

MEASURING THE DISRUPTION
POTENTIAL OF PRIVATE EXCHANGES
IN A VALUE ECONOMY

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IS ENROLLMENT THE BENCHMARK FOR PRIVATE EXCHANGE SUCCESS?

THE EMPLOYER VALUE CONUNDRUM

For three years, the market has been closely watching private health insurance exchanges that aspire to create new value in the group-market health insurance transaction. A litany of venture entities and private equity outfits have flooded the market with investments under the auspices that technology would disintermediate the traditional insurance purchasing model, introducing new efficiencies and sales opportunities. There is wide and varied conjecture about the core problem private exchanges should and can remediate. Some believe they should supplant the ill-fated Small Business Health Options Program (SHOP) exchanges that have yet to materially emerge. Others believe that systematizing defined contribution across a broader product portfolio will inject predictability and choice in purchasing. Still others believe private exchanges will create competitive marketplaces that promote stronger microeconomic decision making.

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For the first time since World War II, employers have pseudo-permission to break or otherwise alter their time-honored employee social contract. Subsidized insurance markets, standardized benefits, as well as the abolition of requirements on pre-existing conditions and medical underwriting related to individual insurance products available through public ACA exchanges, may absolve employers of certain historical

considerations. While these realities have caused some employers to exit the major medical benefits market in recent years (primarily in the small group space), most mid-market and large group employers are committed to offering solutions for a long-term time horizon. Why?

The first reason is a more recent economic expansion, leaving many employers highly focused on retaining and recruiting the most skilled and competitive workforce in their respective industries. A second is an increasing interest by employers in the general health and well-being of their employees. The third reason is the general slowing of medical cost inflation, which has somewhat alleviated more draconian economic pressures.

Such interests contain their own economic rationales: employers simply want the highest performing workforce for the lowest longitudinal financial burden. Herein we have a problem. And herein, the market and these private sector investors are advancing technology with the capacity to integrate myriad value-enabling solutions in the form of the private exchange.

AN OLD, NEW HOPE

Private exchanges are not new, nor are they post-ACA innovation. In fact, there are long-standing private exchanges that operated, with less breadth of capability than today's models, years prior to the passage of the ACA, some with outstanding success. The concept is simple: use technology to improve the selection, eligibility, enrollment, management, and administration of employee benefits by bringing them into the most modern era of what the creative application of technology can accomplish. From major medical coverage to pet insurance and legal advisory services to COBRA administration and ACA-required reporting, private exchanges offer various products, services, and structured solutions that create value for employers, employees, insurance carriers, and agents.

By our estimates, there are over 200 uniquely branded or positioned private exchanges in the market. These models range from single-payer portal solutions that facilitate product selection for one health plan, to multi-carrier, risk-adjusted, competitive-bidding models that espouse the formation of insulated marketplaces.

The core opportunity for private exchanges is in creating technology solutions that functionally meet employer objectives in a way not addressed by today's marketplace. More specifically, private exchanges must demonstrably tie a compelling ROI to core value propositions that exhibit material differences between the "old" and the "new."

We assert that the emergence of this economic value is rapidly coming to fruition through varied combinations and applications of the propositions outlined in this paper.

IN SHORT, WE BELIEVE PRIVATE EXCHANGES ARE POSITIONED TO . . .

Drive administrative efficiencies for employers

Managing and administering benefits is complex. In addition to simply facilitating enrollment during annual open enrollment and special enrollment periods, administrative workflows have focused on eligibility determination, product selection, employee/employer education, regulatory compliance, premium aggregation, and broader integration with other benefits and HR services. For employers, the fragmentation between such workflows and solutions adds a layer of administrative cost that can be remediated through technology.

Private exchanges are equipped to streamline employer census files, automate eligibility determination and communication protocols, and provide sophisticated online decision support (complemented in many cases with live support from licensed customer service representatives), while providing management tools to administrators from the carrier, broker, or employer. These administrative efficiencies scale as employers expand the core and ancillary offerings available to employees. In short, a private exchange has the ability to promote expanded options at reduced relative administrative fixed and variable costs.

FACILITATE ECONOMIC DECISION MAKING AND ENGAGEMENT

The group health insurance industry has never functioned as a traditional market. There has been limited choice for the end-employee with high information asymmetry in the transaction. In fact, in 2014, 85 percent of firms offering health plans only offered one option to their employees.¹

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Private exchanges can easily scale and expand the benefits options for employers and employees. Such expansion comes in the form of more variation in major medical coverage and through ancillary and specialty products, including dental, vision, short- and long-term disability, hearing, hospital indemnity, critical illness, accident, supplemental, and so on. ConnectedHealth reports that its enrollees are selecting HSA plans nearly twice as often in 2015 as they did in 2014 (14 percent in 2015 compared to 8 percent in 2014) and more frequently purchasing ancillary coverages (18 percent versus 11 percent respectively) over the same periods.²

Further, LIMRA recently released a study that validates the utility of other voluntary benefits in the expanded portfolio.³ Expanded services can promote seamless integration with other solutions such as HSAs and ancillary benefits functions (retirement, payroll, etc.). In effect, private exchanges' capacity to act as the "benefits hub" necessarily increases choice for employees and reduces complexity for employers.

This matters. Leavitt Partners recently conducted a national survey of 600 employers where 36 percent placed the greatest value of private exchanges in promoting expanded product choice. Further evidence is found in Bloom Health's success through facilitating between 6-10 health plan options for their clients. This strategy has been rewarded with 90 percent of employees strongly supporting the expanded options. Array Health's third annual Health Check Survey found that 47 percent of insurers now believe that ancillary products will position private exchanges as go-to platforms for all insurance and ancillary product needs.⁴ Also of note, Consumers Union recently published a report stating that increased choice for employees would materially raise consumer satisfaction.⁵

1 Kaiser, "EHBS Four Types of Plans Offered," May 2015

2 ConnectedHealth, "Employer Groups Using the ConnectedHealth private exchange platform 2014/2015"

3 Benefits Pro, "Employers Increasingly Adding Voluntary Benefits," Jan. 2015

4 Array Health, "Third Annual Health Check Survey," 2015

5 Consumers Union, "Too Much Choice," 2012

Expanded choice promotes increased employee engagement. An analysis of GlidePath, Blue Cross Blue Shield of Michigan's private health insurance exchange operated on the Bloom Health Private Exchange Platform®, showed a dramatic increase in awareness of health care costs. While only 38 percent of employees in general are aware of what employers pay for health benefits on their behalf, 94 percent of employees using GlidePath were aware of their employer's benefit contribution.⁶

88% of employees preferred choosing their own health benefits over having their employer decide for them

Liazon found that 88 percent of employees they surveyed in 2014 reported that they preferred choosing their own health benefits over having their employer decide for them. They also saw a 25 percent increase in employee engagement with their health care decisions from their second year on a Liazon-powered exchange compared to the first, showing longitudinal engagement growth.⁷

Increased choice, with appropriate variation, establishes the basis for a well-functioning market that enables consumers to drive carriers to develop consumer-centric solutions. Private exchanges are formidable in their ability to establish such markets, as our next proposition demonstrates.

RECONCILE TODAY'S E-CONSUMER EXPECTATIONS WITH THE COMPLEXITIES OF THE EMPLOYEE BENEFITS TRANSACTION

Consumers have become accustomed to highly personalized, data-driven e-commerce experiences. Amazon is the gold standard in matching consumer preferences to unique solutions. The market is replete with examples that advance a commensurate proposition.

The benefits market, complemented with expanded optionality through private exchanges, is ripe for the same technology and data-driven solutions. Accenture posits that 87 percent of consumers want sophisticated decision-support tools to help project personal expenses and select solutions that fit unique needs, while 58 percent of the same participants indicated these tools were important or critical in making a plan selection.⁸

Consumers are also comfortable using such tools. Connecture, whose exchange platforms are used by more than 20 million shoppers each year, found that 75 percent of the population is

comfortable providing information on doctors, prescriptions, and health investments in order to improve the online shopping experience and assist in picking the right plan.⁹

Approaches to bringing e-commerce to the health and ancillary benefits purchasing experience are wide and varied, but can be categorically distilled in the following ways:

Predictive Analytics

Several exchanges use predictive analytics to help consumers identify the best coverage based on self-reported age, gender, illnesses, medications, zip code, and doctors. These exchanges score available plan options based on an individual's anticipated needs and predicted utilization, and then displays them in a way to suggest optimal options based on financial outcome. This gives consumers access to powerful algorithms to match their personal information and data with existing insurance policy options.

Survey Methodology

Other exchanges provide consumers with predetermined questions that prompt them to input the requisite information needed to narrow plan selections based on financial preferences, specific benefits and risk tolerance. These questions are specifically designed to promote insurance literacy and facilitate consumers thinking more broadly about the role of insurance and the policy, or suite of policies, required to provide the desired level of coverage.

Recommendation Engines and Graphics

Many exchanges couple recommendation engines and advanced visual graphics to allow consumers to make various purchasing selections and immediately view the potential impact of those decisions, based on projected utilization across a variety of potential scenarios. These visuals are often accompanied by other tools designed to create personalized, tailored recommendations that guide consumers through the decision and purchase process.

Each of these approaches for assisting consumers in their benefits selection is inherently unique in its originality to consumers in this space. We believe these tools, while already highly useful, will continue to advance in their sophistication

6 BCBS MI, Oct. 2014

7 Plesh, "5 Hidden Benefits of Private Exchanges for Employee Engagement"

8 Accenture, "Growing Pains for Private Health Insurance Exchanges," June 2014

9 Connecture, "Consumer Shopping Survey," February 2015

and lead the way for public exchanges and online benefits administration systems, and even find their protocols mirrored through in-person sales interactions.

HASTEN THE CONFLUENCE OF MARKET REFORMS AND CONSUMERISM, DRIVING COMPETITION AND CATALYZING INDUSTRY INNOVATION

Our points thus far are primarily concerned with the promulgation of private exchanges promoting efficiency, choice, and selection. Indeed, as hallmarks of a wellfunctioning economy, these propositions will necessarily coalesce to drive product innovation in the marketplace. Such innovation can be catalyzed through benefit design, network, and unique value-based contracting.

Whether self-funded or fully insured, there will be everincreasing options to vary the core design of benefits in the years to come. Employers will increasingly differentiate options through promoting unique centers of excellence, incorporating tele-medicine, facilitating clinically oriented wellness programs, and establishing differences in cost sharing for core services and new specialty drugs. For reasons described above, private exchanges are the ideal platform for this variation in plan design.

Private exchanges are the ideal platform for this variation in plan design

Similarly, we are seeing the formation of networks intended to promote clinical integration and drive competitive fee schedules with certain provider partners. Whether labeled as “narrow,” “ultra-narrow,” “high-performing,” or otherwise, the core objective is to drive differentiation and innovation through unique access to the delivery system. We’ve seen a litany of co-branding between providers and health plans that underscore this activity, with a great example being Bloom Health’s promotion of an offering combining Medica’s (health plan) broad network PPO alongside select health systems’ ACO options in the greater Minneapolis-St. Paul market.

These unique network arrangements are a harbinger of the forthcoming innovation private exchanges can catalyze in unprecedented ways through value-based contracting. Payers are progressively diffusing risk to providers in the form of shared savings, performance payments, and/or capitated payment models.

As economic and clinical objectives between payers, providers, and stratified patient populations coalesce around aligned incentives, aggregating lives will be the penultimate differentiator. If this type of alignment indeed lowers the relative premium and delivers an enhanced core experience, participants will benefit from increased volume and market share.

There is already activity to suggest that this will be a prevailing trend. Aetna’s CEO Mark Bertolini announced plans to launch a private exchange that is “bolted onto the front of its ACO models.”¹⁰ Highmark Inc., through Array Health, has seen success by creating bundles of various medical and ancillary products targeted at different buyer profiles. Incremental activity will drive perpetual innovation with private exchanges facilitating the distinction between winners and losers.

The competition required to move market share amongst and between payers and their provider partners will ensure this innovation.

PRIVATE EXCHANGES WILL PROVE TO BE A FORMIDABLE SOLUTION

Employers have a value problem and they are demanding a solution from the market. They want streamlined administration, lower cost, expanded choice, higher employee recognition of employer investment in benefits, improved market efficiency, and innovation. In short, they want to meet their employees where they are with benefits options that will drive a world-class, healthy, productive workforce. The current composition of intermediaries cannot meet these demands on yesterday’s technology and workflows. We continue to believe private exchanges will be the economic and service resource that can fulfill employer value requirements, meaningfully engage consumers, and strongly contribute to the long-term viability of the employer-sponsored insurance market.

¹⁰ AISHealth, June 2014



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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.