

GUIDE TO

Private Exchanges

Benefits, Barriers, and Opportunities



Private Exchanges can Reshape the Market

Introduction

In keeping with the healthcare reform movement's trend toward consumerism, the private exchange model has been gaining momentum as a new way for employers to control healthcare costs and provide competitive benefits to their employees.

Private exchanges are cropping up in different forms—as single or multi-carrier, as group or individual health plan-based, and as health plan or third-party administered. Early adopters of private exchanges are ahead of what might prove to be one of the lasting legacies of healthcare reform.

WHAT ARE PRIVATE EXCHANGES?

Private exchanges have the potential to reshape the group market. While they have been used to some degree for retirees, they are more a novelty for current employees. Therefore, awareness of this model of delivery is still relatively low among employers, and even lower among employees.

A private exchange is an online store, similar to a retail website, where employees can shop around to compare and purchase health insurance and other benefits. Outlined below are three types of private exchange formats.

SINGLE-CARRIER/INSURER EXCHANGE

In the single-carrier/insurer exchange, an individual insurer offers various plan choices to individuals or employees. Employers may help choose plan design options for their employees, but there are not multiple insurers to choose from. Examples of single-carrier exchanges include [Assurant Health](#) and [Medica](#).

Early adopters of private exchanges are ahead of what might prove to be one of the lasting legacies of healthcare reform.



MULTI-CARRIER/THIRD-PARTY/CORPORATE EXCHANGE

In the multi-carrier/third-party exchange, consumers choose from numerous plan designs from multiple insurers. Insurers compete on providing plans with various price points, provider networks, and customer service support. While many of these exchanges were originally started by technology companies, large brokers and benefit firms are now examples of companies engaging in or creating this type of exchange for both profit and nonprofit. [Mercer Marketplace](#) is an example of a multi-carrier exchange.

The term corporate exchange has been coined under this model as well. AON Hewitt's exchange for large employers is a corporate exchange that has really grown in the past two years by increasing its client base to employer groups such as Walgreens and Sears Holdings. This exchange was also designed to be ACA-compliant, but not ACA dependent, meaning all the plans available for employees to choose from meet the Qualified Health Plan (QHP) requirements.

HYBRID EXCHANGE

In the hybrid exchange, plans can be bought by both individuals and small businesses. Customers can usually choose from multiple insurers and they are also offered vision, dental or other types of ancillary benefits. These exchanges are also unique in that ones, such as [GoHealth.com](#), offer federal QHPs with subsidies for eligible individuals, as well as insurers' traditional health plan offerings.

PRIVATE EXCHANGES AND THE SHIFT TO DEFINED CONTRIBUTION

The multi-carrier, or corporate exchange, programs are often based on group insurance contracts that finance the benefit plans on a fully-insured basis. The employer is the plan sponsor for medical benefits and the plan fiduciary, determining the fixed premium payments paid on a per employee basis. However, when using private exchanges, usually the exchange manager negotiates directly with the participating health insurers and determines what health plans and benefit options are offered to the employees.

This is an important aspect or shift for employers adopting a private exchange—moving from using a defined benefit approach to a defined contribution platform. Currently, most employers define the benefits for employees and then contract with the health insurers to deliver the coverage.

The multi-carrier or corporate exchange programs typically use a defined contribution model, where employers give employees a specific dollar amount toward health coverage. The employees visit the private exchange selected by their employer and choose from the multiple health plans by multiple insurers available on that exchange. The employee has the option to contribute more for additional coverage or other health options.



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Healthcare exchanges are a valuable piece of the benefits administration puzzle for companies pursuing a defined contribution approach. As marketplaces where employee-consumers compare plan benefits and prices to determine what health plan to purchase with defined contribution dollars, exchanges are central to expanding healthcare consumerism and the ideal place for benefits distribution. Today's consumer-driven health plans put people in the driver's seat, enabling them to make decisions that give them the most value out of their health care dollars—and when they use their savings to fund a health savings account, the financial advantages are multiplied.

Employees using a private exchange may not be able to take advantage of federal subsidies because employer-sponsored group health plans and/or pre-tax contributions to an employer sponsored group plan will actually disqualify them from receiving federal subsidies. However, in instances where an employer makes a post-tax contribution to an exchange that sells individual medical policies, the employee is still eligible for a federal subsidy. If not eligible for a subsidy, employees can still pay for their share of the premium on a pre-tax basis. This is also true if their employer uses the Small Business Health Options program (SHOP) exchange once it is fully operational. Also, if their employer moves to a defined contribution plan and they choose a more benefit-rich plan or other health options, they can still use pre-tax dollars to cover the difference.

Private exchanges selling group insurance do not need to meet ACA insurance or Qualified Health Plan (QHP) guidelines. However, as noted above, some private exchanges are already understanding the value of being compliant. Large businesses with 100 or more employees will be required to provide health insurance to full-time workers as of 2015 or face a \$2,000 fine per employee. While many companies already comply with this mandate, using a corporate exchange that is offering federal QHPs may make strategic sense.

Insurers in the private exchange world will have to decide to create their own single-carrier exchange or choose to participate in a multicarrier/third-party marketplace. As companies move employees into a defined contribution plan, private exchanges will have to create an environment of direct-to-consumer selling. To succeed, these exchanges will need to communicate clearly with employees, provide multiple plans to choose from, and effectively manage risk.

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Private Exchange Benefits for Employers

In this early stage, just as public exchanges enter the healthcare vocabulary and start operating as benefit marketplaces for the employees of a few front-running companies, their future outlook is positive. Consider the 2014 enrollment figures for three of the largest multi-carrier private healthcare exchanges:

- *18 employers, including Walgreens, Sears Holdings, and Darden Restaurants, offer health benefits through the [Aon Hewitt Corporate Health Exchange](#)*
- *33 employers, including Petco and Kinder Morgan, offer coverage through the [Mercer Marketplace™](#) active exchange*
- *More than 400,000 active participants from Xerox, Arby's Restaurant Group, and Bob Evans Farms Inc. are served by Buck Consultants' [RightOpt®](#) private insurance exchange*

These exchanges expect their participation to increase during mid-year 2014 and January 1, 2015 open enrollment periods. What has attracted early adopters to private exchanges, and what may drive more companies to re-think their existing benefits strategy and turn to a private exchange-based model?

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The allure of private exchanges lives in their potential

REDUCED HEALTHCARE COSTS

Many companies are replacing their traditional defined benefits healthcare plan with a more cost-controlled defined contribution healthcare plan. With its wide range of plan choices and consumer-friendly interface, a multi-carrier private exchange is a prime vehicle for its delivery. Employees can shop for the health plan that best meets their benefit and cost needs—something that’s referred to as “right-sizing” their coverage and can help guard against over-insuring. Even if an employee is not purchasing a defined contribution health plan, choosing a higher deductible option or not purchasing supplemental coverage, for example, can save money for both the employer and employee.

MORE OPTIONS FOR EMPLOYEES

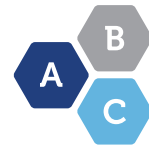
Resembling the public health insurance exchanges introduced last year as a new way for individual consumers to compare plans and purchase coverage, the private exchanges provide a marketplace for people to shop from a menu of employer-sponsored health benefits. Private exchanges are being constructed with the consumer in mind, employing web-based technology and boasting the capacity to sell various health and wellness products, depending on the needs of the employer group(s) using the exchange. Some exchanges offer more than just health plans, acting as a “one stop shop” for medical, dental, life, disability, and even non-insurance products.

SIMPLIFIED PLAN ADMINISTRATION

Today, employers sponsoring health plans need to ensure compliance with healthcare reform, stay on top of mandated (and often complex) employee communications, and manage vendor relationships. Owing to their service-oriented design, private exchanges help reduce the employer’s administrative burdens—a welcome advantage in an era of change. In addition to handling much of this administration for their participating providers, private exchange administrators provide specialized services such as enrollment reports, expert customer support, and even a single bill for all group products purchased through the exchange.



Control Costs



Provide More Options



Simplify Benefits Administration



Private Exchange Benefits for Employees

Employees are also reporting positive experiences when using a private exchange model. [Bright Choices Exchange](#), operated by Liazon Corporation, conducted an online survey in June and July of 2013 with the employees of participating companies who use its exchange services. Employees had a minimum of five plan options to choose from, with the average number of health plan choices being about 10. They also had FSA, dental, vision, disability, life, and even more options to consider as well.

According to the main point of survey: “The results show not only high satisfaction with the benefits provided and the process of shopping online, but that something even more meaningful is happening. A new, more empowered healthcare consumer is emerging – one who understands his or her benefits better than ever before, and who extends that understanding to making smart health care choices.”

It’s important to note the three additional insights compiled from the data that further detail the positive impact of a private exchange environment. With more than two-thirds of employees reporting being satisfied or much more satisfied with the benefits they selected from the exchange compared to their previous plans, these key points highlight the reasons why.

CHOICE AND FLEXIBILITY

90% of employees want choices when making their benefit selections, with only 10% declaring there were too many choices. Additionally, 60% of employees like the flexibility of a wide-variety of benefits and believe they will evaluate the offerings from year-to-year to select a modified or new portfolio that fits their changing needs.

THE RIGHT FIT

Over half (53%) selected their benefits package because it “provided the right level of coverage,” and only 23% selected the lowest cost option. It turned out cost was not the main factor considered during the benefit selection process.

EMPLOYEE SATISFACTION AND ENGAGEMENT

Over three-quarters (75%) are satisfied or very satisfied with their online benefits shopping experience. Additionally, 63% reported being more aware of medical care costs than previously and 60% more engaged in decisions about their own care.

The survey results tell a compelling story from the employees’ perspective. Private exchanges can provide the catalyst for greater understanding of healthcare benefits and ancillary benefits. These are steps in the right direction for creating a more cost-conscious, engaged employee/consumer.

**A new, more empowered
healthcare consumer
is emerging**



Employer Barriers to Adoption of the Private Exchange Model

So, although there is a distinct employer shift towards fostering a culture of healthcare consumerism, most companies are still evaluating how they want to provide healthcare benefits to employees in the coming years. As just mentioned, there are many positives to offering employee benefits through a private exchange.

In fact, [Accenture](#) projects that private exchange participation will surpass public exchange enrollment by 2018. However, what must happen before private exchanges become the “new norm” in healthcare benefits administration?

A recent survey from the Private Exchange Evaluation Collaborative (PEEC), an independent employer healthcare coalitions and Pricewaterhouse Coopers to help employers navigate the private exchange-based marketplace with objective, non-biased information and support, shines some light on how employers are approaching private exchange implementation. According to the [December 2013 Private Exchange Employer Survey](#) of 723 employers in 34 industries across the U.S., it was revealed that 45% of employers have implemented or plan to consider utilizing a private exchange for full-time active employees before 2018. While this represents almost half of respondents, it shows that most employers are taking a “wait and see” approach to embracing a private exchange strategy.

According to the PEEC, over 80% of employers consider the following to be barriers to adopting a private exchange-based healthcare benefits model:

IMMATURITY OF THE PRIVATE EXCHANGE MARKETPLACE

The private exchange value proposition is still being defined, and the model itself is in the process of finding its place in the larger healthcare marketplace. Private exchange administrators—presently few in number—are still learning what employers and employees want in a solution and determining how to differentiate themselves in the early stages of a developing market.

STABILITY OR TRACK RECORD OF EXCHANGE ADMINISTRATORS

The business of administering a private healthcare benefits exchange is relatively new. Their capability to deliver high-quality solutions notwithstanding, administrators currently managing exchanges are inexperienced and need to prove their ability to provide products and services that meet the needs of various employer groups. Employers, on their end, are looking for evidence of success with early adopters and waiting for a level of comfort with what’s largely a novel concept in benefits administration before embracing it for themselves.

45% of employers have implemented or plan to consider utilizing a private exchange for full-time active employees before 2018.



LIMITED INFORMATION ABOUT PRIVATE EXCHANGES

Education is the key to increased use of private healthcare exchanges—and employers face a steep learning curve. Many employers want to maintain competitive-yet-cost-effective benefits packages and are already making the move toward consumer-driven health plans, finding out how they work, understanding their tax implications, and communicating their merits to employees. Employers are also learning what they need to do to meet healthcare reform requirements. As a track record is written and insights are gained from early adopters of private exchanges, more information will become available to help employers make informed benefits decisions and help their employees do the same.

EMPLOYEE READINESS

While the employee health benefits mindset has been shifting in recent years, some individuals are still struggling to understand the value of consumer-driven healthcare. The economics of “consumerized” healthcare follow different rules than those of other consumer products—while “less expensive” might mean lower quality or performance when evaluating cars or television sets, less expensive healthcare doesn’t equate to worse care or coverage. People want financial peace of mind and may be resistant to change, but because of rising costs, they’re in the process of resetting their expectations with respect to employer-sponsored healthcare benefits. Accepting a healthcare marketplace model may be an important next step in their journey.

STABILITY OF COST OVER TIME

PEEC’s December 2013 Private Exchange Employer Survey found that employers are looking for comprehensive capabilities and services from private exchanges. The products in the exchange need to be designed and priced to establish long-term stability—and this is the challenge, relating directly to defining the value proposition. Many employers are waiting until they are confident in their sustainable bottom-line value before adopting a private exchange approach.

The advantages of operating under of a private exchange model are just beginning to come to light, but many questions remain to be answered before private exchanges attain widespread adoption. Along with employers across the country, we will be watching the performance of private exchanges throughout the 2014 benefits year and seeing which barriers to adoption, if any, have been overcome. Visit the [Private Exchange Evaluation Collaborative](#) to learn more about the changing marketplace, private exchanges, and their effect on employers.



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PRIVATE EXCHANGE IMPLEMENTATION TRENDS

The 2013 Healthcare [Benefits Trends](#) Study polled HR executives and other benefit decision-makers across the country regarding private exchange implementation. More than half (54.5 percent) of employers reported that they are somewhat to very familiar with private exchanges. As ACA employer mandates continue to take effect over the next couple years, more employers are reporting an interest in offering employee health benefits through an exchange.

The study also found that although more than half of employers identify as somewhat-very familiar with private exchanges, less than 7 percent of these employers are already using exchanges. However, as more private exchanges continue to launch this year, it's predicted that we'll see an increase in the number of employers using these exchanges.

The following infographic provides an outlook of private exchange implementation among employers, as well as what employers report looking for in a private exchange.

More than half of employers reported that they are somewhat to very familiar with private exchanges

Private Exchange Employer Implementation Outlook [INFOGRAPHIC]



54.5%

of employers are familiar with private exchanges

Where are employers in the process of offering employee healthcare benefits through an exchange?



23.4%
Still Learning



6.4%
Already Using



17%
Considering

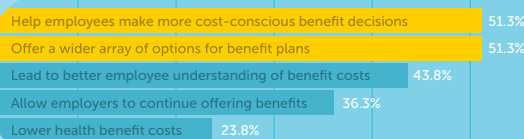
2014 2015 2016

26.9%

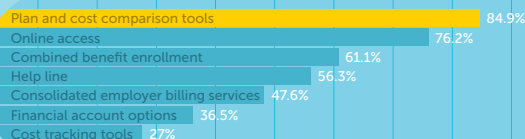
50%

23.1%

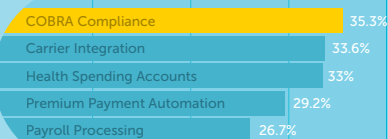
Perceived benefits of private exchanges:



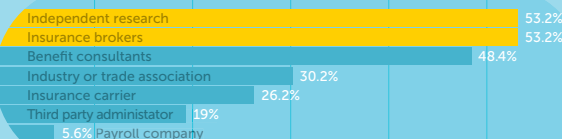
Employers want an insurance exchange that includes:



Top attributes for offering health plans through an exchange:



Top information sources for learning about private exchanges:



What's Next for Private Exchanges?

Most companies are still evaluating how they want to provide healthcare benefits to employees in the coming years, and private exchanges are a viable alternative to what they're doing today. Many are waiting until they are confident in their bottom-line value before adopting a private exchange approach, waiting to see if early adopters experience success. We'll all be watching large employers like Walgreens, Xerox, and Petco—and certainly the small and mid-sized companies in the market—to help gauge the outlook for long-term growth.

It's important to remember that private exchanges for current employees are in their infancy and still evolving. As technology continues to advance and improve outcomes, new exchange models may arise with an innovative approach not yet before seen. In the meantime, employers can use this private exchange checklist of several key considerations to begin discussion within their companies.

TIPS TO EVALUATE A COMPANY'S READINESS TO ADOPT A PRIVATE EXCHANGE

How will your company implement the DC strategy?

- *Shift to complete benefit transparency vs. private payroll deduction*
- *Creation of a formula to determine subsidies (location, position, dependents, etc.)*
- *Technology infrastructure and integration with exchange platform*
- *HR objectives compatible with exchange's long-term strategy*

What will the private exchange's manager's role be?

- *Make commitment to a single carrier or multi carrier exchange*
- *Create an exchange of large carriers and networks or look to expand offerings through accountable care organizations and local providers*
- *Make year-to-year decisions about what plans and options are available*
- *Provide proper investment to maintain and administer ACA guidelines and compliance standards in all states*

What will HR's new role be?

- *Determine how other benefits like dental, vision, short-term disability and EAP services will be administered*
- *Develop proper promotion and new communication channel for wellness program separate from medical insurance and services*
- *Create employee engagement metrics to measure engagement in the new DC and private exchange environment*



Sources:

[Private Exchange Evaluation Collaborative \(PEEC\) 2013 Private Exchange Employer Survey](#)

[Shopping for Benefits On the Private Health Exchange: The Rise of a Smarter and More Empowered Health Care Consumer, Liason Corporation](#)

[Are You Ready? Private Health Insurance Exchanges Are Looming, Accenture](#)

[2013 Healthcare Benefits Trends Benchmark Study, Healthcare Trends Institute](#)



About the Healthcare Trends Institute

The Healthcare Trends Institute is an educational platform to help employers, third-party administrators, health plans, brokers, banks, payroll providers, consumers, and other stakeholders keep up with the rapidly changing healthcare benefits industry. It covers a range of topics related to the administration and management of healthcare benefits. To ensure all content and programs achieve the highest level of quality and relevancy, the Institute is guided by an Editorial Advisory Board comprised of subject-matter experts that represent diverse aspects and perspectives within the healthcare benefits industry. More information is available at www.healthcaretrendsinsitute.org



Tiffany Wirth, Executive Director

Healthcare Trends Institute

4324 20th Avenue, SW, Ste. 200

Fargo, ND 58103

P 701.499.7215

E info@HealthcareTrendsInstitute.org



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