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Private Health Insurance Exchanges- An Answer to Rising Health Insurance Costs

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Private Health Insurance Exchanges—An Answer to Rising Health Insurance Costs?



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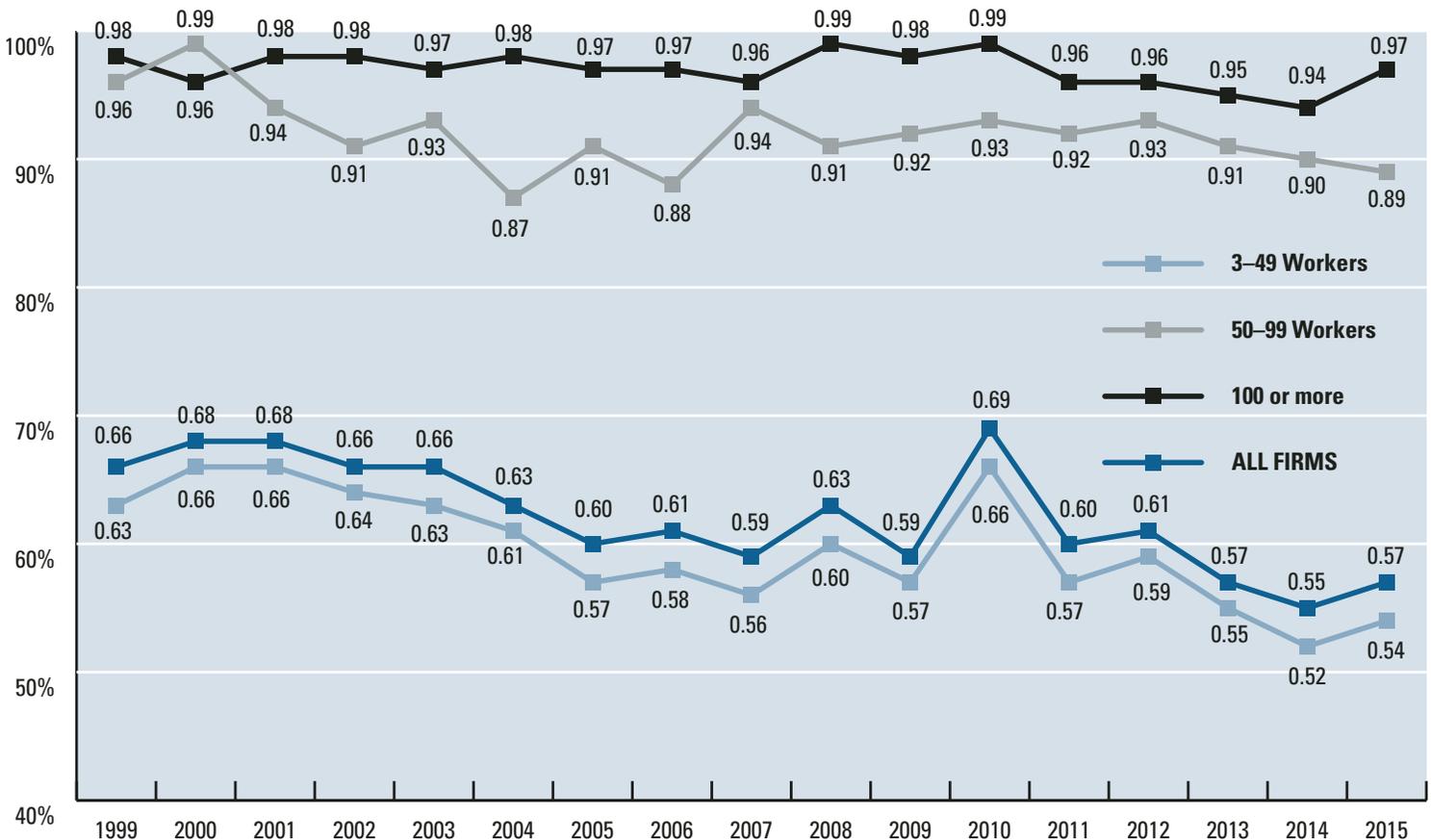
In Michigan, about 60% of employers offer health insurance benefits to eligible employees, and about 80% of those eligible for coverage enroll in health coverage.¹ If you work for an employer with 50 or more covered employees, the probability that your employer offers health insurance is 90% or higher.²

Exhibit 1 shows the percentage of employers offering health insurance to eligible employees by company size. Employers that offer health coverage find that it is a coveted benefit for current and prospective employees. Once coverage is offered

to employees, it is difficult for an employer to discontinue sponsoring coverage, as employees view this benefit as an essential component of their employment relationship and total compensation package. Paying for health coverage continues to be a major dilemma for employers, as year-over-year premium costs continue to escalate at a multiple of the Consumer Price Index (CPI). Employees are also feeling the pain of paying for higher health insurance premiums. In a recent comprehensive study exploring employees' financial and savings attitudes, sponsored by benefits consulting firm Aon Hewitt, the top financial concern employees expressed was the rising cost of health care.³

Exhibit 2 illustrates over a 16 year period the alarming rise of health insurance premiums and workers' increasing

Exhibit 1: Percentage of Firms Offering Health Benefits by Firm Size, 1999–2015

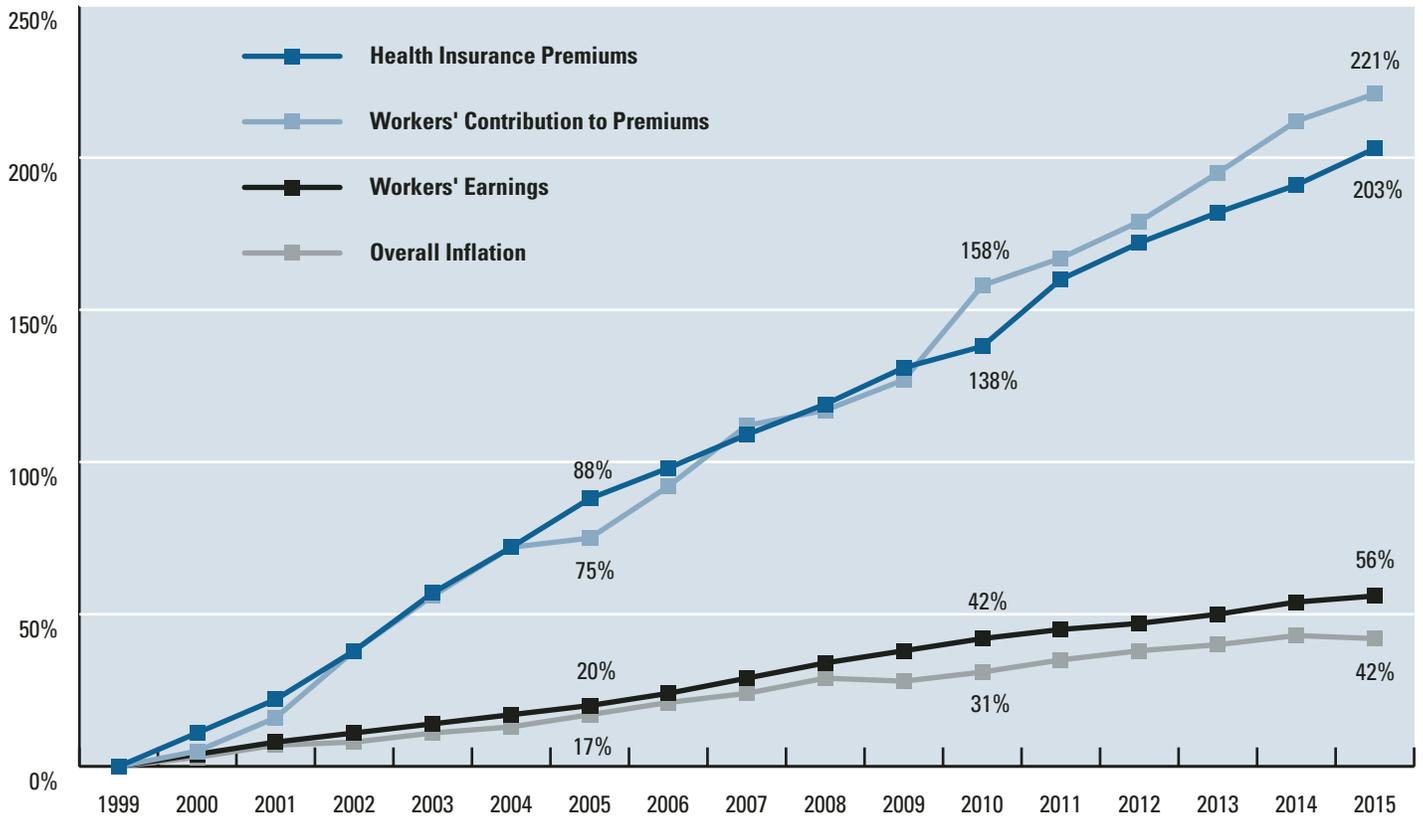


¹ Healthcare.org, Michigan Health Insurance, <http://www.healthcare.org/states/michigan/>, 2015

² Kaiser Family Foundation 2015 Employer Survey, www.kff.org

³ Inside The Employee Financial Mindset Study, Aon Hewitt, 2015, aon.com/employeemindset

Exhibit 2: U.S. Annual Health Insurance Premium Increases Outpace Worker Earnings and Overall Inflation



contributions to premiums on the top two lines, contrasted with annual workers' wage increases and annual CPI increases on the bottom two lines. The annual health insurance cost increase "gap" that exists between the top and bottom sets of values is alarming and results in relentless cost pressures on both the employer and covered employees in year-over-year health insurance premium increases that exceed by a wide margin the annual increases in wages and the CPI.

Most employers in West Michigan have experienced a similar relationship in annual health insurance premium increases over the past decade. During this time, employers have reduced annual premium increases by making common changes to health plans, including the following:

1. Requiring employees to pay more for their health insurance coverage;
2. Increasing health insurance deductibles, fixed dollar co-payments and coinsurance amounts;
3. Introducing "consumer-directed" health plans that have health plan deductibles of at least \$1,000 for employee-only coverage, linked to a health care expense account like a Health Reimbursement Arrangement or a Health Savings Account;
4. Implementing health insurance plans that reward employees and family members with better coverage if certain plan requirements are attained, such as completing an annual physical exam, completing a health risk assessment, avoiding tobacco products, and keeping body weight below a targeted threshold;

5. Providing employee wellness incentives for attaining desired program participation, including reductions in employee health insurance premium share for adhering to wellness program guidelines;
6. Changing the prescription drug benefit to a multi-tier payment structure that saves money and encourages employees to use the lowest cost drug to treat the identified condition.

All of the listed techniques have helped to curb the final cost increase of health plan coverage in any given year. These strategies reduce costs for employers but often result in costs being "shifted" to employees. In spite of these efforts to contain annual cost increases, structural cost pressures continue to exist. As a result, employers are continually looking for the "next best thing" to help them to control annual cost increases in health insurance.

Private Health Insurance Exchanges—A New Way to Deliver Benefits and Manage Costs

Private health insurance exchanges are a relatively new option for employers to consider for the purchase of group health insurance. These differ from the state-based government regulated public health insurance exchanges (officially referred to as public marketplaces) that were created under the Affordable Care Act of 2010. Private exchanges are sponsored by the private sector and are not subject to the same health plan design and company size rules as plans offered on the state-based public exchanges. Like public exchanges, most private health insurance exchanges started

just a few years ago, and the growth in private exchanges has been boosted by tremendous financial investments in the development of private exchange technology platforms led by benefits consulting firms, technology companies, and health insurance carriers to develop the private exchange infrastructure to support multiple health insurance options delivered via an online shopping experience. Elements of a private health insurance exchange include the following:

- An online, Amazon.com-type marketplace that allows employees to purchase health and ancillary coverage during open enrollment or when a qualifying event occurs;
- Multiple health insurance options for employee selection—usually 5, 10, or more health insurance choices, combined with an array of “ancillary” health product offerings, including dental, vision, life, critical illness, disability and other supplemental insurance-related coverages;
- The ability for the employer to allocate a fixed amount of dollars for the purchase of coverage in the employee’s online (notional) spending account;
- Products offered by one insurance carrier or multiple insurance carriers;
- The ability for the employee to enroll in medical savings plans such as Health Savings Accounts or Flexible Spending Arrangements;
- Detailed employer reporting that simplifies the enrollment and ongoing insurance administration for the company benefits administrator.

What is the Potential Market Size for Private Exchanges?

A number of national benefits consulting firms have projected the growth of private exchanges over the next few years. Although projections vary significantly, most estimates indicate explosive growth, as employers shift coverage into these new benefit delivery platforms. For example, the benefits consulting firm Accenture estimates that private exchange enrollment will double from 6 million members in 2015 to 12 million members in 2016. **Exhibit 3** highlights Accenture’s projected growth rate for private exchanges through 2018. If the anticipated growth rate reaches 40 million members in 2018, Accenture estimates that it will impact about 25% of the covered workforce. This would result in private exchanges representing a significant enrollment platform for a considerable number of employers in just three years.

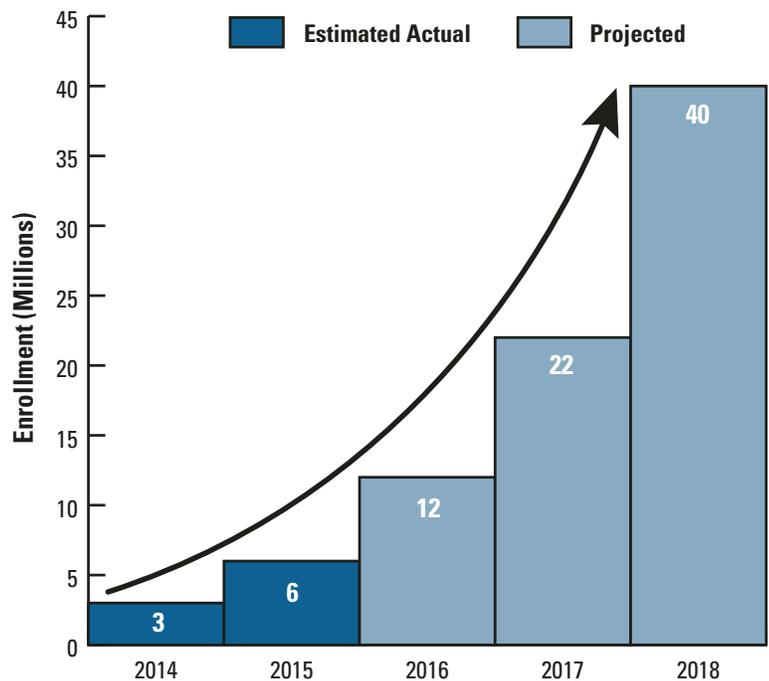
Will Private Health Insurance Exchanges Lower Annual Cost Increases?

Some employers turn to private exchanges in an attempt to mitigate annual premium cost increases. Given the recent movement by some employers to private exchanges, it is too early to conclude whether private exchanges will deliver long-term cost savings over the traditional offering of health insurance with few plan options. That’s why it is important to offer an integrated employee wellness program that encourages employees to make appropriate health choices

that may result in lower health care costs (over a period of years) through improved personal health.

One common private exchange funding technique that helps employers to control their required investment in the overall health insurance benefit is the establishment of a fixed dollar contribution for employee health insurance. This helps the employer to budget with certainty how much it will spend on health insurance through fixed dollar contributions to each employee account. When employees have a fixed dollar amount to spend (from their notional health account) and many health plan choices with differing benefits and price tags, they typically will purchase coverage that is less costly than the coverage they previously had, as they attempt to maximize the dollars available to purchase insurance coverage. This “buy-down” effect results in lower insurance premiums during the first year of the private exchange, but significant buy-down savings will not repeat in subsequent years, resulting in ongoing cost pressures for employers and employees as premiums continue to rise for all health plans. Proponents of private exchanges believe that a fixed dollar employer contribution for health insurance selection empowers employees to become better purchasers of health insurance, as employees seek to find the right coverage options to fit their unique health insurance needs.

Exhibit 3: Projected Growth of Private Exchanges



Evaluating Private Exchange Options

To evaluate private exchange options, a good place to start is by engaging your independent insurance agent or benefits consultant to search the market for appropriate private exchanges. In West Michigan, the two dominant health carriers, Blue Cross Blue Shield of Michigan and Priority Health, offer excellent private exchange options for consideration for employers of all sizes. Your organization

may make a good candidate for private exchange if the following criteria apply:

- Employees contribute at least 10% toward the cost of health insurance premiums;
- Current plan design includes high deductible options of at least \$1,000 or more for employee-only coverage, coupled with a health savings account;
- Employee wellness programs are in place to encourage healthful behaviors;
- Current plan design includes at least two plan choices;
- There is a wide range of worker ages in your workplace. (Younger workers have much different health insurance needs than older workers.)

A private exchange option will require employees to be engaged in benefit selection, as most private exchanges require employees to make a plan selection during open enrollment. To help employees to select an appropriate health insurance plan, be sure to evaluate the “decision support” software that the exchange offers. This online support will help your employees to select the plan that best fits their health insurance needs and their ability to pay for the plan selected. In addition to online support during open enrollment, some private exchanges offer Health Plan Advisors to assist employees in the selection of the best coverage through telephone support. Not all private exchanges offer human support for benefits selection, but this is a good option to consider, as some employees will prefer to talk with an advisor to assist with the enrollment decision.

Allow at least six months before your annual open enrollment to begin exploring your private exchange options. Be sure to include key staff in the discovery process, as private exchanges represent a completely different way to purchase health and related ancillary benefits. It is critical for a successful private exchange introduction to have appropriate staff buy into the concept. Your CFO will likely support a private exchange approach due to the fixed dollar funding flexibility that is a core component associated with the private exchange. The ability to establish a “fixed” notional contribution for health insurance premiums for each employee health account simplifies the health insurance budgeting process, as the total spending for health insurance premiums is established before the open enrollment begins.

Moving Forward with a Private Exchange

Be sure to consult your benefits agent or health insurance consultant at least 6 to 12 months before your health plan open enrollment date to explore whether a private exchange makes sense for the delivery of your health and ancillary benefit products. Start by evaluating the plan options the private exchange offers and secure a price quotation from the private exchange vendor for the available health insurance products offered on the exchange, including ancillary benefit products. If a decision is made to move forward with a private exchange, start proactive communications with employees at least two months prior to open enrollment to ensure employee understanding of the reasons for choosing the private

exchange and how it will impact them through expanded health insurance plan choices to meet their unique insurance coverage needs. Your private exchange vendor should have robust employee communication materials to help prepare your employees for the changes that the private exchange will bring and to articulate the benefits of the private exchange experience. The added product choices, fixed dollar funding flexibility, and administrative efficiencies through online enrollment and enhanced employer reporting may make a private exchange a good option for your organization and its employees moving forward. ■