OVERVIEW

- The term “Health Insurance Exchange” catapulted to national attention starting on October 1, 2013, with the rollout of Healthcare.gov, as well as the state insurance exchanges, as part of the individual enrollment mandate of the Affordable Care Act (ACA).

- A health insurance exchange, at its core, is a purchasing portal or “marketplace” for buying health insurance. Private exchanges emerged over the past few years to offer not only health insurance but also other common employer-provided benefits (dental, life, disability, etc.).

- Interest in private exchanges among employers is growing. According to a 2013 survey of employers by the Private Exchange Evaluation Collaborative, 45 percent of employers have implemented or are planning to implement an exchange for full-time active employees prior to 2018. In that same study, 69 percent of employers said they believe it’s very important that advisory services surrounding exchanges be independent from the exchange owner.

- Private insurance exchanges take one of a variety of forms including fully or self-funded, single or multicarrier—all powered by a spectrum of decision support and benefit administration tools.
Most private exchange sponsors market their exchanges by promising to reduce the employer’s cost and administrative burden by defining a fixed employer contribution toward an employee’s coverage, and in the case of a fully insured offering, shifting the insurance risk to an insurance company. In addition, the employer off-loads enrollment and related administrative functions to the exchange and its insurer(s), while providing broader employee choice of available plans and thus higher employee engagement.

Early stage exchanges sponsored by benefits consultants offered only fully insured, group coverage through one or more insurers. The promise here is to reduce cost for employers through carrier competition for market share on the basis of cost, access, quality, and service. Most exchanges are now offering access to programs in both a self-insured as well as fully insured manner, although access to multicarrier fully insured plans is becoming very limited.

Employers considering a private exchange as a vehicle to facilitate employee purchase of individual health insurance policies, subsidized through an employer-provided reimbursement account (HRA) were thwarted in September 2013 by IRS and DOL health reform rulings that an HRA cannot be integrated with individual health coverage and therefore employers in this scenario do not avoid ACA “play or pay” penalties.

Lockton’s view is that most self-insured midsize and larger employers will be better off maintaining their own self-funded plans, for a variety of reasons discussed below. These employers may readily replicate the stated objectives of a private exchange without surrendering control over plan design, vendor partnerships, and customer service.

A full 69 percent of employers believe it’s very important that advisory services surrounding exchanges should be independent from the exchange owner.
What’s a “Private Health Insurance Exchange”?

A reference to a “private” insurance exchange seeks to draw comparisons with the public health insurance exchanges maintained by the Federal Government (Healthcare.gov), to programs in states such as Massachusetts and Utah, and to the state-based exchanges authorized by the federal health reform law.

Like public exchanges, a private exchange is a purchasing portal for health insurance. The exchange offers a “shopping experience” to individuals where the individual may purchase or enroll in health insurance and other coverage. Key differences are that private exchanges provide access to sophisticated decision support tools with an enhanced shopping experience, but do not offer government-supplied subsidies to insurance purchasers. Another key difference is that the exchanges are operated by private, rather than governmental or quasi-governmental entities.

Depending on design, private exchanges may involve coverage that is:

- Fully insured or self-insured.
- Group or individual.
- Provided by a single carrier or multiple carriers.

Most private exchanges that offer only fully insured, group coverage do so through a single insurer. When the exchange provides self-funded, group coverage, a multicarrier option is feasible.

Fact Checking the Selling Points of a Private Exchange

One may argue that private exchanges offer advantages to certain employers. One could also argue that employers who want to continue to offer group health coverage may achieve these same benefits without migration to a private exchange.
Let’s consider the arguments in favor of migration to a private exchange:

A Private Exchange Allows an Employer to Fix the Employer Contribution

There are budget control advantages here but only if the employer (1) currently self-insures, and (2) sees advantages to itself and its employees in switching to fully insured group coverage. There may be a place for this kind of rigid “defined contribution” model (which smacks of the old “flex credit” approach of the 1980s and ’90s), but it saves the employer money only to the extent the employer pushes onto the backs of employees all or the lion’s share of health insurance cost inflation. Employers will need to evaluate and potentially raise their fixed contribution over successive 12-month periods. Financial models need to shift from a 12-month framework to a multi-year framework.

A Private Exchange Reduces Tax Penalties and Enhances Compliance

- A defined contribution approach will help employers get ready for and reduce the excise tax penalties (known as the “Cadillac Tax”) under ACA in 2018, if employees “buy down” in coverage over the years to levels under the tax threshold. However, an employer needs to consider affordability within ACA under this approach.

- Most platforms have built-in administrative checks and balances, as well as reporting to help comply with the ACA. Of course, an employer needs to consider ACA under its entire human capital administration as ACA impacts time and labor, payroll, HRIS, as well as benefits.

A Private Exchange Reduces Costs to Employees

- While an exchange model certainly engages the employee and his or her family as consumers far more than the most current benefits delivery models, health insurance inflation generally outpaces the rate of inflation. Thus, under a “defined contribution” model, the employee will bear a larger and larger share of inflation’s impact. Industries that compete for talent need to carefully consider the impact to employee compensation due to this migration over time.

Early enrollment patterns indicate that when employees are given more choice with proper decision tools, they will often “buy-down” in health coverage.
Insured coverage is generally more expensive than self-insured coverage because carriers pass along costs associated with premium taxes, medical loss ratio rules, state insurance mandates (such as coverage of TMJ, autism, infertility treatment, etc.), and profit margin.

Private exchange advocates say that where the exchange includes multiple carriers, competition between the carriers will “drive efficiency” and cost reductions. But over time, some insurers are sure to be “losers” in the race for market share and, as they find exchanges unprofitable, will increase premiums, greatly narrow the networks, or exit the exchange. Costs increase and access shrinks in both cases.

Companies with efficient self-funded plans with state-of-the-art decision tools will want to think twice about joining an exchange that is fully insured and/or pools risk, because they’ll lose customized plan designs and subsidize other exchange members with poorer risk profiles.

A Private Exchange Gives Employees More Choice

Early enrollment patterns indicate that when employees are given more choice with proper decision tools, they will often “buy down” in health coverage to lower cost plans and use the balance of contributions to purchase additional/supplemental insurance plans or place money into tax advantaged plans such as HSAs or FSAs. If an employer is self-funded in an exchange model, it needs to consider the overall impact to contribution mix and overall plan funding when employees buy down.

Many employers already offer multiple coverage options to employees. Exchanges tend to offer prepackaged plan designs rather than the highly customized plan design a self-insured employer may offer. Exchanges cede the control to the employees for choosing the plan that best suits their needs just as under 401(k) plans where the employee picks the investment choices that suit his or her needs.

Carrier enthusiasm for participation in multiple-carrier exchanges has waned considerably as of late, and should it continue to do so, the choices available to employees will diminish as well. And if the employer drifts to a pure “defined contribution” model, the raw impact of health insurance inflation will put richer coverage options out of reach for some employees.

An employer looking to move toward defined contribution may do so rather easily, without leaping to a private exchange platform.
A Private Exchange Gives Employees a “Shopping Experience”

If a “shopping experience” is important, it is possible to provide this experience as part of an online open enrollment process that reorients the traditional enrollment process. Lockton has helped many employers do just that on their current enrollment platforms, and can connect employers to third-party vendors who display coverage offerings as “options” through an employer-branded, exchange-like portal.

A Private Exchange Saves the Employer Money

- Yes, to the extent a self-insured employer embraces the “defined contribution” model and simply allocates a fixed contribution of dollars or flex credits to an employee, for his or her purchase of fully insured health coverage. The extent of the employer’s savings, over time, depends on the share of health insurance cost inflation the employer is willing to absorb.

- Of course, an employer looking to move toward defined contribution may do so rather easily, without leaping to a private exchange platform.

A Private Exchange Eases an Employer’s Administrative Hassles

- Outsourcing benefits administration transfers an employer’s administrative burden. The same is true under an exchange structure since the exchange operator assumes many of the administrative duties of the employer. Lockton often helps employers do this without resorting to wholesale migration to a private exchange. Our proven, vendor-neutral approach helps mid-market employers navigate the vendors and solutions available to find the best fit and administrative savings.

- When implementing an exchange, it is likely that communication costs will increase in the short term as employers need to communicate the changes to the employees, their dependents, HR, company management, and senior management.

On the Horizon . . .

Health reform remains a huge wild card. In 2015, all but the smallest employers must offer insurance to full-time employees or risk penalties. A purely “defined contribution” private exchange—where the employer simply provides a lump sum of cash to subsidize the employee’s purchase of individual coverage—will make little sense by 2015. Employers will not receive credit, toward their “play or pay” obligations, by simply allocating cash to the employee, to subsidize purchase of individual insurance. If that remains true, the employer will be subject to penalties notwithstanding its expenditure.
Other Practical Issues With Private Exchanges

There are significant additional practical issues associated with a private exchange:

- Some exchanges require “multiyear commitments” and the participating employers cannot access their enrollees’ health claims information if they leave the private exchange.
- Most exchanges require that the employer subscribe to their pre-packaged approach to disease management, wellness, advocacy, claims data warehousing, etc. An employer will lose the previous investment in their selected partners and will need work to integrate and most likely lose the accumulated data, history and programs they previously employed.
- Where a private exchange offers group coverage, the employer does not dodge all the administrative bullets associated with plan sponsorship. The coverage will be an ERISA benefit plan (if the employer is subject to ERISA), meaning the employer will still have ERISA’s many reporting and disclosure obligations.
- Employers participating in a private exchange lose access to aggressively manage employee wellness. Defined contribution and private exchanges alone do not stop or slow medical trend. Rather, a well-coordinated population health management plan, wellness strategies, and other benefit plan optimization strategies are the principal tools employers can use to help better control health and disability costs. A private exchange can fit within this structure.

Going Forward

Private exchanges will certainly have a place, for a particular category of employers with specific needs, objectives and employee demographics. Most employers are considering exchange-based strategies but are anxious and concerned about how the market will develop. The immaturity and uncertainty of the market create barriers to adoption. In addition, employers are concerned about cost stability over time, exchange operators’ experience, history and stability as well as organizational and employee readiness for this type of change.

Private exchanges are not a panacea for skyrocketing healthcare costs; there’s no single silver bullet to deal with healthcare inflation. Employers everywhere are considering a variety of approaches to manage costs, remain compliant, and still offer employees the benefits that employers must offer to remain competitive.

As your trusted advisor, Lockton will bring its expertise, innovation and market clout to bear, to guide you through your analysis and decision-making process, to ensure that you make decisions best suited to your business needs. Our client-centric approach, accumulated knowledge of the carriers, as well as benefits administration market and flexible approach to implementation and customer service set us apart in the market.
Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work