Private health exchanges for large employers – Some questions to ask

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With the financial sustainability challenges introduced by the Patient Protection and Accountable Care Act (ACA), employer health plan sponsors are reevaluating their strategies, with some hoping for a "magic bullet" that will ease financial pressure going forward. Private health exchanges (PHEs) are receiving a lot of attention of late and may provide financial and administrative relief. However, the decision to move to a PHE requires thorough due diligence, analysis, and consideration of potential outcomes.

In general, PHEs provide an opportunity for an employer to continue financial support for employee health benefits on a tax-free basis, but without the need to spend so much time and effort managing health plan costs, administering the program, and explaining periodic benefit reductions to employees. Through PHEs, employers can offer employees an array of coverage levels to choose from—most likely a broader offering than an employer would ever offer and administer on its own. The employer shifts decisions on plan design, benefit levels, and costs to the employee, for the employer's only obligation is the amount it will provide toward the cost of health benefits each year. In other words, health benefits would be provided on a "defined contribution" basis, similar to the concept in a 401(k) retirement savings plan. Employees are then left to decide the trade-off between higher or lower benefit levels and how much premium they want to pay.

By using a defined contribution approach, the employer may be better able to control annual increases in health plan costs. To reduce annual cost increases, the employer can freeze the defined contribution amount, or increase the contribution at a rate less than healthcare trend. Thus, the employee in a PHE program would be exposed to the full impact of healthcare trend in excess of the employer defined contribution, and would likely see their portion of annual costs grow at a faster rate than historical practice. Some employers think the higher annual cost increases will be more palatable for employees, as they have the ability to lessen the impact by selecting lower premium plan options.

Large employers interested in a defined contribution PHE may want to consider the following questions.

Employee relations

- How will a defined contribution approach affect employee attraction and retention under today's labor market conditions, as well as under better economic conditions when labor markets start to tighten?

- Will collectively bargained employees accept the defined contribution approach? What other concessions or trade-offs would be required to make the change?

- Will a PHE arrangement really change how employees react to paying more for healthcare each year?

Benefit plan management

- How much management time and distraction could be saved if the only annual decision to be made is the dollar amount of the employer contribution?

- How will the benefits department's expertise and staff need to change to support a defined contribution approach, and will there be related staff reductions?

- PHEs can offer an opportunity to reduce the amount of time and effort needed to manage a health benefit program, but employees may still turn to the employer with respect to health benefit issues and costs. How will that be handled, and does it fit with the employer's culture?

- If the PHE approach does not turn out to be as successful as originally thought, what will the re-entry cost and effort be to restore internal health benefits expertise, staff, and related processes that were eliminated?

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Cost control

- What level of involvement will the employer have in determining or changing the health plan options offered through the PHE?
- How will an employer periodically measure the cost containment effectiveness of the PHE?
- Will offering more health plan options (likely in a PHE) result in a larger number of employees and dependents joining the health plan (or not leaving the health plan for other options) than if they were offered fewer, or a single health plan option? What will be the impact on total costs?
- With more options to choose from, will employees in certain types of organizations be risk averse and elect more expensive options, leading to even larger annual cost increases than they are accustomed to, or will they accept more risk and lower costs?
- The ACA allows employers to charge higher contributions for employees who do not participate and achieve in wellness programs, which can be used as a tool to help reduce future health plan expenditures. Is the value of that opportunity reduced if the employer moves to an insured PHE arrangement?
- Can the employer remain self-funded in the PHE, and if not, what is the financial impact on a self-funded employer moving to an insured arrangement in a PHE (e.g., how much more will it cost for premium taxes and insurance-related fees)?
- Will disease and case management activities be more or less effective through a PHE as compared with the current arrangement?

Other

- How many options will be offered through the PHE? Are there too many choices that could overwhelm the average employee?
- Since employers can already use a defined contribution approach with their existing health plan and can offer employees multiple plan designs to choose from, does the value delivered by the PHE justify the related expense?

Those who have been in the health benefits business for many years have seen magic bullets come and go. None of them have materially solved the problem of ever-increasing health plan costs, because a broader solution, beyond the ACA, is needed to address the fundamental cost issues of the existing system. For that reason, thorough investigation and longer-term thinking is necessary when considering a PHE.

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