs. That is a promising situation for a retail market intended to push healthcare toward better, cheaper coverage.

EXHIBIT 2: PERCENT OF CONSUMERS WILLING TO PAY \$50 PER MONTH FOR EACH ADD-ON



As we analyzed the data from our survey, it became clear that the uninsured fall into three key segments with very distinct needs and desires.

- The first group, which we call “Struggling and Unengaged,” consists of 17 million people, or about 44 percent of the uninsured. People in this category are predominantly in their 30s and 40s. They are healthy but not economically well off; many need two jobs to cover basic living expenses. Healthcare is not their priority; most have no regular doctor, little experience with the healthcare system, and little trust in it. They view health insurance as a commodity and just want basic protection against disaster. They are willing to get their care through low-cost urgent-care or retail clinics and interact with their insurance company through Web-based self-service and other inexpensive routes. Most will buy insurance because of government subsidies or to avoid penalties.
- The second group, 10 million people or 26 percent of the uninsured, is “Want to Be Healthier.” They are largely middle-class, also in their 30s and 40s, a mix of single people and small families. These are people who already have a chronic disease or are at risk of developing one, and they are interested in taking steps to improve their health. This segment wants expert advice in navigating the healthcare system and making decisions. They already have some experience with the healthcare system (not surprising given their health status) and are more trusting of their doctor (if they have one). They value concierge-like services, convenience, and access to healthcare: 24/7 coverage, same-day appointments, and disease management programs.
- We call the third segment “Engaged to Save.” The people in this group represent 11 percent of the uninsured, and they are perhaps the least like the population in the employer-driven market. They are lower middle class, and a bit younger than the previous two segments. They are healthy today, and are far more price sensitive than any other segment we have identified. They are willing to do anything to save money: submit a detailed health assessment, wait up to two weeks for a doctor’s appointment, use retail clinics for routine care, do follow-ups by phone or e-mail. People in this group want to minimize out-of-pocket costs and are willing to make tradeoffs to reduce their costs. For example, they are willing to maintain a healthy body weight or quit smoking if it will save them on premiums.

“The differences among the three segments of uninsured Americans are fascinating,” says Helen Leis, a partner in Oliver Wyman’s Health and Life Sciences practice. “Some of them care less about access to traditional healthcare and more about access to healthy lifestyles. They might be willing to trade the traditional broad network of doctors for discounts on healthy groceries. But I think the government needs to consider these differences if the new healthcare system is going to succeed.”

LOOKING FORWARD

Healthcare reform has become a contentious political issue, and it is easy to lose sight of the big picture. The coming healthcare exchanges are intended not just as a way to distribute subsidized insurance, but as an engine to encourage competition and innovation—competition and innovation that are supposed to benefit all Americans, not just those who purchase on the exchanges.

“If the exchanges are managed correctly, they will become a \$150 billion laboratory for healthcare innovation,” says Leis. “It’s up to government and the industry to ensure that the buying power of the uninsured, including massive government subsidies, ultimately leads the way to better, cheaper healthcare for all.”

ABOUT OLIVER WYMAN

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