Do Private Exchanges Help or Hinder Self-Insured Plans?

Experts differ on definitional issues, value proposition by Bruce Shutan

One of the hottest topics for discussion in HR departments is about the private health insurance exchanges that began operating in January 2013 – a full year ahead of state-run public exchanges for individuals and small businesses mandated by the Affordable Care Act (ACA).

But there are differing perceptions about whether these arrangements can be offered on a self-insured basis and avoid the added costs and administrative issues associated with fully insured plans, with the focus clearly on semantics.

Paul Fronstin, director of the Employee Benefit Research Institute's Health Research and Education Program in Washington, D.C., believes the word "exchange" is being used too loosely to describe what these private services offer.

"They are not grouping employers together in one marketplace," he explains. "All they are doing is increasing the number of plans, increasing transparency and changing the financing model to be a fixed or defined contribution."

Self-funded plans on a private exchange are subject to the same regulatory framework under the Employee Retirement Income Security Act (ERISA) as self-funded plans that are not part of an exchange.

Benjamin Pajak, a Stamford, Conn.-based Senior Vice President of Strategy and Business Development for Towers Watson's Exchange Solutions business unit, opines that "the definition of exchanges is probably one of the most of the butchered in the marketplace today because it can mean so many different things."

In fact, one of the industry's leading private exchanges actually uses the term "marketplace" rather than "exchange."

An "exchange" is sometimes also referred to as an "organized marketplace," adds Michael Thompson, the New York metro-area health care practice leader for PricewaterhouseCoopers Human Resource Services group.

He describes most private exchanges as "an extension of the outsourcing framework, where the outsourcing goes beyond administration to include a plug-and-play marketplace." When employers participate in a private exchange, Thompson notes that they are "ceding control to a third party who is going to offer best-of-breed [solutions]" and become the plan's steward.

As part of that managerial commitment, the exchange's operator would assume various administrative responsibilities for the self-insured plan, according to George Pantos, the Self-Insurance Institute of America's former chief counsel who is now Executive Director of the Healthcare Performance Management Institute.

Therein lies the rub for critics, who cry *caveat emptor.* Richard D. Quinn, III, a health care blogger who worked as a corporate benefits executive for 46 years at Public Service Enterprise Group in Newark, N.J., dismisses private exchanges as "a money making scheme for consultants" that transfers risk and cost accountability away from self-insured plan sponsors.

However, risk will not be shared under private exchanges and claims will continue to be paid by self-insured employers as they are in traditional channels. "Self-insured MEWAs are frowned upon," adds George Katsoudas, Division Senior Vice President, Compliance Counsel for Gallagher Benefit Services, Inc. in Itasca, Ill., whose parent company offers a private exchange "New Jersey may be a state where this can happen, but restrictions still apply."

Up and running

There's no confusion about Aon Hewitt's private exchange, which is offered strictly on a fully insured basis – serving about 100,000 employees of Sears and Darden Restaurants in the U.S., as well as Aon employees. Several other operators, including Towers Watson, Mercer, Buck Consultants and the employee benefit consulting arm of Arthur J. Gallagher & Co., say their respective models can be offered on either a fully insured or self-insured basis.

Towers Watson and Mercer will offer multicarrier exchanges, although details are still emerging, while Aon Hewitt offers nine unique carriers that include five medical, three dental and two vision vendors. Buck's RightOpt exchange has two employer clients whose identity it would not disclose and plans to enroll about 125,000 employees from those organizations in the fall.

"When you have multiple carriers," Fronstin says, "that is more of an exchange than a single-carrier model. But you could offer multiple carriers on a self-insured basis because all they are doing is being a TPA at that point and the employer is assuming the risk."

Pajak says the opportunity to stay self-insured within a private exchange helps avoid the frictional cost of moving to a fully insured arrangement, which typically involves anywhere from a 2% to 4% increase in plan premiums.

"One of the key opportunities we see for the plan sponsor is an improved efficiency," Pajak says, as well as unlock value that may not be accessible through their traditional model. "The self-insured private exchange allows employers to leverage the high performance benchmarks, proven tools and plan designs that we have been able to monitor at Towers Watson over the course of the last decade in helping large organizations manage their health care benefits."

An ability to court self-insured clients is a key objective of the Mercer

Marketplace exchange featuring cloud-based technology developed by Benefitfocus, according to Steve Kreuger, a Morristown, N.J., partner and exchange solutions leader for Mercer.

"We are very pleased with the level of interest from clients and prospects across all industry types," he reports. "There is a tremendous amount of interest in not only trying to reduce costs, but also to provide more flexible choice to employees."

Mercer Marketplace, which will be available for the fall enrollment season for plans that take effect on January 1, 2014, will feature five standard medical plan designs across the spectrum of price points that range in actuarial value. Roughly 56% of employers that Mercer surveyed indicated they were interested in considering a private exchange for 2014.

Key objectives include reducing costs, simplifying administration and providing a one-stop shopping environment. The service also seeks to help empower employees through a wide range of plan choices as well as decision-support and educational tools that allow them to build a personalized portfolio that best meets their individual or family needs. Mercer Marketplace is scalable down to groups with as few as 100 employees from as many as more than 100,000.

Fuel for consumerism?

One of the stronger arguments supporting private exchanges is that they can potentially accelerate consumerism by letting employees choose between higher and lower cost plans. In this scenario, Thompson says "people will often buy down on their own and make tough choices rather than the employer being the bad guy."

This thinking resonates even more clearly for employers that truly believe the marketplace is moving toward a pre-packaged set of high-deductible health plans. His sense is that the ACA helps give private exchanges some legs because of the bronze, silver, gold and platinum plan and model, as well as role of multi-carriers.

Thompson says private exchanges are already very popular for retirees for several reasons.

Chief among them: Employers have largely capped their liability for retirees, for whom there's a national glut in more consumer-oriented medical and prescription drug plans that serve this market segment well.

But their value proposition isn't so clear cut for actives. "The private exchanges for active employees are very diverse at this point and the economics can be complex," he explains. "Employers will need to evaluate the details carefully of each offering."

Pantos believes the private exchange offers "an interesting option" for employers that are concerned only about cost, moving from a risk-based to a price-based model that would use standardized benefits and a defined contribution approach to cap costs.

"However," he hastens to add, "in most cases self-insurance isn't selected just because of cost. There are many other factors that enter into the self-insurance value proposition, which is that employers have control over the plan and flexibility to offer customized benefits tailored to their specific workforce needs. They also have a closer connection with the employee, which builds loyalty and retention."

While employees may have more benefit choices in a private exchange, Pantos says the downside is that added administrative expense for exchange operators will erode funds that could go toward employee benefits. "In reality," he adds, "both public and private exchanges will create a new competitive battlefield for brokers and TPAs who now provide most of the services to be offered via exchanges."

The operators of private exchanges in effect will be offering self-insured employers an administrative-services-only type arrangement. Kreuger notes that self-insured plans in the Mercer Marketplace will receive administrative services, as well as access to a network of health care provider that will be made available to members.

Gaining traction

Beyond the argument over whether private exchanges will help or hinder self-insured plans, one thing is clear: Fully insured plans face an uphill battle from a regulatory standpoint.

For example, Thompson says they not only cost 5% to 7% more than self-insured arrangements, but that the ACA imposes various new taxes on health insurers that will widen this cost differential to 7% to 9%.

He explains that health care reform establishes a baseline "floor" for what type of coverage can be offered, while Cadillac plan taxes place a "ceiling" on such offerings. "The degree of freedom in terms of designing your own plan is being restricted over time," he says.

Fronstin believes it will take time for private exchanges to have any meaningful traction in the marketplace much like the managed care and consumer-driven health plan (CDHPs) movements – the latter involving only about 20% of the working population, despite being around for more than a decade. "None of these trends happened overnight," he says, noting their evolutionary change. "They start with a few early adopters that are willing to go out on a limb and try something untested, with a lot of employers that are interested, but sitting on the sidelines."

Fronstin reports that he has spoken about private exchanges to employers in Dallas, with future stops slated for Chicago, San Francisco, St. Louis and Boca Raton, Fla. "There is a lot of interest in it," he says, especially with employers increasingly eager to pursue more aggressive action on taming health care costs.

Based on this early level of interest, as much as 25% of employer-sponsored coverage could be available through private exchanges in just a few short years, Eric Grossman, Senior Partner in Mercer's health and benefits business, recently predicted.

Any such success, no doubt, must be tied to careful communication, which has been a missing ingredient with CDHPs. Sherri Bockhorst, a Principal with the Buck Consultants Health Insurance Exchange, suggested at a Midwest Business Group on Health gathering that private exchanges be simple and accommodating. "We have employees who don't understand the difference between 'co-pay' and 'co-insurance,' so offering five different plans from six different carriers we don't think actually helps meet the needs of employees," she told the group.

Confusion also may reign among self-insured employers about whether they would relinquish control over their health plans by participating in a private exchange.

Kreuger says it was "definitely a conscious decision" for Mercer to describe its private exchange as a "marketplace." The thinking was to reflect a desire for consumer-oriented experiences in the vein of Amazon.com and other well-known online shopping brands. ■

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