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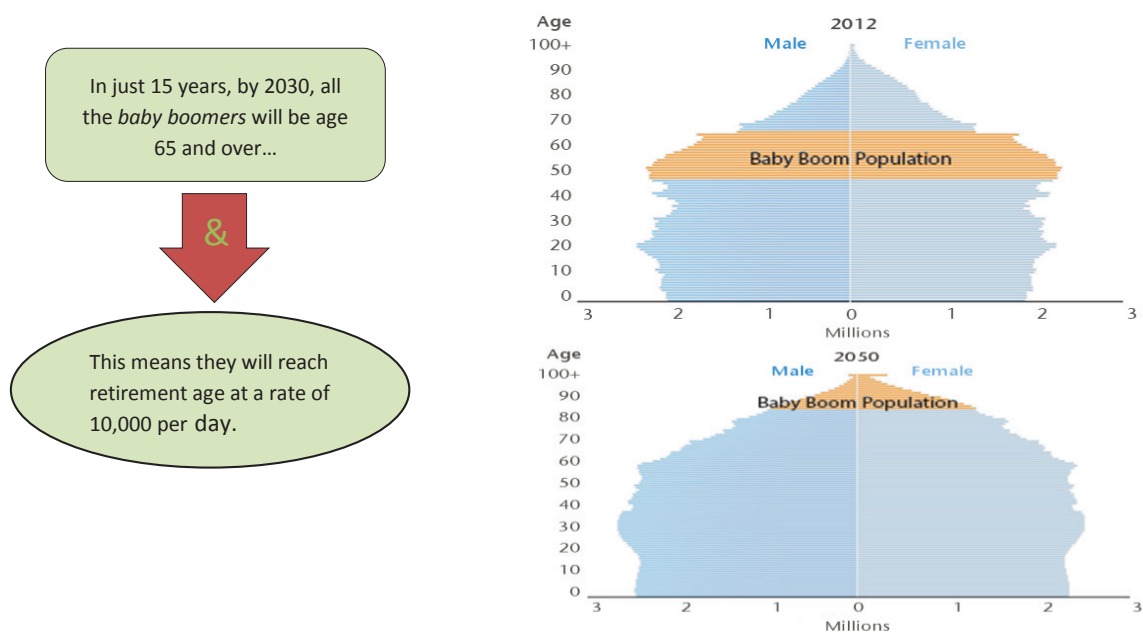
U.S. Insurance Exchanges and Senior Consumers

by Steve Woods⁺ and Marcy Updike⁺⁺

With the passage of the Patient Protection and Affordable Care Act (PPACA) in 2010, Americans were introduced to a relatively new way to purchase health insurance, the online exchange. By “exchange,” for the purpose of this article, we mean a virtual shopping area in which individuals or employees of a company can research and then purchase an insurance product online that best suits their individual needs. Exchanges can be either public or private; even though they both offer the ability to choose and purchase insurance, they have a few distinct differences.

A public exchange is managed by the federal or a state government and only offers health insurance to individuals or small employers at this time. A private exchange is managed by a benefit broker, employee consultant or another private benefit-related firm. Unlike a public exchange, a private exchange is only utilised at the workplace and can offer other insurance products in addition to health insurance.

Figure 1: Evolution of number of baby-boomer retirees by 2050



Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

⁺ Marcy Updike is the Research Center Director and Vice President of Market Research for Gen Re’s North America Life/Health business unit. She is responsible for providing project design and management leadership for a variety of industry and ad hoc studies serving the Life and Health industry. She can be reached at mupdike@genre.com

⁺⁺ Steve Woods is a Vice President and Senior Account Executive for Gen Re in Portland, Maine. His primary responsibilities are new business development and client relationships for the Medicare Supplement line of business. He can be reached at steve.woods@genre.com

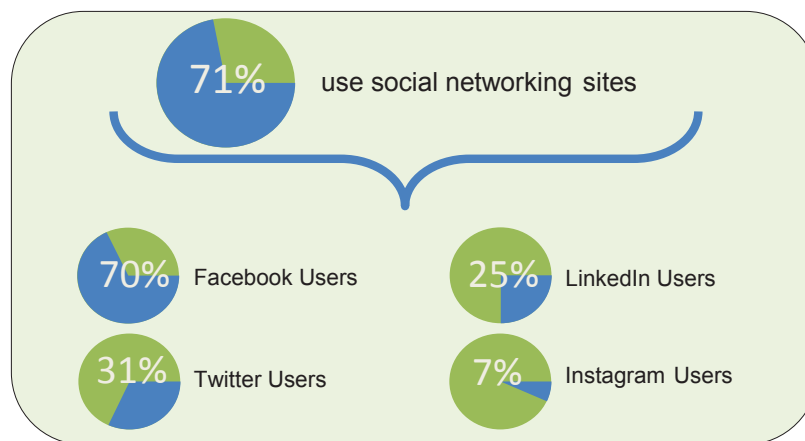
An emerging trend in the exchange space is private senior exchanges. In today's business climate, it's clear that employers continue to work on ways to cut costs; one way they are doing so is by eliminating traditional retiree health coverage. In place of retiree medical insurance, some employers are setting up health savings accounts for Medicare-eligible retirees and utilising the private senior exchange to offer these retirees the opportunity to purchase a Medicare Supplement product that will supplement their traditional Medicare coverage. Some employers are also expanding this and offering other retirement-related products on these exchanges.

Exchanges are expected to continue to become more prevalent in both the public and private sectors; however, demographics alone are telling us that exchanges, whether private or public, need to be very user-friendly when it comes to the senior population. On 1 January 2011, the first baby boomer turned age 65. This started a trend, that for the next 19 years where approximately 10,000 people a day will be turning age 65.¹ As illustrated in Figure 1, by the year 2050, the number of 65-year-olds in the U.S. will almost double what the number is today and reach 83.7 million.²

When it comes to exchanges, defining and addressing the senior market is important; however, even though we know what the market opportunity is, the question remains whether these consumers embrace an online exchange to make an insurance purchase.

It seems that every time we have a conversation about seniors and exchanges, someone raises their hand and states that seniors are not as comfortable with technology as Millennials and may shy away from using an exchange to purchase an insurance product. While it is obvious that Millennials are more comfortable with today's technology, it doesn't mean that older Americans are refusing to use technology in their daily lives. Boomers certainly have some distance to go in order to catch up with Millennials (Figure 2) but it is safe to say that technology use amongst boomers is prevalent and utilisation will only continue to grow as younger boomers age into retirement.

Figure 2: Baby boomers and social networking sites usage



Sources: Google & Ipsos (2013) *Reaching Today's Boomers & Seniors Online*; globalwebindex (2014) GWI Audience Report—Summary Q2 2014, *Generations—Summary Q2 2014*.

In a recent Gen Re study,³ we surveyed over 2,000 individuals ages 21–65 and asked them about their thoughts on exchanges as well as their likelihood of purchasing insurance through an exchange. We decided to segment this

¹ CSG Actuarial.

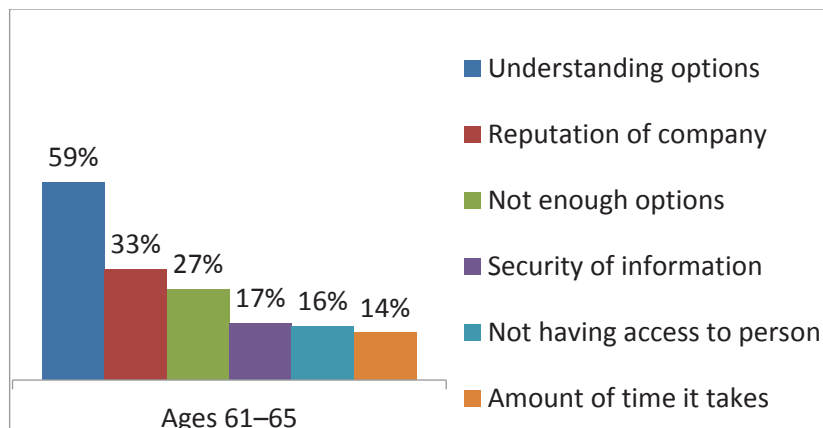
² U.S. Census Bureau (2014) *An Aging Nation: The Older Population in the U.S.*

³ You can view the full presentation from our website <https://genre-ports.webex.com/genre-ports/ldr.php?RCID=afc2e7d09351c45021fc9850b50cb333>



further and focus on the older consumers, ages 61–65, to find out if the stereotypes about senior consumers were true. What we found was that even with the political undertones surrounding health-care exchanges, the majority of senior consumers rated them positively. When we asked people about their positive feelings on health insurance exchanges, the top three answers were all focused on choice (see Figure 3). These respondents liked the idea of having options that they could compare in order to make a buying decision that is right for them. Even though the majority had an overall positive opinion about exchanges and are comfortable buying insurance online, they are concerned about the decision process leading up to the actual purchase. Older employees want to be sure that they are selecting the right benefits and don't always have the confidence to make the decision alone.

Figure 3: Concerns about purchasing health insurance through an exchange: ages 61–65



Source: Gen Re (2014) *Insurance Exchanges—An Individual's Perspective*.

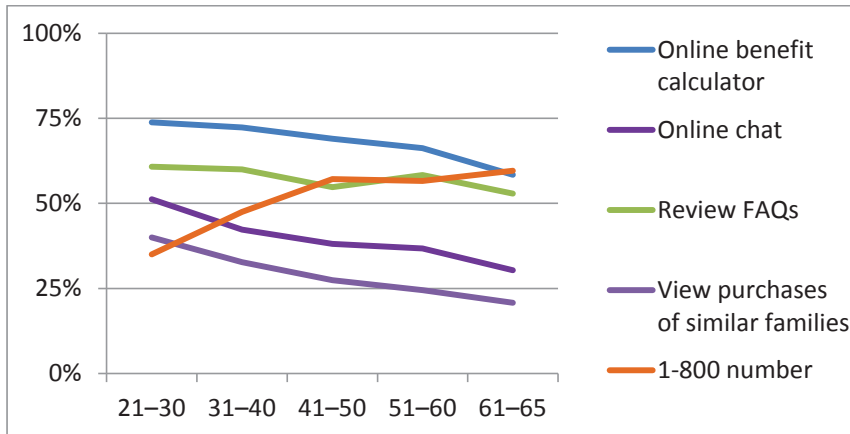
In a separate Gen Re study focused on senior consumers and their relationship with insurance agents, we explored this idea further and were able to classify respondents into two categories—either 'info-takers' or 'info-seekers'. Info-takers are those that do very little if any pro-active research. They rely on information that is either pushed out to them or comes in the form of referrals from family and friends. Info-seekers, on the other hand, are pro-active in their research. They utilise multiple sources and spend more time researching than the former. In general, they also tend to be more educated and more sceptical about the process, including the origin of the information they are reading.

Whether an info-taker or info-seeker, the learning tools that support an exchange must address the specific needs of the consumer. We asked consumers of all ages what tools they would utilise as part of the education process before buying on an exchange. As you can see in Figure 4, the type of tool used is almost exclusively dependent on the age of the consumer. The older the consumer, the more the use of self-help tools decline, while the need for human interaction increases.

A comment we heard consistently from all types of senior consumers is that the process is 'overwhelming' and they need help in making the right decision. Having a live person with whom they can speak and who is unbiased is needed to help the consumer validate that he or she is making the correct decision.

When we asked older consumers, if given the choice, would they prefer a public or private exchange, the vast majority chose a private exchange, 45 per cent to 17 per cent, with 35 per cent indicating they were indifferent (Figure 5). We went on to ask about the importance and quality of information provided on an exchange. Older consumers were very clear that the most important thing to them was that the information is accurate and to some extent unbiased. They felt that insurance companies may not always be unbiased, but the information they offer would certainly be accurate. They also felt comfortable with employers providing this information. Insurance brokers were well down the list as a trusted source for accurate and unbiased information.

Figure 4: Percentage of individuals reporting they are likely to use these selection tools during the process

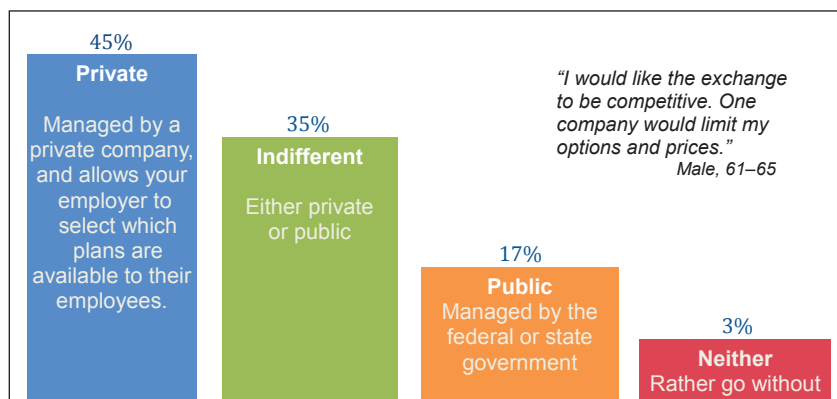


"I would read what I could online and then I would want to speak with a live person to ask questions."

Male respondent, age 61-65

Source: Gen Re (2014) *Insurance Exchanges—An Individual's Perspective*.

Figure 5: Preferred type of insurance exchange



"I would like the exchange to be competitive. One company would limit my options and prices."
Male, 61-65

Source: Gen Re (2014) *Insurance Exchanges—An Individual's Perspective*.

Based on what we've seen through our research and discussions with those in the U.S. insurance market, we believe that the online marketplace, 'exchanges', will continue to evolve to address the needs of all senior consumers. However, whether private or public, those managing the exchanges must recognise that not all consumers are the same. Senior consumers have accepted the idea of an online marketplace but, for exchanges to become an accepted way to do business in this segment of the population, the supporting tools need to address their needs. Whether an info-taker or info-seeker, consumers are going to demand tools that meet everyone's needs, including access to a live person at some point in the process. Regardless of the level of research a consumer may do, they still are looking to feel good about their purchase before pushing the 'buy now' button.