Private Insurance Exchanges

2014 NMHC Optech Conference & Exposition
November 19, 2014
Are Private Exchanges the Future?  
Aggressive 5 Year Predictions

Actual and projected size of private exchange market, millions (M)

SOURCE: Accenture (2012), Oliver Wyman (2012), Kaiser Family Foundation private exchange interviews/survey
Are Private Exchanges the Future?
Current Interest / Demand in 2014

Among Large Firms (200 or More Employees) Offering Health Benefits, Percentage of Firms Considering Offering Health Benefits Through a Private Exchange, by Firm Size, 2014

NOTES: A private exchange is one created by a consulting company, not by either a federal or state government. Private exchanges allow employees to choose from several health benefits options offered on the exchange.
Are Private Exchanges the Future?
Actual Implementation in 2014

Among Large Firms (200 or More Employees) Offering Health Benefits, Enrollment in Private Exchanges, by Firm Size, 2014

- 200-999 Workers
- 1,000-4,999 Workers
- 5,000 or More Workers
- All Large Firms (200 or More Workers)

NOTES: Two percent of large firms did not know if they were considering a private exchange and 3% did not know if they were considering a defined contribution approach. A private exchange is one created by a consulting company, not by either a federal or state government. Private exchanges allow employees to choose from several health benefits options offered on the exchange.

~ Among large firms offering retiree coverage. Twenty-five percent of large firms (200 or more workers) that offer health benefits to their employees offer retiree coverage in 2014

Are Private Exchanges the Future?

Wide Range in Enrollment Assumptions

Employers adopting private exchanges within 5 years

Most major surveys put expected adoption between 20-33%

Are Private Exchanges the Future?
Wall Street thinks so...

- **IPOs**
  - Benefitfocus – BNFT (Sept. 2013)
  - Castlight Health – CSLT (March, 2014)

- **Exchange Stocks**
  - Aon – AON
  - Mercer – MMC
  - Towers Watson – TW
  - Xerox – XRX
  - eHealth – EHTH
  - WageWorks - WAGE
  - WebMD – WBMD

- **Acquisitions**
  - OptumHealth buys Connexions (Aug. 2011)
  - Wellpoint/BCBS buy Bloom Health (Sept. 2011)
  - Towers Watson buys Extend Health (May 2012) & Liazon (Nov. 2013)
  - Aetna buys bswift (Oct. 2014)
What is an Exchange?

• An exchange is a marketplace where buyers are connected to multiple sellers for a given service or product.

• Buyers are typically able to define their purchasing criteria to assist in identifying those sellers best able and willing to accommodate their requests.

• For example;
  – Autotrader
  – Amazon.com
  – Expedia
  – Ebay
  – Nasdaq
What is a Private Insurance Exchange?

• A private insurance exchange is a marketplace where buyers (employees) are connected to multiple sellers (insurance companies) for a given service or product (benefits).

• Buyers are typically able to define their purchasing criteria to assist in identifying those sellers and products best able and willing to accommodate their requests (decision support).
Exchange Components

- **Employer sponsored plan**
  - Multiple options and plans to create a vibrant marketplace

- **Marketplace/shopping experience for the consumer**
  - Enrollment decision support tools

- **Online technology platform**
  - Integrated with or potential replacement for benefits administration system

- **Employer funded defined contribution**
  - Shifting the paradigm from payroll deduction to providing funds and choice

- **Enrollment advocacy resources**
  - Online and call center
Group Private Exchange Types

- **Multi-Carrier**
  - Multiple carriers compete per location
  - Restricted products and services
  - Pre-determined network options
  - 3+ year commitment for employers
    - Carriers can change year-to-year

- **Single-Carrier**
  - Single carrier choice per location
  - Restricted products and services
  - Pre-determined network options
  - May contain a minimum commitment period for employers

- **Client-Centric**
  - Products and services are based on cost and employer choice
  - Network flexibility
  - Single or multiple carrier choices
  - May contain a minimum commitment period for employers
Private Health Insurance Exchanges: Considerations

Advisory Services Should be Independent from the Exchange Owner

- 69% of employers agree that independence is very important*

Employer Remains Plan Sponsor

- Own financial results
- Underwritten as unique groups
- Accountable to employees
- Compliance requirements remain

Employers are functioning like exchanges today

- Plan choices
- Defined contribution or “defined projection”

Defined Contribution and Private Exchanges Alone Do Not Stop/Slow Medical Trend

- CDHP migration can reduce costs
- Health outcomes and unit costs matter

Health Plan Optimization Strategies Should Be Customized to the Employer

Is a Private Exchange a Good Fit?
Predictable Long-term Costs for the Employer?

Defined Contribution vs. Defined Benefit

Cost Reduction? – Buy downs by Employees

Employee Choice = Higher Satisfaction

“Free” Benefits Administration?

The Ability to “Get Out of Benefits”?
Potential Impact
How Can an Exchange Save an Employer Money?

+ Cost shifting through defined contributions and benefit plan buy-downs
+ Decreased involvement in benefits administration/ACA compliance
+ Carrier competition in fully insured/multi-carrier private exchanges
+ Choice and engagement should lead to better wellness participation
+ Integrated benefit offerings across all employee segments

### MULTI-YEAR IMPACT OF DEFINED CONTRIBUTION APPROACH

<table>
<thead>
<tr>
<th>Multi-year impact of Defined Contribution Approach</th>
<th>Medical Increase</th>
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<tr>
<td>ER's DC increase</td>
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<tr>
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If ER sets their contribution to grow 3% but the increase turns out to be 7%, the EE's contribution increases 23.0%
If this carries forward another year then the employee's contribution increases another 23.0% compounds to 51.3%
Our customers change their benefit buying behavior and choose more efficiently and effectively.

Employees choosing their benefits through Liazon:

- 90% did not feel that there was too much choice.
- 71% were satisfied with the variety of choice available.
- 67% were satisfied with the benefits they selected.

Source: 2013 Liazon employer survey
Employee Selection Behavior

[Diagram showing employee selection behavior with percentages for Buy Up, Buy Down, and No Change.]

2014 Enrollment Statistics

[Bar chart showing enrollment statistics for Platinum (90%), Gold (80%), Silver (70%), and Bronze (60%).]

[Diagram showing enrollment charts for 1st and 2nd years, with respective percentages.]
Selection Risk
Potential Increase with Expanded Plan Options (Value)

- **Bronze**
  - 60% - 62%

- **Silver**
  - 68% - 72%

- **Gold**
  - 78% - 82%

- **Platinum**
  - 88% - 92%

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**Population Profile**
- Younger
- Predominately Male
- Low Medical Utilization

**Population Profile**
- Older
- Predominately Female
- High Medical Utilization
Is a private exchange a good fit?

Profile of a Company That Might Consider a Private Exchange

- Employers with impacted populations (part-time, seasonal, retirees, etc.)
- Certain industry verticals in which benefits are not a differentiator
- Private equity firms
- Acquisitive companies
- Employers interested in:
  - Defined contribution
  - Outsourced benefits management
  - Streamlining administration
  - Moving toward consumerism and choice
  - Exiting healthcare benefits
Holistic Evaluation
What Should You Consider Before Making the Jump?

Financial
+ Potential for buy-down
+ Defined contribution
+ Willingness to cost shift
+ Selection risk

Administrative
+ Need for flexibility
+ Access to data
+ Benefits administration
+ Systems integration
+ Compliance management

Cultural
+ Transfer of control
+ Employee accountability for choices
+ Choices to satisfy diversity of population
Lockton’s Exchange Practice
Private Health Insurance Exchanges: 4 Types

- Carrier
- Advisor
- Technology
- Pure Play
OK, now what...?
Lockton Exchange Solutions: Our process

Opportunity Assessment
- Cultural alignment
- Financial
- Administrative
- Business case

Strategic Configuration
- Coverage options and plan design
- Carrier and exchange partners
- Funding (ASO or FI)
- Employer contribution
- Contractual requirements
- System(s) integration

Implementation and Operation
- Project management
- QA and testing
- Annual enrollment

Ongoing Analysis
- Reporting
- Analytics
- Benchmarking
- Governance
- Renewal management
Addressing the Entire Employee Lifecycle

New Hire & Active Employment

**Group Benefit Plans**
Designed for Benefits Eligible Employees & Dependents
- Group Health
- MEC
- Dental, Vision, Life, etc.
- Voluntary Benefits

**Individual Benefit Plans**
Designed for Non-Benefits Eligible Employees & Dependents
- Individual Health
- MEC
- Individual Dental, Vision, Life, Voluntary & Ancillary Benefits

Retirement

**Retiree**
Designed for Pre- & Post-65 Retirees & Dependents

**COBRA Alternative**
Designed for Terminated Employees & Dependents

Termination
Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work

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