OFF THE
RADAR

Private exchanges, once touted as the future of benefits delivery, are said to be quietly growing and evolving amid skepticism about their value proposition and high fees

Written By Bruce Shutan

When private health insurance exchanges first worked their way into a steady stream of headlines, they were heralded as a proven solution for retirees that would revolutionize benefits delivery for active employee populations. Then those proclamations virtually disappeared.

"It just feels like private exchanges have fallen off the radar," says Paul Fronstin, Ph.D., director of the Employee Benefit Research Institute's Health Research and Education Program.

He quips about all the frequent-flyer miles earned from presentations on the approach as late as 2015. But at some point, he stopped tracking enrollment, which industry observers tell him is growing slowly.

The trouble with calculating an exact number of enrollees, including those in self-insured vs. fully insured arrangements, is that it's no longer possible to find private exchange turnover and growth buried in vendor's quarterly financial statements, according to Barbara Gniewek, a principal in the health care practice of PwC, which launched the Private Exchange Evaluation Collaborative in 2013. While a change in leadership at two of the PEEC's business-group collaborators has stunted the group's progress, she says quarterly meetings are still held.

From revolution to evolution

In early 2014, Fronstin recalls making a projection about private exchange enrollment by 2018 that was as radical as Accenture's bold 40 million mark – in the opposite direction. His was simply a modest 8 million to 10 million, which turned out to be spot on to what researchers generally believe it is today.

The analogy he's fond of making is that private exchanges would take off like an airplane, not the space shuttle, much like health savings accounts, which are penetrating only about 30% of the marketplace nearly 15 years after they were introduced.

The irony, according to several knowledgeable sources, is that the public relations fallout associated with public exchanges rolled out in 2014 under the Affordable Care Act affected the perception of *private* exchanges and, presumably, interest in this model. That drove some of the largest players to scrap or never even use the term "exchange," which became a loaded word with negative connotations.

Consider, for example, the Mercer Marketplace and Conduent, which used to be RightOpt when it was owned by Buck Consultants, a Xerox company, as well as Willis Towers Watson rebranding its OneExchange product Via Benefits. These exchanges, along with the Aon Active Health Exchange, are considered the benefit consulting industry's "big four" players.

But the fact is that private exchanges not only preceded the public ones by about a decade for retiree populations and a year for active employees, but also were lauded for their efficient delivery, solid technology and expanded suite of core and ancillary benefits beyond major medical coverage. Sears and Darden Restaurants were early adopters in 2013.

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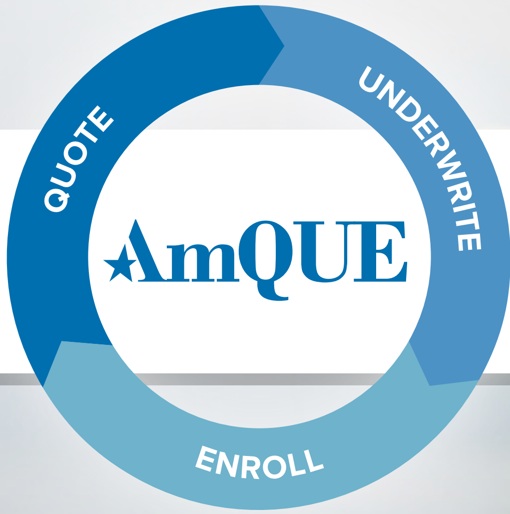

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A better mousetrap?

Despite falling short of sky-high expectations for enrollment, employee satisfaction with private exchanges has been between 80% and 90% over the past decade, says Alan Cohen, who co-founded Liazon, a leading private benefit exchange since acquired by Willis Towers Watson. He recently published a book entitled, "Employee Benefits and the New Health Care Landscape: How Private Exchanges Are Bringing Choice and Consumerism to America's Workforce" (Pearson; $29.99).

Evidence of their worth and value proposition has been mounting over several years. John Caldarella, SVP and national practice leader with the Aon Active Health Exchange, cites "strong proof points" that private exchanges drive competition, control cost, improve customer satisfaction and unlock innovation.

He considers private exchanges *"a very efficient delivery system to help manage the complexity of local purchasing, and provide a flexible benefits platform to help employees make better decisions and engage better in the consumerism that is so important for their health care."*

How Aon opened the door to self-insurance

Four years ago, employers that wanted to sign up for Aon's private exchange for active employee populations had to be fully insured while competitors already opened the door to self-insured customers.

"What we learned is for many that was a leap too far," says John Caldarella, SVP and national practice leader with the Aon Active Health Exchange, noting the adoption of a more flexible policy on how plans are funded to accommodate each employer's unique journey. "You have to listen and adapt."

Aon's private exchange formally adopted an "agnostic" view of self-insured vs. fully insured for the 2018 health plan selling season. But there were "trickles along the way," he says, including a fully insured client that switched to self-insured in 2014.

Still, Caldarella says five solid years of examining the data and rates associated with Aon's private exchange for active employee populations show that a panel of carriers competes more intensely in every geographic region and metallic level on a fully-insured, rather than self-funded, basis. "The spreads are wider," he reports.

Aon is working feverishly "to replicate what we've done on fully insured to self-insured" plans, Caldarella adds without revealing any details on how to unlock that potential. "I'm very excited about the future, but it's going to be less about being a shiny thing and more about being an effective way to manage the [health benefits] program."

Organizations with a broad geographic footprint need to maximize their local health care efficiencies in an era where the differentiation is finer, Caldarella says. This means moving far beyond a one or two-carrier solution, especially the more diverse a workforce gets in terms of age group and income. So it's all about customizing benefit choices and spending company funds in a way that best fits each employee and dependent's needs, he adds.

A multi-carrier approach that raises the level of competition is "the utopia of a private exchange," according to one industry insider who says this is especially true in a fully insured context, whereas self-funded companies are underwriting their own health plans. He adds that multi-plan offerings thrive, regardless of the financing mechanism, because they expand employee choice.

Aon's most recent consumer-driven health plan survey shows that nearly 80% of employers offer three or more health benefit plans. Caldarella says this lends itself to having more of a standardized gold, silver and bronze offering wherein employers aren't preoccupied with tweaking out-of-pocket costs.

A lukewarm reception

Third-party administrators that enroll plan participants and adjudicate claims, as well as offer a decision support system and education tools on an electronic platform, are "likely candidates to provide private exchange-like offerings to self-insured employers," the insider says.

Gniewek surmises that most exchanges, which some very bullish estimates pegged at as many as 150, offer a self-insured platform on the active employee side. She also says some benefit brokers are pushing exchanges downstream to below 100 lives.

However, fully insured employers are more likely to partner with a private exchange than those that self-insure because they'd rather not "take on the responsibility for better managing the cost of health insurance year-over-year," the insider says. That decision is largely driven by demographic factors such as high turnover of employees who don't value their benefits, he adds.

Self-insured employers may have shied away from private exchanges for several reasons, according to several sources. One is a willingness to allocate resources to their HR function vs. an exchange to ensure employees are healthy and spending less so they can better manage their annual health care spend. Another is that private exchange fees were, and continue to be, on the higher side, while the insider says some self-funded plans "didn't see as much savings from a utilization perspective" that were anticipated partnering with an exchange.

The insider believes more self-insured employers would be willing to adopt a private exchange if given an opportunity to pick and choose what type of features they want and set a reasonable price point that makes sense for both parties.

Many self-insured employers use the tools that a private exchange offers, such as decision support, and are drawn to what he describes as the ***"easily communicated, superior consumer shopping experience"*** this model offers.

Another potential selling point for exchanges is if self-insured employers adopt a defined contribution strategy and increase that contribution level by a specified percentage each year, the insider explains. He says wiser plan choices and utilization will reduce the amount of money from a self-insured trust dedicated to paying claims. In addition, he notes that a private exchange algorithm could help determine what type of ancillary product would be best suited to an individual to help fill coverage gaps before a high annual deductible is met.

Defying the critics

One common criticism of private exchanges is that they "haven't shown enough new stuff to keep people interested," Gniewek notes, though refuting the claim. In fact, she says they continue to enhance platforms, develop apps, expand benefit voluntary offerings, streamline decision support and provide transparency in the clinical realm.

It's also worth noting that the use of technology and flexibility in delivering health benefits, along with personalization and choice, have become increasingly important to most employers as millennials take over the workforce, according to Gniewek. The same can be said about using technology to aggregate benefit programs and create a hub for employees. These elements are clearly the building blocks of an exchange.

She sees a trend afoot to transcend the emphasis on open enrollment for a "365-day experience" and total-rewards approach that includes financial wellness and retirement plans, as well as paid time off, "so an exchange really kind of becomes a hub for benefits."

For health care consumers who are trying to navigate their way through complex decision making, choice is the operative word – with or without the assistance of a private exchange.

"I've always described the exchange as a fancy word for giving workers more choices than they're used to seeing," Fronstin says, noting how many large employers adopted this approach over the years rather than formally implement an exchange. ***"In some ways,"*** he adds, ***"what exchanges have done is create some technology to better help people shop"*** for coverage. ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 30 years.