Private Health Insurance Exchanges: Products, Partners, Prospects for 2014

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# Table of Contents

Plans Must Add to Exchange Product Slate or Risk Losing Group, Individual Clients.............. 1
Private Exchange Consultants Expect More Single-Carrier ‘Electronic Storefronts’..................... 2
Large Health Plan Execs Are Preparing for Migration Toward Private Exchanges...................... 3
Migration to Fully Insured Exchanges May Boost Carrier Profits, Shift Risk to Workers........... 5
Mercer Touts 52 Active, Retiree Exchange Clients for 2014; Plans Gauge Models............... 8
Retiree Moves by IBM, Time Warner Mark Shift to Private MA Exchanges for ‘Jumbos’............ 10
Private Exchanges Woo More Employers, but Real Traction Won’t Begin Until 2015.............. 13
ACA Stokes Employer Interest in Private Insurance Exchanges........................................... 14
Carriers Commit to Private Exchanges in Tailored Markets to Meet Employer Demand........ 15
Next Wave of Multi-Carrier Exchanges May Come From State Chambers of Commerce......... 17
Private Exchanges Eye Amazon’s One-Stop Shopping Model for Ancillary Benefits................. 19
Plans Must Add to Exchange Product Slate or Risk Losing Group, Individual Clients

When carriers take on the challenge of building their own private exchange, they must be careful to do more than just dress up current product offerings and call the selection of plans an exchange, market consultants say. The risk in alienating group and individual market clients is high if thought does not go into the presentation of the exchange, the shopping experience for members and the actually shopping choices, these sources say.

Chris Calvert, senior vice president in Segal & Co. unit’s Sibson Consulting New York office, says proprietary exchanges have to be more than just another form of what the carrier offers through traditional distribution channels. “The concepts have been out there but really a big part of a sell of a private exchange is that people can pick from various networks and various carriers. The plan designs are generally similar across the carriers. So when you move to a single carrier exchange, all you’re really doing is saying, we are going to offer a variety of plan designs, which I don’t know if that is any different than what a carrier could do for you today,” he says. “To me it’s a sales marketing portal that says we can offer an exchange.”

Calvert does note that most the work he does is in the large self-insured space, where insurers dabbling in private exchanges may have a clear strategy for doing so. “It is reasonable to say they are looking to react to the multcarrier exchange business that they would see as a threat, so they are trying to say to purchasers that they have an exchange. But, you know, unless there is more to what I envision to this single-carrier exchange, it just seems more like a name change than an actual product change.”

Ancillary Products Can Boost Profit Margins

Offering a simple replay of what the carrier already offers off an exchange will not do, agrees Joe Parente, principal and leader for KPMG LLP’s Healthcare & Life Sciences Management Consulting practice in Philadelphia. He says ancillary products are a key to offering variety and bolstering profit margins since medical plans are generally low-margin. “It’s not just an electronic storefront, but it is adding value,” Parente says.

Still, it is the size of the employer that may make or break the need for an insurer to have a proprietary exchange. Joe Donlan, president of Chicago-based ConnectedHealth, a provider of private health insurance exchange and benefits shopping platforms to the health plan and employer markets, said proprietary exchanges also reduce any adverse selection that might happen if insurers offer plans on exchanges with multiple carriers. “And for large employers, you could probably have multcarriers but not too many. But when you are talking about mid-size employees. often times having one carrier will meet their needs,” he says.

Howard Lapsley, partner in Oliver Wyman’s Health and Life Sciences Practice, says carriers running their own exchange must work at it or lose the business. “Unless you have a user interface, an algorithm to be able to help those customers pick and choose and make them feel like they have a greater choice over their increased burden of the health care cost, then they’ll demand that their employer go elsewhere,” he adds.
Private Exchange Consultants Expect More Single-Carrier ‘Electronic Storefronts’

Within the next few years, more health insurers are expected to build proprietary private exchanges featuring their own group and individual products as a type of “electronic storefront” to augment their existing strategies for participation in multicarrier and public exchanges, consultants say. There are more than a half-dozen single-carrier exchanges now, like Blue Cross and Blue Shield of Kansas City’s marketplace that opened in 2010. The trend is developing as mostly small and midsized employers seek a distribution channel for their defined-contribution health benefit packages and some insurers try to replicate their efforts on public exchanges in off-market private ones.

Howard Lapsley, a partner in Oliver Wyman’s Health and Life Sciences Practice, based in Boston, says proprietary exchanges will be “particularly prevalent in the upper end of small group sizes, especially for middle market.” He says many insurers are following a similar strategy as Aetna, seeking to be in multicarrier marketplaces and at the same time building proprietary exchanges to compete with third-party exchanges.

“They have to be on the third-party private exchanges because a lot of their volume is going to go through those exchanges and go to segments they want and are appropriate for their products and services. But for other segments, having your own proprietary private exchange enables a one-stop shop, and you can target specific segments and create a network of product offerings of your own ancillary products or in partnership with other carriers,” he says.

Akshay Kapur, principal at Booz & Company Inc. in Chicago, says the focus of the major benefits consultants’ exchanges is mostly on very large employers, but the trend is shifting more toward the mid-market. “The next logical progression,...we believe, is that the value proposition of private exchanges is more on the smaller end of the market where there is not the same degree of competition, and insurance companies can make most of their profits where there is some value to be created by small employers,” he says. “Companies in that space are not necessarily looking at multicarrier options. They would be willing to consider defined-contribution products from their incumbent carriers. So the local Blues plan or the health plan that sells to smaller employers could offer some of the same features of private exchanges and defined contribution as the big brokers do, and still get the benefit that employers are looking for on the cost side.”

Exchanges Are Still ‘Sausage-Making’

These are early days for proprietary exchanges, Kapur stresses. “The market is very much nascent [currently]; there is a lot of sausage making at the moment,” he adds.

The private exchange experience has been about meeting demand from employers for defined-contribution benefits, and in turn giving employees a shopping experience, says Ron Rowe, department vice president, small group and consumer for Blue Cross and Blue Shield of Kansas City. “It was more about defined contribution than anything else and what we did was standardize the plans that were offered. So once the employer said, ‘I want to do defined contribution and I want to contribute X amount of dollars for each employee,’ we had 10 standardized plans. We still have 10 standardized plans that were available to those employees to pick from,” Rowe says.
When introduced three years ago, the Kansas City Blues plan’s private exchange was designed for small employers in the under-100 market, but since July, large groups are also welcome. “Uptake was good. Initially 25% of our sales that year were on the private exchange in the small-group market, and it is still about the same. We have 400 to 500 employers that are on the exchange and that represents about 6,000 members,” he says. “It’s a group product on a group chassis and all the group rules apply to it but the employees are actually shopping.”

The most popular plan on the exchange has a $2,500 deductible, with each member getting four office visits at a copay of $20 each. “On the fifth office visit those costs accumulate toward your deductible, and once you’ve hit the $2,500 deductible you are at 100% coinsurance, meaning the plans pick up all the costs. That is our most popular plan that is priced very similar to what our competitors have out there that are $1,000 deductible plans with a $3,500 out-of-pocket max. So the deductible looks lower but you’ve got this out-of-pocket max and coinsurance you are paying toward until you get to $3,500,” Rowe says.

Future tweaks to the private exchange will be the addition of ancillary products, like the Blues plan’s voluntary life products, and dental and vision plans. Rowe says the carrier will also be working on designing a cost modeler for employees.

**ACA May Squelch Some of the Exchange**

There is a big but, however, with the Kansas City Blues plan’s private exchange and others like it across the country — and that concerns the way the Affordable Care Act (ACA) treats the issue of composite rating. Rowe says the insurer is waiting to hear from HHS on whether insurers can use composite ratings for their defined-contribution plans. If not, that segment of the private exchange will be gutted. “That is still up in the air right now,” he says. “In order to do defined contribution you really have to be able to do composite rating, which means that the cost for every employee is the same, so you take the age of every employee and the rates of every employee, and then you blend it and come to a single rate for the employees.”

An example would be that if employees are handed $300 a month by employers to pay for coverage, a younger member may get a premium rate of $200 and an older one a rate of $600, leaving the younger person with $100 left over and the older one with a $300 deficit. “In the under-50 market with modified community rating there are table rates now — this age this rate, etc. — but there’s controversy right now. And we are working with HHS waiting on clarification from them on the question of, can you do the composite ratings because of the modified community rating and rating tables,” Rowe says. “In the regs that HHS has released, it says no, there will be no composite rating allowed. But there is some talk and some other carriers saying, ‘well, we’re going to do it and we’ve got some information from HHS saying they will allow us to do it,’” he adds. “If we can’t do composite rating that could kind of kill the whole concept of private exchange in those segments.”

**Large Health Plan Execs Are Preparing for Migration Toward Private Exchanges**

During recent conference calls to discuss third-quarter 2013 financial results, several health plan executives discussed their efforts to capitalize on what they saw as renewed employer interest in private insurance exchanges.
While employers have been transitioning retiree populations to private exchanges over the past several years, a wave of marquee-name employers — including Walgreen Co., Sears Holdings Corp. and Aramark Holdings Corp. — are embracing private exchanges for their active populations.

“We continue to believe that we are witnessing the start of a marketplace shift to private exchanges,” Aetna Inc. CEO Mark Bertolini said during an Oct. 29 conference call. And self-insured employers that transition to fully insured coverage through an exchange would be substantially more profitable for carriers. Aon Hewitt’s multicarrier insurance exchange, for example, requires self-insured employers to move to a fully insured arrangement. Fully insured membership, he told investors, typically generates four or five times the profit compared to self-insured membership. Along with participating in private multicarrier exchanges, Bertolini said the company is developing its own “proprietary” private exchanges.

Private Exchanges Are Still in ‘Infancy’

“While still in its infancy, we are excited by the proposals for change in the large-group commercial marketplace,” he said.

A recent Kaiser Family Foundation survey indicates that nearly 30% of large employers (i.e., 5,000 or more employees) are considering offering benefits through a private exchange in the future.

Given the strong interest in private exchanges among large employers, health plans that opt not to participate could risk losing market share, warns Sherri Bockhorst, national practice leader of health exchange solutions at Buck Consultants. Buck, a Xerox company, launched a multicarrier exchange early this year.

In its Nov. 7 conference call, Health Net, Inc. CEO Jay Gellert said the company viewed private exchanges as “a potential new growth opportunity” for large groups and noted that the company is participating in some multicarrier exchanges.

Over the past several years, large employers have been moving retirees into either group Medicare or private exchange offerings, UnitedHealth Group Executive Vice President Gail Boudreaux explained during an Oct. 17 earnings call. “We feel that we have a very strong product offering in the private active exchange, and we expect to continue to see growth,” she told investors. Like Bertolini, Boudreaux said the movement from a self-funded offering to a fully insured arrangement “is a positive for us.”

Stephen Hemsley, president and CEO of UnitedHealth, referred to private exchanges as “a great new channel” that offered two different growth opportunities for the company. Along with participating on multicarrier exchanges, UnitedHealth’s Optum division offers a web platform, myCustomHealth, that can be used by health plans, providers, states and employers that are interested in building a private insurance exchange.

Blues Dominate Private Exchange Space

A recent analysis by AIS’s data team concludes that Blue Cross and Blue Shield plans are dominating the emerging private insurance exchange landscape with many Blues plans operating their own single-carrier exchanges, participating in multicarrier exchanges, or both.

Interest in private exchanges is “unprecedented,” says Brian Cheney, senior director of exchange management at Health Care Service Corp. (HCSC), which operates Blues plans in five
states. Although he admits interest in the exchanges far exceeds participation today, “every client of every size at least wants to hear about it,” he says.

And more clients are considering it for the 2015 plan year, adds Rick Allegretti, vice president of market strategy and business development. HCSC participates in multicarrier exchanges from Mercer and Aon Hewitt, and has its own exchange.

For the 2014 plan year, HCSC says it captured 85% of the enrollment available through Aon Hewitt’s private exchange in states where it operates a Blues plan.

While a handful of Blues plans have had private exchanges for several years, a raft of new ones were launched this year for the 2014 plan year. Horizon Blue Cross Blue Shield of New Jersey’s Horizon Select, for example, is available to employers with more than 50 employees. Philadelphia-based Independence Blue Cross’ (IBC) Blue Solutions is aimed at employers with fewer than 100 employees.

Most of the early interest in a private exchange came from the small-group market, says Peter Panageas, IBC’s vice president of sales. But interest is now heating up among mid-sized and large-group clients. The exchange will be expanded in 2014 to include larger employers.

**Migration to Fully Insured Exchanges May Boost Carrier Profits, Shift Risk to Workers**

Health insurers could see their profit margins more than double if their large employer clients transition from a self-insured model to full risk via private insurance exchanges, at least one equities analyst predicts.

On Sept. 17, Walgreen Co. announced that it would move its 160,000 self-insured employees to Aon Hewitt’s multicarrier insurance exchange. Insurance industry insiders are viewing the move as a potential tipping point in the way employee benefits may be delivered in the future. Aon Hewitt made headlines in fall 2012 when it announced that Sears Holdings and Darden Restaurants would offer defined-contribution coverage through its multicarrier exchange. This fall, those clients will be joined by 15 other large employers, including Walgreens. Aon Hewitt expects its exchange enrollment will triple to more than 330,000 employees — more than 600,000 lives when family members are included.

Another factor that makes the Walgreens announcement newsworthy is the makeup of its workforce. Although the retailer employs a large number of low-wage employees, it also has more than 25,000 highly educated, well-compensated and in-demand pharmacists, according to a white paper from Oliver Wyman. The report points to IBM’s 2006 decision to freeze its direct benefit pension plan — a strategy that many other companies soon adopted. “IBM’s move changed the retirement landscape forever. Walgreens very well may have just caused a similar disruption in employee health care.”

Equities analysts who cover managed care companies were buzzing from the news as they envisioned a wave of large companies transitioning from self-insurance to a fully insured model via private insurance exchanges. For insurance companies, such a trend could double profits. But Julio Portalatin, president and CEO of Mercer, says it’s too early in the game to know if many self-insured employers will switch to fully insured coverage through an ex-
change. Mercer’s multicarrier Marketplace exchange offers both self-insured and fully insured options.

**ASOs Cut Into Carrier Profits**

Over the past two decades, large employers have migrated to self-insured benefits where they assume much of the risk associated with claims. That has left insurance carriers to service less profitable administrative services only (ASO) accounts. But private exchanges could reverse the trend. For a company the size of Walgreens, switching to fully insured exchange-based benefits could more than double operating profit for carriers.

In a Sept. 21 note to investors, Citigroup Global Markets analyst Carl McDonald said “the single biggest structural positive we can think of for the managed care stocks is if a significant number of self-funded employers became fully insured.” Assuming that Walgreens paid $20 per member per month for its self-insured coverage, its insurers would generate a 20% operating margin on 160,000 lives. “In that scenario, the Walgreens account would have generated $38.4 million in revenue, and $7.7 million in operating profit for its carriers,” he explained. While the operating margins on fully insured business are significantly lower, it could generate $17 million in operating profit for the insurer.

Ralph Giacobbe, an analyst at Credit Suisse, said the acceleration of such a trend “would shift greater profit dollars to managed care,” although he noted most of the impact wouldn’t be seen until at least 2015.

Deutsche Bank analyst Scott Fidel warned that the shift away from ASO offers opportunities and risks for health plan operators. “The opportunity is to slow the ongoing market shift to ASO as a number of the private exchange solutions are fully-insured.” But he predicts that many employers will remain self-insured, and some fully insured employers might self-insure to avoid state mandates, state premium taxes and new fees on insurers called for by the health reform law.

Walgreens’ decision will likely impact UnitedHealth Group’s self-funded enrollment given that the health plan operator covered a “significant number” of Walgreens’ employees, McDonald notes. Blue Cross Blue Shield of Illinois also covers some members. During the open-enrollment period, Walgreens employees will choose coverage options from as many as five carriers, including those from UnitedHealth and the Illinois Blues plan. Plan options will include health savings account (HSA)-qualified high-deductible plans, a PPO and an HMO.

**Will Self-Insured Employers Switch?**

Accenture estimates that private health insurance exchange enrollment will balloon from 1 million in 2014 to 40 million by 2018. But not all multi-carrier exchanges require self-insured employers to switch to fully insured plans. Mercer says all of its currently self-insured clients will remain self-insured when they switch to the exchange this fall. And its fully insured clients will stay with that model. The difference between the two models boils down to an issue of timing when paying claims, explains Eric Grossman, a senior partner and exchange business leader in Mercer’s Health and Benefits business.

“If I move from self-funded to fully insured, I should expect a 4%-to-6% cost increase. The typical self-funded [employer] will pay their claims and then pay five or six points in administrative expense above that. But a fully insured employer will pay 10 to 12 points above
[claims] costs to the carrier,” he explains. “If I move from self-funded to fully insured, all I’m doing is fixing my costs for a year. But if I have lousy experience, that’s going to be embedded in my rate increase next year.” Moreover, new taxes called for by the reform law will add a couple additional percentage points to the cost of insured coverage, he adds.

Aon has confirmed nine exchange clients with an average size of 4,000 employees, but Grossman says “many more” have signed on, although the company declines to specify the number or name any of the employers. He says none of the company’s self-funded clients were interested in fully insured coverage.

Ken Sperling, who heads Aon Hewitt’s exchange practice, says switching to a fully insured model won’t necessarily increase costs for an employer. Aon Hewitt’s model has been able to consistently generate fully insured premiums, which have come in below projected self-insured costs for comparable plans. Some costs associated with fully insured coverage are offset by the competition created by an exchange, he explains.

“I don’t think you should assume that a move from self-insured to fully insured necessarily costs money. We have been able to demonstrate multiple times — with large volumes of data — that it is possible to move from self-insured to fully insured without increasing” an employer’s costs, he says.

But Ed Kaplan, National Health Practice leader at The Segal Company, is dubious and says 1.6% isn’t much of a savings for Walgreens. Savings over several years will be the real test for employers that stop self-insuring.

**Profit Must Come From Somewhere**

If the carriers are expected to become more profitable from self-insured employers that switch, “then somebody is paying for those profits...either the employer or the employee,” says Mac McCarthy, an actuary who works with employer benefits.

If an employer is able to reduce coverage costs by moving to a fully insured model, it’s because employees are expected to choose coverage with higher deductibles and bigger coinsurances, which shifts more risk to employees. However, he notes that some people who enroll in higher deductible plans tend to reduce their medical spending and manage their costs more efficiently.

And the employee will assume greater risk each year if the employer contribution doesn’t keep pace with coverage costs, Kaplan adds.

“For the same value in coverage, the employee might need to spend 10% more or settle for 10% less value in coverage.” Talking to dozens of employers at a recent conference, Kaplan says it seems that low-wage and retail employers with high turnover are most interested in shifting to a fully insured model. Higher-wage industries such as transportation, engineering and technology see more value in self-insurance.

**Low-Wage Workers Choose Richer Plans**

In fall 2012, 42% of employees participating in Aon Hewitt’s exchange enrolled in plans that were less expensive than their prior coverage, 26% chose more expensive plans and 22% chose a plan similar to what they had. Surprisingly, many of the employees who purchased richer, higher-priced plans were lower-paid employees who would rather make a larger payroll contribution than face a high deductible due to an unexpected accident or illness. And because it’s
an insured model where the risk is transferred back to the carrier, enrollment patterns don’t impact the employer’s coverage costs, which are fixed.

Sperling says he didn’t realize how important static pricing was to employers when the exchange was being developed. “CFOs started saying, ‘so you’re going to tell me in 2013 what my 2014 health spend is going to be? And I can budget for that? Really?’ It was huge,” he recalls.

When companies began self-insuring 15 years ago, health care costs were less than half of what they are now. A 10% rate increase was easier to absorb than it is today with coverage costs topping $10,000 per employee. “A 10% increase wrecks your business plan,” he says. And even if fully insured coverage costs are high, it removes the volatility of rate hikes.

**Aon Hewitt Adds, Loses Carriers**

Health insurers participating in Aon Hewitt’s exchange in 2014 include Aetna Inc., Kaiser Permanente, UnitedHealth, Health Net, Inc. and several Blues plans, including those operated by Health Care Service Corp. and WellPoint Inc. The exchange also offers dental and vision insurance options. Other ancillary benefits will likely be added for 2015.

To eliminate adverse selection among carriers that participate in its private insurance exchange, Aon Hewitt says it uses an “episodic risk adjustment” that assigns a risk score to each employer and each employee.

Cigna Corp, which participated in Aon Hewitt’s exchange last year, has bowed out for 2014, although the insurer will participate in Mercer Marketplace and Towers Watson OneExchange, and has committed to participate in an exchange operated by Buck Consultants and Aon Hewitt’s Middle Market Exchanges.

“We are most interested in partners that allow us to influence the model to bring the greatest value to our customers and gain important experience in this new channel,” Cigna said in a prepared statement.

**Mercer Touts 52 Active, Retiree Exchange Clients for 2014; Plans Gauge Models**

Mercer’s Oct. 15 announcement that it has signed up 33 employers for its private exchange in 2014 is an indication that such exchanges — created by Mercer and its competitor consultants Buck, Aon Hewitt and Towers Watson and at least a dozen smaller ones — are attracting more than just passing consideration by business owners, market watchers say. Insurance carriers are active in these exchanges as well, working to profit from the new marketplaces by figuring out the best strategy to take advantage of each exchange’s unique structure, such as whether the exchange is for fully insured or self-insured employers only or permits both types of benefit models.

Employers are entering these private exchanges to take advantage of lighter administrative burdens and friendlier cost structures. Insurers in turn are gauging how many of their employer clients aligning with exchanges are also changing their funding strategy, switching fully insured to self-insured or vice versa. In particular, they are eyeing conversions to self-funding,
which would result in less revenue as the employer takes on risk and the carrier provides administrative services only (ASO).

Paul Fronstin, Ph.D., director of the health research and education program at the Employee Benefit Research Institute (EBRI), says it is important for insurers to understand the different dynamics in each of the exchanges. “Aon Hewitt’s exchange requires employers to be fully insured, which means they are going to be compliant with state mandates. In the Mercer model and the Towers Watson model they allow employers to decide if they want to be fully insured or self-insured. It is really up to the employer to decide,” he says. Buck’s model is completely different than the others.

**Private Exchanges Attract Clients**

“What Buck is doing is going out and from multiple plans finding the plan that has the best prices. They can be fully insured or self-insured, but they are offering only one PPO per region and it may be a narrow network or high-performance,” Fronstin says.

As employers communicate their 2014 benefit programs to employees during the fall open-enrollment season, more are disclosing plans to move current employees and retirees to private exchanges. On Sept. 18, drug store giant Walgreen Co. said it would offer its 160,000 employees subsidies to buy health insurance on Aon Hewitt’s private exchange starting in 2014. And earlier in September IBM said it contracted with Towers Watson/Extend Health to move its 110,000 over-65 retirees to the consulting firm’s private exchange.

Helen Darling, president of the National Business Group on Health, says she knows of more companies planning to shift employees, either active or Medicare-eligible, to private exchanges for the 2014 plan year, with the retiree space the most attractive right now. “Companies are listening and deciding on balance it is a better deal for them,” she says.

**Are Exchanges Good for Insurers?**

But private exchanges will have a mixed impact on carriers. “The positive is they’re kind of back in the business of not having to deal with a lot of self-insured employers if they are dealing with ones that now are buying an insured product,” Darling says. “The exchanges are the only ones who essentially negotiate with the clients and so plans could, say, end up with 10 exchanges over time. For the big insurance companies, they may think it’s a lot easier to deal with the smaller number of exchanges rather than the larger number of employers.”

The downside is that if self-funding is a requirement of an exchange, like the Towers Watson exchange for active employees, the insurer will lose “the place where they really make money” on fully insured clients, she says. (In 2014, Towers Watson requires employers to be self-funded, but in 2015 it will allow fully insured employers as well.)

Fronstin says there is a misperception about private exchanges, since some people think that when an employer enters into a private exchange agreement it means that its employees will be pooled with employees of other organizations. “It is not an open market. It’s a closed market,” Fronstin says.

Mercer’s private exchanges — both for active employees and retirees — will have 52 employers covering 200,000 individuals in 2014, with 19 of those employers moving only retirees to the exchange and 33 to Mercer Marketplace for active workers. Mercer offers its
retiree exchange through either Optum’s myCustomHealth private exchange platform or UnitedHealthcare’s Connector Model for retirees — both units of UnitedHealth Group.

Eric Grossman, senior partner and leader of Mercer’s exchange business, says “roughly a third of the companies in 2014 will be self-funded and the rest will be fully insured for medical. We did have a couple clients that went from fully insured to self-funded and that is just a continuing the trend of what we’re seeing in our companies. A few years ago you tended not to see that.” The exchange has more than 25 carriers, 10 of which are medical insurers, and expects to expand that number moving forward. The list includes national carriers UnitedHealthcare, Aetna Inc. and Cigna Corp.

Exchanges Cater to Benefit Needs

Employers, he says, want choice for their employees but they also do not want to abandon their benefits goals. “A good example is that we have a number of companies that have spent the last several years moving all of their employees away from those plans that pay 93 or 94 cents on every dollar, and even though it’s an exchange they don’t want to go back there. They want to offer plans that have that shared accountability,” Grossman says.

Sherri Bockhorst, national practice leader of Health Exchange Solutions for Buck Consultants, says 400,000 members will be on Buck’s RightOpt private exchange, including employees from Buck parent Xerox Corporation, Bob Evans Farms, Inc. and household goods manufacturer Church & Dwight Co., Inc. “Our model allows them to stay self-funded, so all three were self-funded and are staying self-funded,” she says. “Some of our competing exchange solutions are built on fully employed chassis.” Plan designs range in actuarial value from 60% to 93%.

Bryce Williams, managing director for Towers Watson’s Exchange Solutions business, says this coming year the Medicare-eligible exchange expects to have more than the 140,000 enrollees it had for 2013. Mark Maselli, managing director for Towers Watson’s Health and Group Benefits business, says on the active side, there are three employers including Towers Watson signed up for 2014 totaling 45,000 participants, and carriers include the national plans, as well as Kaiser Permanente, WellPoint, Inc. and Blue Cross Blue Shield of Massachusetts.

Retiree Moves by IBM, Time Warner Mark Shift to Private MA Exchanges for ‘Jumbos’

Seeking to trim costs and remove the burden of administering group coverage to Medicare-eligible retirees, IBM Corp. and Time Warner Inc. recently said they would move their over-65 former employees to private health insurance exchanges. The news is particularly good for private exchange operators — notably Towers Watson, which will be getting the IBM retiree business for its Extend Health unit — as well as the retirees themselves, industry sources say.

According to market analysts, the IBM contract with Towers Watson will add about 110,000 members to the private exchange, which now covers more than 500,000 lives. A Bloomberg report on Sept. 9 said Caterpillar Inc. and DuPont Co. also have moved Medicare-age retirees onto the Towers Watson/Extend Health exchange. IBM will not be cutting ties to its former employees who are eligible for Medicare, but instead offering payments for individuals to buy coverage in the private marketplace under a tax-free defined contribution model.
Time Warner did not respond to a query about which private exchange it selected.

Helen Darling, president of the National Business Group on Health, says less than 20% of employers provide retirees of any age medical benefits, so most in this category will find themselves in public exchanges until they’re Medicare-eligible. But for large companies with a “paternalistic” bent, the move by IBM and Time Warner is noteworthy and a harbinger of things to come. “We have seen this coming — but it seems to me that there is a significant uptick in the number of companies, but especially the size of the companies in these two announcements. I think this is a big jump. If I were in the [private exchange] business, I would see this as a good sign, an indicator there will be more companies following, more announcing that haven’t announced yet,” she says.

“What we’re doing in all of these particular programs is you’re taking group insurance, Medicare-eligible programs, you’re terminating them so the employer is exiting the business but they’re then supplying an employer subsidy and allowing individuals to go out and purchase individual Medicare insurance through an exchange,” says Bruce Richards, chief actuary at Mercer. “If you are an insurer that offers both group insurance programs to employers with Medicare-eligible populations and also offer individual Medicare-eligible insurance contracts, the entire insurance company [group plus individual premiums/revenue] is realigning where they count revenue. If you just play in the group arena, when the employer exits their group insurance program, the insurers’ revenue and enrollment declines,” he says.

Chantel Sheaks, a health care consultant for American Fidelity Administrative Services, says for pre-65 retirees it makes sense to go to a public exchange for the tax subsidy, while the post-65 group will receive Medicare coverage with a wraparound payment from the employer to pay for the private exchange plans. As for how many employers will take the route of IBM, she says, “probably this affects only jumbos because they are the ones with retiree health benefits. We’ll see how it plays out.”

Richards points to Humana, UnitedHealth Group’s UnitedHealthcare unit through its AARP Medicare supplement product, Kaiser Permanente and “variations of Aetna [Inc.] and Cigna [Corp.] and the Blues plans playing in this [MA] space” as the big winners on the carrier side since they have the largest volumes of in-force Medicare Supplement policy business. “Given that the Medicare Supplement business is heavily regulated by state and federal authorities, in the short term, those insurers that have market position will continue to fare well especially where employers are exiting sponsorship of their group Medicare retiree program,” he adds. Their diversity means IBM retirees could choose them whether for MA or Medicare Supplement business.

Darling says the beneficiaries of the moves by large companies to private exchanges are those firms operating the exchanges because they’ve made an investment to attract as many employers as they possibly can. She also sees retirees gaining from the transition. “I think for many retirees, having the option for more choice and more flexibility and being able to get the value of what they want to have will be a benefit,” Darling says.

Consultancies Eye Private Exchanges

The four major health care consultancies have all plunged into the private exchange area seeking different niches, but some will do battle for the same lives in the Medicare-eligible market. Mercer has its myCustomHealth offering for Medicare-eligible retirees of U.S. com-
panies to compete with Towers Watson and its Extend Health unit, purchased in 2012, which is the market leader in the Medicare-eligible retiree exchange space. Connextions, a unit of UnitedHealth’s Optum division, will actually run the Mercer exchange. Aon Hewitt late in 2011 launched the Corporate Exchange, a multi-carrier insurance exchange aimed at employers with at least 1,000 employees, targeting non-Medicare eligibles in the under-age-65 population. Xerox, Inc.-owned Buck Consultants also competes for large-group employers for its RightOpt private exchange, which offers plans for current and former employees, both in the pre-Medicare and Medicare-eligible categories.

“The space has a great deal of mature competition already, which is why it works. The larger issue is probably how many exchange operators are there — and certainly every major consulting firm has a position, but I would surmise there would be more entrants into the exchange operator realm because it is a business that doesn’t have very many barriers, except eventually needing clients,” Darling says. “But if you can figure out how to answer phones, comply with CMS regulations and execute insurance contracts, you can really get into this business.”

She notes that employers should look closely at how each of the different private exchanges, beyond even the ones offered by the four major consultancies, would work for their needs. “If I were on the buying side I’d be very interested in any or all of them to see what is different about them, to see how they are going to, in the case of an employer, ensure that my costs are going to be controlled because that is going to be the biggest concern,” Darling says.

**Employers Mark Their Retiree Priorities**

Richards says among the top issues for employers strategizing on health benefits for Medicare-eligible retirees is to review what they are doing with their group plan and contrast that with one of the private exchanges. “The first conclusion they normally come to is the exchange offers the Medicare-eligible population an increase in the number of benefit choices in a heavily regulated space,” he says. “The second thing they look at is, how are my retirees impacted from a cost perspective, and how is the company impacted from a cost perspective? And for many of them, what you find is there is a win-win scenario that the retiree can get similar coverage for less and there is also the potential for the employer to save money.”

These employers may also realize that “Gee, if I’m contributing $200 per month for my retiree’s benefits today, I can actually continue to do that” via a health reimbursement arrangement (HRA), Richards says. They may also want to unburden the corporation from the time, effort and energy to administer a Medicare-eligible group plan. “When you exit, you can save the administrative burden of dealing with the retired population and in many instances take the staff that was dealing with the retiree experience and have them work instead with active, ongoing employees,” Richards says.

The Affordable Care Act (ACA) did not create incentives for employers to get out of the group plan market for retirees, he says, but “federal health reform took a flashlight on the active employees” and as a result, the examination spread to all employees, past and present. “[The ACA] accelerated the focus that was out there,” Richards stresses.

Bryce Williams, managing director of exchange solutions for Towers Watson’s private Medicare exchanges, says private Medicare exchanges are an eight-year-in-the-making overnight sensation. From an insurer’s perspective, Williams adds, when retirees move onto the
private exchange, they leave the company-sponsored risk pool and enter what essentially is
the national risk pool of the nearly 50 million seniors on Medicare. “Our benefit advisors help
retirees with a thorough analysis of their health, prescription drug and lifestyle needs to match
them with their best-fit individual plan,” he says. “That means they are less likely to over- or
under-insure and more likely to get the right coverage for their individual circumstances.”

**Private Exchanges Woo More Employers, but Real Traction
Won’t Begin Until 2015**

Employers of all sizes are moving to private insurance exchanges for the year ahead, but
health insurers and exchange operators predict that the trend won’t begin gaining real traction
until 2015 or 2016. And small employers that move to a private exchange might have more to
gain than their larger counterparts.

Sherri Bockhorst, national practice leader of Buck Consultants’ Health Exchange Solutions
division, says employers don’t appear to be making any bold moves for 2014, although they
are contemplating tweaks to the benefits contribution model, such as changing the employer
contribution for dependent coverage. Buck is a Xerox company.

While a lot of employers are looking at private exchanges, they will likely defer to 2015, says
Steve Kreuger, partner and exchange solutions leader at Mercer, which launched a multicar-
rier exchange in January 2013. “Our research — as well as other surveys — seems to indicate
that over the next three to five years, 25% to 35% of employers will provide benefits through a
private exchange,” he says.

Most national insurance carriers are participating in several multicarrier exchanges, and
some have launched exchanges of their own. Aetna Inc., for example, expects to participate in
15 private exchanges in 2014, but will participate on fewer state exchanges. The company also
is launching its own exchange.

During a July 30 conference call to discuss earnings, Aetna President and CEO Mark
Bertolini said his firm sees opportunity in private exchanges, “particularly those that move
self-funded clients to [higher margin] fully insured” accounts. He predicted that the move-
ment toward private exchanges will pick up steam over several years.

But some carriers are finding it difficult to transition from a wholesale model to a retail envi-
ronment, says Kevin Counihan, CEO of Connecticut’s health exchange. And he says large em-
ployers might be slower to adopt the exchange model because “they have a vested interest” in
the status quo. “I think you will see a lot of large employers kicking tires this year and next…
but the real momentum will start with the small employers and then move to the middle,” he
says. Counihan previously was president of CHOICE Administrators Exchange Services in
California.

**Carriers Are Playing Defense**

Much of the interest in private exchanges is being generated by insurance brokers and
employee benefits consultant firms, many of which have launched their own multicarrier
exchanges, says Ashish Kaura, a partner at the consulting firm Booz & Co. He says participa-
tion on multicarrier exchanges is a defensive move for carriers that don’t want to “miss out”
if employee benefits move toward that model. And the growth of multicarrier exchanges has
prompted insurance carriers to develop single-carrier exchanges of their own...sometimes while also participating in a multicrosor one.

Employers that tend to have high turnover and low-wage employees tend to be most interested in moving to a private exchange as a way to “disentangle themselves from offering health benefits to active employees,” according to a recent research paper co-authored by Kaura. And small and mid-size companies — which are less likely to self-insure than large ones — might have more to gain from the scale offered by exchanges, he adds.

**ACA Stokes Employer Interest in Private Insurance Exchanges**

The Affordable Care Act is driving more employers to private insurance exchanges as they seek to mitigate expected cost increases stemming from the law in 2014, say employee benefits consultants.

Private exchanges may let employees shop for all of their benefits, including medical, dental, vision, life and disability, says Tracy Watts, senior partner and national health care reform leader at benefits consulting firm Mercer. Unlike traditional employer-sponsored health benefits, which provide only a few plan options, private exchanges can offer literally dozens of coverage and price options.

Given this choice, many people select the lower cost plans, Watts and others say.

Most people are “overinsured” for medical, says Watts. “You may not need to have that much medical insurance,” she says. “If the [person] doesn’t have a lot of health problems, and they’re not really going to use the plan, buying a really expensive plan may not be the best use of their money.” When private exchanges provide good decision-making support tools, “most people will buy down on these things,” she adds.

For example, take an employer that provides each employee $5,000 to purchase insurance, she explains. If the employees choose wisely, they may have money left over to shop for other options. A healthy young person right out of school, for instance, might buy a very high-deductible medical plan and opt not to purchase life insurance.

“And then they go over and see, ‘Oh, I can buy pet insurance. I have a dog, and this is the greatest thing in the world,’” Watts says. “They use their benefit dollars in whatever way they want. They’re totally happy.”

Alan Cohen, chief strategy officer and co-founder of Liazon Corp., cites an example of private exchanges saving money. His company’s Bright Choices exchange model resulted in premium costs for 23 employees in a point-of-service plan dropping from $299,000 in one year to $185,000 the next, when the company switched to the private exchange. “People buy very differently” on an exchange, he told a May 14 AIS webinar on private exchanges. A full 90% of employees buy down, he said, as they select lower-cost options, such as those with narrow provider networks.

Simeon Schindelman, CEO of Bloom Health, echoed these findings, and told webinar attendees that employees using the exchanges have high levels of satisfaction. “Not only do the employees get more paycheck control, they appreciate how much [the employer] is investing in its employees,” he said.
Carriers Commit to Private Exchanges in Tailored Markets To Meet Employer Demand

Major employee benefits consultants Towers Watson and Mercer have come out in recent days with separate lists of health insurers that have signed up for the first year of their respective private health exchanges for employer-based group coverage. The two are joined in a competitive, four-way battle with fellow consultancies Xerox, Inc.-owned Buck Consultants and Aon Hewitt, and scores of other entities, for large-group employers.

At the same time, health plans are playing the field, assessing which private exchanges offer the best opportunity to gain new lives while at the same time keeping true to business plans and avoiding undue risk in multi-carrier settings.

The benefits consultants are each trumpeting their unique model to clients and employer prospects in the large-group space (although group sizes are as low as 100 employees). As part of these campaigns, Towers Watson on April 29 announced the first batch of health insurers that have agreed to sell on its exchange. These insurers are Aetna Inc., WellPoint Inc.’s Anthem Blue Cross and Blue Shield plans, Kaiser Permanente and UnitedHealth Group’s UnitedHealthcare unit. The private marketplace, which is set to go active on Jan. 1, 2014, is part of the consultant’s OneExchange, which covers full- and part-time employees as well as retiree lives. The insurers all have previous relationships with Towers Watson and its Extend Health subsidiary, a Medicare exchange specialist acquired by the consultant in May 2012.

Insurers Assess Marketplaces

Two weeks prior, Mercer on April 15 said an initial group of 10 health insurance carriers will offer plans on its Mercer Marketplace private exchange aimed at employers’ active employees and their families and also set for a Jan. 1, 2014, start. They are Aetna, Cigna Corp., Humana Inc., UnitedHealthcare, Health Net, Inc., WellPoint Inc.’s Anthem Blue Cross and Blue Shield plans and Florida Blue.

Some of the same insurers are active in not only the nascent Mercer and Towers Watson exchanges, but in the Buck and Aon Hewitt offerings as well. The latter two benefits consultants say they will not announce their carrier lists yet. Buck says its parent company Xerox likes to go slow on such announcements. Meanwhile, Aon Hewitt says unveiling a participant list is “irrelevant” — and besides, their exchange is the only one actually up and running, says Ken Sperling, Aon Hewitt’s national health care exchanges strategy leader.

At least one major carrier expressed publicly its intention to be on more than 10 private exchanges. Aetna CEO Mark Bertolini on an April 30 quarterly earnings conference call said he has noticed a lot of interest in private exchanges among large employers, and added that “we are now participating in 11.” Aetna intends to join the Aon Hewitt, Buck, Mercer and Towers Watson private exchanges as well, he said. Employers are hoping private exchanges will help contain costs using a defined contribution model and give employees more control over benefits choices.

For the benefits consultants, the key to attracting new business on their private marketplaces is how they differentiate themselves from other players. Bryce Williams, managing director for exchange solutions at Towers Watson, says his exchange will seek to provide higher value to clients, allowing employers to craft plan designs in a self-insured environment while maintaining control over wellness and other programs.
“Insurers are excited too,” he says, because it gives them an opportunity to offer their best disease-management, wellness and utilization-management ideas to meet employer demand for controlling costs. By being in the self-insured market, Williams says clients can avoid some of the taxes that a fully insured plan will have to deal with, notably the so-called “Cadillac” tax that starts in 2018 under the health reform law. “No way in the world” do these employers want to pay the excise tax, which will be levied on insurance products that cost more than $10,200 for singles and $27,500 for families.

Aon Hewitt Seeks to Simplify

Sperling says Aon Hewitt’s private exchange, which operates in the fully insured space, has worked for years to offer a multi-carrier experience for employer clients and emphasizes that such relationships are much more meaningful than in the self-insured area because of the insurer’s involvement in managing risk. The central theme is to “move away from complicated to simple,” with employees given four basic buckets to help them determine their health insurance needs: deductibles, coinsurance, out-of-pocket costs and pharmacy, he says. The plans on Aon Hewitt’s exchange have an actuarial value between 66% and 92%, with price points for everybody, Sperling adds, and the offerings are fully compliant with the Affordable Care Act, but not dependent on any aspect of it. A total of 100,000 employees were covered under the exchange in 2013 and there is a “full pipeline” for 2014.

Christopher Covill, a Mercer partner and the national specialty practice leader for the consultancy’s exchange initiative, says his firm is “in a full-court press around the process of marketing, if you will, to the employer marketplace.” Mercer has no bias around the size of employer that would gravitate to its exchange and has “built our solutions for every segment of the marketplace we currently play [in] today. So for us that is really employers from 100 to the largest employers out there today,” he says. The program is ready for open enrollment in fall 2013 and activation at the start of 2014, he adds.

Mercer decided to enter the private exchange business because of “a lot of things we saw developing over the years,” Covill says. “Clearly the shift in defined benefit and defined contribution and the clarity of health care reform” played a role, he adds. In addition, health plans are interested in the Mercer concept because of the efficiencies associated with an exchange, with plan design consistency one of the factors. “From a carrier perspective, if you have standard plan designs that are available across all participating employers, there are a lot of efficiencies around that as opposed to having to customizing the plan design for every opportunity that comes through the house,” he says. Another attractive element is that “all participating carriers get an opportunity to compete on every piece of business that comes through the exchange. Today, they may be limited by what they bid on — by employer preference, a local office preference — so this broadens the marketplace for them and gives them a bite of the apple that they may not get otherwise,” Covill says.

Mercer does not charge insurers a dollar amount to participate. Instead, insurers must cover the cost of building administrative interfaces and other technical matters. In addition, this product standardization may help some carriers prove their value to consumers, but for others expose “other issues” that dissuade potential new customers, Covill says. “Some carriers choose not to participate because they might not necessarily show well in an exchange environment. And that’s OK; there are other avenues to pursue business,” he adds.
Sherri Bockhorst, principal, health and productivity for Buck, says her firm is taking a different approach to private exchanges. “Our goal is not to offer multiple choices,” she says. Instead, Buck has divided the country into 300 geographical areas and offers a single carrier’s products in each market. So, in effect, it is a multi-carrier approach as the selection is made, but a single-carrier approach to the employer client, she says. “We are looking for the most efficient carrier, with broad access, low unit costs,” Bockhorst adds. “Other exchanges’ products are focused on medical, dental, vision during election time. We have that but wrapped around that we have health management,…a more holistic experience.”

Buck held a bidding process in fall 2012, negotiated with those carriers in January and February 2013 and is now in the process of finalizing all contracts. “Carriers seem to have taken to the model of a single carrier. They own the risk for all of the group, and there are no worries about adverse selection. They can be aggressive,” she says. Carriers will have three-year contracts, although there are provisions to change before that if an insurer loses a large hospital system from its network or does not meet performance guarantees. The contracts can cover self-funded or fully funded models, Bockhorst adds.

As for how the benefits consultants make money off the private exchange, Mercer’s Covill says “in general terms it would be precisely the same way we make money today — in the form of either fees and or commissions.” Sperling says “Aon Hewitt is paid for its exchange services by commissions and/or service fees built into the overall premium rates. It is not a fee that is charged to carriers; it is included in the employer’s rates. Each employer makes its own independent decision whether the rates offered in our private exchange [these fees included] represent an acceptable financial proposal to them. The amount of our fees and commissions is proprietary.”

Next Wave of Multi-Carrier Exchanges May Come From State Chambers of Commerce

On the heels of benefit consulting firms such as Aon Hewitt and Mercer, several state chambers of commerce say they are developing — or considering — multi-carrier private insurance exchanges for their members. Along with overcoming technology issues, they say their biggest challenge will be attracting carriers.

A multi-carrier exchange is being explored by the Virginia Chamber of Commerce through a feasibility study, the results of which are expected in May or June. State chambers in Arkansas, Georgia, Kentucky, North Carolina, Pennsylvania and Tennessee also are contemplating private exchange development. Uncertainty about the impact of the reform law, and expectations that coverage costs will continue to soar, are prompting employers to embrace defined contribution as an alternative to more traditional health coverage.

“We are betting there will be a shift to a defined-contribution approach. We are also betting that many employers do not understand the details of that option, so part of our process will include education on the benefits of the model,” says Jim Simpson, chief operating officer at the North Carolina Chamber of Commerce. “Our hope is that by bringing the right parties to the table — carriers, the broker agent community, a company with an onboarding platform — that we will provide a conduit to help facilitate a resource that benefits employers and their employees.”
Simpson says that it will be up to the chamber to make sure member employers understand their options with a private exchange and the benefits it can provide.

**Employers Seek Predictability**

A multi-carrier exchange would let a chamber’s member employers offer more choice to their employees while giving themselves greater predictability over coverage costs. And employees could use employer contributions for health coverage as well as ancillary products.

The Pennsylvania Chamber of Business and Industry, which has its own for-profit insurance brokerage subsidiary, is studying various options including a private exchange and strategies that would make it easier for small employers to self-fund through a consortium arrangement.

“A lot of our members have already moved to defined contribution….That idea already has a lot of merit with our members,” says Sam Denisco, vice president of government affairs. “Most employers like predictability and certainty.” The Pennsylvania chamber works with most of the state’s nine largest insurers, including all four Blues plans.

Before trying to attract carriers, a chamber of commerce would need to establish an Internet-based platform to link carriers and allow for online shopping and transactions, he says.

Chamber-based exchanges will be very similar to multi-carrier entities being operated by benefits consulting firms, says Joe Parente, a principal with KPMG’s advisory services practice in Philadelphia.

The challenge, he says, will be in having enough potential members to make participation worthwhile for carriers. He notes that carriers already are tentative about participating in public exchanges where their products will be commoditized.

Denisco agrees that commoditization of products is a concern for carriers, and says its unknown if carriers are “going to want to compete with each other on a private exchange,” he says.

On the flip side, private exchanges might not be as restrictive as public state exchanges, so chambers of commerce will need to determine which plan-design elements to standardize, Parente says. Moreover, once a carrier has developed exchange-ready products, it might make sense to sell those products through as many outlets as possible. “It’s a chicken-and-egg scenario. Carriers won’t join the market without enough potential enrollees, and employers won’t participate unless there are enough options,” he explains.

While a multi-carrier private exchange is a compelling idea, convincing carriers to participate in a market that will consist of mostly small employers could be difficult, adds Joe Donlan, president of ConnectedHealth, which works with health insurers to enable their private exchanges. The company is not working with any chambers of commerce.

“This is one of the challenges multi carrier exchanges have had. But over time, there could be more opportunities because the market will continue to grow more competitive, and [as consumer demand for choice grows] the health plans will need to sell through multiple distribution channels…across all of their lines of business,” he says. Donlan says insurers might follow the path of airlines, most of which now allow the sale of tickets through a variety of online travel sites.
And while health plans are concerned about what the risk will look like in multi-carrier exchanges, as retail brands and models mature, carriers will gain a better idea of what risk will look like and how to price for it, he says.

Simpson agrees that for any private exchange to work, there must be choices. He says the Pennsylvania chamber is in discussions with a number of carriers.

**Private Exchanges Eye Amazon’s One-Stop Shopping Model For Ancillary Benefits**

Among employers, interest in ancillary insurance products has been limited. But companies operating private insurance exchanges anticipate substantial growth — in everything from short- and long-term coverage to pet insurance — as employers migrate to a defined-contribution strategy.

“When you look at the emerging private exchange model, I don’t know of any [exchange operators] that aren’t looking into ancillary benefits,” says Don Garlitz, executive director at bswift, a benefits administration software company that works with public and private exchanges. Employers historically have seen ancillary products as an administrative headache with limited appeal to employees. But having medical and other benefits on a single platform simplifies the administration, he says. “The convenience of one-stop shopping could be particularly attractive when you have an employer funding, on any level, through defined contribution,” he says.

Private health insurance exchanges will have a leg up on public ones when it comes to ancillary benefits. Products sold through state and federally facilitated exchanges will be limited to those identified as an essential health benefit or offered through a state’s benchmark plan.

“One of the big, gaping holes in public exchanges is that they won’t cover the other products and services that an employer would be interested in,” says John Reynolds, Ph.D., CEO of CieloStar, a health care benefits technology company that operates numerous private insurance and benefits exchanges.

Based on a survey of employers, Aon Hewitt decided to limit its product offerings to health, dental and vision coverage when it launched its private exchange in 2012. And those benefits won’t be expanded for the 2014 plan year. “We believe there is a place for ancillary products in our exchange, and we will be evaluating the type and structure of these products for possible inclusion in 2015,” says Ken Sperling, Aon Hewitt’s national health exchange strategy leader.

Garlitz says the survey results aren’t surprising, but argues that the general population doesn’t understand the value of many ancillary benefits. “The jury is still out about how deeply these products will penetrate, but it might be premature to say that people won’t want those products,” he says.

Through its Bright Choices exchange, Liazon Corp offers coverage in 17 categories including major medical, dental, life, critical illness and indemnity. Co-founder and chief strategy officer Alan Cohen says employers and employees often don’t understand how ancillary benefits complement major medical coverage.

“Insurance isn’t about health care, it’s about protecting someone’s income and assets against events they can’t anticipate,” Cohen explains. And that protection becomes much more effec-
tive when several types of coverage are combined. If someone gets sick and goes to the hospital, medical insurance protects them against the costs. But what if that person needs to take time off of work? Now they need short-term disability insurance. If that person is out of work for six months or more, they need long-term disability. And all expenses for a serious illness, such as cancer, might not be covered by a medical policy. Finally, if that person were to die from the illness, life insurance would protect the family financially, he explains.

**Defined Contribution ‘Is the Future’**

Employers are widely expected to move to a defined-contribution model in an effort to tame employee benefit costs and make those expenses more predictable from year to year. Reynolds says most employer clients still offer traditional health coverage, but says at least 75% of them are contemplating a defined contribution model.

Bob Hurley, senior vice president of sales and operations at eHealth, Inc., agrees and says, “From what I’m hearing, there are plenty of large employers sitting on the sidelines waiting to see how [defined contribution] develops. I think you will see large employers move to a defined contribution model after 2015.”

And Garlitz predicts there will be a growing demand for ancillary products as consumers grow accustomed to one-stop shopping for other consumer goods.

“Defined contribution is the future. You might have 100 people working in your company and have 100 different insurance needs,” Cohen says. Liazon says it offers medical coverage from most major carriers including UnitedHealth Group, Aetna Inc. and Cigna Corp., as well as regional Blues plans and local carriers.
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