

Federal Reserve Bank of Atlanta

**PRIVATE HEALTH CARE EXCHANGES
MARKETPLACE – CURRENT STATE
FUTURE IMPLICATIONS**

January 10, 2014

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The Private Health Exchange Market – Current Vendors

- Private Health Care Exchanges have been operating since the early 2000's
- The Medicare beneficiary exchange market is well established with many private options.
- Some of the key players in the Medicare private exchange market:
 - Aon Hewitt
 - One Exchange (Towers Watson – formerly known as Extend Health)
 - myCustomHealth (Mercer with United Health Care partnership)
 - Right Opt – (Buck Consulting/Xerox)
- Other Players
 - United Health Care—Connector (single carrier exchange)
 - EHealth
 - Health Plan One
 - AmWins
 - Conexis
- The Affordable Care Act has opened the door for active employee and pre-Medicare retiree private exchange growth

Overview of the Medicare Exchange Market

What we've learned

- The key reasons why the Private Medicare Exchange Market has grown:
 - ❑ Medicare coverage is guaranteed issue (safety net for individuals)
 - ❑ Federal government finances the majority of costs – After the Medicare Modernization Act was passed, CMS now pays 70% to 75% of the average liability of a Medicare participant and coverage expanded to include Rx
 - ❑ Many plan sponsors in the private sector can no longer sustain new funding rules under FAS106 or GASB45 or SOP92-6
 - ❑ Private sector insurers generally make a profit on Medicare enrollees

- **RESULT**
 - ✓ 80% of Medicare beneficiaries are now in individual insurance products
 - ✓ Relatively stable and competitive market of private insurance plans in most regions
 - ✓ National brokers and consultants realized the need to pivot to become commission based brokers and service providers (e.g. no need for an actuary to set self-funded reserves for retiree group with no group plan to finance)
 - ✓ Private Exchanges can create fixed cost to employers, leading to the acceleration in the migration from defined benefit retiree health offering to a defined contributions
 - ✓ Segal/Sibson is helping large plan sponsors evaluate vendors and options on a daily basis.

Overview of the Emerging Active Employee Exchange Market

- Active Employee (non-Medicare) Health Exchange market is rapidly evolving with several new entries in the market for 2014.
- ACA creates similar forces for active employees as seen in the Medicare market:
 - New guarantee issue mandates (which allow for individual coverage options)
 - New federal premium assistance subsidies for lower income workers
 - Setting up the landscape for a mass migration to a defined contribution approach to active workers – outsourcing to administration to private exchange vendors
- Offerings in the active market vary in a number of ways, including
 - Funding mechanism (fully- vs. self-insured)
 - Group vs. individual policy platform (most employers still committed to group policies for active and early retiree populations)
 - Types of plans and coverage offered (e.g., HDHP, PPO, requirement of ancillary coverage)
 - Number of vendors (one vs. many)
 - Rating regions
 - Advocacy services
 - Administrative requirements
- Private Exchange for actives rapidly expanding (Aon, TW, Mercer, Buck, Ehealth, Lockton, Gallagher, Willis, Bloom, Digital, etc)

The Private Exchange Market

Comparing Active Exchange Solutions

HEALTH INSURANCE EXCHANGE VENDOR COMPARISON – Employer Model

Exchange Feature	Aon Corporate Exchange	One Exchange—Active	RightOpt	Mercer Marketplace
Consulting Relationship	Aon	Towers Watson	Buck	Mercer
Funding Mechanism	Fully Insured	Self Insured	Self Insured or Fully Insured	Self Insured or Fully Insured
Bundled Coverage	Medical, Rx, Dental, Vision	Medical, Rx, Dental, Vision	Medical, Rx, Dental, Vision, Supplemental ¹	Medical, Rx, Dental, Vision, Supplemental ¹
Number of Medical Carriers	Three - Six	Four - Five	Three - Four	Ten or more
Rating Regions	21	40	381	Varies based on client
Number of Carriers by Region	All	All	One	Varies based on client and funding
Plan Offerings	A suite of standardized plans from which employers can choose which plans to offer	Four standardized plans, employers can choose which plans to offer	Seven standardized plans, with some employer customization available	Five standardized plans, with limited customization available
Administration Flexibility	Administration with Aon not required	Currently requires Towers Watson Administration	Administration with Xerox not required	Currently requires Mercer administration

Many of the above solutions will be new to market in 2014. We expect that they will evolve as the Health Insurance Exchange market matures.

¹ Supplemental coverage includes accident, critical illness, and hospital indemnity. Mercer also offers life, disability, FSA, and COBRA services.

The Private Exchange Market

Category	Medicare Exchange	Non-Medicare Exchange (Active)
Reasons to Move—Employers	<ol style="list-style-type: none"> 1. Reduce FAS 106 Liability 2. Fixed Costs 3. Reduce Administration 4. Leverage best in region pricing 	<ol style="list-style-type: none"> 1. Fixed Costs 2. Reduce professional fees/HR costs 3. Focus on wages, productivity 4. Leverage best in region pricing
Reasons to Move—Participants	<ol style="list-style-type: none"> 1. Greater choice in plans/carriers 2. Access to employer subsidies 3. Assistance selecting optimal plan 	<ol style="list-style-type: none"> 1. Greater choice in plans and carriers 2. Flexibility to tailor benefit/ contribution trade-offs
Funding Mechanism	Commissions	Commissions or Fees
Plan Structure	Individual Plans	Individual and Group Plans
Plan Sponsor	The Individual Plan	Employer or Individual
Funding	Health Reimbursement Account (HRA)	Credits, HSA Funding
Sample Companies Transitioned	Allstate, Goodyear, Kodak, UPS, ConAgra, Heinz, BMW, 3M, Siemens, FedEx, GM, Caterpillar, Ford, Verizon, Time Warner, IBM, GE	Aon, Sears, Darden, Towers Watson (2014), Mercer, Buck, Walgreens (2014)

Will Group Employer Health Plans Become Extinct?

Three factors that threaten the employer-based system:

1	New Federal Premium Subsidy creates substantial potential for savings to employers/plan sponsors in lower wage industries (retail, food, etc.)
2	Guaranteed Issue (elimination of pre-existing condition exclusions)
3	Highly regulated underwriting rules for insurers in the public exchanges

- Private and Public Exchanges offer the potential for plan sponsors to eliminate risk of medical trends
 - Shift burden of medical trends to individual, federal government and insurers
- Key Questions Remain:
 - ***Will access to subsidized health insurance give employers the out?***
 - ***Will some decide to pay the penalty, instead of complying with the law?***
 - ***How much value will employers and unions place on custom and dedicated wellness programs, call centers, control over vendor choice and network stability?***

Potential Private Exchange Limitations/Hurdles

- Many employers and group plan sponsors want to maintain control of their offering (there is no guarantee which insurers will stay in which markets, network provider changes could lead to serious employee noise and disruption)
- Private exchanges creates new winners and losers within an employer population
- Group Health coverage is the key brand for many Unions and bargained workers
- Group plans have lower administrative costs vs. individual policies (lower premiums for same value of coverage)
- Defined Contribution strategies face other confounding factors, including:
 - **Geographical differences in cost**—Will the employers provide an increased contribution for those who reside in higher cost areas? (e.g., 80% of Silver plan in each region)
 - **Deviation from the current state**—How will employees be impacted?
 - **Annual contribution increases** — How will the COLA be set?
 - **Treatment of dependents**—Will the employer continue to subsidize dependents at the same level as it does today?
- These considerations will vary depending on whether this is being designed for active employees or retirees

Self-Funded Plans vs. Individual Insurance Environment

Why Self-Funded Group Health Plans Should Survive ACA

Self-Insured Group Plans

Exist solely for the benefit of the **participants** allowing the plan sponsor to control design, choice, access and dedicate support

Large self-funded group plans will have a long term economic advantage. These plans avoid most premium taxes, carrier profits and risk charges: Result **less than 7%** of every premium dollar goes towards administrative expenses and profit.

Multiemployer Plan Trustees have long standing precedent of providing branded group health coverage that is a key part of Union value.

Individual Health Insurance

Have competing interest- answering to **shareholders as well as participants.**

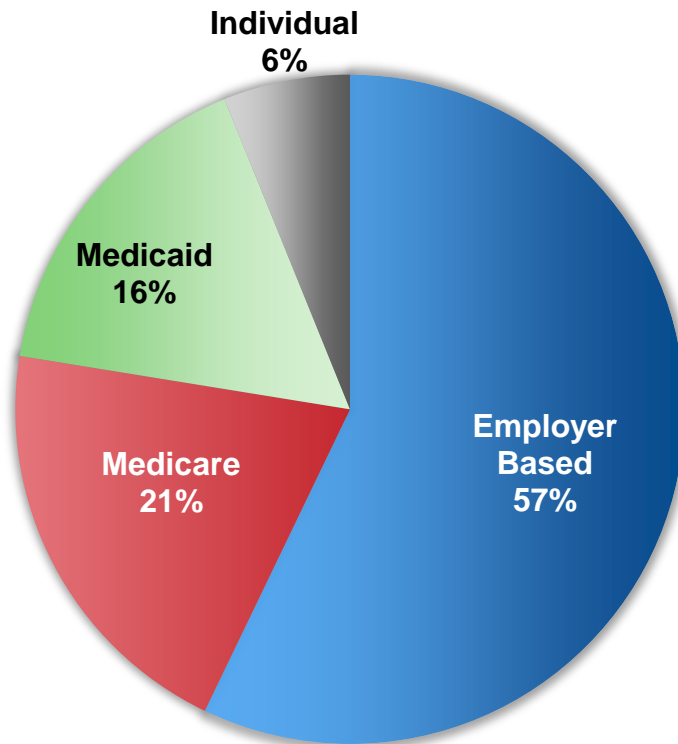
Individual insured premiums will see **15% to 20%** of every premium dollar set by insurers go to administrative expenses and profit charges. However age rating and regional rating could fragment older, multistate groups.

Exchange based individual insured policyholders face greater challenges of market based disruption and selection issues.

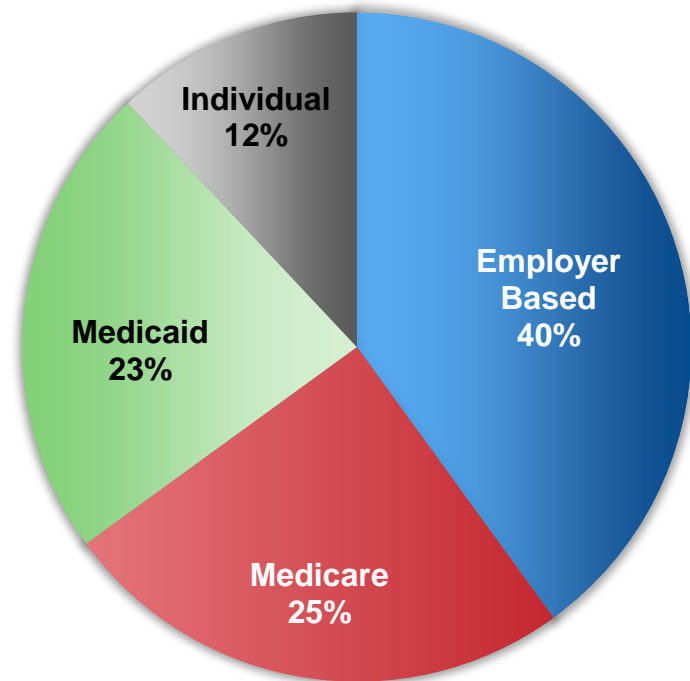
Active employees private exchanges that preserve a self-insured group model may be the dominant format for large plan sponsors that want to maintain some control and customization.

Expansion of Medicaid and Federal Subsidies will have some impact on the future coverage – Kaplan Prediction

**% OF US COVERAGE
2011 (CMS)**



**% OF US COVERAGE
2020**



US uninsured population cut by millions but still significant and costs remain a problem

Excludes VA, Tricare population

One Possible Long Term Scenario

1. Migration towards public and private exchanges with defined contributions funding
2. If results are positive, then others may follow
 - No major backlash from workers
 - If profits improve
 - Insurance market stays robust and stable (service is acceptable)
 - Offer cash incentives (wage increase) to terminate group plans
3. Employment patterns may change
 - Greater part time workforce
 - Low wage industries could terminate medical plans and pay penalties
 - Competitive advantage for small employers
4. Benefit offerings evolve to provide different type of benefit offering
 - Less generous medical benefits -Increase member cost sharing to avoid excise tax
 - Supplement plans (e.g.. High Deductible plan) with Health Savings Accounts
 - Enhance ancillary benefit offerings (dental, vision, life benefits, critical care supplement)
 - Demand for concierge/advisory services may grow among private plan sponsors and unions
5. Retiree Health market moves predominately to defined contribution funding with private exchange platform