

# Re-Visiting **PRIVATE EXCHANGES**

As nascent market grows, questions arise about its value proposition for self-insured employers and oversight prospects

by Bruce Shutan



With the much-ballyhooed, first-ever open enrollment in public health insurance exchanges (HIX) now a part of history, there has been renewed attention devoted to private versions of this emerging online marketplace with a wide range of views from industry experts.

Both delivery models were built to ease consumer comparisons of health insurance plans through a sophisticated online platform that enables them to make wiser purchasing decisions. They also seek to widen access to health insurance – a major objective of the Affordable Care Act (ACA) – and control costs more aggressively than traditional methods for employers of all sizes, but the comparisons end there.

A legion of consultants, brokers, high-tech companies in the HR and benefits space and large insurance company owned ASO operations, and some stop-loss carriers have adopted a bullish view of private exchanges, or as proponents prefer to call them, “online marketplaces.”

Skeptics include self-insured employers that are leery of handing over too much control over their plans to a third party, particularly if they're also a benefits adviser, as well as independent TPAs, whose best-in-class service provider approach is being threatened by ASOs that are using bundled service offerings to lure in private HIX customers.

While private exchanges may not be a magic bullet, they certainly have the potential to help preserve the employer-provided health insurance system. Ezekiel Emanuel, a physician and key ACA architect, recently predicted that private-sector workers who receive health care from employers will fall below 20% by 2025 from the current 60%.

Private exchanges are now seen by many as complimentary to self-insurance. In fact, all the major industry players among HR and benefit consulting firms with a foothold in the market offer self-insured options except for Aon Hewitt, whose value proposition is tied to a fully insured solution only with a multi-carrier platform and standardized plan design that it believes to be more efficient than self-insurance.

“Employers can pretty much do anything on their own that a private exchange can do,” explains Barbara Gniewek, a principal in the health care practice of PricewaterhouseCoopers, which last year launched the Private Exchange Evaluation Collaborative (PEEC) in conjunction with the Employers Health Coalition, Midwest Business Group on Health, Northeast Business Group on Health and Pacific Business Group on Health.

### **Turbo-charging self-insurance?**

But private exchanges may enjoy a competitive leg up relative to a single self-insured entity in a number of areas, she hastens to add. To wit: deeper expertise, more sophisticated decision-support tools offered on an automated platform that simplifies the shopping experience and raises the bar on employee wellness. One obvious area among the better-known HIX operators involves bundled service solutions that can accelerate and support the goal of achieving true health care consumerism as part of a defined contribution approach.

Vanessa Scott, a partner with Sutherland Asbill & Brennan and author of an extensive white paper on private exchanges, noticed that private exchanges with self-insured products were seen toward the end of last year as “more of a stalking

## **How a Private HIX Helps...**

- Deeper consulting expertise
- More sophisticated decision-support tools
- Bundled service solutions
- Savings tied to higher volume
- More robust benefit choices
- Greater cost transparency
- Promotes member accountability and engagement
- Best practice care coordination
- Emphasizes condition management and wellness initiatives
- Proactive pharmacy benefit management
- Optimizes network contracting arrangements

horse” for fully insured arrangements. Since that time, however, she says consultants have come to the realization that employers with self-insured plans “are willing to hold on to those plans for dear life.”

Adds James Kinder, SIA's former chief executive: “How this will ultimately fit within the self-insurance model is yet to be seen. However, it is clear to me, what is being considered is simply another form of alternative-risk financing and that is exactly what self-insurance is. Thus, I am hoping the self-insurance community will, as they have in the past, use their creative thinking power to make private exchanges work to their benefit.”



## Growing marketplace

Several published reports within the past year have suggested that the number of private HIX totals anywhere from 100 to 150 different choices, but that estimate could be wildly inflated.

“There are a lot of ben-admin platforms that are out there calling themselves exchanges,” notes Rick Strater, division vice president and national exchange practice leader for Gallagher Benefit Services, Inc., which has a private HIX partnership with Liazon Corp.

In whittling down that figure, which he believes is probably closer to a few dozen, many of these benefits administration platforms may appear solid, but without a broad enough inventory or reporting capabilities. Other concerns could be that carrier links may be devoid of an established portfolio or strong

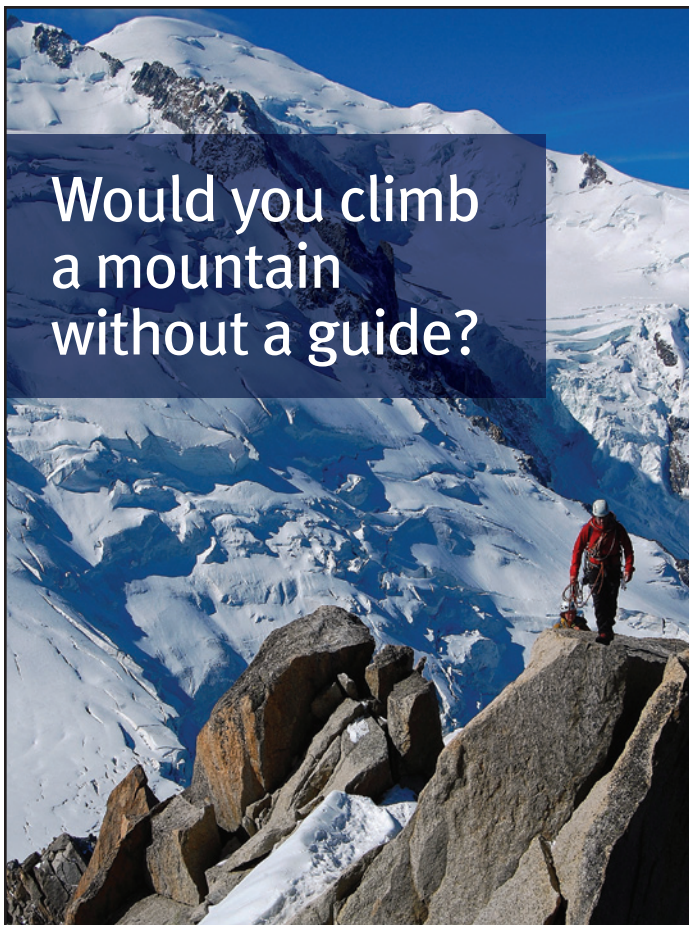
decision support, which he describes as “a huge differentiator.”

In fact, just 30 names are listed in an alphabetical directory of private exchanges in “AIS’s Health Insurance Exchange Directory and Factbook,” whose 604-page first edition was published in 2013 by Atlantic Information Services, Inc. (see accompanying list). A slightly more expansive accounting of 41 private HIXs from mcol and HealthQuest Publishers appears in “The Health Insurance Exchange Directory 2013,” which includes an “exchange platform” category for software and operating systems contracted by exchanges to power the exchanges (some of them public).

Whatever the case may be about the number of true exchanges, benefits selection is more robust under the private than public model, with options including a suite of ancillary plans and wellness services offered on an

employee-pay-all voluntary basis. The centerpiece of a private HIX is a defined contribution approach to health care that earmarks a yearly dollar amount to help plan participants budget for out-of-pocket costs and make those benefit obligations more predictable for plan sponsors. Some of these exchanges have been around for as many as 10 years serving retiree populations, developing a mature product offering and loyal following among sophisticated corporate buyers.

A growing body of research and media reports have painted a bullish outlook – the latest being a Moody’s Investor Services analysis predicting that private HIX enrollment could reach tens of millions of active employees by the end of the decade. In addition, a PEEC survey found that 45% of employers have already taken this approach for full-time active employees or plan on doing so before 2018.



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## Skeptical outlook

But greater marketplace traction still could be a long way off. Representatives from two blue-chip companies voiced deep skepticism about private HIXs for active employee populations at a recent panel discussion hosted by America's Health Insurance Plans. They included Scott Kovaloski, manager of health and welfare benefits consulting at Alcoa Inc., who was unimpressed with a 1.5% estimated savings figure that one leading operator had forecast, and Mary Bradley, director of health care planning for Pitney Bowes, who questioned the long-term value of a private exchange.

Caution appears to be shaping the perception of other large employers. Pacific Resources Benefits Advisors LLC, for example, recently found that big business is evenly divided not only about whether they planned to embrace a private exchange for their active employees, but also on the issue of it being a viable option for their group benefit plans.

One area of concern about private HIXs is a perceived conflict of interest. The PEEC, whose raison d'être is to offer credible and unbiased information that helps employers assess the value of private exchanges, found that 69% of 723 employers it surveyed were uneasy with the notion of benefit advisers touting their own exchange to clients or prospects.

Self-insured employers "need to be responsible about doing a thorough investigation and validation of what anybody is saying," says Scott Rabin, general manager for private health exchange solutions at Buck Consultant, whose RightOpt is a leading private HIX operator.

There also are legal considerations that need to be addressed when deciding whether to sign up with a

private HIX operator. "I'm always worried about the fiduciary relationships going on in the back," Scott cautions. "If you've got an arrangement with a consulting company that's making decisions about who is going to be providing services to plan participants through an ERISA plan, I just don't know how there's not a fiduciary relationship there."

But the issue has sparked confusion. For example, slightly more than half the employers PEEC surveyed thought it was important for a private HIX operator to accept ERISA fiduciary responsibilities when, in fact, they cannot escape their own legal obligations under the law.

## Stop loss to the rescue?

Jerry Castelloe, who runs the Charlotte, N.C., office of CoreSource, Inc., a Trustmark Company TPA, and chairs SIA's political action committee board of

	Aon Hewitt	Buck Consultants	Mercer	Extend Health (TW)
<b>Product Name, Website</b>	Aon Hewitt Corporate Health Exchange Aonhewittcorporatehealthexchange.com	RightOpt Buckconsultants.com/rightopt	Mercer Marketplace Mercermarketplace.com	OneExchange Oneexchange.com
<b>Senior Practice Leader</b>	Maureen Scholl, CEO Outsourcing	Sherrri Bockhorst, National Practice Leader	Eric Grossman, Senior Partner	Ban Pajak, Senior Vice President
<b>Administrator, Main Location</b>	Aon Hewitt, Lincolnshire, IL	Client choice or Xerox's integrated administration system	Mercer, Urbandale, IA	Towers Watson, New York, NY
<b>Earliest Effective Date</b>	January 1, 2013	January 1, 2014	January 1, 2014	January 1, 2014
<b>Current Lives Covered</b>	600,000	400,000	25,000+	None, launching January 1, 2014
<b>Target Business Size</b>	5,000+	3,000+	100+	1,000+
<b>Funding Mechanism</b>	Fully-insured	Fully or Self-Insured	Fully or Self-Insured	Self-Insured
<b>Minimum or Maximum Number of Carriers in a Region</b>	Maximum of five	One PPO per region with a narrow network/high performance plan when available.	A set of carriers is available in each region. Employers are able to choose up to three depending on their size.	Minimum of three
<b>Employer or Employee Choice of Carrier</b>	Employee	Neither, Buck selects carriers.	Both	Employee
<b>Are Employers Required to Use a Defined Contribution</b>	Yes	No	No	No
<b>How Many Levels of Benefit Offerings Will be Offered Per Plan</b>	Five benefit levels (Bronze, Bronze+, Silver, Gold and Platinum). Employers must offer three, including Silver and Gold.	Employer selection from a portfolio of seven designs.	Five Benefit Levels	Four Benefit Levels
<b>Ancillary or Voluntary Benefits Available</b>	Not at this time	Yes	Yes	Yes
<b>Can Employers Customize Their Plan Design</b>	Yes. Three actuarially equivalent silver plans are offered, ranging from a CDHP to a PPO.	Limited customization is available.	Limited customization is available on medical plans.	No
<b>Are Product Offerings Standard Across Carriers</b>	Yes	Yes	Yes	Yes
<b>How Will Carriers Differentiate Themselves</b>	Price, Customer Service, Network	Periodic evaluation by Buck to measure network quality, breadth, price, performance and financial guarantees.	Price, Networks, Value-Added Programs, Customer Service	Networks, Value-Added Programs, Consumer Engagement
<b>Accommodation of Illness Burden Differences Across Carriers or Employers</b>	"Standardization and participation rules structure the Exchange to minimize and manage adverse selection. Specific risk adjustment methodologies across plans are actuarially derived and proprietary."	"Due to the preferred partner strategy adjustment for illness burden is not required."	"We are structuring the exchange to not require adjustments across carriers or employers to accommodate differences in the illness burden of the population."	"A self-insured base means carriers will not be at risk for the illness burden of an employer's population."
<b>Exchange Offers Online Consumer Support and Educational Tools</b>	Yes	Yes	Yes	Yes

trustees, considers private exchanges a potential threat to self-insurance.

His sense is that the consultant-based model has focused on fully insured options that take a defined contribution approach to health care, which if marketed effectively enough could lure some employers away from self-insured solutions. He says the key to combating any such trend will hinge on the willingness of more stop-loss carriers to underwrite in a private HIX environment so that there are enough meaningful risk-transfer options for self-funded employers.

"It seems like there's an awful lot of buzz on something that isn't particularly new," observes Brooks Goodison, president and principal partner at Diversified Group Brokerage, a TPA whose client base averages 100 to 250 covered lives.

His general critique of the emerging HIX model is there's no need to reinvent the wheel on a vibrant private marketplace that has already been around for years, while the push for greater freedom of choice through more Web-based options simply recycles an old idea (i.e., Section 125 cafeteria or flexible benefit plans).

However, Goodison's biggest bone of contention is that private exchanges do not reduce runaway health care costs or the root of that problem in any substantive way. All it does is adjust "what the employer is going to pay and cost-shift it on unsuspecting plan members," he says.

While private exchanges feature multiple employers, they do not share in the risk. However, they may be able to reap administrative or medical savings associated with serving a higher volume of customers or broader provider network. "The more people they have in the exchange, the better discounts they're getting in their ACOs, or they're leveraging better PBM contract rates, etc.," Gniewek explains.

"In some sense," observes Paul Fronstin, director of the Employee Benefit Research Institute's Health Research and Education Program, self-insured employers that decide on a private HIX solution "are losing economies of scale because they're not being pooled with other employers. They're still their own pool, and to the degree they bring in multiple networks or carriers that are TPAs, they're spreading people across them rather than pooling them with one TPA."

And while the value of this new approach is still untested, he believes self-insured entities that sign on with a private HIX would have an advantage in expanding benefit choices for employees, providing more cost transparency and encouraging employees to choose their plans more wisely.

"It's a way to potentially steer people to lower cost options without taking away the higher cost options, which may help your bottom line, whether those lower cost options are consumer-driven health plans or narrower networks," according to Fronstin.

## Deepening best practices

The private HIX model has evolved to a point where the focus increasingly is on "member accountability and engagement, best practice care coordination, condition management and wellness initiatives, top-notch pharmacy benefit management, and optimal use of current and emerging network contracting arrangements," according to a Towers Watson bulletin. The HR and benefits consulting firm, which offers one of the industry's leading private exchange solutions, noted that these objectives are what self-insured employers have come to expect.

A private HIX platform can help leverage large group purchasing, as well as deployment of tools or pricing as it relates to pure administrative fees to manage the multiple vendors that come together to create those exchanges, according to Rabin.

Many employer clients have sought to maximize their employee health engagement solutions and build a data warehouse to be more evidence-based in the way they approach benefits. "Wrapping this all up in an exchange platform, we are allowing those employers access to this at a much lower cost than they could ever achieve on their own," he explains. "Even when they're fairly large, when you start to look at the kind of companies that are coming to private exchanges, they're never as large on their own as they are participating in the exchange."

Private HIX operators need to be "completely aligned with that employer who still wants to own the strategic piece of their health benefit plans," Rabin

## How a Private HIX Hinders...

Conservative estimated savings

Conflict of interest among benefit advisers

Questionable long-term value

Confusion about shared ERISA fiduciary responsibilities

Risk isn't pooled with other employers

Focus on fully insured options in consultant-based model

Doesn't address the root of employers' problems, which is reducing the high cost of care

Standardized plans with high out-pocket-maximums pose moral hazard

Savvy marketing of essentially an old idea with little value

A revenue-generating vehicle to simply sell ancillary or voluntary benefits. Technology emphasized at the expense of human contact



explains, which may include “a lift and shift of some of the administrative burden” in the face of dwindling HR staffs that make managing complex benefit plans a challenge.

Some of the bigger HR and benefit consulting exchanges feature a multi-carrier platform but without all the top insurers, while some of the broker models favor a strong single carrier in certain locations, but also offer a multi-carrier option, Gniewek says. Whichever approach is chosen depends on the specific needs of each employer. She adds that large health insurance carriers, such as UnitedHealthcare, Aetna, Cigna and Blues plans, also are creating their own private exchanges with an emphasis on high performing networks, which tend to be narrower and have more cost controls built in. Some insurers are even pondering a multi-carrier offering.

PEEC has devoted a great deal of time to helping differentiate the exchanges in terms of their financing mechanism (i.e. fully insured or self-insured), decision support, partnerships and product offerings. The group is creating a comprehensive tool that will query a database being built for the request-for-information process, enabling coalition members to select the right private HIX based on their own unique needs and desires.

Establishing a defined contribution approach under a private HIX enables self-insured employers to cap any exposure to health benefit costs just as aggregate stop-loss coverage or other tools, Strater explains. “CFOs are suddenly realizing that they can control the cost on a much more consistent basis with far greater certainty” by taking this tack, he says. From an actuarial standpoint, he says “it’s incredibly important that we ensure that those plans are properly priced for the assumed exposure and risk.”

### **An investment in people**

But self-insured plan sponsors also must manage their expectations about the DC budget they create and the degree to which it will significantly reduce costs, at least in the first few years of the arrangement. His point is factoring in the strategic costs associated with attracting and retaining top talent. In other words, it’s critical to know that any perceived growth factor is in line with total compensation.

A university client of Strater recently voiced concern about losing valuable professors who represent intellectual capital. The trick is to avoid what he calls “a draconian cut” in the health care spend and tailor the benefits to meet specific corporate objectives.

While a DC budget can be created without a private HIX, Strater believes this model promotes a deeper level of decision support and more robust menu of plan choices that will help self-insured plans avoid simply shifting the risk onto employees. He says what happens is that employees become much more engaged in the process and satisfaction increases because the benefits portfolio feels more like their own rather than their employer’s.

### **Power of partnerships**

While private exchanges are now touting their self-insured products and downplaying their fully insured products, Scott says it’s still unknown whether they will cajole enough employers “away from a traditional, individual employer TPA sort of self-insured arrangement.”

Regional TPAs typically are not involved in the jumbo national market of large or multistate employers, Rabin observes. While believing there’s still a very viable private HIX market for small and midsize groups, he expects “a much lower percentage of those employers are self-funded, which would drive the participation of those local or regional TPAs.”

In a white paper for the HR Policy Association, Scott described several



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## Who Are the Main Players?

consultant-sponsored exchanges as catering to the large group market, while small and midmarket solutions are run by insurers, business associations such as NFP and CBIA Health Connections and online entities such as eHealthInsurance and ConnectedHealth. Fronstin adds that smaller employers are more likely to embrace a single-carrier private HIX, citing HealthPass, Liazon and Bloom Health as examples that of operations that have been in existence for years.

Business opportunities for service providers in the self-insured arena could hinge on previous associations or partnerships. "If I am the exchange platform provider, I'm going to want to sell the employer my proprietary products," Scott says. "If I want to use my brokers, I'm going to want to use a stop-loss insurer that I have some sort of arrangement with so that I can get the best rates for the employers who participate."

Independent brokers or stop-loss insurers that have developed an alliance with a private exchange carrier will have a chance to "capture a very distinct segment of the market in a way that they wouldn't have had access before," she notes.

### Pondering federal oversight

An expected flurry of activity within this new health care arena could very well capture the attention of regulators at some point. If the federal government decides to regulate the private HIX model down the road, Fronstin says Uncle Sam will need to hold up a mirror in the process. He points out that the Office of Personnel Management's Federal Employees Health Benefits Program is in effect the nation's largest private exchange with the widest selection of health insurance plans, covering some 9 million employees, dependents and retirees. Any such intrusion more than likely would be issued in the form of guidance "much like happened with Health Reimbursement Arrangements in 2002," he predicts.

One reason there's no oversight of private exchanges is that they could mean something different from vendor to vendor. "You've got to be able to define what you're regulating," says Scott, who adds that not enough time has passed to report any substantive market abuses. "They don't have a regulatory baseline right now because we don't know what every single private exchange is going to have in common yet."

The private HIX market is moving almost at the speed of light, Scott observes, noting how the product offerings are changing from one month to the next amid a cycle of innovation, which would render any regulation obsolete.

At a time when employee benefit advisers have fretted about receiving marginalized compensation with fully insured carriers subject to medical loss ratio requirements that funnel most of their money back into patient care, Goodison sees private exchanges as a revenue-generating scheme.

"A lot of these private exchanges from what I can tell are really more of a vehicle to sell members more things like more life, disability, vision and dental insurance," as well as supplemental medical or mini-med plans, he adds. While having access to an expanded voluntary product suite may seem like a good idea, Goodison cautions that it still won't move the needle on health care costs that are spiraling out of control.

He also sees a "moral hazard" associated with most people purchasing standardized, metal-plated benefit packages featuring high out-pocket-maximums in an online marketplace that places decision-support tools over human contact. ■

*Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 26 years.*

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