Look Before You Leap:
Examining the New Private Health Insurance Exchanges

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Has the train left the station?

Private Exchange Express
What is an Exchange?

- A “marketplace” through which individuals, employees and retirees can purchase health insurance and evaluate differences among various plan designs and/or carriers

- In its most basic form, there are two types of exchanges
  - **Public Exchanges**
    - Vary by state
    - May be run using federal model
  - **Private Exchanges**
    - Vary significantly from vendor to vendor
What is a Public Exchange?

- Created by the Affordable Care Act

- Two types of Public Exchanges
  - **Individual Exchange**
    - Individuals may go online and select their own plan, at the level they want
    - May be eligible for a federal premium assistance tax credit ("subsidy")
    - First open enrollment period (for 2014 coverage) ended on March 31, 2014
    - Federal government reports that over 8 million people have selected a plan
    - Now referred to as "Marketplaces"
  - **Small Business Health Options Program (SHOP)**
    - Open to small businesses with 50 or fewer employees for 2015
    - Allows employers to select a group plan for their employees
    - Not eligible for the subsidy, but employer may have a Section 125 plan and allow employees to pay their share of the coverage on a pre-tax basis
What is a Private Exchange?

**Public and Private Exchanges Only Share the Same “Exchange” Name**

Generally, private exchanges:

- May use a defined contribution (DC) approach to EE contributions
- Are operated by private sector companies
- Cannot take advantage of federal subsidies
  - Low income employees purchasing coverage on a private exchange will not receive government subsidies
- Often include a wide array of other benefit offerings in their portfolio
- Three main markets that private exchanges serve:
  - **Medicare Market**: Offers individual Medicare products; ties in advocates to help retirees select “best plan”
  - **Active Market**: Operates on a group basis and varies significantly from vendor to vendor
  - **Access-Only Market**: Similar to Medicare market, with different individual coverage options; generally uses enrollers to help members navigate the public marketplace and leverage subsidies
The Exchange Marketplace
Sample of intermingled players in an immature market

CONSULTANT/ BROKER OWNED

AonHewitt Corporate Exchange
Gallagher Marketplace
Buck Right-Opt
Mercer Marketplace
Towers Watson One Exchange
Willis Advantage
Lockton

START-UP

Bloom Health
eHealth Insurance
Liazon (Bright Choice)
HealthPlan One
AmWns
GetInsured

CARRIER-OWNER

Aetna
Anthem
Cigna
United Healthcare
Highmark BCBS

PLATFORM-BASED

Benefit Focus
Bswift (SpringBoard Marketplace)
Optum
Array Health

<-> = relationship
<==> = ownership
Overview of Private Exchange Market

Medicare Market

- Private Health Care Exchanges have been operating in the Medicare space since the early 2000s
- The Medicare beneficiary exchange market is well-established, with many players
- Exchange models offer a marketplace through which retirees can purchase individual health insurance policies including:
  - Medigap Plans
  - Medicare Advantage Plans
  - Medicare D Plans
- Varying rates by location and age results in a wide range of winners and losers, which is important to understand in the transition
- Although the core functions of the exchange offerings are similar in the marketplace, they do differ in their focus, including:
  - Strength of advocacy services
  - Level of customer assistance for non-enrollment questions
  - Relationship with advocates (geographic focus/single point of contact focus)
  - Metrics (e.g., call wait times, satisfaction)
  - Level of outsourcing

The Medicare Exchange market continues to evolve.
## The Private Exchange Market

<table>
<thead>
<tr>
<th>Category</th>
<th>Medicare Exchange</th>
<th>Non-Medicare Exchange (Active)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasons to Move—Employers</td>
<td>1. Reduction in FAS 106 Liability</td>
<td>1. Reduced admin and consulting fees</td>
</tr>
<tr>
<td></td>
<td>2. Reduced Administration</td>
<td>2. Healthcare trend mitigation</td>
</tr>
<tr>
<td></td>
<td>3. Access to more plans/better prices</td>
<td>3. Focus on health and productivity</td>
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<td></td>
<td></td>
<td>4. Enhance services and/or programs offered</td>
</tr>
<tr>
<td>Reasons to Move—Participants</td>
<td>1. Competitive pricing</td>
<td>1. Greater choice in plans and carriers</td>
</tr>
<tr>
<td></td>
<td>2. Access to employer subsidies</td>
<td>2. Flexibility to tailor benefit/carriers trade-offs</td>
</tr>
<tr>
<td></td>
<td>3. Assistance selecting optimal plan</td>
<td>3. More expertise available on benefits</td>
</tr>
<tr>
<td>Funding Mechanism</td>
<td>Commissions</td>
<td>Commissions, ASO Fees</td>
</tr>
<tr>
<td>Plan Structure</td>
<td>Individual Plans</td>
<td>Group Plans</td>
</tr>
<tr>
<td>Plan Sponsor</td>
<td>The Individual Plan</td>
<td>Employer</td>
</tr>
<tr>
<td>Customer Service Model</td>
<td>Licensed agents and traditional benefit administration customer service reps</td>
<td>Traditional benefit administration customer service reps</td>
</tr>
<tr>
<td>Funding</td>
<td>Health Reimbursement Account (HRA)</td>
<td>Credits, HSA Funding, EE contributions or DC approach</td>
</tr>
</tbody>
</table>

The Active Exchange models are meaningfully different than those in the Medicare space, and quite different from one another.
### The Private Exchange Market
Comparing Active Exchange Solutions

#### HEALTH INSURANCE EXCHANGE VENDOR COMPARISON

<table>
<thead>
<tr>
<th>Exchange Feature</th>
<th>Aon Corporate Exchange</th>
<th>One Exchange—Active</th>
<th>RightOpt</th>
<th>Mercer Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of clients/members</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Funding Mechanism</td>
<td></td>
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<tr>
<td>Bundled Coverage</td>
<td></td>
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<tr>
<td>Number of Medical Carriers</td>
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<tr>
<td>Carrier Regions</td>
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<tr>
<td>Number of Carriers by Region</td>
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<tr>
<td>Plan Offerings</td>
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<tr>
<td>Advocacy Services</td>
<td></td>
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<tr>
<td>Payment Structure</td>
<td></td>
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<tr>
<td>Administration Flexibility</td>
<td></td>
<td></td>
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<tr>
<td>Wellness Features</td>
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Many of the above solutions are new to market in 2014. We expect that they will evolve as the Health Insurance Exchange market matures.

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1 Supplemental coverage includes accident, critical illness, and hospital indemnity. Mercer also offers life, disability, FSA, and COBRA services.
Transition to an Exchange

- Employers will need to determine a contribution strategy that supports the organization’s overall Employee Value Proposition
  - Depending on the exchange vendor, a defined contribution strategy review may be appropriate/necessary

- Before selecting the appropriate private exchange vendor, there are number of variables to consider when establishing a contribution strategy, including:
  - **Geographical differences in cost**—Will the employers provide an increased contribution for those who reside in higher-cost areas? (e.g., 80% of Silver plan in each region)
  - **Overall budget constraints**—What is the targeted budget that the employer needs to maintain?
  - **Deviation from the current state**—How will employees be impacted?
  - **Annual contribution increases**—How will the COLA be set?
  - **Treatment of dependents**—Will the employer continue to subsidize dependents at the same level as it does today?

- These considerations will vary depending on whether this is being designed for active employees or retirees
Should You be an Early Adopter?

Following are some of the considerations that might lead you to be an early adopter or to wait and see.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Early Adopter</th>
<th>Wait and See</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Role in Health Care Delivery</td>
<td>Want to get out</td>
<td>Will stay very involved</td>
</tr>
<tr>
<td>Role of Health Plans in Total Rewards</td>
<td>Not Important</td>
<td>Differentiator</td>
</tr>
<tr>
<td>Competition</td>
<td>Jumping On</td>
<td>Staying Away</td>
</tr>
<tr>
<td>Health Costs</td>
<td>Aberrantly High</td>
<td>Low</td>
</tr>
<tr>
<td>Current Participation Levels</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Health as an Asset</td>
<td>Not Important</td>
<td>Core Strategy</td>
</tr>
<tr>
<td>Turnover</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Employee Affordability</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Geographic Dispersion</td>
<td>National</td>
<td>Local</td>
</tr>
<tr>
<td>Benefit Consistency (need to harmonize)</td>
<td>Not Important</td>
<td>Important</td>
</tr>
<tr>
<td>Need for Technology Upgrade</td>
<td>Urgent</td>
<td>Not pressing</td>
</tr>
<tr>
<td>Desire for new/additional program offerings</td>
<td>Great</td>
<td>Not necessary</td>
</tr>
</tbody>
</table>
Feedback
What We Have Seen/Heard So Far . . .

➢ From those who have moved:
  • Strong administrative burden on lean HR staff post-ACA; movement to an exchange allowed these employers to offload this burden at little to no cost
  • Opportunity for savings outweighed other factors
  • Able to provide “more” to employees than previously able to administer

➢ From those who have remained in employer plans:
  • Not ready to be a first adopter of significant change—is this just a fad, or really the future?
  • Too much change from current state for employees; need to phase change in to be more “exchange ready”
  • Administration platform issues . . . are they “stuck”? 
Exploring the Private Exchange Market

- The general approach to assessing this market has been viability-first, then an RFP (partner search)
- The active market has a much longer viability review process, since the market is so varied, and the impact of moving is felt beyond benefits
The Employee Experience

- How do employees access information now?
- What responsibilities do they have for being involved healthcare consumers?
- What decision tools are available to them?
- What makes your population unique (e.g., technology accessibility, age, socioeconomic diversity, work environment)?
- What unusual engagement and communications challenges does your population present you with?
<table>
<thead>
<tr>
<th>What You Say</th>
<th>What Employees Hear; What They Think</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have more choice</td>
<td>I have more decisions to make; Spare me. . . I’m on overload</td>
</tr>
<tr>
<td>You have new tools at your fingertips</td>
<td>I have to learn how to use something new; I don’t know how to use the last thing that was “new”</td>
</tr>
<tr>
<td>Contact the Exchange if you have questions</td>
<td>Now I have to call another customer service department and deal with them; I want to speak with someone I know and trust</td>
</tr>
<tr>
<td>Now you can learn the real cost of medical tests and procedures, and find the most cost-effective, high quality care options</td>
<td>I’m being asked to make decisions I’m not equipped to make; I don’t have the time to do this</td>
</tr>
<tr>
<td>You will have lower-cost coverage options available</td>
<td>I’ll have lower-quality health care options available; How will I know if I have the right coverage?</td>
</tr>
</tbody>
</table>
Employee Impact Will be on a Continuum

- How ready for change are employees?
- Perceived magnitude of change depends on current situation:
  - Using the web for the first time to enroll/get benefits information?
  - Few choices now . . . expanding choice can create confusion
  - Change in organization brand, EVP?
- Just a new website with new choices . . . OR an entirely new approach to healthcare

Temper Expectations and Don’t Oversell!
Questions

- WHO
- WHERE
- WHY
- HOW
- WHEN
- WHAT