

BEST INDICATOR OF PRIVATE
EXCHANGE SUCCESS:

**ABILITY TO GENERATE
VALUE FOR EMPLOYERS**

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Private exchanges are gaining traction in the employer-sponsored insurance market as solutions for offering increased plan selection while also simplifying administrative procedures. Beyond these specific impacts, private exchanges have an opportunity to generate value for employers and employees in even more broad and significant ways.

Benefits consulting firm Accenture estimated that there are approximately 6 million individuals enrolled in private exchanges today and that number could increase exponentially to 40 million individuals by 2018. However, enrollment alone will not be the best predictor of private exchange success. The real driver will be their ability to generate value for all constituents, especially employers and employees.

Private exchanges neither promise lower insurance prices (although some research suggests they do) nor depend on a certain national enrollment in a given timeframe for success. Rather, most private exchanges are evolving independently, striving to prove their model and brand, while creating value independent of product insurance pricing (which they do not control). Although most private exchanges aren't necessarily focused on the nationwide enrollment targets, many of them are committed to helping create a seamless online experience for people nationwide, while delivering against their core value propositions.

There are a variety of ways private exchanges aim to create value for employers and employees, insurance agents (or brokers), and insurance carriers:

ACHIEVING ADMINISTRATIVE EFFICIENCIES FOR EXCHANGE PARTICIPANTS

Exchange technology has streamlined the administrative burden and costs associated with negotiating, purchasing, educating, and enrolling employees in coverage. Most exchanges can offer employers the ability to enroll all of

their employees—both benefits-eligible and non-eligible—in health insurance and other ancillary/voluntary benefits. These technology advancements enable employers to more easily comply with ACA regulations (e.g., eligibility/affordability tracking and reporting, IRS guidelines, etc.) and integrate their payroll system and Human Resource Integration Systems (HRIS)—all of which can increase productivity and lower administrative costs. Employees also benefit from more streamlined, accessible (e.g., online and mobile, and often paperless) enrollment processes.

CREATING GREATER EMPLOYEE CHOICE FOR GROUP EMPLOYEE INSURANCE BENEFITS

In 2014, 85 percent of firms offering health plans offered only one type of health plan to their employees.¹ Whether through a defined benefit or defined contribution model, private exchanges are unequivocally expanding choice. This means choice of benefits will often extend beyond major medical plans to include voluntary insurance products, such as dental, vision, life, and long/short-term disability. By increasing the number of choices, paired with decision-support tools to ensure that choice is meaningful and personalized, private exchanges have a unique opportunity to provide more value to employees without overwhelming them.

OFFERING DECISION-SUPPORT TOOLS THAT EDUCATE AND EMPOWER EMPLOYEES

An estimated 87 percent of consumers want decision-support tools to assist in determining personal expenses and optimal coverage levels.² In addition, according to a 2015 survey by Chicago-based ConnectedHealth, 50% of

1 Kaiser, "EHBS Four Types of Plans Offered", May 2015
2 Accenture, "Private HIX Survival Guide", July 2013

participants said having cost-comparison tools would make choosing a health plan easier, while 42% cited personalized recommendations as a key factor in this decision process. Ultimately, plan choice and decision-support tools mutually reinforce the value propositions that private exchanges deliver. As employees expect expanded choice with accompanying tools for researching and comparing options, exchanges are strategically positioned to provide these solutions.

FACILITATING MEANINGFUL PRODUCT INNOVATION

Exchanges represent a channel for providing innovative products, tailored to appeal to a specific audience within a group, rather than the group as a whole. For example, a 40-year-old mother of three kids often has vastly different benefit needs than a single employee in their late-twenties. To the extent that forward-thinking organizations and brokers curate new consumer-driven products based on personal factors of employees, they will increasingly look to private exchanges as the distribution channels for these products. As private exchange distribution channels grow in importance to carriers, participating employers can access innovative benefit options that are attractive to various subsets of the entire workforce (whether part-time, full-time or seasonal/1099 workers).

PROMOTING GREATER MARKET COMPETITION

Private exchanges exist in many different shapes and sizes, but all offer a measure of competition that didn't exist before. There is a high degree of competition between private exchanges contending for additional employer and employee business. At the same time, carriers are forced to compete in new ways—whether head-to-head on multi-carrier platforms, or indirectly on separate, proprietary single-carrier platforms. Agents and brokers are also competing to aggregate lives in this new paradigm and technology vendors also strive to reduce administrative costs and improve the customer experience. This new competition has profound benefits for the end consumer (i.e., the employer and employee) resulting in lower priced products, better quality products, more choice, and more value.

INCREASING EMPLOYEE ENGAGEMENT AND SATISFACTION

People are spending an average of two hours on the plan selection process.³ While it's an important and costly decision, the frustrating part is that, at the end

of the process, most people aren't that satisfied. In fact, 72% of consumers said they are only somewhat satisfied or somewhat or very dissatisfied.⁴ At the same time, employers are recognizing that employee concerns about financial security are making their way into the workplace in the form of decreased productivity, absenteeism, and "presenteeism". In fact, according to a survey conducted by TD Bank in 2015, 70% of participants said that financial health can impact their physical health. And many businesses now believe that employees can better focus on their work if they are not worried about things like insurance and having enough money to pay their health needs. Private exchanges offer an opportunity to engage and empower employees to play an active, informed role in their health and financial security – during open enrollment and throughout the year. Offering context and educating employees on exchange offerings will help them achieve their health and financial goals and make better decisions about their benefits and their utilization based on their preferences and current life stage.

Private exchanges continue to operate in a highly competitive environment, and while there is not yet a clear leader fulfilling every one of the private exchange value propositions, there are examples across the board of these endorsements coming to fruition. Collectively, private exchanges are delivering value across a spectrum of value propositions and employers waiting to see proven success will migrate toward models that can share measurable and reliable results, and help support the diverse benefit needs of a unique workforce, from full-time employees to part-time and 1099 workers. For this reason, private exchange success will not be determined simply by the number of lives that are enrolled, but by the emergence of platforms that deliver on the key value propositions that employers and employees alike seek.

3 ConnectedHealth, "Consumer Survey of Self-Insured Adults", June 2015

4 ConnectedHealth, "Consumer Survey of Self-Insured Adults", June 2015



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About the Private Exchange Coalition

The Private Exchange Coalition (PEC) is the premier industry association for organizations affiliated with private exchanges. The coalition seeks to increase awareness of private exchanges and the innovative capabilities they provide for improving the selection, administration, and use of employee benefits while promoting shared industry standards and best practices. If you would like more information about the PEC or how your organization can join, please visit us at www.pecoalition.com or contact Ryan Howells at ryan.howells@leavittpartners.com.