EmployeeTech

How to Respond to an Evolving Insurance Market

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When it reached its peak in 2004, Blockbuster Video had more than 9000 stores and was a main player in home entertainment business. Things for Blockbuster took an abrupt about-face when in September of 2010 Blockbuster filed for chapter 11 and was later sold to Dish Network for a mere fraction of its 2004 market value. 500 stores still remain open today. The demise of Blockbuster was based its reliance on “Brick and Mortar” for product distribution while emerging companies such as Netflix and Red Box found more efficient models (mail, vending machines, stream in video) to get their product in the hands of the consumer.

The Blockbuster story is the classic case of how a market disruption changed the course of a company and industry forever and is a powerful lesson for business. Market disruption is an event or a technology that triggers a dramatic change in how products or services are delivered, creating a new market and method of distribution. The best way to combat market disruption is to respond to the change with your own disruption strategy.

Beginning this October (more than three and a half years after the signing of the Affordable Care Act- ACA) we will see the start of something big that will affect the health insurance industry, especially for employers with less than 50 full time equivalent employees. The drivers of this change can be found in the upcoming rules under ACA governing plans, in our tax policy and the new means of insurance distribution: the Federally-Facilitated Marketplaces (FFM) and Web Broker Entities (WBE). It’s a combination of these three factors, which are expected to take effect on 1/1/14 that will transform how health insurance will be purchased going forward especially in the small and individual health markets.

New Plan Rules

Two plan rules stand out in terms disrupting how health insurance plans will be purchased in this post ACA environment: the elimination of underwriting and the standardization of plan designs.

1. **No Underwriting or Pre-ex** - Underwriting of plans and pre-existing limitations prior to ACA required a great deal of management on part of the broker and the insured. Because this process could end up in a rate change, an exclusion or declination, the result was somewhat uncertain. This currently varies by states. As a result it has required a lot of guidance. Without underwriting plan costs will be very predictable and allow for a much faster transaction.

2. **Standardization of plans**. Starting in 2014 there will be 10 “essential health benefits” for all qualified health plans which will be offered on and off the federal exchange. These plans will need to follow federally mandated minimal essential benefits and adhere to a specific tier structure: bronze, silver, platinum etc. This will be based on a plan’s actuarial value - basically the plans’ out of pocket. By standardizing plans the government is commoditizing health insurance to a point where choice will be more straightforward.

New Subsidies and Tax Credits

Under the Affordable Care Act, qualified individuals who purchase health insurance through a Federally-Facilitated Marketplace (FFM) will be eligible to receive subsidies. This ACA requirement is initially intended to support millions of uninsured individuals but will also significantly impact current group and individual insurance distribution. Here's why: to be eligible for subsidized coverage, your income will need to be between 100% and 400% of the [federal poverty level,] and you cannot be eligible for Medicare or Medicaid. Under these guidelines a family of four (no smokers) with household income in the mid $40,000 range will be looking at an annual cost of around $3000 for a plan in any state-based exchange at any age. Although the penalties under the individual mandate are low for 2014, the cost of these subsidized plans will be hard to pass up.

	Projected Maximum Premium for 2014 through FFE						
% of Poverty	**100%**	**133%**	**200%**	**250%**	**300%**	**350%**	**400%**
Maximum Premium % of income	**2.0%**	**3.0%**	**6.3%**	**8.1%**	**9.5%**	**9.5%**	**9.5%**
	The household income levels below coorispond to the % of poverty above. This calculates the maximium premium inclusive of subsidy.						
Household of 1	$ 11,752	$ 15,631	$ 23,504	$ 29,380	$ 35,256	$ 41,132	$ 47,008
Max Premium	$ 235	$ 469	$ 1,481	$ 2,365	$ 3,349	$ 3,908	$ 4,466
2	$ 15,918	$ 21,173	$ 31,836	$ 39,796	$ 47,755	$ 55,714	$ 63,673
Max Premium	$ 318	$ 635	$ 2,006	$ 3,204	$ 4,537	$ 5,293	$ 6,049
3	$ 20,085	$ 26,714	$ 40,169	$ 50,211	$ 60,254	$ 70,296	$ 80,338
Max Premium	$ 402	$ 801	$ 2,531	$ 4,042	$ 5,724	$ 6,678	$ 7,632
4	$ 24,251	$ 32,256	$ 48,502	$ 60,627	$ 72,752	$ 84,878	$ 97,003
Max Premium	$ 485	$ 968	$ 3,056	$ 4,880	$ 6,911	$ 8,063	$ 9,215
5	$ 28,417	$ 37,798	$ 56,834	$ 71,043	$ 85,251	$ 99,460	$ 113,668
Max Premium	$ 568	$ 1,134	$ 3,581	$ 5,719	$ 8,099	$ 9,449	$ 10,798

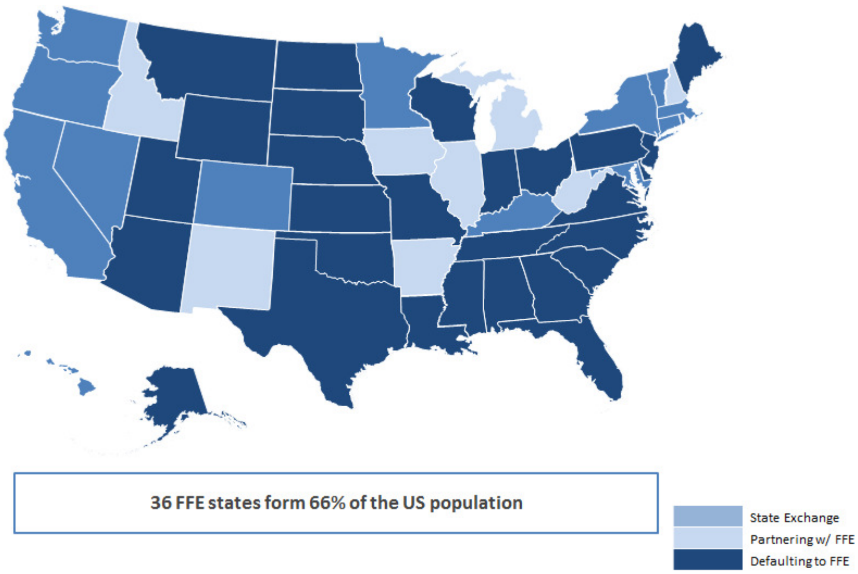
Impact on smaller group plans

Employers with lower income workers **with families** will be also impacted by the FFM subsidies because their contribution structure will likely not compete with a subsidized plan. This is generally not an issue with single coverage where current contributions for health plans are likely more attractive than a FFM plan. Nonetheless, this will detract from traditional insurance carrier channels in the small group markets requiring brokers to realign their distribution models and employer contribution strategies.

SHOP Exchange

Tax credits are currently available for employers with 25 or fewer full-time equivalent employees and average annual wages of $50,000 or less. For 2010-2013, the credit is valued at up to 35% of premium costs (25% for tax-exempt organizations). Beginning in 2014, the credit increases to 50% of premium costs (35% for tax-exempt organizations), but employers may only claim the credit for two years and must purchase insurance through the State's SHOP Exchange to qualify. In 2014 SHOP Exchanges will have limited availability of plans and appeal to employer types. Furthermore many healthy groups are opting for 12/1/13 renewals to avoid federal mandated plan designs and insurance pools. However, 2015 will likely be a different year.

New Distribution
As stated above, subsidies will drive the purchase of individual coverage through a government exchange or a Web Broker Entity (WBE). Starting October 1st the Federally-Facilitated Marketplace representing 36 states, Healthcare.gov as well as 14 state-based exchanges plus the District of Columbia are projected to be available for the purchase of health insurance. Coverage is for effective dates starting January 1st 2014. Partnering states are looking to establish their own distribution hub but are currently using the FFM to buy additional time to develop out their technologies.



Source: EHealthinsurance

Web Broker Entities
There are several Web Broker Entities, both state and national, in partnership with these exchanges. WBEs will offer the same choices as the state and federal exchanges at the same price. They will vary from national online brokers such as Ehealth, GoHealth, ConnectedHealth and GetInsured to state based WBEs that will be run by a variety of organizations including insurance carriers and regional brokers. To support both subsidy and non-subsidized consumers, WBEs are connected to the Federal electronic data hub which determines the tax subsidy eligibility and the amount of a subsidy. It also provides for additional strict consumer- and privacy-protective requirements. If a consumer decides to purchase a qualified health plan through a WBE, they will need to provide household make up and income as well as smoking status. From this information the WBE will determine if they are eligible for a subsidy. If eligible, they will present the correct plans, calculate the subsided cost and direct them to apply for financial assistance through the FFM. Once the financial assistance is determined they will link back to the WBE partner to complete the transaction.

Universal Appeal
WBEs also support the health insurance needs of non-subsidized consumers. In addition WBE's will provide all consumers with several off-exchange health and ancillary products such as dental and vision insurance. Beyond managing the FFM financial assistance, WBEs aim is to perfect the shopping experience akin to online retailers such as Amazon.com.

Consumer shopping experience from ConnectedHealth's Exchange (WBE)

Consumers can narrow their choices by providing some personal data, doctor choice and other variables to arrive at suggestions for best-fit plan choices. Over time the ease of use and quality of user experience will likely play a role in which solution consumers and businesses gravitate to. When you consider the efficiencies of no underwriting, commoditized plans and integration between subsidized and non-subsidized coverage, WBE's solve a lot of problems. When you combine this with the consumer experience, Web Broker Entities will play a very important role in how health insurance is purchased over the next several years.

Getting on board

Depending on the state, participating insurance carriers and partnership arrangement, brokers can become eligible to receive commission for subsidized health insurance business they place through a WBE. For some insurance companies or through Healthcare.gov this will require additional testing and licensing with CMW to comply with the new standards under ACA. National and regional Web Broker Entities can serve as the broker of record and pay commission or finder's fees back to referring broker. Direct insurer WBEs work much the same way as the current individual application process today. National WBE have some distinct advantages such as broad market choice, multi-state licensing and superior decision support for the consumer. They also provide telephonic sales support to help consumers complete the transaction and answer any questions. This is very beneficial for brokers that do not wish to be involved in the sales process. But this comes at a price. Revenue sharing with national WBEs can range from 50-90% depending on their size and level of sales support they need.

A new broker strategy

For many years, small group and individual marketing was focused on the underwriting process: submitting health statements, delivering rate changes and navigating pre-existing conditions. New interaction with consumers and business clients will focus more on technical integration of WBEs into their go-to market strategy and financial guidance around subsidies and tax issues. Brokers will have to be prepared on both fronts in order to compete and capture new business. Brokers who embrace this distribution going forward will open up new opportunities. Opportunities will emerge from responding to shifts in the small group market, addressing a new market of uninsureds and growth of ancillary coverages based on easier election process. All indications seem to point towards compensating brokers for both subsidized and unsubsidized health business. This suggests a viable market, provided you have the right tools to address it.

About EmployeeTech

EmployeeTech is a specialized consulting firm that helps insurance brokers drive growth through innovation and technology. We do this by helping brokers better manage their solutions portfolio, build and align with insurance marketplaces (Exchanges) and support client HR technology needs. If you are interested to learn how EmployeeTech can help your agency please contact Michael Weiskirch at 847-236-1932 or mweiskirch@employeetech.com.