RESEARCH IN BRIEF

2017 individual exchange market consumer research findings

Consumer behavior is more stable; market has room to grow

Jenny Cordina, Erica Coe, Kyle Weber, and Elizabeth P. Jones

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McKinsey's latest research suggests that although the market for individual insurance appears more stable from the consumer point of view, opportunities remain to encourage people to obtain coverage.

Between the 2017 open enrollment period (OEP) and the 2018 OEP, McKinsey's Center for U.S. Health System Reform conducted its fourth annual survey of consumers eligible (under the Affordable Care Act) for coverage in the individual exchange market.[1] Although some changes have been made to the market since the survey was fielded—most notably, removal of the individual mandate penalty and authorization of the use of short-term and association health plans—the findings have important implications for payers, providers, government leaders, and other healthcare stakeholders. These findings can help inform 2018 retention efforts, future plan designs, and outreach campaigns to enroll the uninsured.[2] Among the most important insights:

- More stable consumer behaviors. While the regulatory and industry views of the market for individual insurance continue to change, consumer behavior has become more consistent over time.[3] Carrier loyalty has increased, for example. Most respondents with healthcare coverage said that they plan to stay insured, even if changes to the market (e.g., removal of individual mandate penalty) were made.
- Encouraging uninsured enrollment. Getting a significant number of consumers who remain uninsured to purchase coverage appears to be possible, not only through the use of "traditional" levers (e.g., more affordable plans, greater awareness of subsidies) but also through the addition of downside risk[4] for not purchasing. In our survey, downside risk appeared to be approximately twice as effective at encouraging uninsured enrollment as was offering catastrophic plans with significantly lower premiums.

1 This survey included both individually insured and uninsured respondents to understand the attitudes and purchasing behaviors of consumers who are eligible for coverage in the individual exchange market. Those enrolled in employer-sponsored insurance, Medicare, or Medicaid, as well as those uninsured who are Medicaid-eligible, were excluded from the survey population. See additional details on the survey design and respondents in the appendix.

2 McKinsey is a non-partisan firm and has a long-standing policy of neither commenting on nor advocating for specific government policies. We do not provide policy advice, and the findings in this paper should not be taken as such.

3 This finding is consistent with reports that despite significant changes to the 2018 OEP, 11.8 million people enrolled for coverage—only a 3.7% drop from last year's total enrollment. (National Academy for State Health Policy. Individual market enrollment remains stable in the face of national uncertainty. February 8, 2018.)

4 In the absence of the individual mandate penalty, additional downside risk mechanisms could include surcharges (when purchasing coverage) for not having been insured for a period of time or the possibility of being denied future coverage.

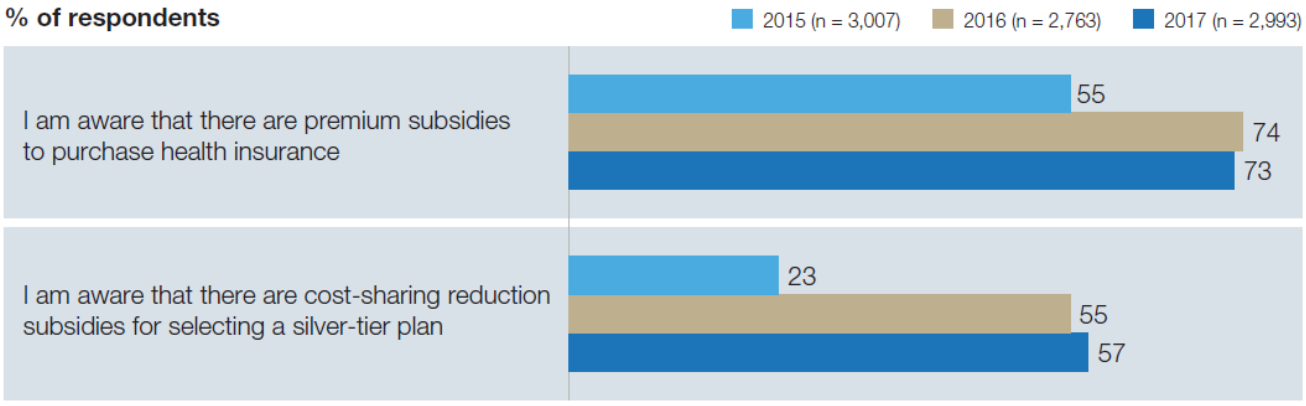
- Limited perception of premium increases. Although gross premiums in the individual exchange market rose 25% in 2017, the impact on net premiums was less significant.[5] Consistent with this, most of the survey respondents reported having had either no or a relatively modest increase in premiums (most likely because, in many cases, subsidies had insulated them from price increases). Nevertheless, many of the respondents who had purchased health insurance indicated that they were facing challenges because of high costs, and some had stopped paying premiums during the year.[6]
- Consumer trade-offs to reduce costs. Many respondents to our 2017 survey, like those in previous years, said they would like to better manage their healthcare costs, including premiums and out-of-pocket spending, and they are willing to take actions to do so. However, familiarity with the options that could help them manage costs (e.g., healthcare savings accounts [HSAs]) remains low.

These findings are discussed below. More details about the survey can be found in the appendix, which starts on p. 13.

MORE STABLE CONSUMER BEHAVIOR

Although the regulatory and industry views of the market for individual insurance may remain in flux, consumer understanding and behavior appears to be more stable. For example, awareness of subsidies rose steeply between 2015 and 2016 but has remained steady in subsequent years (Exhibit 1). Awareness of the penalty for not having coverage followed a similar pattern.

EXHIBIT 1 **Respondents' awareness of ACA subsidies has stabilized**



ACA, Affordable Care Act.

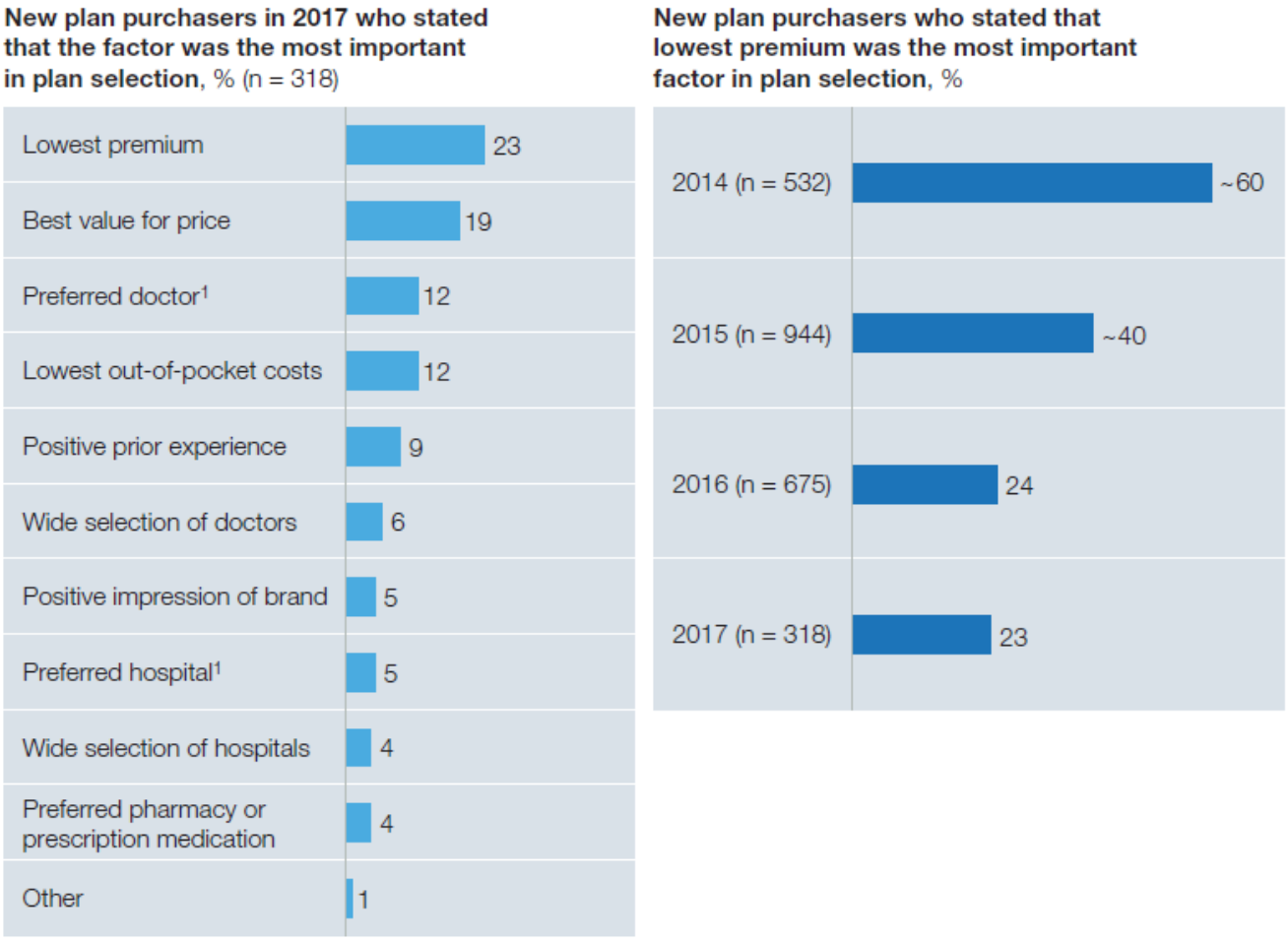
Sources: McKinsey Individual Exchange Market Surveys, 2015, 2016, 2017

5 The McKinsey Center for U.S. Health System Reform has calculated that the changes to net premium varied in 2017 from a decrease of as much as 13% to an increase of as much as 21%, depending on income level and resulting subsidy eligibility.

6 While some of those who stopped paying premiums may have gained other forms of coverage, the majority remained in the individual exchanged market, as we discuss on p. 6.

Similarly, the percentage of respondents who ranked lowest-cost premium as the most important purchasing factor dropped significantly between 2014 and 2016, but it has stabilized in the 23% to 24% range since then (Exhibit 2).

EXHIBIT 2 **The importance of lowest premium in plan selection has declined**



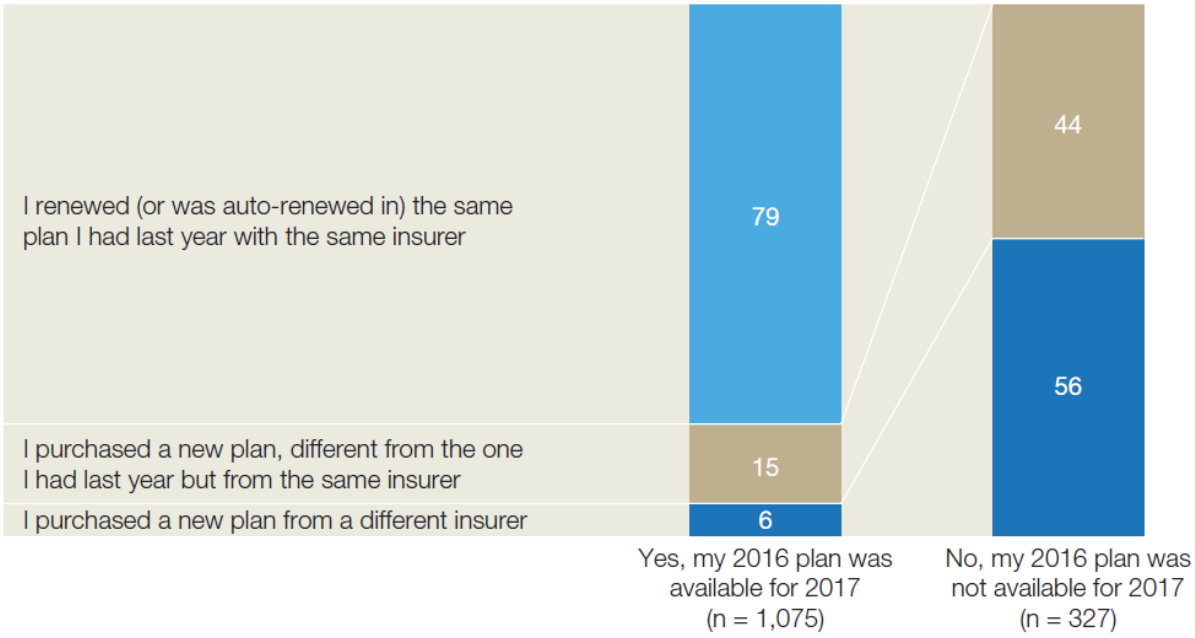
[1]If a tiered network, the preferred doctor, hospital (including pediatric), pharmacy, or prescription on the lowest-cost tier.

Sources: McKinsey Individual Exchange Market Surveys, 2014, 2015, 2016, 2017

Stability in consumers' behavior is also reflected in their relatively high loyalty to current carriers. Overall, 82% of the respondents to the 2017 survey had renewed with the same insurer they had in 2016. Whether the same plan was available had a significant impact on renewal rates, though. If it was, carrier loyalty rose to 94%, but if it was not, loyalty dropped to 44% (Exhibit 3).

EXHIBIT 3 **Carrier loyalty drops when consumers are not offered the same plan**

% of individually insured respondents in both 2016 and 2017



Source: McKinsey Individual Exchange Market Survey, 2017

Further, when we tested consumers' reactions to possible removal of the individual mandate, 90% of individually insured respondents say they would continue to purchase health insurance (unless premiums became unaffordable).

ENCOURAGING UNINSURED ENROLLMENT

Decreasing the size of the uninsured population remains an important aspiration for the individual exchange market. Our survey produced two important findings in this regard. First, the longer a consumer has been uninsured, the less likely he or she is to obtain coverage. For example, 65% of the respondents who had been uninsured for one year or less said they had shopped for a plan in 2017. In contrast, only 37% of those who had been uninsured for three years or more reported having done the same. Second, getting a significant number of uninsured individuals to purchase insurance appears to be possible. However, a marked change in incentives—specifically, the addition of downside risk for not having coverage—may be required.

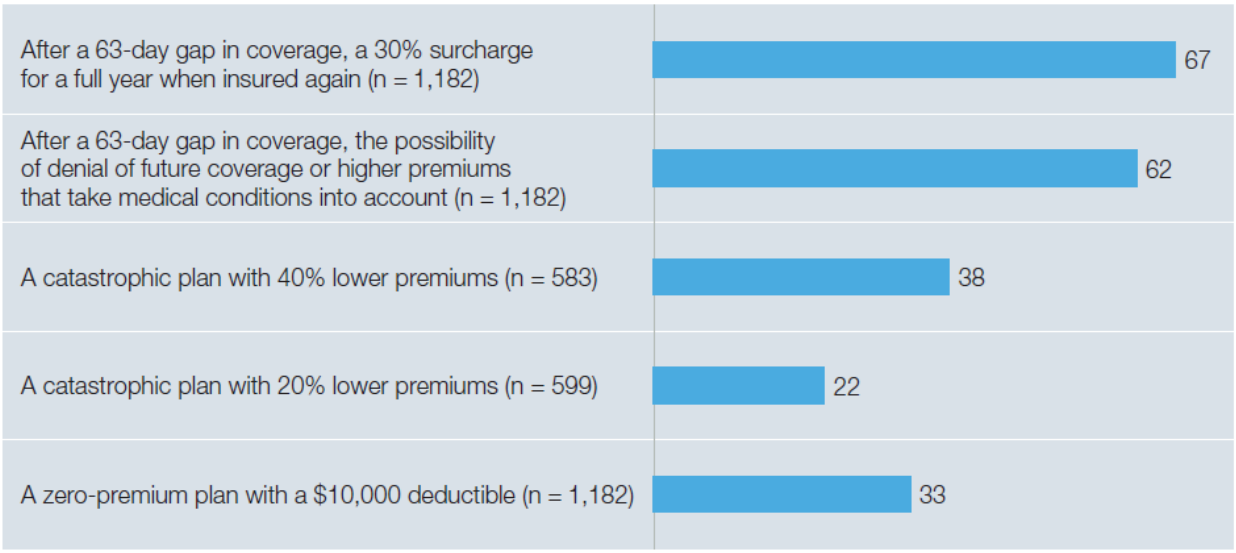
The individual mandate penalty, which was eliminated in the Tax Cuts and Jobs Act of 2017, is one type of downside risk, but other options have been considered. In our survey, we explored customer reactions to several of these options (in all cases, we asked respondents to assume that the individual mandate penalty had been removed). Two types of downside risk

produced significant increases in the percentage of uninsured individuals who said they would purchase insurance (Exhibit 4):[7]

- Waiting period and surcharge. The first scenario focused on what uninsured respondents would do if not having insurance for 63 or more days would result in them having to wait until the next calendar year to regain coverage and then having to pay a 30% surcharge every month of the first year for the new plan.[8] Sixty-seven percent of the uninsured said that they would enroll in a plan in this scenario. This result is consistent with effects we have observed in the Medicare Part D market, where consumers' premiums can increase based on how long they have gone without "creditable" prescription drug coverage.[9]
- Coverage denial or premium increases. The second scenario focused on what uninsured respondents would do if a coverage gap of 63 days or more gave health insurers the right to deny them coverage if they developed a new medical condition or take that condition into account when pricing the plan.[10] In this scenario, 71% of the uninsured said they would obtain coverage. This result is consistent with what we have observed in the disability and life insurance markets, where purchasers have a financial incentive to sign up for coverage before they develop an adverse condition.

EXHIBIT 4 **The uninsured react differently to different scenarios**

% of uninsured respondents who said they would purchase insurance under different scenarios[1]



[1] Includes individuals who responded either "I would purchase health insurance no matter what" or "I would purchase health insurance assuming I could afford it."

Source: McKinsey Individual Exchange Market Survey, 2017

7 The approaches to downside risk tested in the survey were based on various Republican and Democratic proposals from early 2017; additional details are included in the appendix.

8 This approach was based on a proposal that had been included in the American Health Care Act of 2017 (H.R. 1628). That Act was passed by the House of Representatives but not by the Senate.

9 Medicare Part D enrollees that have not had "creditable prescription drug coverage" for a continuous period of 63 days or more will pay a penalty amount in addition to base-level premiums that equals 1% of the national base beneficiary premium.

10 This scenario was based on actions permissible to payers prior to passage of the Affordable Care Act.

In contrast, there is some evidence that, in isolation, penalties are not understood by respondents or causing them to change their behavior. For example, about two-thirds of the uninsured respondents indicated that they were not aware of the individual mandate penalty. Among the uninsured who were aware of it, less than half said they had paid a penalty for not having insurance in 2016.

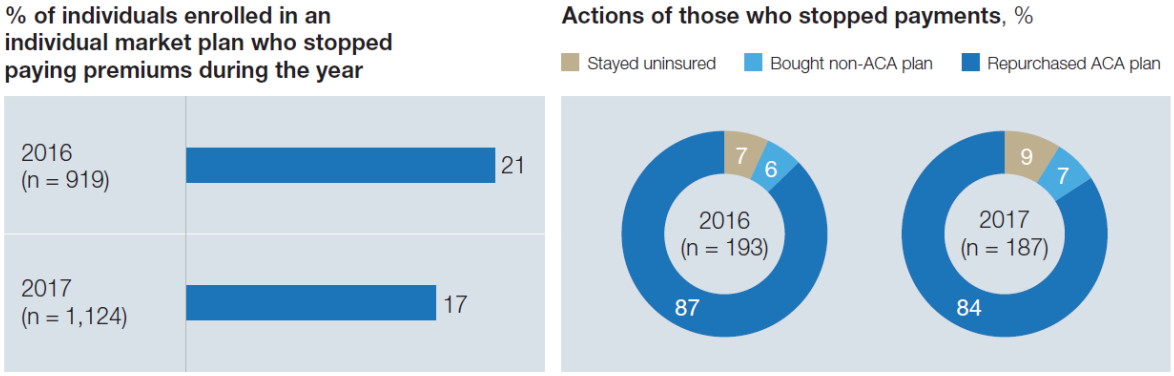
More details about the uninsured survey respondents can be found in the sidebar that starts on p. 9.

LIMITED PERCEPTION OF PREMIUM INCREASES

Although gross premiums in the individual exchange market rose by an average of 25% in 2017,[11] our survey indicates that most purchasers were insulated from the increasing costs or were unaware of the increase in premiums they experienced.[12] Among the respondents who had health insurance coverage, 66% reported that their premiums had decreased, stayed the same, or increased by no more than 10% from 2016 to 2017. These results can likely be attributed, in part, to the subsidies many purchasers received.[13]

Nevertheless, many of the purchasers indicated that they were facing challenges because of high costs. For example, 17% of the insured respondents reported that they had stopped paying their premiums in 2017—yet 84% of this group repurchased an exchange plan in 2017 (Exhibit 5). In fact, 29% of these respondents repurchased the same plan they had stopped paying for in 2016. These findings are consistent with the results of a previous surveys, which found that one in five ACA-insured respondents had stopped paying their premiums in 2015—87% of whom then repurchased an exchange plan in 2016.

EXHIBIT 5 **Many payment stoppers repurchase coverage the following year**



ACA, Affordable Care Act.

Sources: McKinsey Individual Exchange Market Surveys, 2016, 2017

11 ASPE Research Brief. Health plan choice and premiums in the 2018 federal health insurance exchange. October 30, 2017.

12 McKinsey Center for U.S. Health System Reform. Insights into the 2018 individual exchange market. November 2017.

13 The McKinsey Center for U.S. Health System Reform has calculated that the changes to net premium varied in 2017 from a decrease of as much as 13% to an increase of as much as 21%, depending on income level and resulting subsidy eligibility.

Similarly, about 21% of the 2017 respondents reported having overdue medical bills. The median amount owed was roughly $1,400. And, 34% of the respondents said they had tried to negotiate down a medical bill with a hospital or doctor.

CONSUMER TRADE-OFFS TO REDUCE COSTS

Our survey results show that many consumers would like to better manage their healthcare costs, including premiums and out-of-pocket payments, and are willing to take actions to do so. For example, 35% of the uninsured respondents said that, to reduce their costs, they had avoided visiting a doctor for a minor illness in the past 12 months. Similarly, 20% of the uninsured respondents reported having asked for generic alternatives when prescribed medication, and 13% had postponed elective treatments. Individually insured patients said they would take similar actions in the future if they did not have coverage.[14]

In addition, most respondents said they were willing to make changes to their plans to reduce costs. When the respondents were asked to trade off between benefits and premium, the benefits chosen for removal most often were maternity/newborn care, mental health coverage, and preferred branded drugs. (Interestingly, men and women were equally likely to say they would forfeit maternity/newborn care, but few young respondents of either sex were willing to make this trade-off.[15]) The top three benefits respondents said they wanted to keep were hospitalization, emergency room services, and urgent care. Thus, it appears that there is an opportunity to increase consumer engagement through plan design.

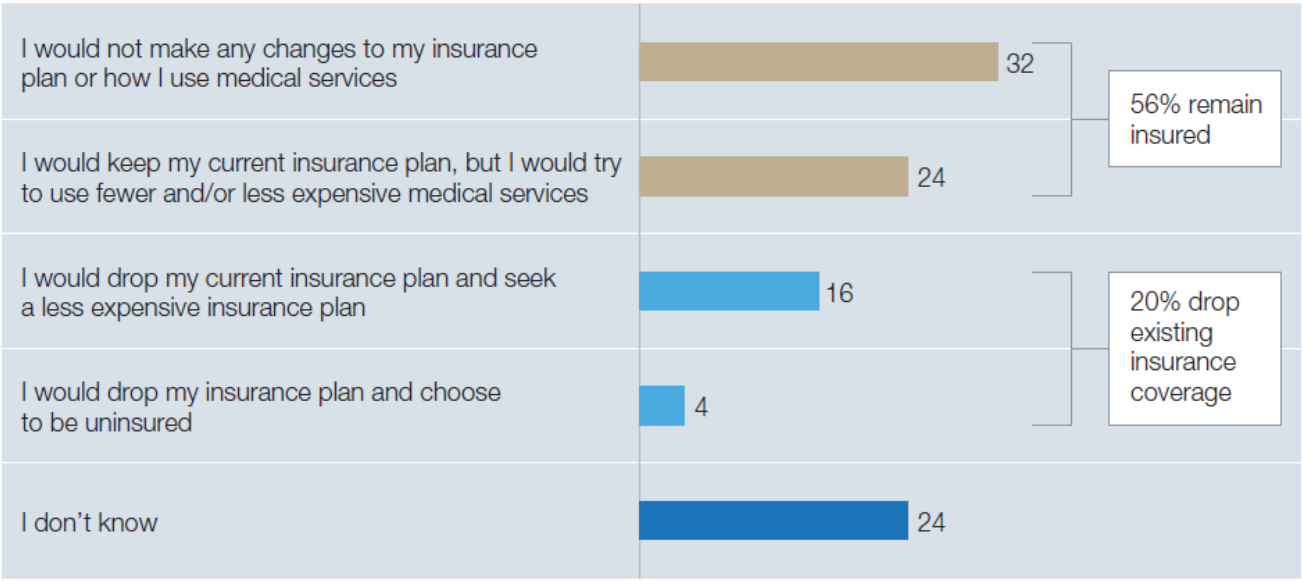
Health savings accounts (HSAs) are another option consumers could potentially use to help lower their out-of-pocket medical expenses (e.g., deductibles, coinsurance, co-payments). In our survey, however, 79% of the respondents said they had never had an HSA, and roughly half the respondents did not know which healthcare expenses could be paid for with an HSA. Furthermore, when low-income respondents were asked what they would do if, instead of cost-sharing reductions, they received an equivalent amount as an HSA deposit, one in five said they would drop their existing insurance coverage (Exhibit 6).

14 When the individually insured respondents were asked about the actions they would take to reduce medical costs if they did not have insurance, 42% said they would avoid visiting a doctor for a minor illness, 42% said they would ask for generic alternatives when prescribed medication, and 25% said they would postpone elective treatments.

15 58% of men and 58% women said that they would be willing to remove this benefit to reduce premiums.

EXHIBIT 6 **Respondents chose different strategies when asked what they would do if they received an HSA deposit rather than a CSR subsidy**

% of respondents with incomes below 250% FPL who reported receiving CSR subsidies,[1] (n = 235)



CSR, cost-sharing reduction; FPL, federal poverty level; HSA, health savings account.
[1]HSA amount differed for each respondent based on income.
Source: McKinsey Individual Exchange Market Survey, 2017

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Our survey findings provide strong indications that consumer understanding and behavior in the individual exchange market is stabilizing. Nevertheless, stakeholders across the healthcare industry have opportunities to encourage the uninsured to purchase coverage and to empower consumers to make the trade-offs that could potentially help them address concerns about rising healthcare costs.

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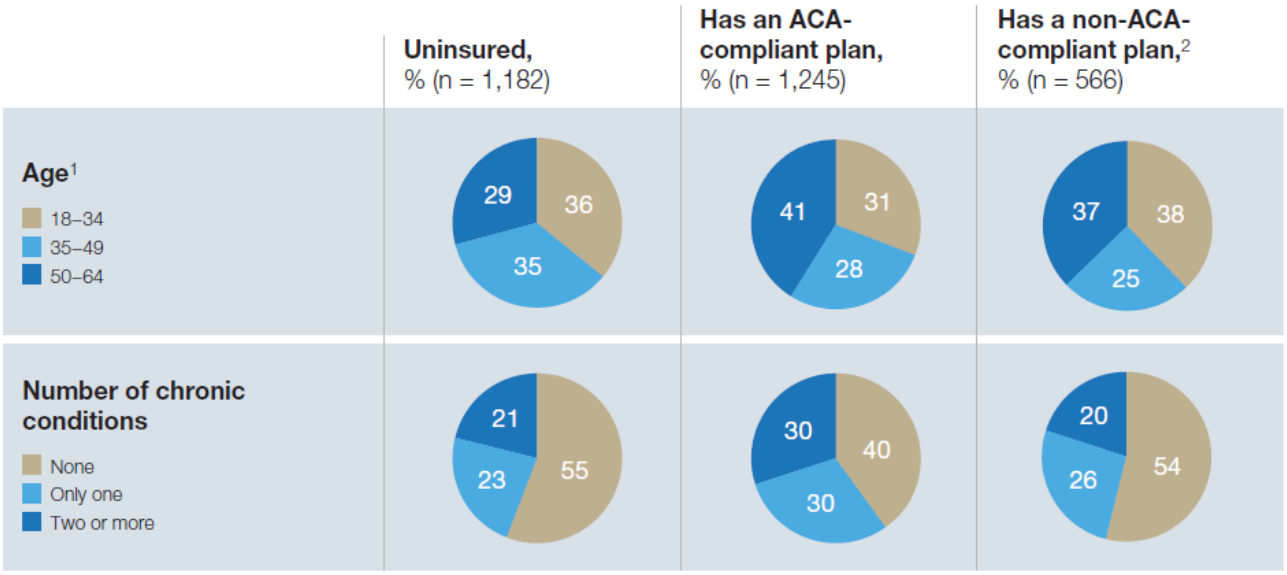
Sidebar:
Who are the uninsured?

Encouraging more uninsured individuals to obtain health insurance coverage is an important goal. Despite considerable efforts to incentivize consumers to purchase health insurance (through greater awareness of subsidies, the application of penalties, and other approaches), 12.2% of US adults remain uninsured.[16] Uninsured consumers tend to be different from individuals who choose to purchase health insurance in many ways, including their age, health, employment status, attitudes, and length of being uninsured.

Age and health

EXHIBIT 7 **Uninsured respondents are disproportionately younger and have fewer chronic conditions**



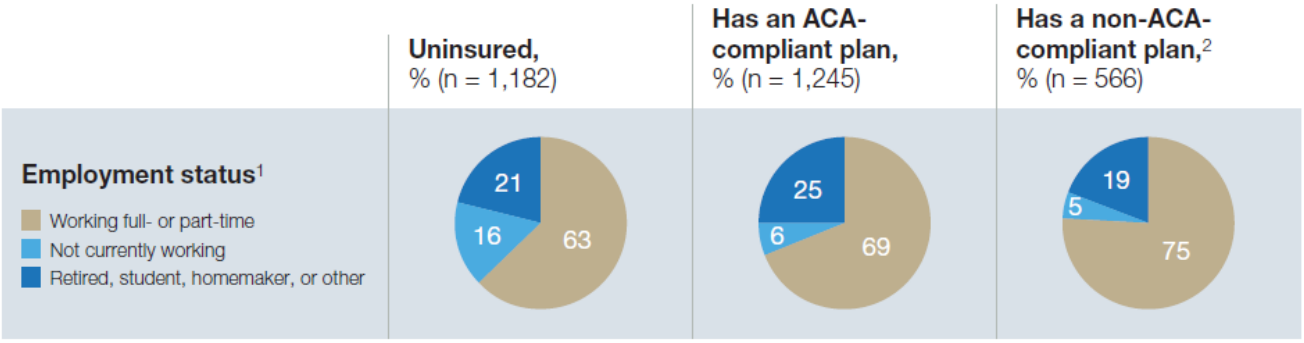
ACA, Affordable Care Act.
[1]Figures may not sum to 100%, because of rounding.
[2]An individual health insurance policy that does not meet the qualified health plan criteria stipulated by the ACA; this could include short-term policies; grandfathered policies; or hospital indemnity, critical illness, or accident coverage policies.

Source: McKinsey Individual Exchange Market Survey, 2017

[16] Auter Z. U.S. uninsured rate steady at 12.2% in fourth quarter of 2017. Gallup.com. January 16, 2018.

Employment status

EXHIBIT 8 **Uninsured respondents were more likely to be unemployed**

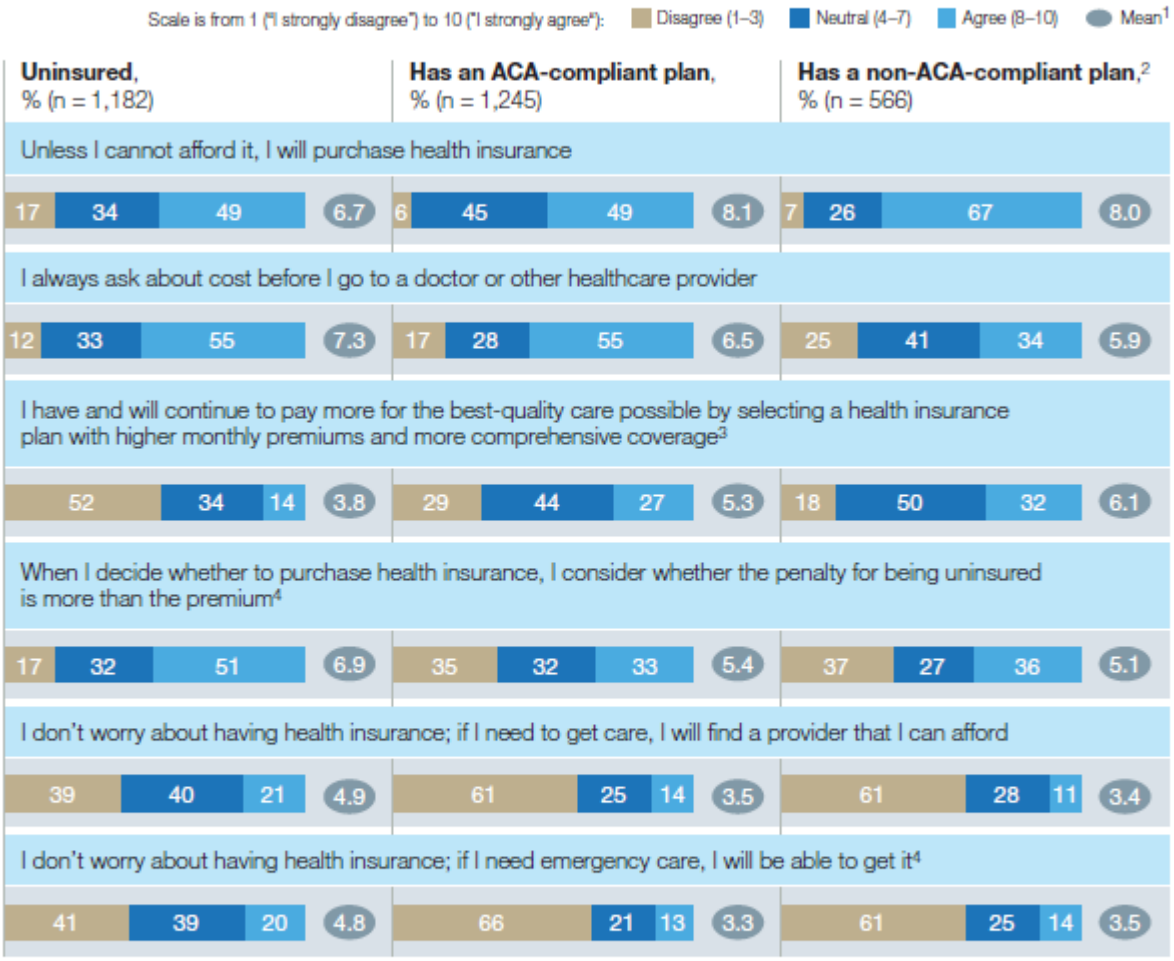


ACA, Affordable Care Act.
[1]Figures may not sum to 100%, because of rounding.
[2]An individual health insurance policy that does not meet the qualified health plan criteria stipulated by the ACA; this could include short-term policies; grandfathered policies; or hospital indemnity, critical illness, or accident coverage policies.

Source: McKinsey Individual Exchange Market Survey, 2017

Attitudes

EXHIBIT 9 **The uninsured were more cost sensitive than the insured and placed less importance on insurance coverage**

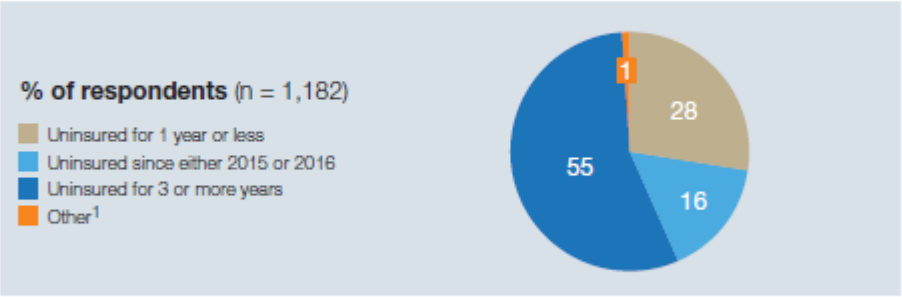


ACA, Affordable Care Act.
[1]For each statement, there is a statistically significant difference between the mean score for those with ACA-compliant plans and the uninsured.
[2]An individual health insurance policy that does not meet the qualified health plan criteria stipulated by the ACA; this could include short-term policies; grandfathered policies; or hospital indemnity, critical illness, or accident coverage policies.
[3]Uninsured in 2017 but insured in 2016; n = 392 for uninsured.
[4]Figures may not sum to 100%, because of rounding.

Source: McKinsey Individual Exchange Market Survey, 2017

Length of time being uninsured

EXHIBIT 10 **A majority of the uninsured have been uninsured since 2015**



[1]Respondents could not recall if they were insured in one or more prior years.

Source: McKinsey Individual Exchange Market Survey, 2017

APPENDIX

MCKINSEY ACA MARKET SURVEY

Through the McKinsey Center for U.S. Health System Reform, we regularly survey a national sample of QHP-eligible uninsured and individually insured consumers (excluding those eligible for Medicaid and Medicare). This research is independently funded by McKinsey & Company without contribution from any third party. The objective is to understand the actions, shopping, and purchasing behavior of consumers who are eligible to purchase individual coverage on the individual market exchanges or elsewhere. These surveys therefore provide snapshots of enrollment over time.

To date, we have completed nine rounds of surveys:

- November 25 to December 6, 2013: sample size of 1,846
- December 16 to December 20, 2013: sample size of 1,677
- January 6 to January 10, 2014: sample size of 1,040
- February 4 to February 13, 2014: sample size of 2,096
- April 7 to April 16, 2014: sample size of 2,874
- November 6 to November 10, 2014: sample size of 2,000
- February 21 to February 24, 2015: sample size of 3,007
- February 2 to February 18, 2016: sample size of 2,763
- September 21 to October 18, 2017: sample size 2,993

Each survey was designed and analyzed by McKinsey teams. Each survey was administered online in English by a third-party vendor. For the 2017 survey, we used the following characteristics to focus on the consumer segments eligible to purchase individual coverage on the exchanges or elsewhere:

- Ages 18 to 64
- Income above 100% federal poverty level (FPL) in Medicaid non-expansion states and above 138% FPL in Medicaid expansion states
- Inclusive of both insured and uninsured individuals for 2017, regardless of coverage in 2016
- Primary decision-maker, equally involved in making decisions, or contributes to health insurance decisions for their household

A portion of the content for this year's survey, including various proposals that were tested, was intended to be generally consistent with formal and informal proposals from Democratic and Republican leadership that had emerged in the first half of 2017.

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