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Inside
HEALTH INSURANCE EXCHANGES

Timely News and Strategies for Doing Business on Federal, State and Private Exchanges

Big Employers Are 'in No Rush' to Embrace Private Exchanges; Industry Is Still Bullish

It's been three years since Aon Hewitt grabbed headlines when it enrolled Sears Holdings Corp. and Darden Restaurants in its multicarrier exchange (HEX 10/12, p. 1). Despite predictions that private exchanges were the next evolution in employee benefits, adoption among large employers remains tepid.

Based on the results of a 2015 private exchange survey, large employers are "in no rush" to move to a private exchange for their active workers, although more of them are moving retirees there, according to Paul Rogers, president and chief operating officer at Chicago-based Pacific Resources Benefits Advisors, LLC, which conducted the survey. Rogers was part of a panel that discussed the future of private exchanges at the Private Exchange Forum in Baltimore.

And although some employers have expressed an interest in private exchanges, they don't intend to make a move anytime soon. Exchanges "serve as a potential solution" to fulfill certain strategies, but they are not a cure for managing and mitigating health care costs in their current form, he said. "The future of exchanges as a marketplace game changer remains uncertain." He added that most large employers have been approached by at least one private exchange vendor this year, but few have decided to move to an exchange, according to survey results. The Sept. 1 conference was sponsored by The Institute for HealthCare Consumerism.

Barbara Gniewek, a principal in PwC's Global Human Resource Services, agreed that adoption among employers has been slower than expected, but said she remains "bullish" about the future of private exchanges. She told attendees that some of her large employer clients had intended to move to a private exchange for the 2016 plan year, but have decided to hold off another year.

While she admitted overall adoption has been lackluster, she said interest in private exchanges has been "extraordinary," with many employers eyeing the 2017 plan year for active employees. "I'm getting calls weekly," she said. "People were hoping that the uptick in adoption would happen in 2015. It didn't. I do think 2016 will be a year of growth, and 2017 will be the big year," she predicted.

Another reason for the lukewarm adoption is several compliance issues related to the Affordable Care Act (ACA) that have kept employers busy, said Mike Smith, director of exchange solutions at Lockton Benefit Group. Moreover, the concept is still untested in the eyes of employee benefits directors and they don't know if the timing is right, he said. And employers are concerned about how a move to a private exchange might impact their ability to attract and retain talent. However, he agreed with Gniewek that adoption will continue to grow because employers can't continue to administer benefits the way they have in the past.

"Health care costs continue to be a major challenge for employers and they're looking for ways to address those. They're not yet convinced that private exchanges will solve that problem," Smith said.

Gniewek argued that exchanges are more than an administrative tool and said the model had reduced benefit cost increases for some employers. Aon Hewitt, she noted, has 800,000 active employees on its multicarrier exchange and has effectively used competition among carriers to keep rates low.

"You have to get at the cost of care and you don't do that through benefits; you do that through engagement, through networks and care management," she said. "The lower trend rates we've seen are not just from cost shifting to employees.…[Employers] can do that without an exchange." Moreover, private exchanges also promise employers a better health benefits experience for their employees. They want more choice and better tools for consumers.

For an exchange to be successful, there has to be some level of scalability and standardization of the various benefit plan options, said Scott Carver, president of PlanSource, a provider of cloud-based health exchange and benefits administration software.

"You are not going to drive cost out of the model if you don't do that. The mistake I see exchange sponsors making is in trying to customize the benefit portfolio for each employer that joins the exchange rather than truly creating a storefront," he said. "This industry needs to get over the need to customize benefits. Too much customization is a mistake…particularly among employers with fewer than 1,000 lives."

The panel agreed that employers aren't likely to sit on the sidelines much longer. Employee benefits consulting firms such as Aon Hewitt, Mercer and Towers Watson have made substantial investments in private exchanges and are prodding their clients in that direction. Large insurance agencies have followed their lead and launched their own multicarrier exchanges. Even large health plan operators such as Cigna Corp. and Aetna Inc. have their own multicarrier exchanges.

For benefits consulting firms and large insurance brokerages, there is more money to be made operating an exchange than in administering health and welfare benefits, said Faisal Saleh, another speaker on the panel and a principal at Hager Strategic, Inc., a Washington D.C.-based benefits, human resources and payroll administration consulting firm. "Maybe to the tune of three times as much revenue."

Moreover, the technology available to private exchanges is far superior than it was just a few years ago, and it can help employees become better consumers of health care, said Gniewek. Venture capitalists have invested billions in health information technology. Smith pointed to an April 2015 McKinsey & Co. study that estimated digital health care attracted $4.2 billion in venture capital funding in 2014 — up 125% from 2013. While the lion's share of that funding will be used on health improvement technology, significant amounts are being spent to develop better health plan selection tools. "There's a tremendous amount of capital at stake, and investors want to see a return on that investment," Smith said.

Case in point: On Aug. 24, PlanSource said it had received a commitment for a minority equity investment of $70 million from Boston-based private equity firm Great Hill Partners. The funding will be used to drive growth in sales and marketing, invest in product innovation and expand its operating and technology infrastructure.

Cadillac Might Drive Exchange Growth

Another force at play is the so-called Cadillac tax, which goes into effect in 2018. Premiums that exceed $10,200 for individuals ($27,500 for family coverage) will trigger a 40% tax on the excess amount. Towers Watson estimates that roughly 48% of large employers will hit the tax in 2018, based on current plans and cost trajectories *(HEX 7/15, p. 1).*

When given a choice of coverage options and prices through a defined contribution, employees tend to buy down. And that could help employers gradually move away from the risk of the Cadillac tax. Private exchanges offer a glide path to move into compliance without having to force change onto employees.

A survey of large employers conducted by the National Business Group on Health determined that nearly half (48%) had at least one health plan that would trigger the tax if no action was taken (see box, below).

Insurers Grow Leery of Exchanges

"From the insurance carriers' perspective, we are seeing them becoming increasingly uneasy with what's going on with exchanges," said Saleh.

While the multicarrier exchange operator interacts directly with the employer, the insurance carrier becomes one of many groups selling a commodity and has limited contact with the client.

"As the exchange tries to produce savings [for the customer], they're actually eroding the margins of the carriers, and the carriers don't like that" because they can be replaced. In response, some carriers are developing their own exchange solutions to protect their turf and their major accounts. Some brokers also see exchanges as a potential threat to their commission base, Saleh added.

Download McKinsey & Co.'s report "Unlocking Digital Health: Opportunities for the Mobile Value Chain" at http://tinyurl.com/pqkn3sk.

For information about the conference, visit The Institute for HealthCare Consumerism at www.theihccforum.com.

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