

Four Marketing Themes That Can Resonate with Individual Purchasers



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J.D. Power and Associates*

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Context

Who is ready for the new market of individuals preparing to purchase health coverage? The Affordable Care Act (ACA) will stimulate increased demand to buy health insurance on their own. The individual mandate, guaranteed issue, and the creation of new purchasing channels are each expected to focus attention on this market. At the same time, new Medical Cost Ratio (MCR) limits will require prudent decisions about how to best spend marketing dollars.

Health plans familiar with marketing to employer purchasers will find much that is different when marketing to individual purchasers. More than ever, it will be important to understand the drivers of satisfaction at the level of the individual member. High levels of satisfaction can generate favorable word of mouth recommendations, attract new members, help to control churn, and potentially even reduce the need for costly promotional spending.

Until now, individuals have comprised a small part of the insured population, and their experiences have often been overlooked, as nearly nine in 10 commercial health plan members receive their coverage through an employer-sponsored group. (Figure 1)

Individuals have not had much voice in the marketplace. The annual *J.D. Power and Associates Member Health Plan StudySM* (referred to in this Special Report as the Member Study) provides an effective way for making their needs heard. Nearly 10% of the respondents for the 2011 study directly purchased their health insurance coverage. Detailed information on their views may be instrumental in creating innovative and effective marketing strategies that are geared to the new shopping channels individual purchasers will use.

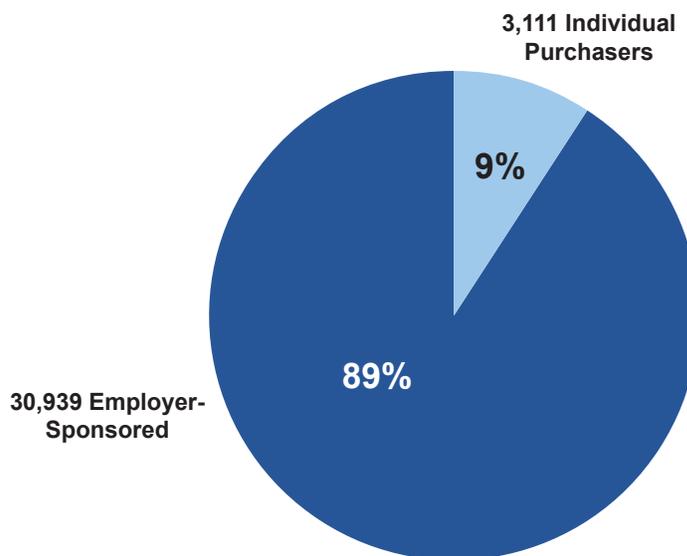
Health plans familiar with marketing to employer purchasers will find much that is different when marketing to individual purchasers.

J.D. Power 2011 Member Health Insurance Plan Study

National survey of Americans with commercial health insurance

Objectives

- Improve quality and satisfaction
- Provide competitive comparisons
- Guide marketing communications and product development



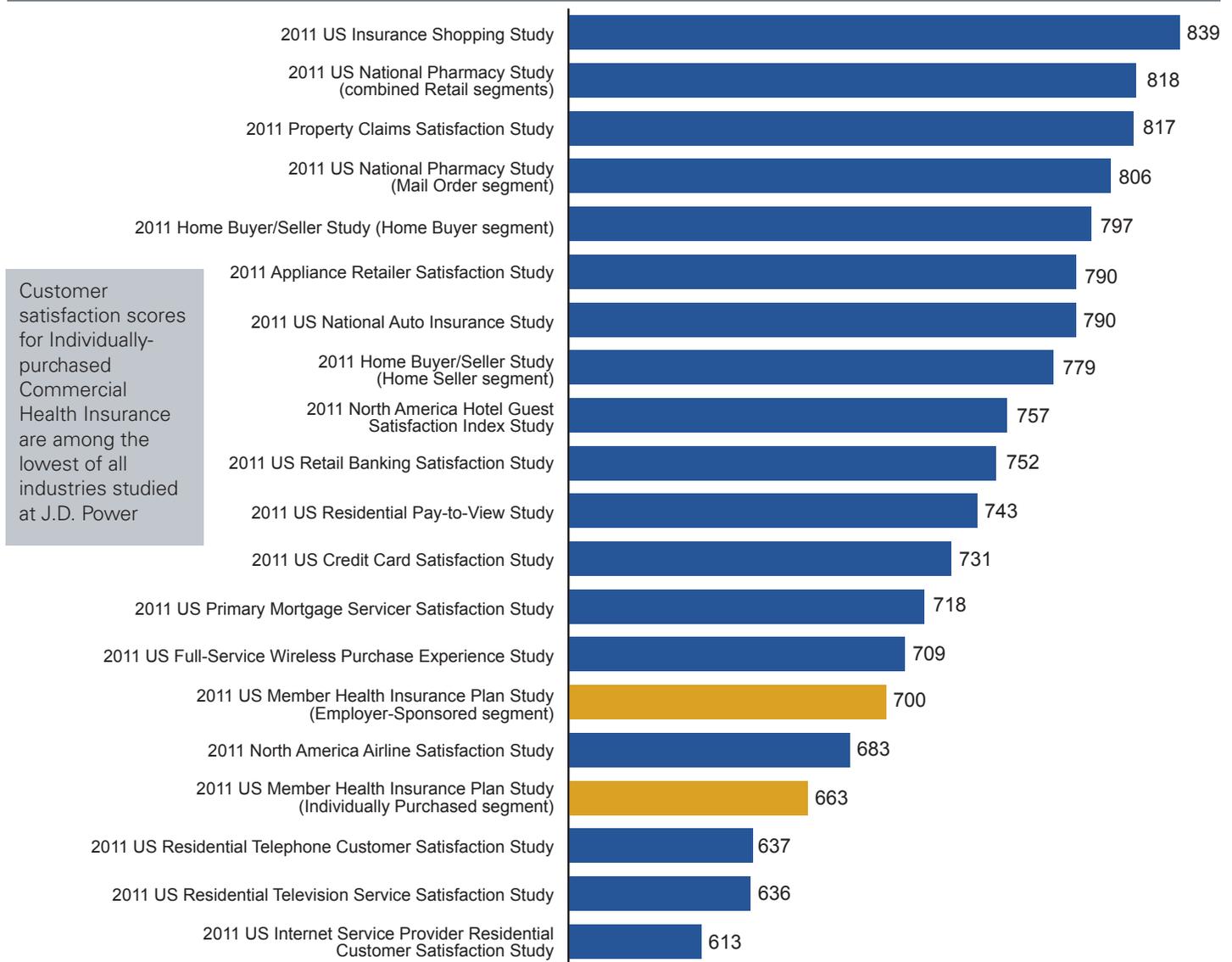
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Source: *J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM*

Figure 1

Marketing communications must account for the reality that individual purchasers are not satisfied with their current situation. Figure 2 shows customer satisfaction ratings from syndicated studies conducted by J.D. Power and Associates across a broad range of industries. (i.e., excluding studies on business-to-business satisfaction). Satisfaction with commercial health insurance is among the lowest of any group that is studied, as gauged on a 1,000-point scale of the sectors measured. Only phone, cable TV, and Internet service providers receive lower scores.

Average Satisfaction Index Scores Across Sectors



Customer satisfaction scores for Individually-purchased Commercial Health Insurance are among the lowest of all industries studied at J.D. Power

Based on a 1,000-point scale
 Source: J.D. Power and Associates

Figure 2

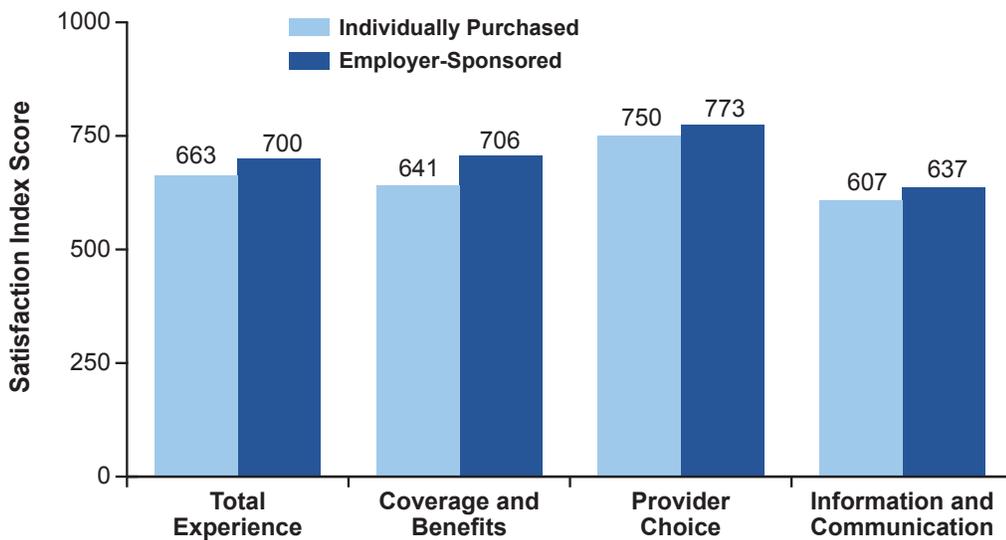
According to the 2011 Member Study, individual purchasers are consistently less satisfied than members who have employer-sponsored coverage. This is apparent across each of the most important factors driving satisfaction.

Total overall satisfaction index scores are 37 points lower, on average, among individual purchasers than for members with employer-sponsored coverage.

The satisfaction gap is narrowest with Provider Choice (23 points) and largest for Coverage and Benefits (65 points). In other words, what individual purchasers experience with their health insurance does not align with their expectations or perceived needs. (Figures 3, 4) Their biggest concerns are:

- Receiving coverage for standard services (such as wellness exams or non-emergency doctor visits) and coverage for drugs
- Being able to access care for a variety of preventive services
 - Individual purchasers are less satisfied with coverage for a variety of basic services, such as cholesterol testing, flu shots, and blood pressure testing

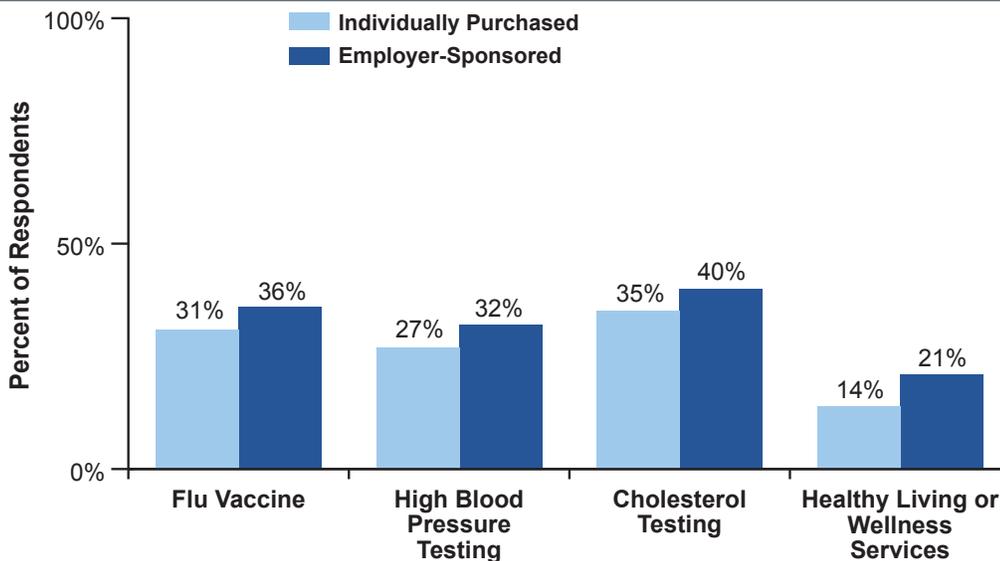
Factors Driving Satisfaction are Consistently Rated Lower by Individual Purchasers



Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 3

Individual Purchasers Use Basic Preventive Services Less Often



Please indicate if you have used the service in the past year.

Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 4

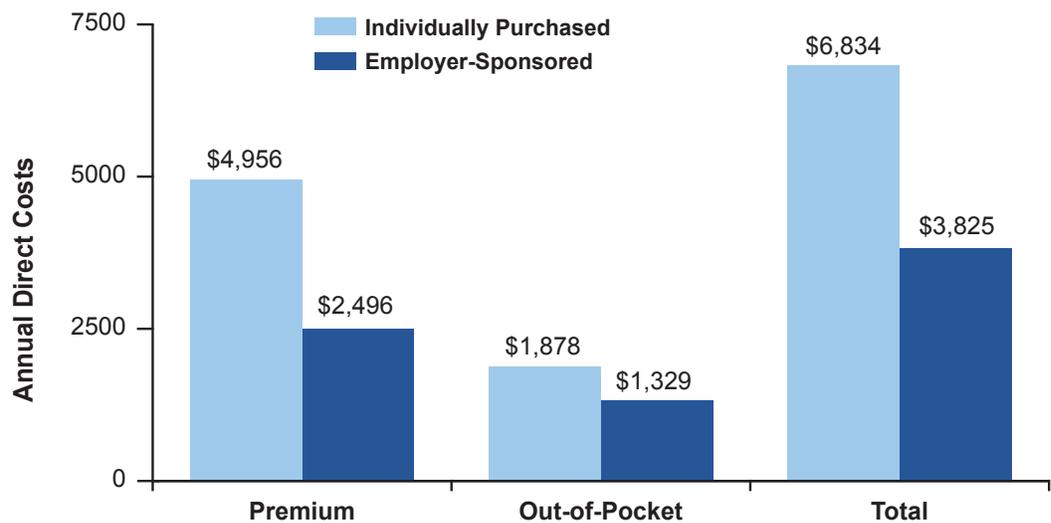
Taking these views into consideration, there are four themes that health plans must evaluate when developing their marketing strategies for individual purchasers.

Theme 1: Make Costs Predictable and Transparent

Cost sensitivity is the one theme that most distinguishes individual purchasers. They pay considerably more for coverage, and have been subjected to more frequent and steeper cost increases than their counterparts with employer-sponsored coverage. Beginning in 2014, ACA provisions should make it easier for them to find insurance. Affordability will be another matter, as having access to coverage isn't necessarily attractive if the price is beyond reach, particularly if the purchase is mandated by law. Cost is certain to remain a crucial concern.

Figure 5 shows the difference in self-reported annual costs for individually purchased insurance, compared with employer-sponsored coverage. Premiums are twice as high, since there is no employer paying for a portion of the total cost. On top of this, out-of-pocket costs are about 40% higher. Consequently, total costs to individual purchasers are about 80% higher. In some communities, the lowest available single coverage is about \$10,000 per year, with family coverage costing \$30,000 per year or more.

Costs Borne by Individual Purchasers are Markedly Higher

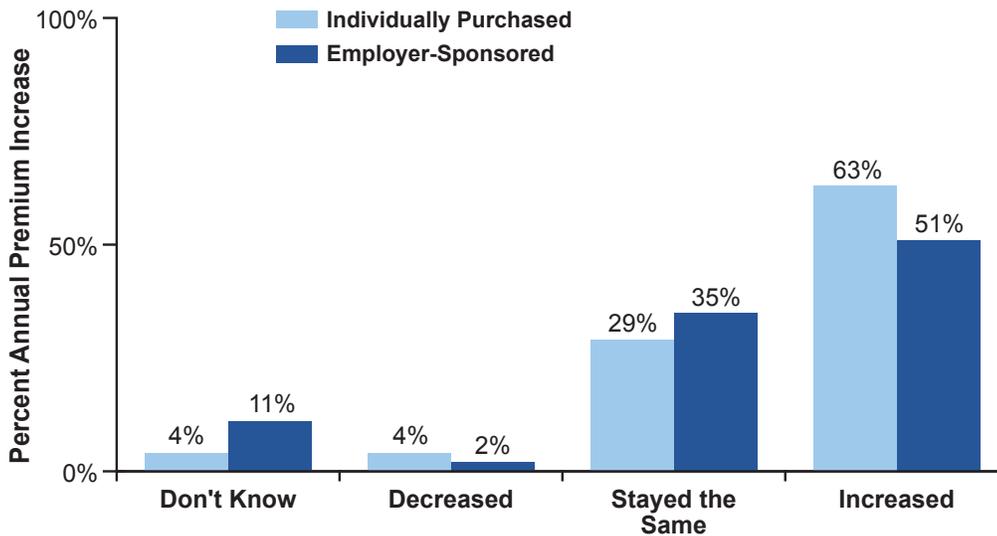


Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 5

Figure 6, which is based on data from the 2011 Member Study, shows that nearly two-thirds of individual purchasers indicate their costs increased from 2010. In comparison, only half of plan members with employer-sponsored coverage experienced year-over-year increases.

Perennially Increasing Premiums Make It Difficult to Recover Satisfaction



During the past 12 months, has your premium increased, stayed the same, or decreased?

Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 6

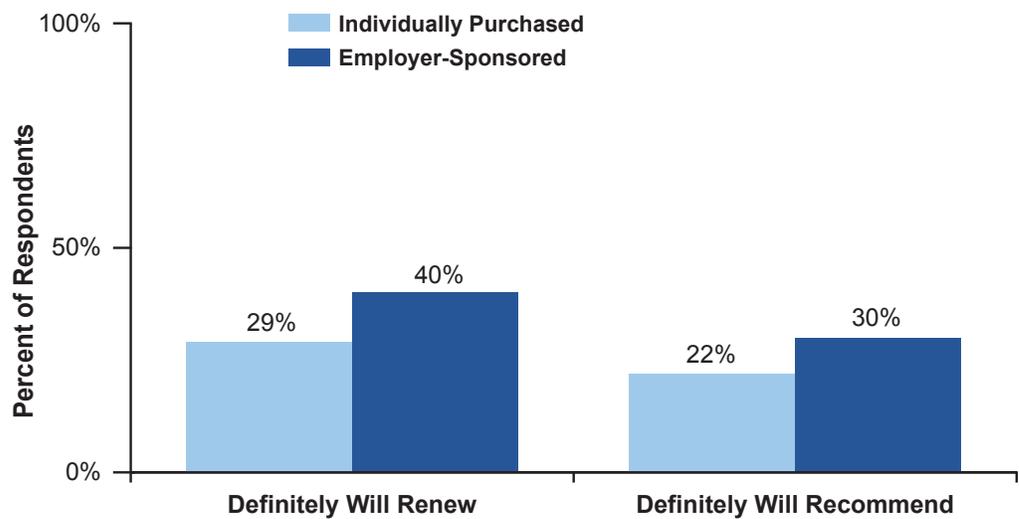
This could produce significant public relations challenges unless marketing communications can persuasively demonstrate how individual purchasers are able to anticipate costs, if not reduce them. Since cost is such an influential consideration, health plans need to be viewed as patient-focused, not profit-driven. Individual purchasers will especially value tools that enable them to forecast healthcare expenses. Accurately forecasting expenses and having predictable or reliable coverage may help to drive higher satisfaction.

Theme 2: Identify Segments and Tailor Communications

There are many types of individual purchasers, and no one type predominates. While plan members with employer-sponsored coverage are much more often employed full-time, individual purchasers are distributed across several groups. The largest group of individual purchasers is self-employed. Many are full-time employees, but work at smaller companies that do not provide benefits. Purchasers in another discernible group are retired, but are not on Medicare. Still others are unemployed. The currently uninsured, who will be required to purchase insurance beginning in 2014, are similarly diverse. Since each group is different, marketing communications will need to be crafted to their particular needs.

One important distinction among individual purchasers, which goes along with lower satisfaction, is that they will probably also be less loyal. According to the Member Study, they are less likely to renew (29% vs. 40% for those with employer-sponsored coverage), and are also less likely to say good things about their health plan (22% say they “definitely will” recommend their health plan, compared with 30% of those with employer-sponsored coverage). Word of mouth marketing, while theoretically valuable, is notably lower among individual purchasers.

Basic Elements of Loyalty are Less Frequently Reported by Individual Purchasers



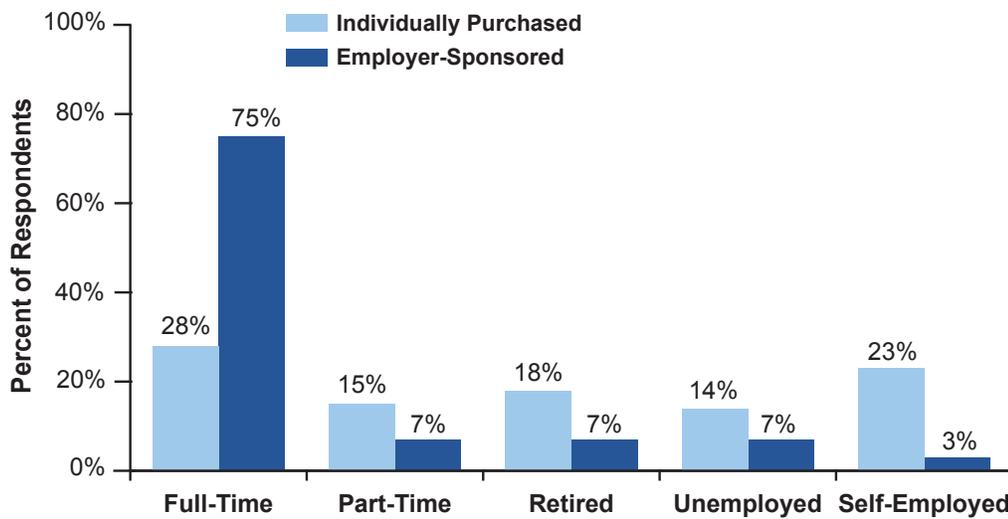
Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 7

From the perspective of health plans, there will be greater problems in retaining members and avoiding churn. Therefore, the costs for acquiring new enrollees, as well as retaining old ones, could increase—and would certainly be much higher than for plan members with employer-sponsored coverage. Limits on medical loss ratios will make it crucial to develop cost-effective marketing methods.

Health plans should not assume a one-size-fits-all approach, or focus on one segment alone. Careful definition of segments can help to support better-tailored communications. Rather than cultivating long-term relationships, it may be more important to recognize needs at specific phases across the life span and acknowledge the inherent mobility that may periodically drive individuals to purchase health insurance on their own.

Differing Life Situations Define Individual Purchaser Segments



Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 8

Since individual purchasers are especially likely to confront more complicated high-deductible arrangements, they are at higher risk of being confused regarding their coverage.

Theme 3: Keep It Simple

Benefit complexity threatens member satisfaction among all types of health plan members. Since individual purchasers are especially likely to confront more complicated high-deductible arrangements, they are at higher risk of being confused regarding their coverage. Their actual benefits may not necessarily cover what they expected. This is a formula for dissatisfaction, but one that can be avoided when benefit designs are simpler and easier to understand.

Year after year, integrated systems are among the most highly rated plans in the Member Study. Their coverage and benefit formats are easier to comprehend. Narrower networks are sometimes unpopular, yet they can be simpler to navigate. When the plan and providers are part of the same system, it reduces administrative hassles and confusion. Fewer surprises translates to higher satisfaction.

When individual purchasers shop for coverage, simplicity may matter more than having choices, especially if they consist of confusing trade-offs. The “precious metals” tiering in the Massachusetts Health Connector is one way to make coverage choices more understandable. Having a single, clear rule for defining out-of-pocket costs is another.

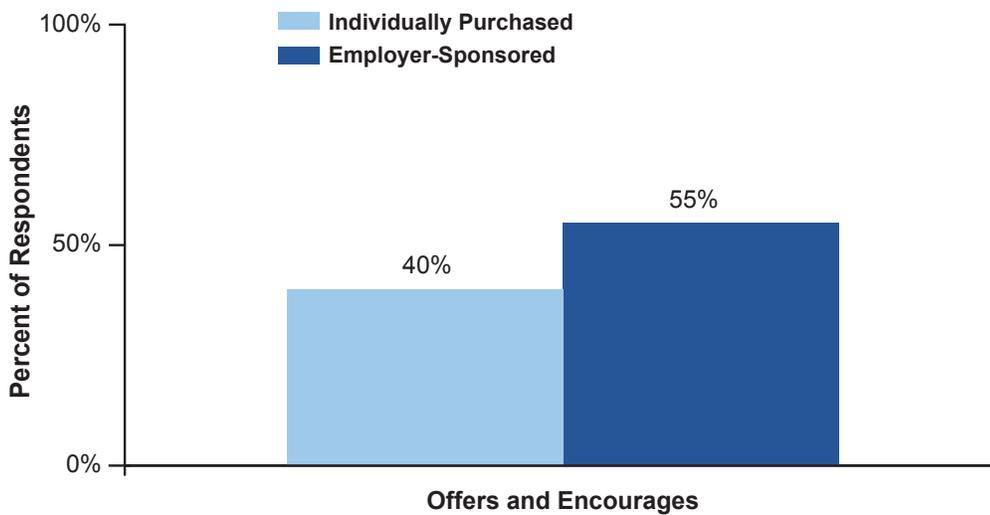
Theme 4: Clearly Showcase Healthy Living Services

The availability of health and wellness services is an important signal to members that their health plan has their best interests in mind. The Member Study finds that satisfaction is higher when members report these are offered and encouraged, whether or not they use them. It is symbolic of attention to members as “patients” with health needs, rather than as “consumers” who are using up a resource. Examples can include health risk screenings or programs to help manage chronic conditions. Offering healthy living and wellness services is a Key Performance Indicator that has been shown to help drive higher levels of member satisfaction.

Brand Image ratings for some health plans are higher than for others. One important dimension is the extent to which members see their plan as being “profit driven” vs. “customer driven.” Visibly encouraging preventive services or wellness programs is a potentially important proof point within a brand promise to improve the health of plan members. Successful marketing communications, therefore, convey messages of health, not illness. They also demonstrate specific actions that deliver this to members.

The availability of health and wellness services is an important signal to members that their health plan has their best interests in mind.

Individual Purchasers Say Wellness Services are Less Available



Please indicate whether the plan offers and/or encourages you to use healthy living or wellness services.

Source: J.D. Power and Associates 2011 US Member Health Insurance Plan StudySM

Figure 9

Summary

These four themes define important concerns when deciding how to face increasingly prevalent individual purchasers.

1. Acknowledge the paramount importance of cost. The Member Study compares brand ratings of health plans, and there is a clear divide between those that are viewed as patient-driven vs. those that are viewed as profit-driven. Cost is going to be an extremely sensitive topic among individual purchasers, and plans that are rated as more financially motivated will be less trusted.
2. Don't face the individual market as a block, because there is more than one kind of purchaser. It would be worthwhile to consider segment-based messaging. An early retiree, a younger part-time employee, or someone who is self-employed may be seeking similar coverage, but their shopping process and preferred marketing communications could differ.
3. Simplify benefit designs to create less confusion and, therefore, higher satisfaction. Integrated systems tend to have an advantage at this.
4. Clearly show how specific preventive and wellness services will be available. Satisfaction is higher when plan members are aware that these are offered and encouraged, whether or not they use them. Addressing members in terms of their needs as patients instead of as consumers is one way of demonstrating that their satisfaction is genuinely important.

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