Marketing Matters: How Marketing and Outreach Builds Stable Marketplaces and Pays Off for the Federal Government

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Introduction

With the Affordable Care Act woven into the fabric of America's health care system, one important question that remains before policymakers at the state and federal levels is what can be done to stabilize the individual health insurance market and lower premiums for consumers.

This issue brief is a summary version of Covered California's extensive analysis — "Marketing Matters: Lessons from California to Promote Stability and Lower Costs in the National and State Individual Insurance Markets" (http://hbex.coveredca.com/data-research/library/CoveredCA_Marketing_Matters_9-17) — which shows marketing and outreach are proven ways to increase enrollment, lower premiums, save consumers' money and stabilize the individual insurance market.

The report finds that not only are marketing and outreach critical investments to promote enrollment, but they appear to have a large return on investment since bringing more healthy people into the risk pool further lowers premiums, saving money for everyone.

Simply put, investing in marketing and outreach pays off.

Marketing Spending Makes a Difference for the Federally-facilitated Marketplace

Over the last two years, the federal government has increased its marketing and outreach investments to support enrollment in the individual markets served by the Federally-facilitated Marketplace (FFM). During this period, the annual spending for marketing and outreach

Highlights:

- Covered California's extensive marketing and outreach efforts helped create of the best take-up rates and lowest risk scores in the nation. This bigger and healthier enrollment translates to 20 percent lower premium costs — representing on-exchange premium savings of $2.6 billion for 2015 and 2016.
- Covered California's marketing and outreach investments likely lowered premiums by 6 to 8 percent for 2015 and 2016. Significant marketing lowers premiums by boosting enrollment of healthy consumers.
- In 2018, Covered California plans to spend more than $111 million on marketing and outreach. It estimates that every marketing dollar likely yields more than a three-to-one return on investment.
- If the federal government invested in marketing and outreach at a level similar to Covered California, it would amount to $480 million for 2018. This could lead the Federally-facilitated Marketplace to enroll 2.1 million more consumers between 2018 and 2020 while lowering premiums by 3.2 percent. The premium savings mean consumers overall save $6 billion over the three-year period. Covered California estimates this would likely yield a more than 500 percent return on investment.
- If the federal government goes ahead with its planned 72 percent reduction in marketing and outreach spending ($47 million total spend), there will likely be one million fewer Americans getting insurance, a less healthy risk pool and premiums that will be more than 2.5 percent higher in 2019.

increased by 40 percent — from $111 million for the 2016 enrollment year to $167 million for the 2017 enrollment year. In a departure from gradual year-over-year increases, the Centers for Medicare and Medicaid Services (CMS) recently announced that it would significantly reduce its marketing spending for 2018 by 90 percent for advertising and by 42 percent for Navigator grants. This would reduce the total marketing and outreach spending for the FFM by 72 percent to $47 million.

Evidence from California suggests if instead of cutting marketing and outreach spending, CMS increased its spending to a level similar to Covered California, which invests 1.4 percent of premiums collected on marketing and outreach, it would amount to $480 million, this would result in an increase in enrollment and a healthier risk mix, leading to lower costs for consumers. This increased investment could be funded without taxpayer funds because CMS is projected to collect $1.2 billion in plan assessment revenues that are intended to support marketplace functions, including marketing and outreach. (https://www.cms.gov/About-CMS/Agency-Information/PerformanceBudget/Downloads/FY2018-CJ-Final.pdf).

The *Marketing Matters* report finds that this level of investment would likely yield a return on investment from 300 percent to 500 percent (see Table 1. Potential Impacts of Enhanced Marketing and Outreach for FFM States — 2018-2020). The evidence suggests that over a three year period, with the $480 million investment increasing annually based on the consumer price index, premiums would decrease by more than 3 percent and 2.1 million Americans could gain insurance, of which 1.3 million would be subsidy-eligible.

The report also finds that reducing marketing spending, as announced by CMS in August, will likely result in lower enrollment, a less-healthy risk mix, higher premiums and less plan participation. The potential one-year impact of the proposed 72 percent reduction in marketing and outreach spending would mean one million fewer Americans with health insurance and premiums in 2019 that are from 2.6 percent to 5.3 percent higher.

Why Selling Insurance is Challenging

Marketing is one of the most important elements for creating and continuing any successful business. Investments are critical to convincing consumers to buy all types of products and services. The individual health insurance market is no different. Indeed, selling health insurance can be harder than selling other products because there are human biases against spending money today for potential benefits tomorrow.

Behavioral science shows that selling health insurance is uniquely difficult. While sick people are motivated to buy coverage, humans have several innate biases that require healthier people to be encouraged, nudged and reminded about the value of having health insurance.

While some have questioned whether marketing is necessary — pointing to the lack of outreach in the employer, Medicare and Medicaid markets — the individual market is fundamentally different from other sources of coverage.

Many employers automatically enroll their employees in coverage and renew their coverage each year, older consumers are more aware of needing Medicare, face penalties for not signing up and Medicare Advantage plans spend billions of dollars on marketing and agent commissions, and it is easier to enroll in Medicaid because there is little or no-cost to the consumer.

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Selling health insurance in the individual market — even with the majority of consumers receiving financial help - is more challenging. The evidence from behavioral economics, social psychology and cognitive neuroscience suggests that there are several innate biases that deter people from spending discretionary income on something intangible that they perceive they may never need.

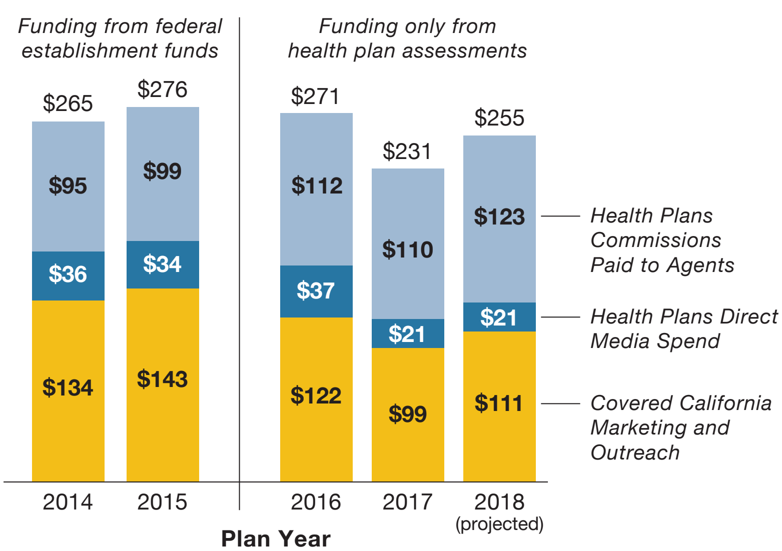
Overcoming those biases requires deep insights and sophisticated marketing — especially to enroll young and healthy consumers. The investment helps ensure the insurance risk pool is of sufficient size and has a well-balanced risk mix.

California's Pay-Off from Aggressive Marketing and Outreach

Marketing is not just a one-year investment. Marketing is a multi-year effort that pays off over time. While most state-based marketplaces have generally cut back on their marketing investments since the exhaustion of their federal establishment funds, Covered California has continued its aggressive marketing and outreach spending.

Figure 1

California On-Exchange Total Marketing and Outreach Investments, 2014-2018 (millions)[1]



Our research shows that even with high name recognition and awareness of Covered California and the Affordable Care Act, a significant number of consumers eligible for financial help are not aware that the benefit is available to them. At the same time, we now have four years of experience and know that in California, about 40 percent of those enrolled in the marketplace leave each year — leaving for employer-based and other sources of coverage. Recent research found that almost three-quarters of uninsured Californians who are eligible for subsidies did not realize they could receive financial help in the form of subsidies or assumed they are not eligible. Marketing and outreach is essential to retain existing insured consumers and reach out to the newly uninsured and enroll them in coverage.

In this environment, Covered California continues to maintain an aggressive marketing and outreach campaign, and has budgeted $111 million for the upcoming 2018 coverage year. These investments complement spending by health plans on marketing and agent commissions to promote enrollment. (See Figure 1: California On-Exchange Total Marketing and Outreach Investments, 2014-2018 [millions]). The total investment for marketing and outreach of $299 million from health plans and Covered California is a significant investment and comes on the heels of similar spending over the past four years. However, Covered California's spending is relatively small as a portion of premium (reflecting about 1.4 percent of on-exchange premium and 0.9 percent of total individual market premium) and it is a critical component to achieving the good enrollment and better risk that lowers premiums.

California's Positive Return on Investment from Marketing and Outreach Spending

Research and Covered California's experience suggest that this robust marketing investment is money well spent with a large return on investment. It is difficult to establish empirically the precise effects of marketing and the specific benefits of each incremental dollar invested, but there are two critical pieces of evidence that Covered California's aggressive efforts have been paying off.

First, Covered California has achieved a take-up rate among those who are subsidy-eligible that is nearly 25 percent higher than the average for FFM states (see Figure 2. Comparing California and Federal Marketplace Take-Up Rates: 2014-2016). As of 2016, Covered California enrolled about 79 percent of subsidy-eligible consumers compared to the average for FFM states (64 percent).

Second, as documented and reported by CMS, Covered California's enrollment reflects a substantially healthier mix of enrollees.[3] The CMS-calculated risk scores of California's individual market enrollees are about 20 percent lower than the national average (see Figure 3. Comparison of FFM, SBM and Covered California Risk Scores).

This 20 percent lower risk score means that California's $6.5 billion in on-exchange premiums collected in 2016 is roughly $1.3 billion lower than it would have been if the average risk of individual market enrollees in California were the same as the FFM average. Conservatively attributing only one-third of the $2.6 billion in premium savings for 2015 and 2016 to the state's relatively more robust marketing and outreach efforts, California has earned a more than three-to-one return on marketing investment. California's efforts in these areas have also contributed to California having one of the most stable markets in the nation — with the same eleven plans that were part of our marketplace in 2014 participating in 2018 and a four-year average rate increase of 8.5 percent.

Figure 2
Comparing California and Federal Marketplace Take-up Rates: 2014-2016[2]

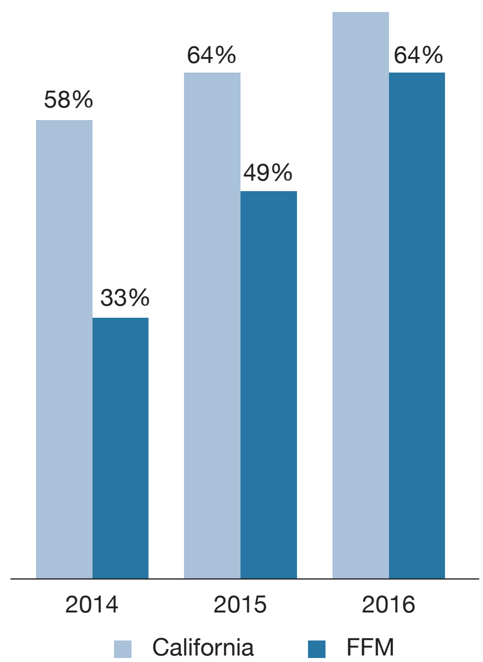
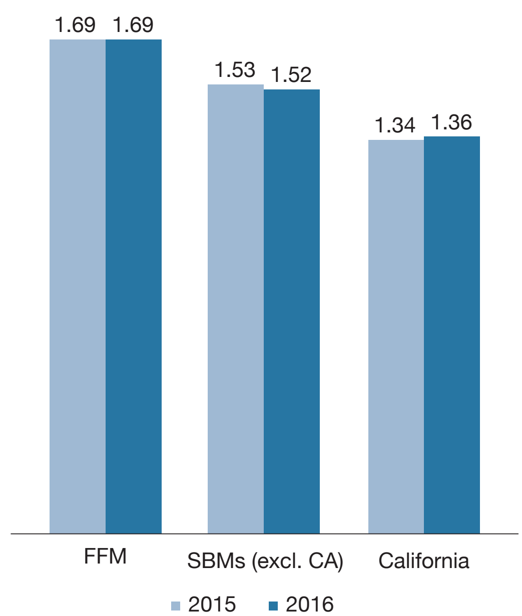


Figure 3
Comparison of FFM, SBM and Covered California Risk Scores



Investing to Save Money: Potential Impacts of Federal Marketing Investments

Further study is warranted to explore the specific returns for different levels of incremental investment, but the available data provides parameters for modeling the potential return on investment and impact on coverage and premiums based on different spending paths by the federal government.

If the FFM invested in marketing and outreach at the same percentage of premium as does Covered California, it would represent a $480 million investment, which is ten times what CMS is currently proposing. Covered California's experience shows that there would likely be an immediate increase in the number of consumers who sign up for coverage and a healthier risk pool, which would in turn lower premiums for all who were already insured.[4]

In contrast, if the FFM reduces it marketing and outreach spending as proposed, Covered California's experience shows that there would likely be an immediate decrease in the number of consumers who sign up for coverage and a worse risk pool, which in turn will increase premiums for all of those who keep their coverage and the federal government.

Potential Increased Enrollment and Lower Premiums from More Federal Marketing Spending

If the FFM were to invest $480 million for plan year 2018 and continue this marketing and outreach investment over three years — increasing the marketing spend at the rate of the consumer price index (CPI) — the total marketing spending of $1.5 billion over three years would represent only 1 percent of total FFM on-exchange gross premiums collected from 2018 to 2020 (see Table 1. Potential Impacts of Enhanced Marketing and Outreach for FFM States — 2018-2020).

The potential impacts of this enhanced investment include:

- 2.1 million more Americans would enroll in or keep their health insurance over this three-year period. More than 1.3 million subsidy-eligible Americans would enroll, increasing take-up of subsidy eligible consumers by 20 percent, from 58 percent in 2017 to 70 percent in 2020. At the same time, more than three-quarters of a million Americans would sign up without a subsidy.
- Premiums over the three years could be on average 3.2 percent lower than they would be because of the expanded consumer pool and healthier profiles of the additional enrollees.
- Over that three year period there would be a phased enrollment growth of 20 percent from what would be anticipated if the federal government continued its 2017 investments, and the enhanced federal marketing investment would likely have a better than 500 percent return on investment, based only on looking at lower premiums for those who would have had insurance under a baseline (not the enhanced marketing scenario).
- Unsubsidized individuals who were already insured would be paying lower premium — saving them more than $2.1 billion over the three years.

Table 1

Potential Impacts of Enhanced Marketing and Outreach for FFM States — 2018–2020[5]

	2018			**3 Year Total (2018-2020)**	
	Baseline (Projected at 2017 level)	**Enhanced** (Hypothetical)	**Difference** (Impact)	**Potential 3 Year Impact Due to Enhanced Marketing**	
Marketing Spend					
Baseline	$165 million	$165 million	—	—	$531 million
Enhanced	—	$315 million	—	—	$968 million
Total	$165 million	$480 million	$315 million	—	$1.5 billion
Enrollment					
				End of Period Enrollment	Difference from Baseline
On-Exchange Subsidized	6,622,133	7,284,347	662,213	7,946,560	1,324,427
On- and Off-Exchange Unsubsidized	3,773,076	4,150,384	377,308	4,527,691	754,615
Total	10,395,209	11,434,730	1,039,521	12,474,251	2,079,042
Premiums (Individual)					
Per Member Per Year	$5,374	$5,252	– $122	Average Premium Decrease (2018–2020)	
Percent Change	– 2.3%			– 3.2%	
Total Premiums (Aggregate)					
Core Group				Total Cumulative Premiums (3 Years)	Difference from Baseline
On-Exchange Subsidized	$35.6 billion	$34.8 billion	-$809 million	$110.7 billion	– $3.8 billion
On- and Off-Exchange Unsubsidized	$20.3 billion	$19.8 billion	– $461 million	$63 billion	– $2.1 billion
Subtotal	$55.9 billion	$54.6 billion	– $1.3 billion	$173.7 billion	– $5.9 billion
Marketing-Induced Group					
On-Exchange Subsidized	—	$3.5 billion	$3.5 billion	$16.8 billion	$16.8 billion
On- and Off-Exchange Unsubsidized	—	$2 billion	$2 billion	$9.6 billion	$9.6 billion
Subtotal	—	$5.5 billion	$5.5 billion	$26.4 billion	$26.4 billion
TOTAL					
On-Exchange Subsidized	$35.6 billion	$38.3 billion	$2.7 billion	$127.5 billion	$13.1 billion
On- and Off-Exchange Unsubsidized	$20.3 billion	$21.8 billion	$1.5 billion	$72.6 billion	$7.4 billion
Subtotal	$55.9 billion	$60.1 billion	$4.2 billion	$200.1 billion	$20.5 billion
Potential Return on Investment of Enhanced Marketing (return is lowered premiums for original group)					
Potential ROI	303%			508%	

Assumption: Enhanced marketing leads to 20 percent increase in enrollment of consumers who are 25 percent loss costly to insure.

Potential Decreased Enrollment and Higher Premiums Resulting from Lower Federal Marketing Spending

In light of the recent announcement by CMS to reduce planned marketing and outreach to $47 million, Covered California also analyzed the potential impact of reduced marketing and outreach spending. The analysis examines possible impacts on enrollment and the financial impacts to those remaining insured in the individual market when fewer consumers enroll or maintain their coverage because of reduced marketing spending. Based on a scenario in which enrollment declines by ten percent in 2018, which is likely a conservative estimate, the reduced enrollment, worse risk mix and higher premiums would impact some consumers immediately and likely lead to higher costs and less market stability in 2019 (see Table 2. Potential Impacts of Reduced Marketing and Outreach for FFM States — 2018).

The potential impacts of the proposed reduced marketing investment include:

- One million fewer Americans enrolled in health insurance. This would include 660,000 subsidy-eligible consumers, which would reduce take-up of subsidy eligible consumers by 10 percent, from 58 percent in 2017 to 52 percent in 2018.
- Premiums for the 2019 plan year would be on average 2.6 percent more than they would be because of the smaller consumer pool and less healthy risk profile of the remaining group, translating to $1.3 billion higher premiums in 2019 for the remaining 9.4 million insured consumers in the individual market. Of this group, unsubsidized consumers would pay $465 million more in premiums.

If the same reduced spending were to lead to a decline in enrollment by 20 percent, which is easily in the range of the possible, this would lead to 2.1 million fewer insured Americans, of whom 1.3 million would have been subsidy-eligible. Under this scenario, the number of insured consumers in the individual market would shrink from 10.4 million to 8.3 million and would be less healthy overall. Premiums would likely increase by 5.3 percent, meaning insured consumers remaining in the individual market would pay $2.4 billion in higher premiums — of which $850 million is borne by unsubsidized consumers.

Table 2

Potential Impacts of Reduced Marketing and Outreach for FFM States — 2018[6]

	2018		
	Baseline (Projected with 2017 Marketing Spend)	**Reduced** (Projected Based on Announced Spending)	**Difference** (Impact)
Marketing Spend			
Baseline	$165 million	$47 million	—
Enhanced	—	—	—
Total	$165 million	$47 million	– $118 million
Enrollment			
On-Exchange Subsidized	6,622,133	5,959,920	– 662,213
On- and Off-Exchange Unsubsidized	3,773,076	3,395,768	– 377,308
Total	10,395,209	9,355,688	– 1,039,521
Premiums (Individual): Impact on Premium for 2019 Based on Health Status Change Only			
Per Member Per Year	$5,374	$5,252	– $122
Percent Change	—	2.6%	2.6%
Total Premiums (Aggregate)			
Remaining Insured After Reduced Enrollment (Premium Difference is Estimated Impact on 2019 Premiums Based on Health Status Change Only)			
On-Exchange Subsidized	$32 billion	$32.8 billion	$821 million
On- and Off-Exchange Unsubsidized	$18.2 billion	$18.7 billion	$468 million
Total	$50.3 billion	$51.6 billion	$1.3 billion
Reduced Enrollment Group (Premium Difference is Gross Reduction in Premium for 2018 Based on Non-Coverage)			
On-Exchange Subsidized	$3.6 billion	—	– $3.6 billion
On- and Off-Exchange Unsubsidized	$2 billion	—	– $2 billion
Total	$5.6 billion	—	– $5.6 billion

Assumption: Enhanced marketing leads to 20 percent increase in enrollment of consumers who are 25 percent loss costly to insure.

Conclusion

The evidence is compelling — marketing and outreach investments are an effective and efficient mechanism for improving take-up rates, lowering premiums, saving consumers money and stabilizing individual markets.

While the specific mix of strategies and tactics that work well in one state or geographic region may not be as effective in another area, *Marketing Matters* highlights California's successful approach and is offered to inform other marketplaces as they evaluate their marketing and outreach strategies moving forward.

About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California's consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit CoveredCA.com.

[1] Health plan agent paid commissions are estimated based on enrollment data and best available information on commission rates, but may not reflect actual spend. 2018 figures are projected using Covered California's proposed 2017-18 budget and direct media spend is assumed to be the same as 2017. Direct media spend by plans was allocated in proportion to enrollment, 68 percent to on-exchange enrollment and 32 percent to off-exchange enrollment. To enable common benchmarks based on a share of on-exchange premium, Covered California attributed health plans' direct media spending proportionally based on 68 percent of individual market enrollment being on-exchange and 32 percent off-exchange.

[2] Covered California analysis of Kaiser Family Foundation estimates of subsidy-eligible population (2015 and 2016) and CMS/ASPE effectuated enrollment snapshots (December 2014, March 2015 and March 2016).

[3] https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/Summary-Reinsurance-Payments-Risk-2016.pdf.

[4] The estimates provided in this modeling are based on validated assumptions about how much additional marketing leads to increased take-up and take-up of healthier enrollees. Because of the lack of rigorous empirical basis for estimating these two factors, the modeling provides illustrative examples of what could occur under reasonable assumptions for these effects. In developing this modeling, Covered California used the CMS reported budget (https://www.cms.gov/About-CMS/Agency-Information/PerformanceBudget/Downloads/FY2018-CJ-Final.pdf) for health plan assessments of $1.2 billion as the basis for calculating what a 1.4 percent of premium spend would equate to for the FFM. This calculation is used to determine potential 2018 spending, even though the same total marketing spend of $480 million would likely be a far lower percentage of premium due to the increased enrollment and subsequent increase in gross premiums and plan assessments that would result. The research methodology considered a range of increases in take-up based on the enhanced marketing spending. The range of potential increases in enrollment was from 5 percent to 25 percent. Similarly, the model considered a range of differences in the health status of the incremental enrollment — ranging from 10 percent healthier and less costly to 40 percent healthier and less costly. Based on California's enrollment and risk mix experience, as well as its return on investment, the model considered the most likely impact of the enhanced investments resulted in a 20 percent enrollment increase from 2017 to 2020 (with net enrollment reflecting a year-over-year increase of 10 percent in 2018 and 4.5 percent in 2019 and 2020), and that those incrementally enrolled individuals would be 25 percent healthier and less costly. Under these two assumptions, Covered California's marketing and outreach investments would have been responsible for the enrollment of more than 350,000 Californians, and lowered premiums by more than 4 percent compared to what they would have been without the enhanced marketing — which is consistent with the return on investment analysis for Covered California's marketing investments which found a potential 300 to 350 percent return on investment if only one-third of Covered California's healthier risk mix were attributed to marketing. For additional details on the modeling and assumptions, see http://hbex.coveredca.com/data-research/Methodology_for_Potential_Impacts.pdf.

[5] The baseline spending for 2018 modeled the assumption that the FFM total marketing and outreach spending was the same level as the $165 million spent for 2017. Although CMS recently announced it will spend $47 million on marketing and outreach for 2018, the scenario models spending continuing at the same rate as 2017. Baseline enrollment for 2018 uses 2017 effectuated enrollment for the FFM. The $480 million marketing and outreach spend for 2018 under enhanced marketing was calculated by applying California's benchmark spending of 1.4 percent of premium to the FFM's projected $34.3 billion in total gross premiums. For purpose of identifying the available budget for marketing activities, the FFM total gross premiums is derived by dividing CMS' reported $1.2 billion in plan assessment revenue for 2018 by the 3.5 percent user fee on plans. For 2019 and 2020, the model grows the marketing and outreach spending by 4 percent (instead of medical inflation) for each year thereafter.

[6] The baseline spending for 2018 is FFM total marketing and outreach spending of $165 million for 2017. The reduced marketing spend for 2018 is based on the recent CMS announcement that proposes $47 million in marketing and outreach spending. Baseline enrollment for 2018 uses 2017 effectuated enrollment for the FFM.