



Part D after May 15: The First Hundred Days

May, 2006

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“The initial enrollment period for Part D is almost over – health insurers now must focus on meeting and managing the expectations of their new customers.”

The deadline for most seniors to enroll in Medicare Part D, which expands Medicare coverage to include prescription drugs, is now upon us. Part D marks a major milestone in federal health policy, and has already resulted in 30 million beneficiaries. It also represents a major change for health insurers. They’ve traditionally focused on group business, but they will now need to refine their practices to account for the more fickle and arbitrary tastes found in the consumer market.

Priority one for health insurers must be to shift their focus to serving their new customers, and serving them well. The good news is that insurers have been extremely effective in launching the product, particularly given the scale of the challenge (tens of millions of new customers in 4 months, for a product that didn’t exist a year ago) and some bureaucratic snafus at the federal agency that administers Medicare. A recent survey by AHIP, the trade association representing health insurers, found that 84 percent of seniors had no trouble signing up or using their benefit and 59 percent are saving money.

Yet there is still an opportunity for insurers to improve service. Federal agencies such as Health and Human Services have recently called for insurers to be more responsive to customer needs. And insurers would do well to heed this call. McKinsey’s experience working in service industries such as consumer banking and credit, auto insurance, and telecom suggests that if companies fail to target their new customers with attention and exemplary service – particularly within the first 100 days – they could find these customers migrating to competing service providers. We have drawn on our experience in those industries to present a short list of lessons learned that are most relevant to health insurers.

1. The first 12 months, and especially the first 100 days, are a critical period in shaping the behavior and lifetime value of a new customer

- In multiple industries, we've seen that attrition is highest with first-year customers – often two or three times higher than for more established customers. This factor is particularly important for consumer services industries to keep in mind, given the high cost of customer acquisition and enrollment. And losing and then replacing customers is much more costly than keeping them in the first place.
- Looking beyond just retention, the first 100 days are a crucial period for “training” customers – teaching them how to use low-cost service channels, helping them understand exactly how the product works, and motivating the use of “sticky” features such as electronic premium payment. Many of the initial consumer complaints about Part D are inspired by unexpected surprises in how the program works: discovering at the pharmacy, for example, that a particular medication is only available after the consumer first tries a lower-cost generic. In addition, some consumers have complained that the new plans are not saving them money, indicating lack of awareness that coverage of catastrophic events is actually the most important function of health insurance. It follows that educating new consumers will be of critical importance.
- Finally, the first 12 months are a critical period for cross-selling and enrolling members in broader programs. Account opening is the single best opportunity to do this; in banking, we've seen that best-in-class institutions can increase the cross-sell rate by 50 percent or more through a well-designed initial sales process. And we frequently see that it is much more difficult to cross-sell to customers after the 12- to 24-month point, because by then they have “typecast” their relationship with a provider. This poses a real challenge for those insurers who have built their business cases on enrolling members in broader programs (such as Medicare Advantage), given the need to comply with both Medicare and state regulations on when and how they market to their customers.

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- To put the importance of this into context for Part D: the typical annual premium is on the order of \$1,000, of which about three-quarters is paid by the government. With the typical insurer expected to realize a profit margin of about 3 percent, there is just approximately \$30 per year in profit. Typical customer acquisition costs in consumer financial services (covering marketing, sales, and new customer enrollment) range from \$50 to as much as \$200 per new customer. If, over time, Part D experiences similar costs, five years or more could be needed to break even on a new customer. Thus the difference between achieving a 90 percent annual retention rate (similar to the top performances in auto insurance) and an 80 percent retention rate (more typical for the industry), will significantly affect a company's bottom line. Similarly, the difference between enrolling 10 percent and 20 percent of members in broader programs and value-added services will be powerful.

2. The most important lever for positively affecting consumer behaviors is the delivery of first-rate, “on-brand” customer service

- For many companies, the only way to distinguish themselves from their competitors, other than pricing, is service. Consumers often find it difficult to distinguish among service providers, since their primary products are often intangible, and the quality of providers in the network can be hard to determine. Consumers will notice lapses in customer service, and use this as a proxy for other important factors.
- Service looms especially large when problems occur, such as claims events, billing issues, penalty fees, misdirected or missing payments, and service disruptions. Numerous media reports have detailed exactly these types of issues with Part D, which is not surprising given the newness of the program and the initial focus on enrollment. Frequently reported challenges include billing troubles (especially for those drawing payment directly from Social Security), eligibility verification while at the pharmacy counter, and surprises when a particular medication has conditions on coverage (such as trying a cheaper alternative or lower dosage first). Customers expect problems, and don't judge institutions harshly just because a problem crops up. They will, however, expect an institution to resolve the problems and treat them well while doing so.

3. Winning service providers have developed a number of ways to respond to the many challenges

- First and foremost, it is critical to start with an excellent initial sales experience, followed by flawless initial fulfillment. This begins with a consultative sales process – getting consumers into the right product for their needs – and must be followed by first-rate account fulfillment (i.e., the opening of accounts, the delivery of live cards to customers, and the establishment of billing preferences).
- Best-in-class institutions reach even higher, with “welcome programs” to greet new customers and educate them on products and services. Retail banks, for example, routinely telephone new customers to make sure they have received their checks and debit cards and that everything is working properly, as well as to answer any questions. In Part D, insurers might go beyond this and target consumers who have encountered denials or first-payment defaults for a “check up” call.
- In industries where cross-selling is important, we’ve found that doing well is both a science and an art. The science involves systematically figuring out what additional services to offer to which consumers, and when is the best time to do so. This is an exercise in consumer insight-gathering, customer segmentation, and predictive modeling. The art involves getting the execution right at the front-line level, especially with brokers, agents, and call-center reps. Several health insurers have hinted that their strategy is to sign up consumers now for basic plans, and over time migrate them to more comprehensive plans such as Medicare Advantage – a worthy goal, but also one that will require an entirely new set of skills.

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Medicare Part D represents the beginning of a new era for health insurers – an era filled with opportunities that can be fully realized if insurers fully grasp the differences involved in serving the consumer market, and then use this knowledge to develop and execute superior plans. Just as important is ensuring that the early customer interactions are favorable and lay the foundation for long-term relationships. Indeed, those customers who are already enrolled will have an opportunity to switch providers during the open enrollment period beginning in November. The way forward is not without challenges, but the prize for getting the strategy right is too lucrative to ignore.

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May 2006

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