

A Framework for a Private Insurance Exchange Offering

Structuring the right strategy for your practice

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April 18, 2013

An Important Consideration for the Future

It has been referred to as the next Defined Contribution (DC) wave, akin to the shift from traditional defined benefit pensions to 401(k) plans in the 1980's and 1990's. Much as employers shifted investment decision making to their employees during that phase, now they are shifting decisions to their employees in the health insurance arena, via the Private Insurance Exchange. According to an Equity Research report recently published by William Blair and Company, Private Exchanges developed by benefit brokers currently insure more than 1.5 million lives. They forecast between 10 million and 15 million people will receive insurance through Exchanges by 2015, increasing to nearly 30 million by 2020.¹

In its most basic form a Private Insurance Exchange is an insurance marketplace where employer defined contribution funds are used towards the employee purchase of a wide choice of health benefit plans. We have seen this concept before with cafeteria health plans. Today this offering is generally broader than what can be found in most conventional group health programs of the past, and the decision support is better and more intuitive. Also, Private Exchanges provide an upgrade for many employers in the area of benefits administration.

By contrast many larger employers have already implemented some form of benefit administration system and have the ability to offer a broader choice of plan designs than you would find with smaller employers. For this reason the shift towards the Private Exchange DC model is not as big for them, sometimes requiring only a modification to their contribution model, assuming their platform can accommodate it. Also, the unique nature of a Private Exchange in the larger market is the ability to select many of the key components of the Exchange including administration platform, plan designs and insurance markets. This flexibility can further extend to the integration of multiple health carriers, self-funding and in some cases provider network design.

For most employers today there is a great opportunity to advance their defined contribution strategy and look at some of the newer solutions that may offer better administration options and superior decision support. As technologies have emerged in the Defined Contribution space so has the interest. In a 2011 AON/Hewitt Study of employers with over 100 employees, 72 percent indicated they were very or somewhat interested in exploring whether a Private Exchange model could be an effective long-term solution for managing the cost of an employee health plan. And 44% indicated they will provide health benefits through a Private Exchange.²

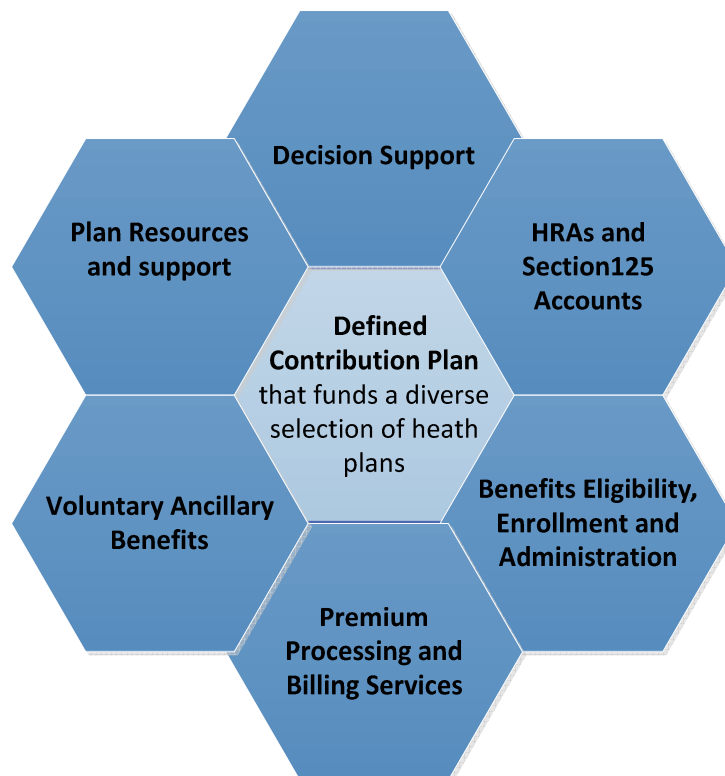
For the vast majority of employers a Private Exchange will be a new a welcome direction in plan design. While they have their own inherent challenges (to be covered later in this article) Private Exchanges offer a number of significant advantages to brokers, employers and employees making them a very viable and growing area in plan sponsorship. This is especially true as changes in marketplace continue to evolve due to shifts in attitudes towards health care consumerism and the impact of the Affordable Care Act (ACA). When looking at Private Exchanges here are some of the key advantages:

- 1. Sustainability** Having a Private Exchange offering especially for smaller companies will help employers and brokers stay in the game as Public Exchanges (ACA) and similar retail orientated marketplaces emerge. Due to ACA subsidies and tax code changes, Public Exchanges will have a greater appeal to lower wage earners. At the same time, Private Exchanges may be best suited to compliment a Public Exchange offering for the higher wage earners within the same employer population. This stratified approach can extend further into individual/group coverage combinations based on full and part time status. Alternatively as the spectrum of employer plan sponsorship dollars grows the private option increases its appeal. And, for many employers, retention of their workforce is critical to their organizations success.
- 2. Expense Control** Some employers see this trend towards DC plans as an opportunity to finally eliminate direct sponsorship that has historically experienced increases well above inflation, and instead hitch to a defined contribution model that can be tied to a more consistent budget. This switch in thinking mirrors the move from defined benefit pensions to 401k plans.
- 3. Benefits Administration Support** Limited staff and resources especially in the smaller market make it increasingly difficult to manage health plans and benefits. Certain Exchanges can take much of the burden off the employers shoulders providing enrollment and administration often tasked to HR and benefits managers.
- 4. Employee Satisfaction** Employees that participate in a competitive Private Exchange will usually experience a broader choice in their health and benefit options that more effectively meets their individual needs.
- 5. A Great Platform for Worksite Benefits** Due to their efficiencies around defined contributions, Exchanges offers a very effective way to facilitate a worksite benefits package. Many of the early adopters of Exchanges are finding success at providing a good variety of optional benefits with the convenience of the online transaction. For a benefits advisor this can provide increased revenue opportunities as well.

The Building Blocks of a Private Exchange

The centerpiece of a Private Exchange is a defined contribution plan that funds the partial or total cost of a broad offering of health plan choices. “Broad Offering” may just be a couple of plans but ideally is diverse enough to appeal to the plan, cost and network needs of most employees. The greater amount of choice the more likely you will be able to address the cost needs of the employer and employee. Furthermore, existing Private Exchanges are seeing a large percentage of employees self-selecting into high deductible health plans. These plans have demonstrated greater cost control over time. Families that switched from a traditional health plan to a consumer-directed health plan spent an average of 21 percent less on health care in the first year according to a 2012 Rand Corporation Study.³

Exchange Solutions Vary by Discipline Exchange solutions are emerging from vendors with different backgrounds and disciplines including individual health plans, general agents, flexible benefits administrators, benefits enrollment firms, HRA plans and association health plans. In the case of a carrier sponsored Exchange the health plans are imbedded in the solution. We see this with companies such as Bloom Health who currently powers health plan Exchanges for Medica, Blue Cross Blue Shield of Michigan, Health Care Service Corporation and WellPoint⁴. Similarly there are technology solutions specifically built for the Exchange marketplace such as ConnectedHealth and Liazon and benefits administration systems that have retooled for Private Exchanges which include Bswift and Businessolver. All of these solutions have their distinct advantages. Beyond the core DC Health plan Exchange sponsors should consider other features which are illustrated below:



Individual and Group Health Plans

Within the core offering, the type of health plan will vary from an individual health to group plans. Individual plans are easier to bring into an Exchange because they are already packaged to sit on a shelf of a variety of insurance marketplaces today. With a focus on risk pools, securing group plans more especially in the 50+ market will be challenging based on their underwriting and volume requirements. Clients with 50 or more employees will likely necessitate active dialogue between the Exchange sponsor and the health plan to bring products to the Exchange. At the same time, because individual plans are not deemed to be "integrated" health plans (see HRAs and Section 125 Plans below), they are not in compliance with ACA for employers with 50 or greater FTEs. The selection of plans to stock a Private Exchange has a number of variables to consider and is also influenced by the size of the client, your market, practice and geography. For this reason I recommend establishing your health markets and other insurance products prior to setting up an Exchange.

Decision Support

Many of the leading Private Exchange solutions provide strong decision support that helps the consumer shop for coverage, narrow their choices based on their financial and health situation and confirm costs inclusive of employer contribution. Some solutions approach health plan selection from a broader perspective and help employees determine when it makes sense (based on their income, full time status and employer contribution) to elect coverage through the Public Exchange offering or through Medicaid, Medicare or through a Private Exchange. Based on what appears to be the best fit that consumer is ported over to the correct resource. This holistic approach will prove to be useful as employers will see their employee population split their enrollment between public and private plans.

HRAs and Section 125 Plans

To address the pre-tax status for employer contributions within a Private Exchange you will need to set up a separate written pre-tax plan for each employer and be able to administer the program in a compliant fashion. These plans are usually structured as either Section 125 Cafeteria plan or a Health Reimbursement Arrangement (HRA). Depending on how these plans are married with health and ancillary coverages could impact the tax and ACA penalty status on the overall employee benefit program going into 2014. Section 125 plans seem to have a distinct advantage over HRAs because they can fund other ancillary benefits.

To this point on January 24th the Department of Labor released [FAQs About Affordable Care Act Implementation](#). The FAQs state that HRA's need to be "integrated" with group health plan coverage in order to comply with the requirements of no lifetime limits (minimum essential coverage) under ACA. In order for an HRA to be considered Integrated it must be made available to the primary group health plan that satisfies this lifetime limit. This penalizes the use of an HRA coupled with an individual health policy. Similar guidance suggests the same concerns when using an individual health policy funded through a Section 125 plan. Additional updates are expected at the end of the second quarter of 2013 that will clarify the structure of these pretax plans with insurance policies.

Benefits Eligibility, Enrollment and Administration

As referenced in the previous section Private Exchanges add value for an employer by providing the convenience of benefits administration as part of the package. When comparing various Exchange technologies this is where some of the most important differences can exist, many that are not obvious from looking at a demo. While all Exchange technologies enroll employees in plans, several do not properly address the additional complexities around administering benefits on an ongoing basis. One of the examples of this can be how these platforms handle life events or changes in employment status. If this occurs the Exchange platform should process that change correctly and relay the change on the eligibility file. Many lack vital capabilities to properly execute these transactions which is a concern if the scope of your Exchange platform is to provide year-round benefits management. Evaluating the depth of an Exchange technologies also extend to other key requirements such as salary changes effecting life and DI plans, new hire enrollments during open enrollment, having the proper infrastructure to build EDI Exchange with various insurance carriers and the strength of the reporting platform. While the initial interest within an Exchange usually centers on the shopping experience, when you scope out your Exchange I suggest you look further under the hood to make sure the ongoing administration requirements and the back-end platform meets your needs.

Premium Processing Capabilities

Consolidating the bills of the various plans offered is well-suited to the function of a Private Exchange because the Exchange is usually the hub for all employer offered benefits. Some Exchange technology solutions perform reconciliation of the carrier billing offering further savings through retroactive adjustments. Over time I anticipate billing will increasingly be recognized as an important core competency of a Private Exchange solution.

Voluntary/ Ancillary Benefits

Exchange solutions provide an excellent platform for presenting and enrolling voluntary worksite benefits. Depending on the decision support available, some Exchange solutions can guide employees to purchase such benefits as life, dental, DI as well as less traditional offerings as critical care, legal and even wellness related transactions. Because these platforms present insurance coverage from a holistic perspective the employee can see the “big picture” of cost and coverage. Some platforms such as Liazon and ConnectedHealth already ship with voluntary benefits embedded in their store making it fairly simple to get started. Insurance companies that offer voluntary products are very interested in working with Exchange solutions. For this reason if you have a well laid out plan you will likely find a receptive audience and interest in providing the needed flexibility for getting their product on the shelf.

Plan Resources and Support

Delivering an Exchange to market is a big step for a benefits advisory firm. These solutions are new territory for employers and employees and have a lot of moving parts. Therefore it is important the Exchange sponsor to have appropriate support to train, roll out and assist employers and employees along the way. Furthermore, HR will be looking to the Exchange sponsor to provide technical support especially as it relates to getting access to eligibility and reporting data as well as certain employee

needs such as accessing the system. Online resources will certainly help employees navigate the complexities of a Private Exchange. It is still advisable to back that up with human support as well.

Other Important Considerations

Health Plan Cost Tying a health plan contribution strategy to a number rather than the coverage provides cost certainty, however there are some inherent risks with this model. Will the employer contribution keep pace with the rising cost of the health plans offered in the Exchange? For the Exchange to thrive the plans it offers will need to do a good job of controlling cost over the long haul. The inclusion of a CDHP is a good first step. Other options are to make sure those plans deliver cost containment, narrow network options and the incorporation of wellness programs. In the smaller market these will be dictated by the carriers, in the larger market there will be more flexibility from a design perspective.

Premium Tax Credit Eligibility and Employer Contribution Strategy As referenced earlier in this article, in certain situations it may be in the best interest of an employee as well as employer for some employees to enroll in a Public Exchange program based on their household size and income. This is because the federal subsidy they will receive far outweighs the financial equation of the plan offering and employer contribution. Under ACA if an employee is eligible for the employer sponsored plan through the Exchange and that health plan meets minimum value (60% Bronze), and the plan is affordable (below 9.5% of W2 –Safe Harbor Income) then they cannot enroll in the Public Exchange. So how does an employer balance the plan and contribution strategy with the personal interests of the employees? It's tricky. This can be done with modeling tools and employee questionnaires, one of the primary objectives of EmployeeTech's Insight solution. Exchange technologies can support this need in their flexibility in being able to address various employer contribution strategies. For example an Exchange technology that allows for different contributions based on employee class or family status could address specific contribution needs that line up with an employee's financial needs.

Concluding Thoughts

Private Exchanges have a lot of promise as the new consumer market unfolds in benefits. They provide needed administration and superior decision support that many employers lack in their current benefits programs. And, the defined contribution model found in an Exchange enables the employer to budget more effectively as they look to continue sponsoring their benefit programs. As you evaluate a Private Exchange offering for your organization it is important to write a plan that incorporates your requirements, taking into consideration variables such as your insurance markets and the legislative environment. Once you have established this baseline it is important to perform detailed analysis of the vendors to make sure they meet the needs of your firm and your clients over the long haul.

1. Healthcare Insurance Exchange Update -Industry Gearing Up for January 2014, William Blair and Company LLC, April 16, 2013
2. Corporate Health Care Exchange Survey, Aon Hewitt 2011
3. Skin in the Game: How Consumer-Directed Plans Affect the Cost and Use of Health Care, Rand Corporation December 14, 2012
4. Bloom Heath Website www.bloomhealth.com