Private exchanges and plan sponsors: The headlines, facts, opportunities, and potholes

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Healthcare exchanges have become an important and visible element of the healthcare delivery system. From the public exchanges (now known as the *Health Insurance Marketplace*), which are a critical element of the Patient Protection and Affordable Care Act (ACA), to the private exchanges that regularly make headlines, savvy plan sponsors are going to need to understand the purpose and mechanics of the different exchanges in order to evaluate whether they provide opportunities for better or more efficient healthcare delivery to their participants.

CONSIDERATIONS FOR PUBLIC EXCHANGES

Until January 1, 2017, only individuals without employer-sponsored insurance (ESI) or who are employed by a business that has fewer than 100 employees can access the public exchanges to purchase healthcare coverage. Employees of large employers (those with 50 or more employees) can purchase healthcare coverage on the public exchanges and access federal subsidy only if their employers do not offer healthcare coverage to them. In many circumstances, these large employers opting out of offering healthcare coverage must pay a *shared responsibility* penalty (the *pay or play* rule) of $2,000 per full-time employee (excluding the first 30 employees). Employers who are considering elimination of employer-sponsored insurance should address the following issues:

- The role of healthcare benefits as an element of total compensation—Are healthcare benefits part of a culture of wellness, and/or an important tool to ensure that employees are at work, focused and productive? Or are they simply a tax-effective element of the compensation package?
- How important are healthcare benefits in attracting and retaining high-quality employees?
- What is the relative cost and value of providing employer-sponsored healthcare?
- What is the compensation level of employees and how will they fare financially on the public exchanges?

KEY PLAN SPONSOR CONSIDERATIONS FOR PRIVATE EXCHANGES

In general, the private exchange strategy revolves around the following key elements—efficient purchasing, limiting employer cost through defined contribution healthcare, and participant choice. In evaluating a private exchange proposal by a vendor, it is critical for an employer to understand exactly what value it is receiving from the private exchange, particularly with respect to the price of the coverage it offers to employees.

Specifically, an exchange's value should be analyzed separately from the cost shifting to employees that often happens with this approach. The private exchange should provide plan options that are available at lower cost than comparable plan options obtained directly from insurance carriers. It is critical in the financial analysis of private exchanges to understand how the exchange sponsors are paid, particularly with respect to commissions. The selection of an exchange provider should include an analysis of the quality and network access of insurers, the ease of utilization by employees, the mechanics of the flow of employer subsidy, and the value provided by the exchange.

We note that a few large, well-known employers have opted for private exchanges for their employees or their retirees. Some factors involved in the decision include:

- A desire to manage the cost of offering healthcare through potentially favorable pricing
- A revitalized approach to flexible benefits plan designs (where the employer defines a fixed contribution to healthcare, and employees select from a range of plan cost-sharing options) that takes advantage of the *exchange* model
- A more palatable approach for employees facing a reduction in employer benefit spending
- A glide pattern toward elimination of ESI and movement to health exchanges in 2017

MEDICARE EXCHANGES

It is important for a plan sponsor to understand the differences between the individual market and the group market, including the underwriting, enrollment, and pricing requirements of individual Medicare supplemental and Medicare Advantage products relative to group products. It is critical to recognize the age-driven pricing associated with the Medicare supplemental market, as well as the different requirements for movement between Medicare supplemental and Medicare Advantage products. Some illustrations of impact describe premium rates for retirees based on the average age of the group, rather than on the range of ages of the retirees in the group. Additionally, many illustrations assume that the rate of trend in the individual market is lower than in the employer-sponsored market. While this may be true in the aggregate, it may not be true for an individual retiree over time. Figure 1 illustrates sample individual market rates in Indiana for a Medicare Supplement Plan F and a Medicare Part D prescription drug plan.

FIGURE 1: SAMPLE PREMIUM RATES

2013 SAMPLE ANNUAL PREMIUMS	AVERAGE AGE OF GROUP (76)	AGE 67	AGE 77	AGE 87
MEDICAL	$3,008	$2,095	$3,090	$3,908
RX	$516	$516	$516	$516
TOTAL	$3,524	$2,611	$3,606	$4,424

As with the group private exchanges, it is important to understand cost shifting to retirees through cost savings so as to assess the impact of the exchange relative to design changes that could be made outside of it. For example, most Medicare Part D prescription drug plans have increased cost sharing in the coverage gap (*donut hole*) relative to the cost sharing under employer retiree medical plans. Even though the coverage gap "closes" by 2020, there is still significant potential exposure for the retiree. As well, plan sponsors who receive subsidies under the Medicare Part D Retiree Drug Subsidy need to take those dollars into account when comparing drug benefits under the individual market, where Part D subsidies are included in the lower premium.

Plan sponsors should understand the commission structure of individual products relative to group products to be clear on how dollars are being spent, relative to the current commission structure of their group plans.

Finally, plan sponsors should be aware of the for-profit nature of private exchanges and ensure that they are advised by experts that are unbiased with respect to the use of private exchanges.

In certain circumstances, public or private exchanges present plan sponsors with interesting opportunities for healthcare delivery. It will be important to be well informed and well-advised to best evaluate what value they can provide.

TYPES OF EXCHANGES: PUBLIC AND PRIVATE

Public exchanges (aka *Health Insurance Marketplace*)
Public exchanges are required by the ACA to provide an insurance marketplace for the purchase of healthcare coverage. They are run either by individual states or by the U.S. Department of Health and Human Services (HHS) and are subject to design and underwriting requirements. As of the date of this memo, 34 states have elected to let HHS run or jointly run their public exchanges. The plans available in the public exchanges are available to all Americans, with a federal government subsidy or Medicaid available to assist certain lower-income workers without access to other coverage to purchase a healthcare policy. The federal or state exchanges are not-for-profit entities; they provide enrollment assistance through websites and *navigators*, which are independent organizations with part-time employees selected by the states to assist citizens with the selection of a healthcare plan and with enrolling them in the system. The public exchanges opened October 1, 2013, and are expected to provide coverage through exchange plans or Medicaid for 12 million to 18 million Americans starting on January 1, 2014.

Private exchanges
There are two types of private exchanges—one that allows for group health plans to purchase coverage on what may be a more financially favorable basis, which is due to coalition-type purchasing leverage, and another that provides assisted purchasing in the individual market, generally for Medicare-eligible retirees.

Private exchanges are run on a for-profit basis, are not eligible for the federal subsidy, and have more design and contribution flexibility. Using a private exchange is generally considered ESI, unless no employer subsidy is provided to actives or retirees to purchase insurance.

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