A New Strategy for Health Care: The Competitive Marketplace Model

May 21, 2013

Prepared by Consulting Health and Benefits
Presentation to Cleveland CEBS
Discussion Overview

- What is an Exchange?
- Aon Hewitt Corporate Exchange Overview
- Why would an employer consider a private exchange?
What is an Exchange?

An exchange is a competitive marketplace that consists of suppliers and buyers.
# Health Care Exchanges at a Glance

## Types of Exchanges

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<th>Focus</th>
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<tbody>
<tr>
<td><strong>Private Exchanges</strong></td>
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<tr>
<td>Corporate</td>
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<tr>
<td>▪ Active employees and pre-65 retirees of large and mid-market employers</td>
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<tr>
<td>▪ Coverage generally continues to be provided through group plans, not individual insurance</td>
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<tr>
<td>Retiree</td>
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<tr>
<td>▪ Post-65 retirees</td>
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<tr>
<td>▪ Contracts are between retiree and carrier (individual policies)</td>
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<td><strong>Public Exchanges</strong></td>
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<tr>
<td>State</td>
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<tr>
<td>▪ Public health care exchanges for individuals and small employers in connection with health care reform</td>
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The Field is Getting Crowded
Private Exchange Structures

- **Fully-Insured**
  - Fully-insured funding approach makes carrier responsible for cost overruns
  - Leverage with carrier is maintained
  - Lower levels of plan design flexibility (designs will be defined by plans)
  - Single-carrier approach allows for consistency in communications around call center contact info, ID cards, etc.

- **Self-Insured**
  - Self-insuring avoids additional costs inherent in fully-insured model (premium tax, risk loads, etc.)
  - Leverage with carrier is maintained
  - Greater plan design flexibility may be available compared to other structures
  - Single-carrier approach allows for consistency in communications around call center contact info, ID cards, etc.

- **Single Carrier**
  - Leverage with carrier is maintained
  - Greater plan design flexibility may be available compared to other structures
  - Single-carrier approach allows for consistency in communications around call center contact info, ID cards, etc.

- **Multiple Carriers**
  - Multiple carrier involvement allows for greater competition on fees and other best-in-market advantages
  - Self-insuring avoids additional costs inherent in fully-insured model (premium tax, risk loads, etc.)
  - Greater plan design flexibility may be available as compared to other structures
  - Plan sponsor’s leverage with carriers is greatly reduced
  - Control over plan design is limited

- **Fully-Insured**
  - Fully-insured funding approach makes carrier responsible for cost overruns
  - Multiple carrier involvement allows for price competition and other best-in-market advantages
  - Plan sponsor’s leverage with carriers is greatly reduced
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Aon Hewitt Healthcare Exchange Initiatives

Individual Exchange
- Post 65 Retirees
- Pre-65 Retirees
- Actives

Currently Offered

Group Exchange
- Active and Pre-65 Retirees

State / Federal Exchange
- Active and Pre-65 Retirees
Corporate/Private Exchange Goals

- Create a **competitive market** in health care benefits at a retail/consumer level
  - Will drive efficiency and mitigate trend through competitive forces
- Facilitate the **movement to a defined contribution model** for those employers who are aligned with this philosophy
  - Jump off the health care trend curve to a compensation-like rate of increase
  - Treat health benefits as an element of total rewards
- **Expand choice, drive efficiency and simplicity**, but allow consumer selections that could not be driven unilaterally at the employer level
  - For example, narrow networks, select formularies
- **Provide an alternative** to state exchanges for large employers before 2017, and transition to an individual model when the market is ready
- Consolidate purchasing power in the private sector to **drive systemic reforms of the health care delivery system**
Aon Hewitt Corporate Exchange: How It Works

1. Health Care Credit

2. Defined Contribution Subsidy
   - Standardized Plans
     - Bronze
     - Bronze Plus
     - Silver
     - Gold
     - Platinum
   - Medical
     - Cigna
     - United
     - BCBS
     - Kaiser
     - HealthNet
   - Dental
     - United
     - Delta
     - MetLife
   - Vision
     - MetLife
     - United
     - VSP

3. Insured Plan Offerings for Participants
   - Competing Carriers
     - Cigna
     - United
     - BCBS
     - Kaiser
     - HealthNet
     - United
     - Delta
     - MetLife
     - MetLife
     - United
     - VSP

4. Exchange Background Mechanics with Carriers
   - 21 Rating Bands
     - Heartland: WI, IN, KY, WV
     - Midwest: ND, SD, MN, IA
     - Mid-Atlantic: SC, VA, MD, DE
     - New England: CT, RI, MA, NH, VT, ME
     - Northeast: PA, NJ
     - Pacific Northwest: ID, MT, WY, AK
     - Plains: CO, NE, KS, MO
     - South: MS, AL, TN, GA
     - South Central: AR, LA
     - Southwest: NV, UT

5. Risk Adjustment

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Cost Impacts

**Cost Drivers**
- Risk charges
- Profit charges
- Premium taxes
- Mandated benefits
- Commissions

**Cost Reducers**
- Competition
- Risk adjustment
- Best-in-class networks/provider discounts
- Pricing approach
- Standardized designs
- Reduced admin/consulting costs
A Retail Shopping Experience Encourages Comparing Plans
Survey: Overall Enrollment Experience for 2013

Customers who agreed with the following statements:

<table>
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<tr>
<th>Statement</th>
<th>Total</th>
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<tbody>
<tr>
<td>I like being able to choose my own carrier</td>
<td>93%</td>
</tr>
<tr>
<td>I feel confident that I chose the health plan that offered the best value</td>
<td>79%</td>
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<tr>
<td>The benefits enrollment process was easy for me to understand.</td>
<td>76%</td>
</tr>
<tr>
<td>I feel like (Client) tries very hard to make my benefits enrollment experience positive</td>
<td>76%</td>
</tr>
<tr>
<td>I have a good understanding of how my employer and I share the cost of my medical insurance</td>
<td>75%</td>
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Web Tool Use Statistics

Decision Support Tool Use

- **Health Plan Comparison Charts**: 48% (Corporate Exchange), 68% (Aon Hewitt Clients)
- **Provider Search**: 14% (Corporate Exchange), 57% (Aon Hewitt Clients)
- **Need Help Deciding**: 55% (Corporate Exchange)
- **Rx Formulary**: 34% (Corporate Exchange), 35% (Aon Hewitt Clients)
- **Carrier Microsite**: 28% (Corporate Exchange), 17% (Aon Hewitt Clients)
- **Medical Expense Estimator**: 24% (Corporate Exchange)

Percent of Eligible Employees Using

Corporate Exchange | Aon Hewitt Clients
Combined Enrollment Results

Coming into enrollment 70% of employees were enrolled in PPOs, with 18% in HMOs and 12% in CDHPs.
Value Proposition—Making This Work for All Stakeholders

**Employers**
- Risk transfer and predictability
- Trend mitigation through competition, efficiency, and best-in-market contracting
- Focus on health and productivity

**Employees**
- Greater choice of plans and carriers
- Superior customer experience
- Flexibility to tailor benefit/contribution trade-offs

**Carriers**
- Market share opportunity
- Earnings potential
- Product innovation and control
- Attractive risk pool
Employers Will Join a Corporate Exchange if They:

- Are philosophically aligned with “monetizing” their commitment in the form of a defined contribution
- Do not want to be involved in plan design or vendor relationships, but still want to own health promotion
- Do not believe that health benefit plan design should differentiate in Total Rewards
- Want to move toward a compensation-like rate of cost growth in the long term
- Are comfortable with team members accessing plan information and support from a third party
The Imperative

“Left unchanged, health care will continue to underperform; cause unnecessary harm; and strain national, state, and family budgets.

The actions required to reverse this trend will be notable, substantial, sometimes disruptive—and absolutely necessary.

The imperatives are clear, but the changes are possible—and they offer the prospect for best care at lower cost for all Americans.”

Source: Institute of Medicine, Best Care at Lower Cost—The Path to Continuously Learning Health Care in America