EmployeeTech

# Private Exchange Insights

**How employee benefit brokers can participate in this new market**

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Private exchanges, the concept of combining defined contribution with an online consumer shopping experience for employee benefits, has become the topic du jour in the benefits industry. It's impossible to attend a conference or come into contact with a trade publication or benefits blog without someone addressing private exchanges in some way. We have seen content coming from TPA's, voluntary insurance carriers, health carriers, benefits administration companies and virtually any other player in the employee benefits space. And many new ones have emerged to meet the demand for new services and requirements in this emerging market.

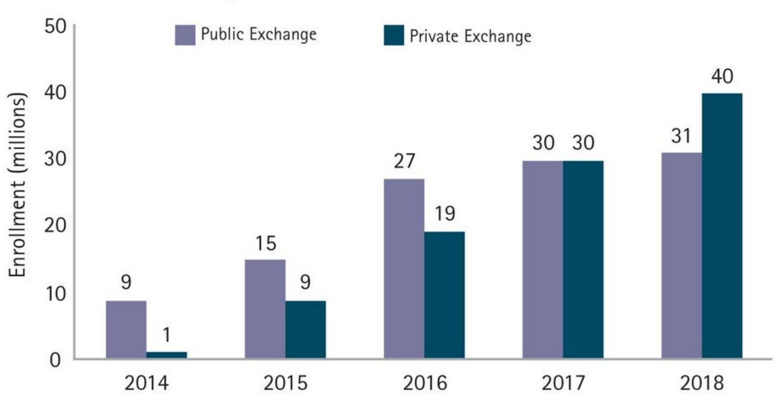
**Buzz vs. Reality**

It is important to acknowledge that the private exchanges of today are in concept a recycled version of the section 125 cafeteria plans which date back as early as 1978, but sit on a technology chassis. Also today's private exchanges platforms have strategically tried to set their definition of a private exchange in the market and to some extent have also contributed to some of the hype that follows. Like many evolving ideas with this degree of press, some might argue private exchanges fall into the category of being heavy on buzz and light on reality.  However, after deeper examination, all of the signs point to private exchanges as the primary method of delivering employee benefits within the near future, a trend that cannot be ignored by benefit advisors, employers and other industry practitioners. This trend is not about the private exchange solutions per se; it's about the employer objectives that private exchanges happen to solve for. ***Those objectives are controlling employer cost, addressing broader needs of a diverse employee population, reducing manual HR process, enhancing decision support and supporting ACA compliance.***

**Projected Growth**

In the near future (within the next 10 years) it is projected that most employer sponsored health insurance will be delivered through a private exchange. This idea has been supported by several research studies including Accenture Consulting's widely quoted projections of 40 million individuals (members) by 2018 – a number that is 24% of the number currently covered under employer sponsored plan today. At that trajectory a majority of the 170 million individuals covered through their employer will be enrolled in private exchange sometime between 2020 and 2024.

**Public vs. Private Exchange Annual Enrollment**

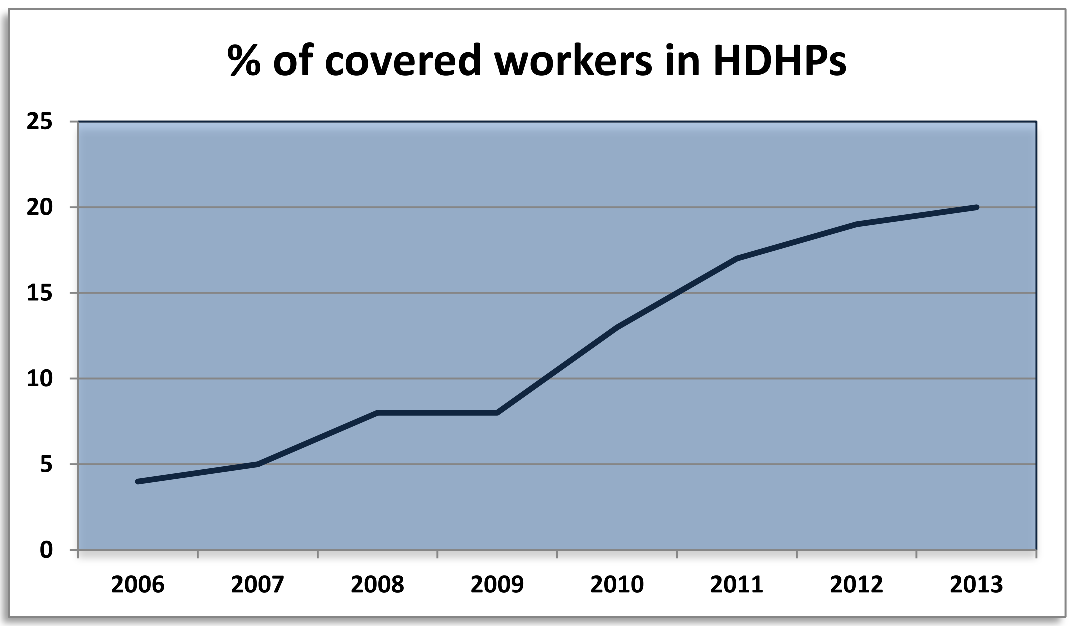



Source: Private Exchange: Accenture analysis, based on data from: U.S. Census, Bureau of Labor and Statistics, Kaiser Employer Health Benefits 2012 Annual Survey. Calculations exclude post-65 retirees and individuals.

Another benchmark to follow is the growth of defined contribution pension plans which started to gain momentum in the early 80's and grew to nearly 80% of the market by 2007. We have of course seen a lot of comparison between private exchanges and 401(k) plans. If private exchanges are on a similar growth plan, we are just ten years away from seeing a majority of employers adopt this concept. Perhaps it's too early to tell if private exchanges will follow the growth trends of the various prognosticators, but as an employer or advisor in the employee benefits space, it's certainly too important a trend not to follow.

**Factors driving interest in PX – the answers to "why?"**

The origins of private exchanges tie back to several trends that began more than twenty years ago, as well as newer events including the Affordable Care Act (ACA). Cost shifting in response to significant growth in employer health insurance cost in the 1990's drove a movement towards consumerism. This led to the expansion of higher deductible health plans and HSA accounts over the past ten years. The number of people covered by an employer-sponsored high-deductible plan has grown from just 4 percent in 2005 to 20 percent in 2013, according to the Kaiser Family Foundation. An AHIP study of HSA accounts shows a staggering growth of 1 million accounts in 2005 to 15.5 million in 2013. This shift in health expenditure on the employees' side is increasing their need to have more control over the selection of their health plan. If they have more "skin in the game" they want greater ownership of the process.




**A bellwether of the private exchange market is the growth of HDHPs. Source: Kaiser Family Foundation 2013 Survey of employer sponsored plans.**

While downward pressure is hitting the pocketbook of employees, employers face other concerns. As the job market continues to tighten and employers are driving more productivity, we are seeing a tightening of staff on the HR side, requiring them to do more with less. The ACA impact has further added to the workload with increased regulations and reporting requirements. Exchange platforms can assist in providing employee notices, determining affordability/penalties, tracking election and eligibility and ultimately filing tax documents due in 2016. At the same time very few employers today are looking to drop health coverage- about 5% over 50 (according to Kaiser Family Foundation). Yet the struggle to sponsor a plan is hitting them on several fronts, cost, and compliance, time to administer and communicate the benefits. Based on all of this the private exchange concept is starting to resonate with employers struggling with these issues today.  Furthermore it is simply part of a larger trend towards marketplaces in health and benefits. If you include Medicare advantage, the Federal Employees Health Benefits, the ObamaCare Exchanges and current private exchange enrollment you have nearly 35 million US citizens (about 11% of our overall population) enrolled through a marketplace today.

**Who currently offers a PX?**

In can be difficult to navigate the Private Exchange landscape based on the large variety of providers in the space and overlap of strategic partnerships. Looking at the source of exchange offering usually breaks down into one of six categories with consultants and brokers bringing to the table all options:

**Consultants**
- Proprietary Platforms
- Large Employer Focus
- Multi-carrier

**Brokers**
- Third-party solutions
- Benefits admin. Systems
- Emphasis on advisory

**Turn-key providers**
- Ships with benefits
- Emphasis on decision support

**Insurance carriers**
- Single product offering
- Emphasis on comprehensive service

**Health plan sponsor**
- Defined Contribution
- Benefits admin.
- Health Plan Diversity

**WBEs**
- Individual products
- Enables Subsidy
- On/Off Exchange

1. **Consulting Firms**- have often adapted legacy platforms or created proprietary platforms which are now being used for the administration of a private exchange. Solutions such as those offered by AON are fully insured multi- carrier solutions. All or most of these solutions have been focused on large employer market (over 2500 employees).
2. **Brokers/Advisors** – If the offering is unique to the broker they have most likely deployed a third-party benefits administration systems to power their exchange. Solutions such as Bswift, Plansource, Businessolver and BenefitFocus function as the platform for most broker sponsored exchanges. Brokers can also step outside their white-labled solution and consult on any of the categories below. This versatility put them in a strong position to find the exchange option that fits the clients' needs.

*The following solutions (3-6) are generally offered through Consultants and Brokers:*

3. **Turn Key Providers** – a hybrid solution that packages some benefits administration, decision support and insurance solutions together in a single offering. Turnkey providers such as Liazon are typically sold through brokers. Their strengths lie with their comprehensive decision support and election experience and have seen their greatest traction to date with small to mid-sized employers. We are also starting to see brokers and TPA's with packaged solutions enter this market. Larger brokers that have made investment into administration platforms will be partnering with smaller brokers that wish to have access to their exchange platform without having to make the large investment.
4. **Insurance Carriers**- Insurance carriers are also starting to really get into the game of private exchanges, promoting the merits of their proprietary platforms. Most of these offerings are limited to insurance products offered by the carrier, but newer positioning through companies such as Blue Cross (Bloom/Empyrean) offer partnerships with partner ancillary carriers. Carrier-based offerings also offer the convenience of telephonic assistance in addition to their web-based enrollment.
5. **Plan Sponsors** –Larger employers are looking to create their own private exchanges by instituting the key elements of benefits administration, Defined Contribution and benefit diversity. These employers have greater flexibility in their ability to pick plans and design contribution strategies as well as select their technology platforms.
6. **Web Broker Entities (WBEs)** – WBEs have been offering individual coverage to the consumers and have operated an online marketplace for insurance for some time. The ACA has been a strong catalyst for WBEs when they began to connect to the FFM (HealthCare.Gov). This enables consumers to take advantage of subsidies but still enjoy a preferable shopping experience, and for others offer off exchange plans as well. Once viewed as competitors WBEs are now working more closely with brokers and consultants as outlets for dropped coverage, ineligibles and Cobra enrollees.

**Experience and early findings**

Accenture estimated at the end of 2013 there were 3 million members (employees and dependents) enrolled through private exchanges. Much of that enrollment is clustered within a few national consulting firms such as AON, Buck and Towers. AON, which currently has 600,000 members on their exchange covering 22 employers, has the largest enrollment to date. AON's exchange is focused around providing multi-health carrier choice, fully insured plans. Buck, who focuses on firms over 3000 lives, emphasizes self-funded plans. Based on early reports, firms choosing to offer a private exchange cover all sectors including manufacturing, service and white collar.

Enrollment experience in the exchanges has been generally positive showing larger than normal participation in plans and greater percentage enrolling in high deductible health plans (HDHP). This is good news as HDHP's have historically trend 10-20% lower than traditional plans. AON reported a 43% take-up of HDHP plans offered in an exchange. Liazon's survey of exchanges showed 70% of employers were satisfied or very satisfied with their private exchange offering.

Employees also seemed to be engaged in the process; Liazon reports a 90% of employees buying down on their health plan and a high diversity of plan selections on the health and ancillary side. Bloom Health reports a 66% of employees buying down on their health plan.

**Refocusing on health expenses**

Private exchanges have been positioned as a way to eliminate the stress of managing and providing health benefits. The central idea is that the employer only needs to pick a defined contribution and everything will fall into place and be managed by the exchange provider, an approach that can be shortsighted. With the threat of the Cadillac tax and need to offer competitive benefits there is a renewed focus on controlling health care cost in the exchange environment. Many of the early adopters of exchanges are now looking at ways to engage employees in heath population management throughout the year. A recent panel discussion regarding private exchanges at the July Private Healthcare Exchange Conference sponsored by Employee Benefit News in Chicago showcased a greater emphasis on the use of data in driving smart health decisions. This can occur at the initial plan selection or throughout the year in the case of wellness or health cost transparency.

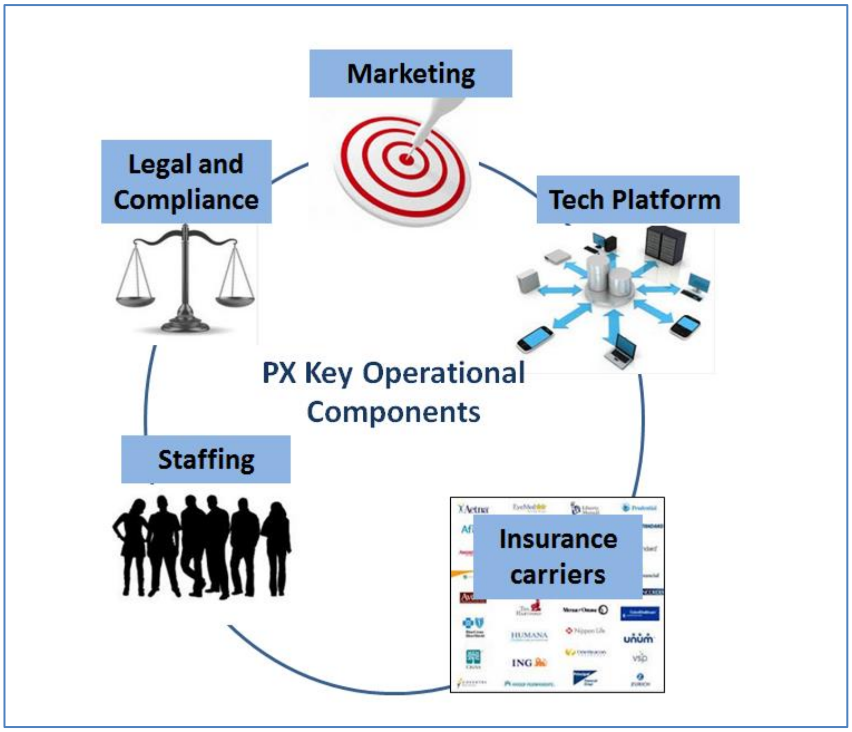
**Concerns**

With the gravitation towards HDHPs, employers and advisors have expressed concern about an individual's ability to cover the higher out of pocket cost associated with these plans. To mitigate this concern some exchange solutions ask lead-in questions to determine the individual's appetite for out of pocket exposure. Some exchanges are looking to provide credit up-front to employees in order to address early plan year expenses (within a HSA), as well to pair catastrophic illness plans with HDHPs.

In December of 2013, the Private Exchange Evaluation Cooperative (PEEC) conducted a survey of 723 employers around their attitudes towards private exchanges. PEEC is collaborative effort between four regional health organizations and Price Waterhouse Coopers (PWC). 80% of the employers in the survey saw the following as barriers to adoption of a private exchange: immaturity of the private exchange market, stability of cost over time, stability or track record of exchange administrator, limited information about private exchanges and employee readiness. Other similar concerns have been voiced in other forums on the topic. Immaturity seems to bubble up as the top concern. Many of these concerns can be addressed through ongoing education and communication.

**Building a Broker Strategy**

Brokers have started to enter the private exchange market over the last couple of years, and exchange activity in the broker market is begining to heat up. This has included multiple approaches from reselling prepackaged solutions to white labeling an existing benefits administration platform while tailoring the carrier/benefit product offering. Keep in mind the structure of a private exchange can vary significantly. It can be determined by insurance markets, technology platforms, funding, individual products and other approaches to support client requirements. Brokers should consider building strategies that address all possible needs within their market. Regardless of how a broker pieces together a private exchange, the following key operational elements must be in place to deliver a private exchange to customers:




1. **Exchange Platform** – Any solution for enrolling employees into coverage could be a possible platform for the exchange, provided it can accommodate the plans, defined contributions, and communication and eligibility needs of your clients. Not all administration platforms are created equal; some do a much better job of presenting and administering a marketplace than others, but sometimes cost and scale come into play.
2. **Insurance Markets**- This is a critical piece of the puzzle. Health markets in particular can be challenging to assemble depending on the carriers' distribution strategy. Having a marketing plan that demonstrates the business opportunity is helpful in grabbing the attention of carriers. To assist in this effort, more carriers over time will look to prepackage health plans for exchanges, and several ancillary coverage vendors will be set up to do business on exchanges.
3. **Staffing**- Depending on the exchange solution and your volume of business, you will need staff to run your exchange. Staff is usually needed to handle marketing activities, data gathering, client training, and employee education. For those deploying platforms, staff will be required for system configuration, testing, file feeds and client billing. In some cases brokers are looking to operate call centers.

4. **Legal and Compliance**- If your organization is providing an exchange to customers, you will need to have a business agreement in place that defines the terms, pricing and other services you will be providing. Paperwork to set up a defined contribution arrangement, such as a section 125 cafeteria and/or HRA plans, may be required. As clients implement on your exchange platform, ACA compliance features, if available, should be supported by the system. This could include using the platform to assess affordability, offer/participation, notices of Federal exchange and reporting used for 6055 and 6056 filing.
5. **Marketing and Promotion** – As mentioned earlier, a number of the concerns that employers have with private exchanges tie back to lack of understanding and overall uncertainty. As with any new concept in the benefits market, extensive communication and education is needed in the beginning. Brokers that have been successful in getting traction with private exchanges early on attribute their success to an active client education. Producers, owners and other staff that engage with clients need to be conversant on the defined contribution and private exchange market. They must know their options, understand how to qualify a client and understand the competitive landscape.

**In Summary**

We are at the beginning of a revolution in employee benefits. Employers, concerned about controlling cost, are increasingly selecting defined contribution plans as a method of capping expenses. ACA requirements are changing the way employers need to record and measure health benefit elections. HR and benefits administration, as well as increased demand for consumer choice, are shaping the new benefits paradigm. One promising solution to these increased demands is a private exchange. Over time private exchanges and defined contribution plans will continue to evolve to meet those increasing trends. In the same way 401(k) plans were brought to the employer market in the mid-90s, we expect private exchanges to grow to become a primary method of distribution. Keeping up with these changes can be challenging, but necessary to survival in the future.

At the same time employers have expressed concerns about the dramatic shifts required to move to a private exchange. So, the question remains; when is the right time for an employer to consider switching to a private exchange? The answer falls back on their benefit strategy and in many cases the competitiveness of their health benefit plans. For this reason employers may enter this market incrementally; changing their contribution strategy to adapt to a defined contribution approach, expanding choice in health plans including offering a minimum value plan and looking at how they can move to a more automated method of enrollment and ongoing benefits administration. Benefit advisors that can support this process of transformation will be in a good position to grow their client base as the private exchange model becomes more of a standard in the industry.