



# PRIVATE HEALTH INSURANCE EXCHANGES: HOW BUSINESSOLVER SEES IT





# CHANGE IS COMING, BUT THE SKY IS NOT FALLING

The topic of private exchanges for employee health insurance is picking up steam, plain and simple. Sometimes they are referred to as private health exchanges. Sometimes as private insurance exchanges or private health insurance exchanges. Sometimes it's simply insurance exchanges. Regardless, the concept has been around in one form or another for several years. (Heck, Businessolver has provided the technology and consulting services for an array of pooled insurance service and benefits administration needs — the precursors of private insurance exchanges — since 2002.)

Now, however, the idea of **private insurance exchanges is gaining momentum** in response to four trends:

- ▶ Mandates in the Affordable Care Act (ACA) changing the health insurance landscape
- ▶ Employer-sponsored health insurance plans shifting to defined-contribution models
- ▶ Insurance carriers seeking to find ways to overcome the compressed profit margins they'll see under the ACA and maintain budget consistency
- ▶ Employers empowering employees to make better-informed insurance-buying decisions



“Health insurance in the U.S. is at the cusp of a major transition from an employer-driven payor model to a model directly involving many more employees and consumers,” say the authors of the Booz & Co. (now Strategy&) report “**The Emergence of Private Health Insurance Exchanges: Fueling the ‘Consumerization’ of Employer-sponsored Health Insurance.**” “Private health insurance exchanges with a defined contribution approach represent a significant step toward catalyzing this change.”

WE AGREE.



Private insurance exchanges for Medicare-eligible retirees have been growing steadily since they were introduced in 2004.

What's different with today's private exchanges and the kind we're talking about here is that they include active employees. **Several large employers, including Sears, Petco, and Walgreens, have already signed up with leading exchange operators, all of which are global human capital management services firms: Mercer, Aon Hewitt, and Towers Watson.**

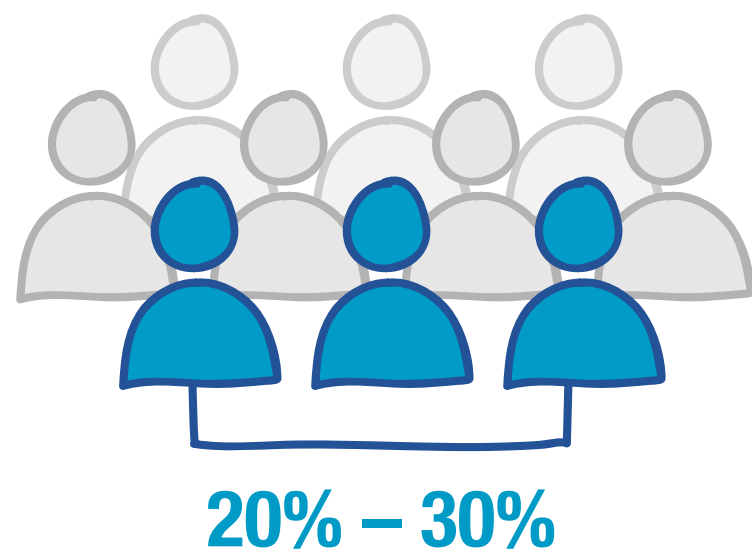


# All of that said, the sky is not falling.

Nor is the ground shifting beneath the feet of benefits leaders who continue to search for the best solutions to minimize risk, reduce costs, engage employees, and create healthier, happier, and more productive workforces. Nor is the world immediately transforming for the insurance carriers, brokers, and benefits consultants in the health insurance market.



# But change is coming.



According to 2014 research by the Kaiser Family Foundation, most major surveys of employers by insurance exchange providers, consulting firms, and third-party cooperatives estimate that **20 to 30 percent of all employers will adopt a private insurance exchange approach by 2018.**

The Kaiser Family Foundation report also says that Oliver Wyman and Accenture have each published independent reports that estimate the size of the private exchange market in 2018 at **39 million and 40 million lives**, respectively.

## THIS REPORT FROM BUSINESSOLVER LOOKS CLOSELY AT:

- ▶ What private insurance exchanges are
- ▶ The challenges they present (even if the challenge is simply understanding them)
- ▶ The minimum capabilities that enterprise benefit leaders, insurance carriers, and benefits consultants should expect from a private exchange technology partner

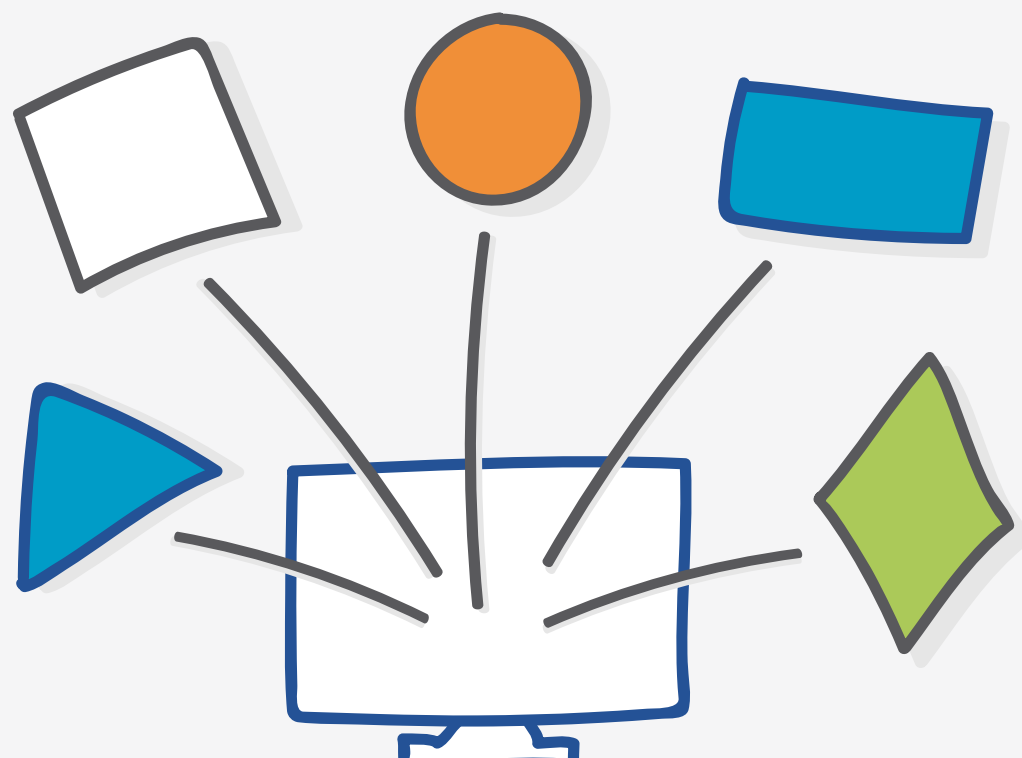


# WHAT IS A PRIVATE INSURANCE EXCHANGE?

Another way to ask this question is to ask how today's more competitive approaches toward private exchanges differ from traditional health insurance technology platforms. We agree with the Kaiser Family Foundation report, which identified three core characteristics of a private insurance exchange:

- ▶ **A SET OF HEALTH PLANS.** The private exchange either contracts with or creates its own set of health plans. In a traditional platform, the employer identifies and contracts with one or more insurers. Exchanges have varying levels of involvement in health plan standardization and design.
- ▶ **AN ACA-COMPLIANT ENVIRONMENT.** The private exchange provides tools for the employer to comply with the ACA requirements for employer-sponsored coverage.
- ▶ **THE ABILITY TO SWITCH TO A DEFINED-CONTRIBUTION MODEL.** The employer can shift to a defined-contribution model for health coverage. The employee is given a fixed amount of money (e.g., \$300 a month) to spend on health or other benefits within the exchange. This is different from a traditional "defined benefit" approach, in which the employer generally pays a set dollar amount or percentage of each health plan option.

In addition to these core functions, **many exchange platforms already include additional elements** that over time may become standard practice within the private insurance exchange landscape.



The Kaiser Family Foundation 2014 survey of exchanges and insurers said these features include:

► **DECISION ASSISTANCE AND SUPPORT.**

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► **ANCILLARY OFFERINGS.**

Additional types of health coverage may be offered, such as dental, vision, critical illness, and accident.

► **HEALTH AND WELLNESS PROGRAMS.**

Telemedicine, corporate wellness programs, cost transparency tools, or other health and wellness services may be offered within the exchange's portal.

► **BENEFITS ADMINISTRATION.**

Particularly exchanges that target smaller employers may provide additional benefits administration support, such as for payroll and 401(k) integration.





“Private exchanges are not a panacea for rocketing healthcare costs,” say the authors of “**The Emergence of Private Health Insurance Exchanges: Fueling the ‘Consumerization’ of Employer-sponsored Health Insurance.**” “But the healthcare landscape is changing, and employers will seek approaches such as private exchanges to transition health benefits from an employer-driven model to a more consumer-driven one. Payors [insurance carriers] need a robust competitive response.”



Private insurance exchanges can be single-carrier or multi-carrier models.

► **SINGLE-CARRIER EXCHANGES.**

These are promoted by a single payor and target employers that want to maintain some control over choosing their insurance carrier and designing their plan. Products may be customized and priced for the employee group or for individuals.

► **MULTI-CARRIER EXCHANGES.**

These exchanges are predominantly promoted by third-party intermediaries, such as brokers or benefits consultants, and provide a broad range of payors and plan-design options. These exchanges encourage employers to take a more hands-off role in plan design.



# THE CHALLENGES PRIVATE INSURANCE EXCHANGES PRESENT

The challenges presented by private health insurance exchanges obviously differ among carriers, brokers or consultants, and employers. For some, the most important challenge right now is simply to understand the changing landscape of employee health insurance and find a technology and benefits services partner you can trust no matter what side of the equation you're on.

**For insurance companies**, the ramifications of healthcare reform making health insurance more affordable for individuals and small businesses might drive midsize and large employers to control their own costs by taking advantage of the public exchanges set up under the ACA. This outcome would directly affect the carriers because employers would end their existing insurance plans and send employees to the public exchanges. Carriers are also likely to need to underwrite plans that qualify as “affordable” under the ACA, commoditize their pricing models, and create their own exchanges.

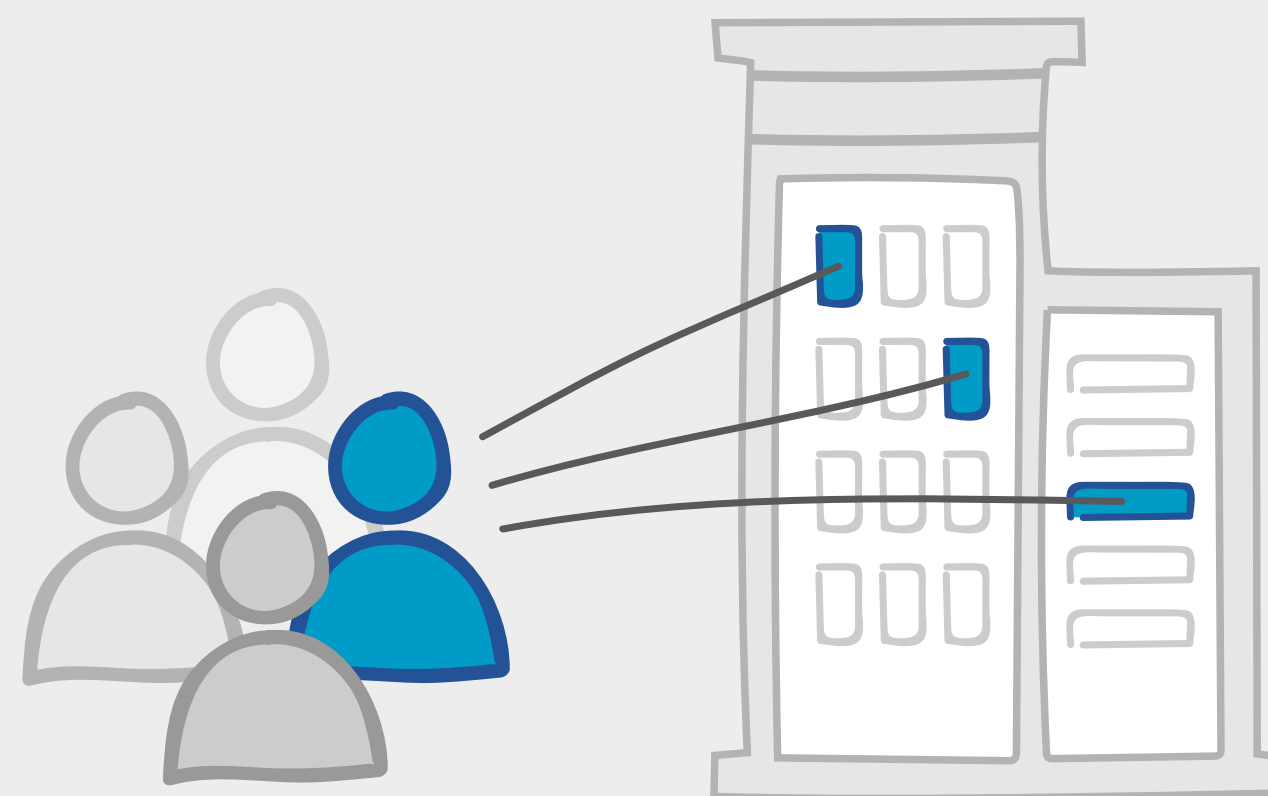
**THE RESULT:** compressed margins for the insurance companies, forcing them “to respond defensively with alternative solutions such as defined contribution plans and private exchanges,” as the Booz & Co. (now Strategy&) report puts it



## Meanwhile, benefits brokers and HR consulting firms see private insurance exchanges as less of a challenge and more of an opportunity.

The opportunity is for consultants and benefits brokers to enhance their value as the link between employers and insurers by offering solutions that help employers of all sizes control costs. Market possibilities for brokers and consulting firms include creating their own models for private insurance exchanges or aligning with an exchange that fits the needs of their clients.

The challenges here, however, lie in trying to anticipate the velocity of growth in private insurance exchanges, determine their ability to meet the needs of employers, and work in partnership with a benefits technology and services provider they can trust and who knows both the technological and employee-driven sides of the business.







## Employers may face the biggest challenges.

In addition to facing the same concerns that benefits consultants must address, employers need to be sure that any private exchange meets their unique business and workforce demographic needs. They also need a private insurance exchange to address two other primary concerns in the market today: the inexperience of private exchange administrators in general and the need for employers to maintain competitive benefits.

More and more employers will also find themselves needing to transition employees away from the traditional paternalistic handholding when it comes to benefits selection, and toward the more consumer-focused approach that private insurance exchanges demand.



Several employer groups and PwC (PricewaterhouseCoopers) have already joined forces to create the Private Exchange Evaluation Collaborative.

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**A SURVEY BY THE CONSORTIUM OF EMPLOYER ATTITUDES TOWARD PRIVATE EXCHANGES FOUND THAT:**

**45%**



**Almost half of employers**

(45 percent) have either implemented or are considering using a private insurance exchange for their full-time employees before 2018.

**25%**



**Only 25 percent of employers**

think that moving to a private insurance exchange would save them money.

“If this is the case,” says Paul Howard, a Manhattan Institute senior fellow and director of the institute’s Center for Medical Progress, “it may be that other benefits — like reducing administrative burdens — are a convincing reason for exploring private exchanges, even if net spending on benefits remains constant.”



# THE MINIMUM CAPABILITIES FROM A TECHNOLOGY AND SERVICES PARTNER

When you look at the challenges facing insurers, HR services and consulting firms, and employers, it's pretty clear that a technology and services partner for a private insurance exchange must have key capabilities.

## IT MUST HAVE:

- ▶ An educational and consultative approach to sales, support, and system design
- ▶ Flexible and employee-centric product offerings
- ▶ An employee advocacy center and a recommendation engine with capabilities not found in traditional benefits administration technology
- ▶ Administrative simplicity and meaningful real-time data

Let's look at each of these the way Businessolver sees things.

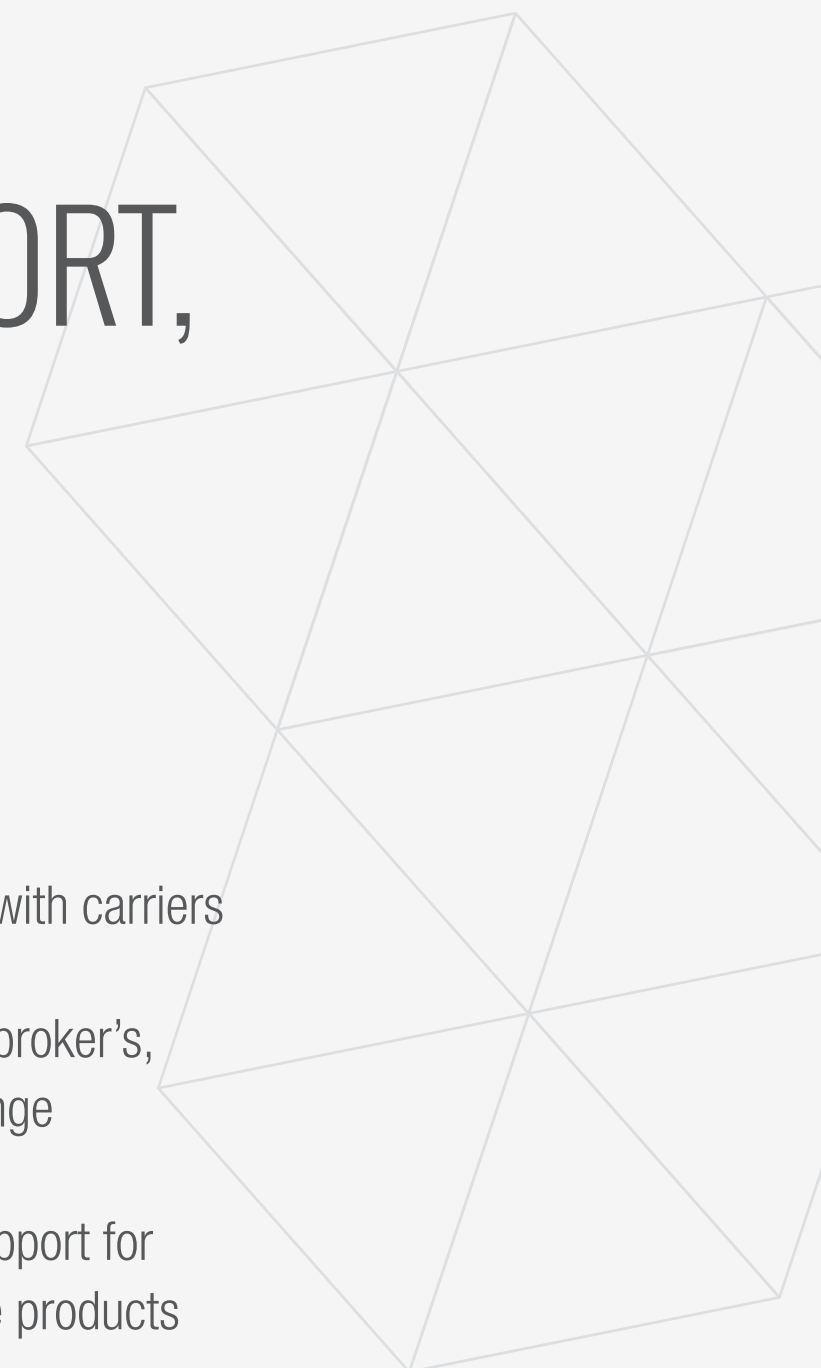


# EDUCATION AND CONSULTATIVE SALES, SUPPORT, AND SYSTEM DESIGN

Employers need to understand how private insurance exchanges work, the value they can bring to the company and to employees, and the implications of switching to a defined-contribution plan.

## **BUSINESSOLVER MEETS THESE CHALLENGES BY OFFERING:**

- ▶ Regional and national relationships with carriers
- ▶ Private labeling for any employer's, broker's, or carrier's private insurance exchange
- ▶ Technological and administrative support for the full scope of voluntary insurance products
- ▶ An inclusive library of plan types (we have relationships with more than 500 carriers and insurance product vendors)







# FLEXIBLE AND CONSUMER-ORIENTED PRODUCT OFFERINGS

Successful private insurance exchanges will hinge on flexible technology and business-process architecture.

It's the only way they can contract with several insurance carriers and offer a wide range of products. Flexible technology is also necessary to make the products clear and the site easy for employees to navigate.

Businessolver not only has the technological experience and expertise to provide flexibility, but a focus on client delight that essentially demands flexibility.

## WE DESIGN PRIVATE INSURANCE EXCHANGES THAT SUPPORT:

- ▶ Multiple carriers and plans (through our extensive library of plans)
- ▶ Defined-contribution plans
- ▶ Multiple payment methods: payroll deduction, direct bill, and carrier disbursement
- ▶ Real-time carrier integrations



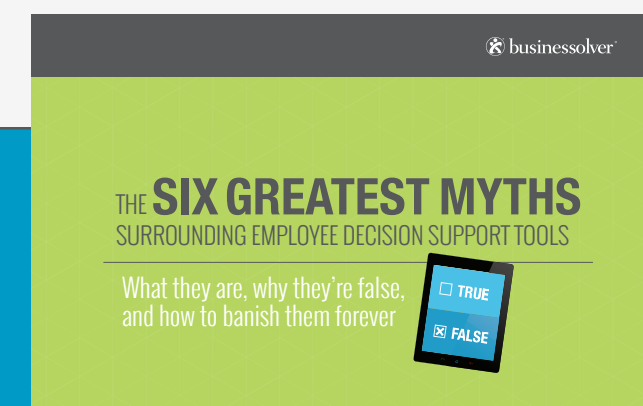
# EMPLOYEE ADVOCACY CENTER AND A RECOMMENDATION ENGINE

Employees will need education about the benefits of defined-contribution plans, an easy-to-use online enrollment experience, and unbiased decision support – preferably from a recommendation engine – available through a variety of channels and that takes their individual situations to heart.

**Businessolver delivers technology designed to respond to the heart of the employee with:**

- ▶ A recommendation engine that helps employees make better benefits decisions and more easily navigate complex decisions
- ▶ Support for plan incentives and surcharges
- ▶ Support for multiple sources of activities and wellness tracking

To learn more about the way Businessolver sees the world of benefits selection engines, download our e-book **“The Six Greatest Myths Surrounding Employee Decision Support Tools.”**





# Administrative simplicity and meaningful real-time data.

TO BE SUCCESSFUL, A  
NEW PRIVATE INSURANCE  
EXCHANGE MUST BE  
SKILLFULLY MANAGED.

**Industry analysts point to these necessary administrative capabilities at a minimum:**

- ▶ Dynamic reporting and account management functionality
- ▶ Seamless interaction and exchange of information among health plans
- ▶ Consolidated billing of all products purchased through the exchange
- ▶ Facilitation of employee payroll deductions

**Businessolver meets these challenges for the employer, broker, and carrier with support for multiple employers in any exchange model and real-time carrier integrations.**



# SUMMARY

Whether you're a benefits leader, insurance carrier, or HR consultant or broker, private insurance exchanges are in your future in one way or another. At Businessolver, we've been part of this trend for more than a decade. We design and manage multi-employer insurance marketplaces, as well as marketplaces for trusts, associations, cooperatives, leagues, and other pools.

Every time, we collaborate with employers and their consultants — and we listen to you — to find solutions to problems and deliver outcomes that align with your big-picture strategies to ensure your complete delight.

### At the very heart of the matter, we offer:

#### ► EXPERIENCE

We use our past experience and proven processes to manage complex issues.

#### ► INNOVATION

We think of new processes or apply technology solutions that achieve success.

#### ► OPTIONS

We offer multiple plans and strategies to meet the desired outcome.

**Private insurance exchanges aren't our first rodeo when it comes to providing the technology and services for nontraditional insurance models. Businessolver combines configurable SaaS technology with a high-touch service model to deliver a powerful benefits technology solution for any situation.**





Founded by HR professionals, **Businessolver** combines market-changing benefits technology with intrinsic client responsiveness to deliver an easy-to-use system that will appeal to you and engage your employees. They'll use their benefits wisely to control their costs and yours.

**Learn more about how We See Things Differently at [businessolver.com](https://businessolver.com).**

