

WHY BENEFITS EXCHANGES AND  
AMERICAN CONSUMERS ARE THE TRUE  
**DISRUPTORS IN HEALTH CARE**

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Health care consumerism – the notion that people are capable of demanding the health services they want, how and when they want them – is no longer just a trend; it’s becoming the norm. And, with the nation’s third open enrollment now behind us, the timing couldn’t be more advantageous. If any sector in the U.S. economy is ripe for change, it’s health insurance. The entire system is highly fragmented, confusing, and exceedingly expensive.

Health benefit exchanges – both public and private – have emerged in recent years as the latest expression of health care consumerism, making it easy for people to make an online selection of the benefits they want, based on their needs and preferences. Furthermore, as more consumers shop for insurance on their own, they are bringing a perspective from interactions in other facets of their lives, specifically retail.<sup>1</sup> In other words, health care consumerism is not a myth.

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But shopping for health insurance is more complex than shopping for common consumer items like shoes or airlines tickets. After all, consumers typically won’t wait in line to buy health insurance as they might for the latest Apple iPhone – at least, not with eager and giddy anticipation! At the same time, Americans face significant economic realities, including greater exposure to health care costs, concerns about having enough money to send their children to college, or having enough money to retire comfortably. Changing expectations, combined with sobering economic realities and a big dose of consumer-driven technology, make for a significant shift in the underlying dynamics of the health care market. And exchanges are positioned to lead the way.

## WHAT DOES A TYPICAL EXCHANGE LOOK LIKE?

Simply stated, an exchange is a secure, online marketplace for the sale of insurance products to consumers. In the American workforce, that might include full-time employees, part-timers, 1099 contract workers, and even former employees considering COBRA coverage. Exchanges usually offer a wide range of health plan options, along with decision-support tools to help health care consumers make smarter choices about their coverage. They may have dedicated support (online and via a call center), and they might even be integrated with an employer’s payroll systems. Usually, exchanges come in at least two flavors: those that support group-eligibles and those that offer individual insurance (think public exchanges, such as Healthcare.gov and Covered California). Many exchanges offer ancillary or voluntary coverage too, such as vision and dental insurance or financial products (for example, a Health Savings Account (HSA) that complements a high deductible plan). Then there are a handful of marketplaces that also serve both group-eligible health care consumers and non-group eligibles.

## HERE TO STAY? GROWTH OF THE EXCHANGE MARKET

There’s been much speculation in the media over the long-term viability of exchanges – both private and public. Yet, year after year, industry reports paint a robust and healthy trajectory for the exchange market. In 2015, approximately eight million individuals enrolled in a health plan through a private exchange, representing a 35% increase in enrollment from the previous year.<sup>2</sup> On the public sector side, although many of the state exchanges and co-ops struggled to find their footing, the public exchanges, and in particular Healthcare.gov (also known as the Federally Facilitated Marketplace or FFM), pulled in large enrollment numbers during the latest open enrollment period. We can expect more growth in the exchange market in 2016 and beyond as the ACA continues to unfold, new benefits technologies are deployed in the American workplace, and employers and health care consumers alike look for more efficient ways to manage rising costs.

## MORE CHOICE AND PERSONALIZATION

Private exchanges, in particular, provide more choice to health care consumers than the standard, more traditional benefits approach. Increasingly, companies are recognizing that a one-size-fits-all strategy is not ideal for diverse employee populations. This has become particularly evident as the Millennial generation (or Gen Y) continues to hold the largest share in the country's workforce with more than one in three American workers in 2015 falling into the 18-34 age range.<sup>3</sup> And that number is expected to grow considerably over the next few years. The coverage a young, healthy person needs is likely quite different than that needed by a middle-aged worker with a growing family and managing chronic conditions. And beyond differences in needs, private health insurance exchanges allow people to find plans that match personal preferences, such as risk tolerance or desired provider networks.

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At the same time, having more choice can feel burdensome to some consumers. There are two strategies that exchanges often employ to address this:

- Decision-support tools and guidance – A 2015 consumer survey by Chicago-based ConnectedHealth revealed that 50% of individual health insurance purchasers desired access to cost-comparison tools for health care shopping, and 42% wanted personalized recommendations based on their financial needs. Many private exchanges offer sophisticated decision-support tools in the form of cost comparison tools, recommendation engines, and consumer-friendly

guidance and online education. Similar to the shift from pension benefits to 401(k) retirement plans, the changing health insurance landscape is requiring consumers to start owning the health insurance decision, along with their own level of literacy around health insurance and financial terms, and taking on more of the responsibility for costs. That's a shift that isn't likely to reverse itself, and decision-support tools and guidance should help equip consumers to take on this responsibility.

- Choice set definition – Some employers choose to limit the set of plans available to employees, in an effort to aid decision-making. We've all heard about the pitfalls of decision-making under too much choice. A much-cited study by Sheena Iyengar illustrates this phenomenon well.<sup>4</sup> When shoppers were given an opportunity to sample either six or 24 varieties of jam, an interesting thing occurred: shoppers chose to sample more jams when there were 24 available, but they made significantly more actual purchases when they had sampled only six jams. The 24 jams, while fun to taste, ultimately created choice overload and produced decision paralysis. In the health insurance world, private exchanges have proven to be key in helping employers customize the universe of plans available, while making the overall decision-making process easier, more seamless and less overwhelming for consumers.

## BETTER ACCESS FOR ALL TYPES OF HEALTHCARE CONSUMERS

Private exchanges are uniquely positioned to help an employer's entire workforce (whether full-time, part-time, seasonal or contract) find coverage, as some exchanges can offer group and/or individual coverage options. A number of private exchanges also offer integration with the federal and state-based exchanges, allowing health care consumers to shop for qualified health plans with or without a government subsidy (tax credit). In addition, private exchanges enable employers to play whatever role they wish in subsidizing (or not) health insurance for their workforce through defined contributions, giving those health consumers more control over – and funding for – their benefit decisions.

## HELPING PEOPLE DRAW THE CONNECTION BETWEEN HEALTH AND FINANCIAL SECURITY

Perhaps the most exciting advantage private exchanges can offer health care consumers is helping them achieve better health and financial security through a more comprehensive approach to their benefits. Private exchanges can leverage consumer data and personalization technology to provide an array of complementary insurance products and other financial wellness programs designed to help consumers not only protect and improve their health, but also protect income and assets and save for the future. This is similar to an advisory role in the financial services industry, where the consumer works directly with their financial advisor to build a retirement portfolio over time. The same can hold true when someone looks holistically at their benefits portfolio and how they allocate dollars to certain coverage options throughout various stages of their lives. Having a child is a good example. A consumer may adjust their benefits portfolio and start allocating more dollars toward life insurance than they would have when they

didn't have children. The focus on the holistic approach will become increasingly important in 2016 and beyond, as worries over personal financial debt and retirement loom for many Americans. And since we now know people who save money (and not huge amounts) report a higher health status, the timing is optimal.<sup>5</sup>

## CONCLUSION

With health care costs and premiums on the rise and retail consumerism driving big change in a historically entrenched health care market, exchanges have an incredible opportunity to disrupt everything people know (and dislike) about buying health insurance and help them make sense of an industry that has been confusing and fragmented. Exchanges can do this by further integrating and enhancing their decision-support and personalization technology and deploying financial wellness tools into a more robust platform so consumers can make better, more tailored decisions for themselves and their families.

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