From: Boorady, Charles
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Subject: Must read - McKinsey Survey: Employers will send employees to exchanges

I highly recommend the McKinsey June 2011 Quarterly (link below) that projects that 30% of employers will "definitely or probably" stop offering health insurance to employees in the years after 2014 and that more than 50% of companies with a high awareness of the health care law will stop offering employer-sponsored insurance and **send employees to Exchanges.** The article indicates that employers that drop insurance benefits will increase employee compensation in other ways, but McKinsey does not believe employers will have to increase compensation by the full value of the lost health insurance.

Most Convincing Evidence We've Seen: The article is based on proprietary research and a survey of more than 1,300 employers earlier this year. While we have spoken with many benefit consultants and Human Resources managers on this topic, the McKinsey report is the most comprehensive and convincing evidence we have seen.

Our Take: While Managed Care stocks remain highly correlated, investor attention to 2014 could start to differentiate the stocks more based on their positioning for 2014+. We believe 2014 will be a net positive event for Managed Care from expanded coverage to uninsured, and from a shift from ASO self-insured employers, into full-risk products sold through exchanges, and a re-capture of Pharmacy benefits that have been carved out by many ASO employers (PBM-only plans will not be sold through exchanges). However we will likely see winners and losers within Managed Care.

Winners and Losers: In our view, a move to exchanges will benefit companies positioned well within state-based exchanges, including companies with a strong brand like Blue Cross and Blue Shield (WellPoint), and companies with significant experience in both Medicaid and commercial Individual products (UnitedHealth, WellPoint) that can manage a patient through the churn between Medicaid and Commercial. Net losers may be companies that service the mid-to-large employer market today but will not be well placed to recapture those lives within exchanges (e.g., CIGNA, though they have some offsets internationally). Aetna told a good 2014 story when we visited their headquarters 2 weeks ago, though it will require execution on that strategy (link below).

Exactly What was Intended: Our read of health reform is that this shift would occur. While the figures are staggering, they are simply an economically-rational response by employers to federal health policy to shift the U.S. from an employer-purchased to an individually-purchased insurance market, just like the 401(k) did with pension, but likely at a far more accelerated pace, in our view. What's truly surprising to us is that McKinsey seemed to be able to get candid responses from employers who are reluctant to signal a shift that could hurt their recruitment process. We've commonly heard "we don't want to be first, but we don't want to be third either." We also think that if 30%-50% make the move, others will likely follow.

Here is the link to the McKinsey report, registration is easy and free:
https://www.mckinseyquarterly.com/How_US_health_care_reform_will_affect_employee_benefits_2813

Links to Recent Research on Exchanges and Other Topics:
Managed Care - WLP Loses Potential Partner, Horizon Rolls Dice to Go it Alone; Positive for AET, CI, UNH
Managed Care: Key Takes AET, CI Management Meetings - Golidlocks Medical Cost Growth and M&A
Managed Care Initiation

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