



What Happened to Private Exchanges?

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Survey Findings: Employer Views of Private Exchanges

2016 Employer Survey



Contents

Introduction

Section 1: Key Findings

Section 2: Private Exchange Update

Section 3: Employer Strategies

Section 4: Polling Questions

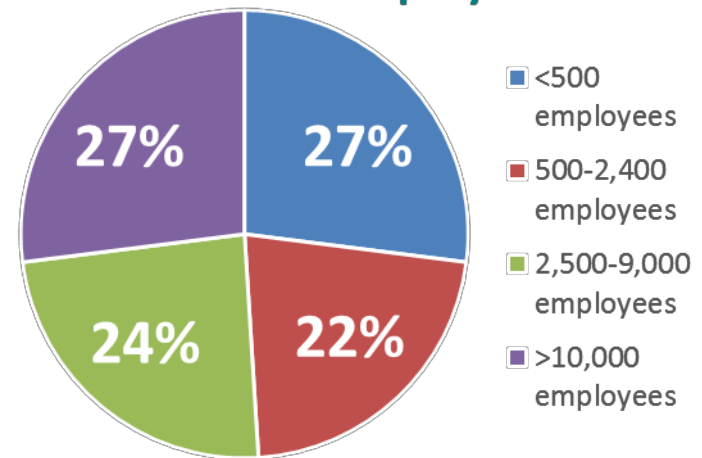
Introduction

- Buzz surrounding private exchanges has quieted
- Employers are looking for results and others' experience to better understand viability and effectiveness of private exchanges
- Private exchanges often touted as a solution to reduce the administrative burden (exacerbated by ACA reporting requirements), enhance the employee experience and save money
- Hesitation to jump into an exchange still lingers
- Survey attempts to shed some light on how exchanges are performing and provide employers with an objective source of information
- Survey was conducted by the Private Exchange Evaluation Collaborative (PEEC) is an initiative launched by four leading nonprofit business coalitions (Employers Health Coalition, Midwest Business Group on Health, Northeast Business Group on Health, and Pacific Business Group on Health) and PricewaterhouseCoopers (PwC) .

Survey Overview

- Conducted in the 4th quarter of 2016
- Fourth year of survey of HR / Benefit Professionals nationwide
- Survey intended to help employers understand how peers are thinking about private exchanges:
 - Views and intentions on private exchanges
 - Timelines for consideration
 - Information about private exchanges considered most important, or still needed
 - Experiences of early adopters
- Report summarizes results of over 250 employers, representing 12 different industries

Distribution of Employer Size



These results are meant to be directional in highlighting changes happening in the employer market

Section 1: Key Findings

Key Finding #1

Key Finding #2

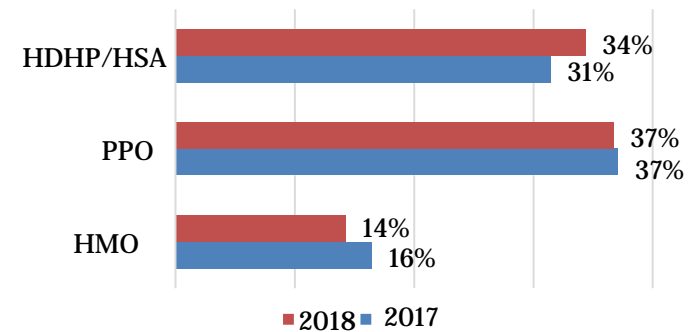
Key Finding #3

Key Finding #4

Key Finding #1

Respondents appear at a crossroad. Plan design choices indicate "wait and see" approach, but contribution and role indicate movement towards an employer facilitated / defined contribution approach to health benefits

- Generally plan types are not changing short term
 - 37% currently offer a PPO and will continue to
 - HDHPs with HSA option will jump 3% points to 34%
 - Other plan options remain about the same
- Employers are considering changing from an employer-centric to an employer-facilitated model in the next 3-5 years
 - 78% of employers currently use an employer centric model, compared to a projected rate of 54%
 - Less than 20% currently use an employer facilitated model, which will more than double to 42% in the next 3-5 years



Definitions:

Employer-centric is defined as the employer establishing benefits and contribution rates

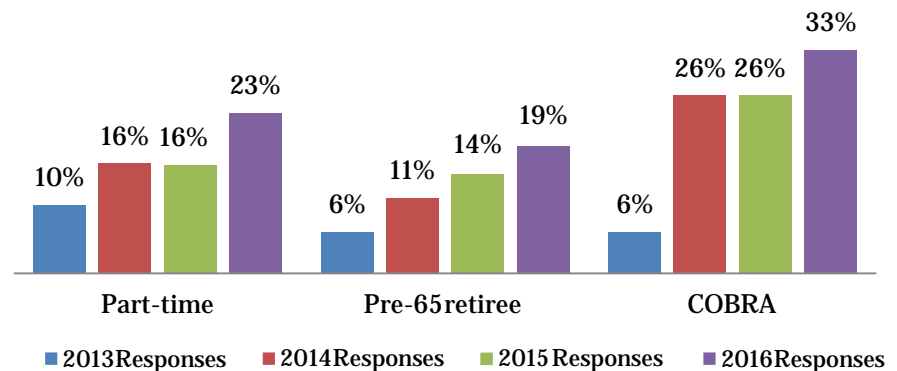
Employer-facilitated is defined as the employer providing a financial contribution to employees and allowing them to select from a portfolio of options

Key Finding #1 (cont'd)

Respondents appear at a crossroad. Plan design choices indicate "wait and see" approach, but contribution and role indicate movement towards an employer facilitated / defined contribution approach to health benefits

- Although 1/3 of respondents noted they will not make a change to their contribution approach, many employers are moving to defined contribution
 - 17% of employers are currently using a defined contribution approach which will grow to 35% by 2020
- Despite negative press, employers are leveraging the public exchanges for certain employee cohorts
 - 23% have already implemented for part-time employees
 - 19% have already implemented for pre-65 retirees
 - 33% have already implemented for COBRA

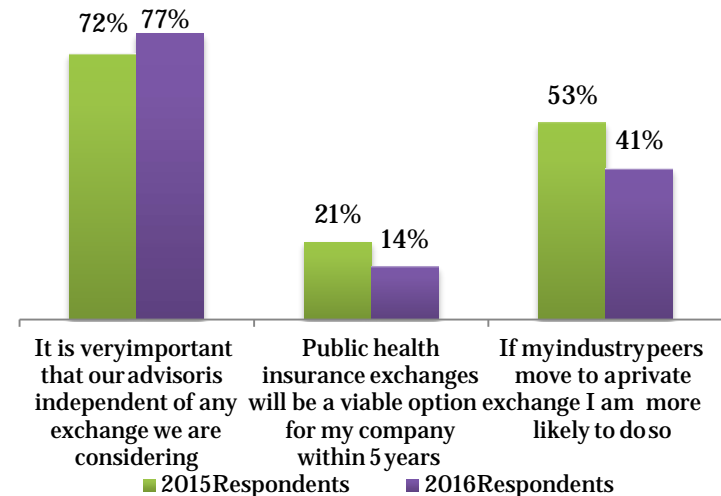
Use of Public Marketplace for Employees



Key Finding #2

Interest in private exchanges has declined due to a lack of credible information in the market and a broad misunderstanding of the value proposition.

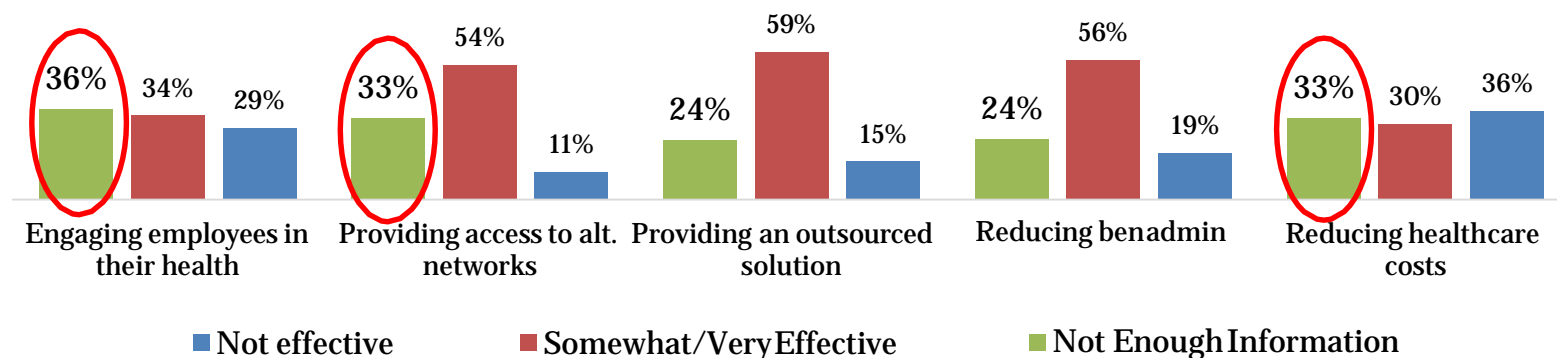
- 1/3 of employers have implemented or are considering a private exchanges across the board for actives, pre- and post-65 retirees
 - 32% of respondents have implemented (8.3%) or are considering (24.5%) private exchange for active employees, down from 45% in 2015
 - 34% have implemented or are considering a private exchange for post-65 retirees, down from 42% in 2015
- Over 3/4 of respondents say it is important that an advisor is independent of any exchange being considered
 - Consultants without an exchange (70%+) and outside counsel (80%+) were the advisors most likely to give objective advice about private exchanges



Key Finding #2 (cont'd)

Interest in private exchanges has declined due to a lack of credible information in the market and a broad misunderstanding of the value proposition.

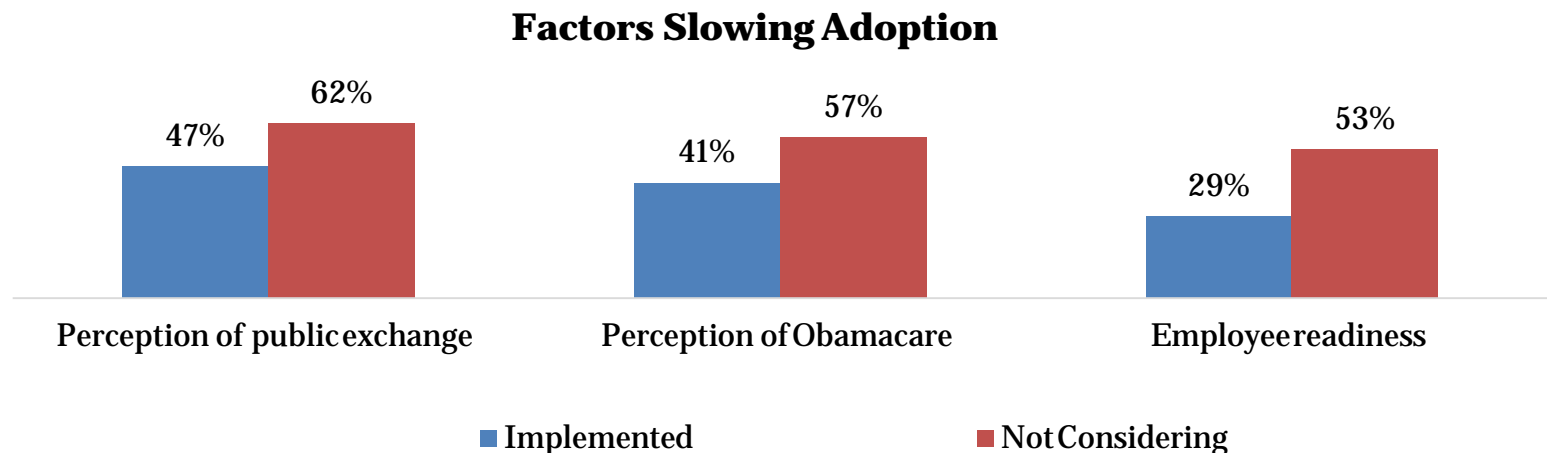
- Employers agree private exchanges are effective at offering more choice to employees (76%)
 - Over half of respondents also agreed private exchanges are effective at:
 - offering a fully outsourced solution (59%)
 - reducing benefits administration (56%)
 - providing access to narrow/alternative networks (54%), however, more information is still required for 1/3 of respondents
- Employers are divided on whether private exchanges can reduce health care costs or engage employees in their health, with 1/3 feeling more data is required



Key Finding #3

There is still quite a lot of confusion on what private exchanges are.

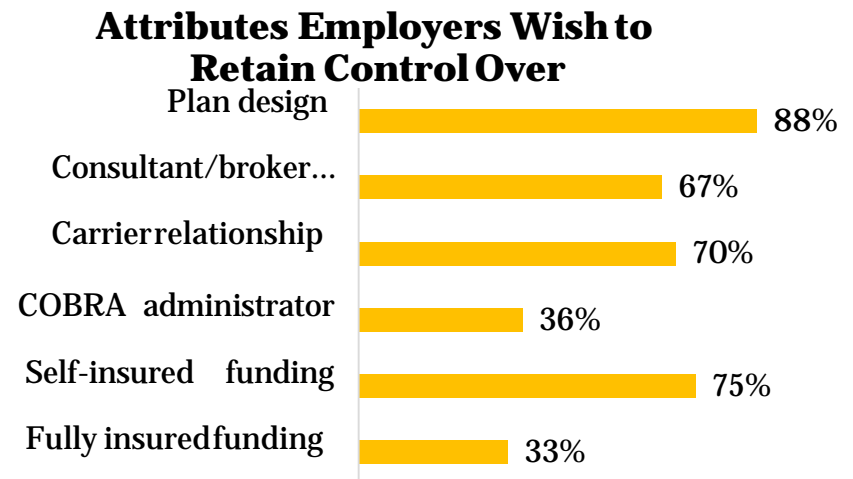
- News regarding the public exchange has had a negative impact on private exchange adoption
 - 61% of respondents said the perception of the public exchange is slowing adoption of private exchanges
- 59% of respondents said the results of the 2016 election are slowing adoption of private exchanges



Key Finding #3 (cont'd)

There is still quite a lot of confusion on what private exchanges are.

- Employers want to retain control of certain aspects when considering a private exchange:
 - Plan design (88%)
 - Self-insured funding (75%)
 - Carrier relationship (71%)
 - Consultant (67%)
- Attributes which employers don't need to retain control:
 - COBRA administrator (36%)
 - Fully-insured funding (34%)



“There is so much uncertainty with election and health policy. It is very difficult to forecast strategy at this point. This is a timely survey as there is very little info on exchanges from non-biased sources.”

Key Finding #4

Opinions on effectiveness of private exchanges are skewed between implementers/ considering and those not considering a private exchange.*

- Employers who are not considering a private exchange are often “nay-sayers”
- Trends impacting the adoption of private exchanges vary between the have implemented and not considering
 - 59% of implementers said the perception of Obamacare had no impact on exchanges while 57% of nay-sayers say it slows adoption
 - 47% of implementers say employee readiness is increasing adoption while 53% of those not considering say it is slowing adoption
- When compared to others, implementers don't feel as strongly about retaining control of plan design, but want to control carrier relationships and self-funding
- 53% of implementers feel private exchanges are effective at engaging employees , whereas 35% of those not considering say private exchanges are not effective

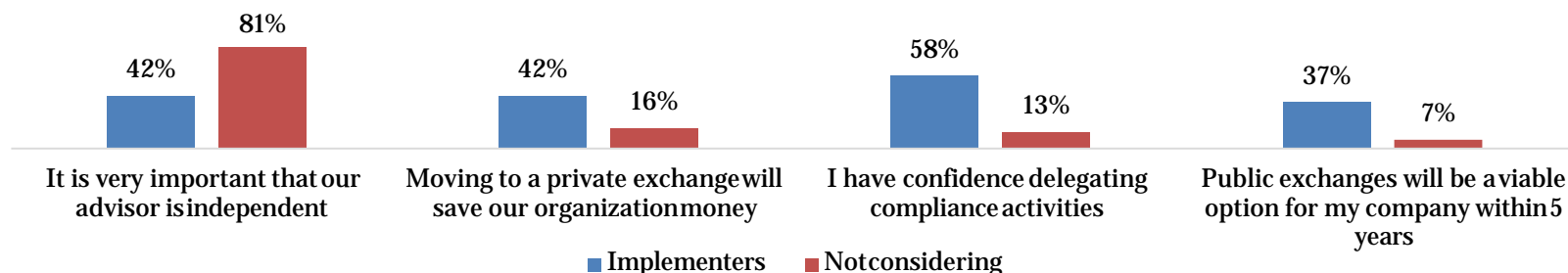
Effectiveness of certain attributes		
Attribute	Respondents who implemented an exchange	Respondents not considering an exchange
Reducing healthcare costs	58% effective	21% effective
Reducing benefits administration	79% effective	49% effective
Improving employee experience	79% effective	32% effective
Offering more choice	5% not effective	16% not effective
Increasing consumerism	5% not effective	24% not effective

*Percentages shown are directional as the sample size for these groups was too small to be statistically significant.

Key Finding #4 (cont'd)

Opinions on effectiveness of private exchanges is skewed between implementers/ considering and those not considering a private exchange.*

- Implementers have more confidence in private exchanges compared to those who are not considering; those considering align more closely with implementers
 - 58% of implementers have confidence in delegating compliance activities vs. 13% of those not considering
 - 42% of implementers expect private exchange will save money compared to 16% of those not considering
 - 37% of implementers believe the public exchange will be a viable option within 5 years compared to 7% of those not considering



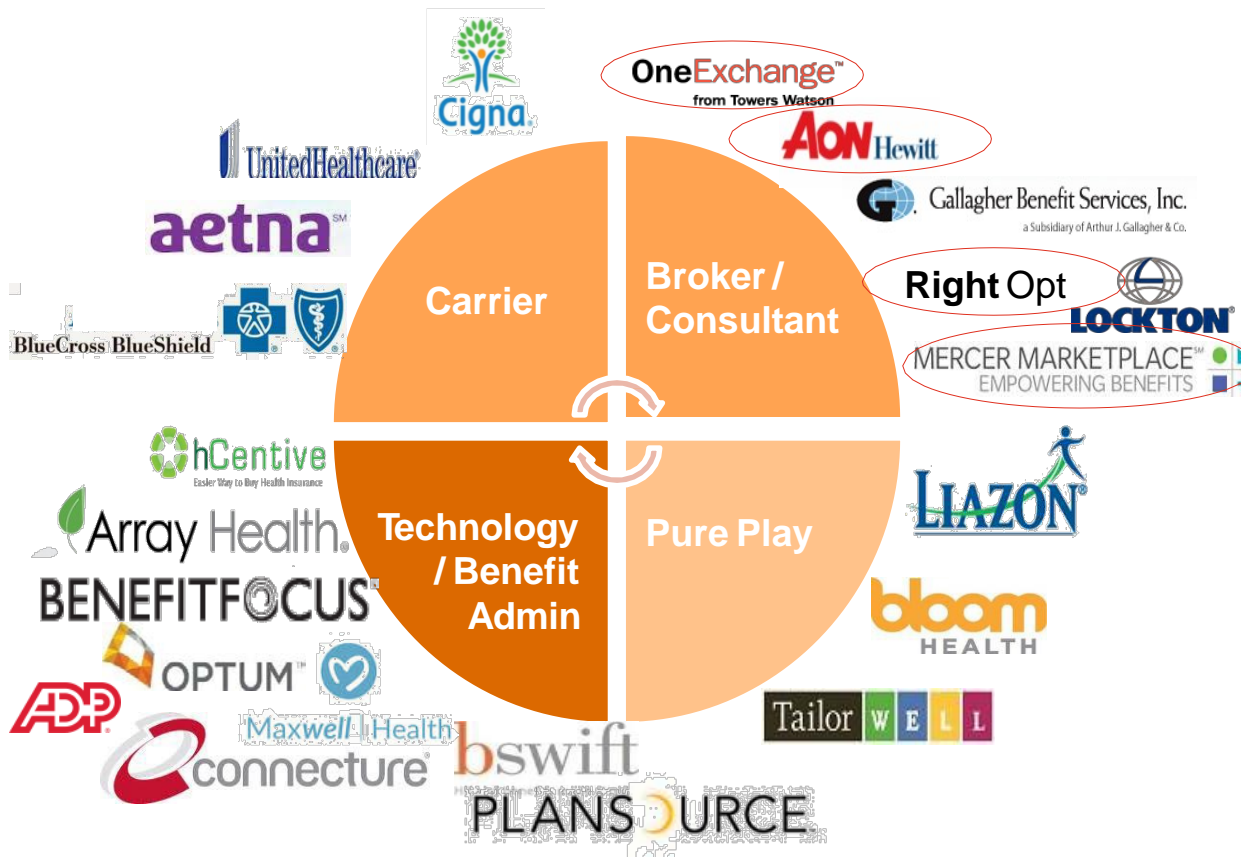
- 58% of implementers and those considering exchanges agree lack of independence of consulting services is slowing adoption

*Percentages shown are directional as the sample size for these groups was too small to be statistically significant.

Section 2: Private Exchange Update



Active Private Exchange 4 x 4



4 Types

- Broker / Consultant
- Pure Play
- Technology
- Carrier

“The Big 4”

- Aon Hewitt
- Mercer
- One Exchange
- Right Opt

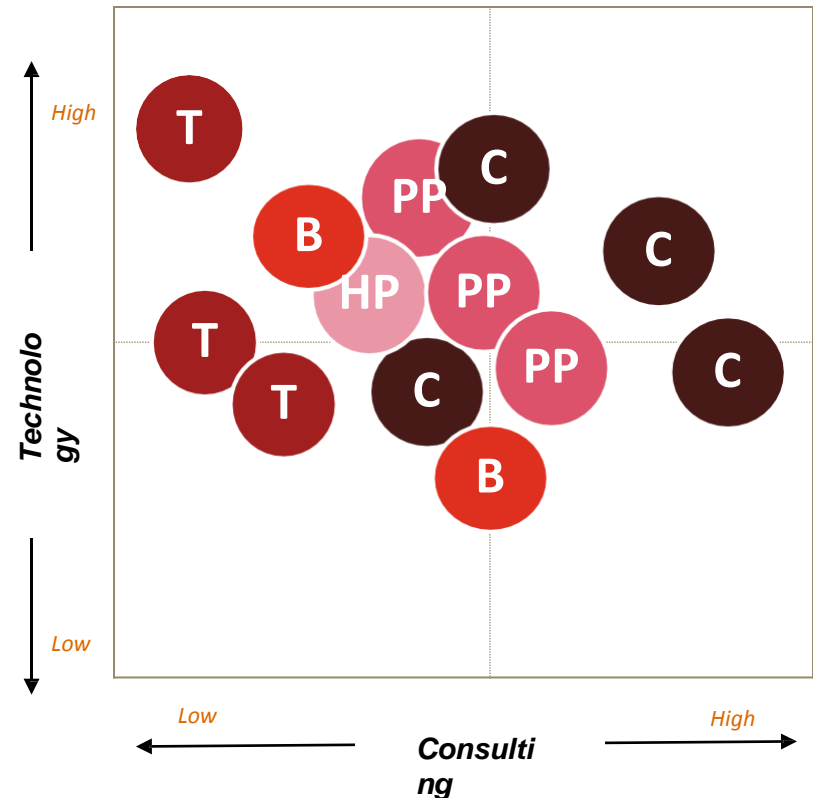
Private exchanges vary depending on the solution

Private exchanges vary in the user experience and the bundled services.

- Technology solutions offer the infrastructure, allowing for the most customization
- “Consulting” exchanges vary in their rigidity not only in the services they provide, but in the plans offered and the user experience

The solutions will continue to evolve, refining their value proposition.

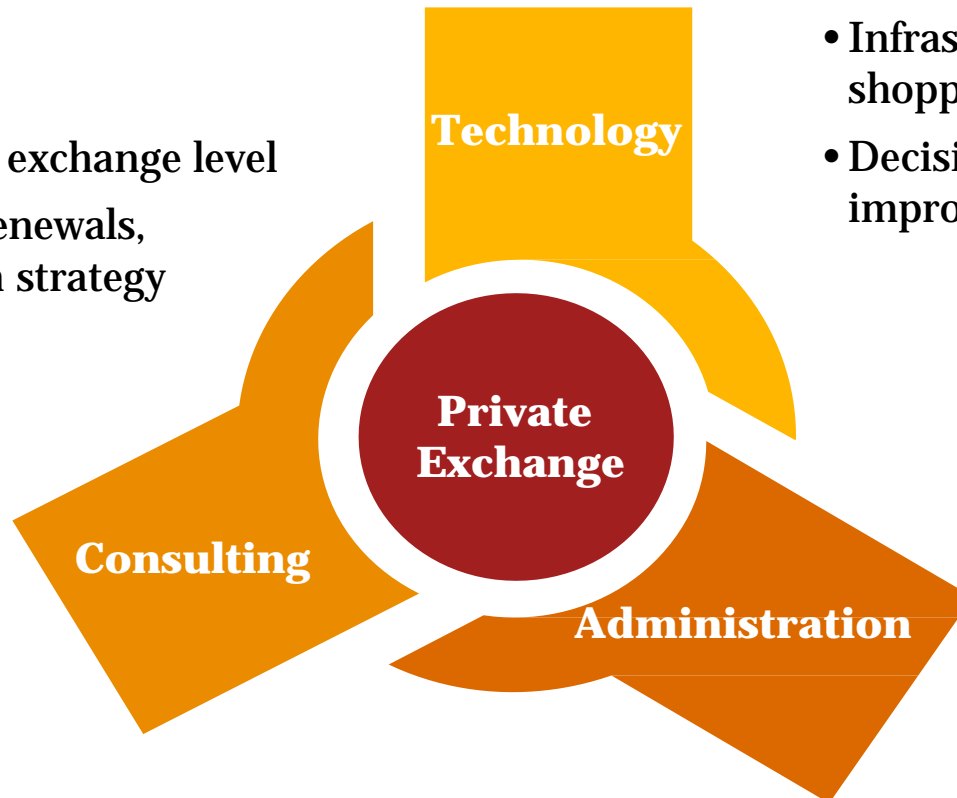
Technology vs. Consulting Exchange Solutions



Private exchanges: How do they really work?

Consulting:

- Strategy: at exchange level
- Financial: renewals, contribution strategy
- Compliance



Technology:

- Infrastructure for shopping experience
- Decision support, tools to improve engagement






Administration:

- Enrollment and eligibility maintenance
- Vendor management
- HR BPO - optional

Private Exchanges are a welcome disruption to the traditional procurement and provision of health benefits

Private exchanges should be viewed as a way to **accelerate** an evolved strategy. Exchanges allow employers to meet their objectives of: enhancing the employee experience, reducing the burden of administration, and saving money. Private exchanges do this by providing the technology needed to connect best in class programs and encourage real consumerism.

PIX are simply a modernization of employer sponsored benefits, but need to evolve to provide 365 engagement

	More choice in carriers and plans than traditional benefit programs, especially for smaller/mid-size companies
	A platform to support the transition to defined contribution for health care
	Potential leveraged purchasing arrangements across affiliated companies
	Sleek technology, with retail-oriented platforms and strong decision support and recommendation software
	Unhinges the sticky relationship between companies and their consultants/brokers, leading to greater cost transparency, reporting and accountability for results

What is driving consideration of a private exchange?

Considerations

Current structure and costs

Alignment w/ corporate direction

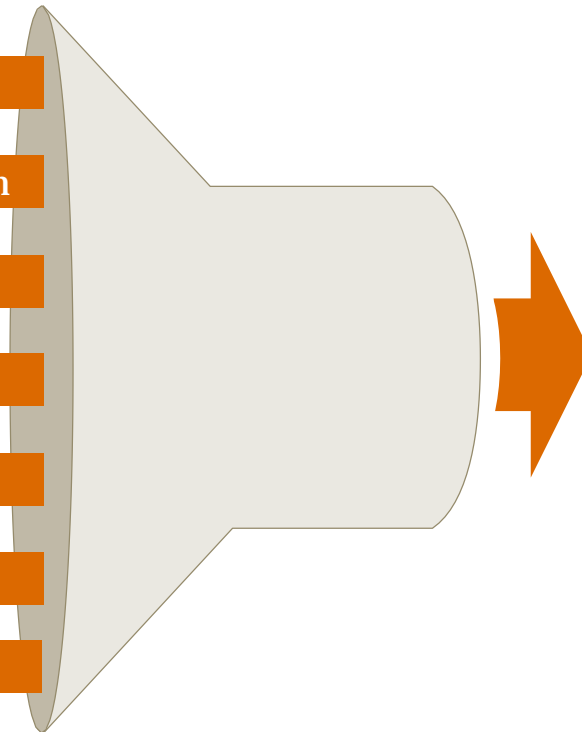
Corporate culture

Workforce profile

Administration burden

What are my competitors doing

Regulatory chaos



Options

Self-manage

- Set strategy
- Financial management
- Vendor selection & management
- Compliance
- Employee relations

Private Exchange

- Set / influence strategy
- Financial management shared
- Limited vendor selection
- Compliance effort shared
- Reduced administration
- Tech to coordinate programs

Section 3: Employer Strategies



Section 4: Polling Questions



Polling Question 1:

Do you think the majority of employers will contract with a private exchange by 2025?

A. Yes

B. No

C. Not sure

Polling Question 2:

How effective do you perceive private exchanges are in saving overall health care costs?

- A. Somewhat Effective**
- B. Not Effective**
- C. Not Sure**
- D. Very Effective**

Polling Question 3:

How effective do you perceive private exchanges are in saving health benefit spend?

- A. Very Effective**
- B. Somewhat Effective**
- C. Not Effective**
- D. Not sure**

Polling Question 4:

What are your two top concerns about adopting a private exchange strategy?

- A. Inability to select carriers or vendors (e.g. wellness, HSA)**
- B. Inability to change or select plan designs**
- C. Inability to select funding approach**
- D. Forced to outsource benefit admin.**
- E. Loss of Broker**
- F. Unbiased advisor**

Polling Question 5:

Do you intend or have you moved to a full HDHP replacement strategy?

- A. Already moved**
- B. Considering moving in next 3-5 years**
- C. No**
- D. Not sure**

Contacts

If you are interested in learning more or requesting customized results, please contact:



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