

# Private Exchanges: Why Employers Need to Take a Look



PARKER | SMITH | FEEK

INSURANCE • SURETY • EMPLOYEE BENEFITS

*Issue Date: October 24, 2013*

The federal and state exchanges created by the Affordable Care Act are open for business. The U.S. healthcare system has taken a significant, transformative step in the way Americans purchase health insurance. Those who buy individual health insurance, including millions who are currently uninsured, are expected to shop at these new online marketplaces. In addition, small employers will soon be able to offer their employees insurance purchased via the small group exchange known as SHOP (Small Business Health Options Program). Public exchanges are not the only new marketplaces changing the health insurance landscape. Even before the October 1st kickoff, a number of private exchanges became available and many more are expected to follow. Accenture recently released a report in which they estimate that one in four people who currently receive health insurance through their employer will receive their coverage through a private exchange by 2018.

## What is a Private Exchange?

A private exchange is an online marketplace where employers allow employees to shop from a menu of predetermined healthcare packages which are made available from selected health insurance companies. Private exchanges possess some of the same qualities as public exchanges. Employers provide a “defined contribution,” a set amount of money their employees use to shop for their healthcare insurance coverage. The defined contribution model allows employers to budget the cost of healthcare benefits. Employees

use the private exchange website to shop for benefits, which significantly reduces the employer’s administrative burden.

## Advantages of Private Exchanges:

- **Flexibility for Employer:** The benefits offered through a private exchange are custom-fit to the employer’s objectives and the characteristics of their employee population.
- **Cost Control for Employer:** A “defined contribution” allows the employer to control their cost by providing employees a fixed contribution to their healthcare insurance coverage.
- **Choice for Employees:** Employees select from a range of products, both insurance (e.g. life & disability) and non-insurance (e.g. telemedicine), traditional benefits (e.g. medical & dental) and non-traditional (pet insurance anyone?) and create a total benefits package that makes sense for their particular needs. No more one-size-fits-all. This approach also increases the employee’s awareness of the benefit costs.
- **Simple for Administration:** The administrative burden is streamlined by giving employees direct, online access to make their own insurance purchases. The employer no longer makes the enrollment changes. The employer receives a single bill. Other services such as COBRA and FSA administration can also be bundled in.



## INSURANCE • SURETY • EMPLOYEE BENEFITS

### Concerns and Challenges:

- **Employee Education:** Employees become the insurance shoppers. Significant education and decision support are needed to help employees learn the new system and make good decisions. Most private exchanges include online enrollment guidance, and some offer personal support from a call center. Employers are strongly encouraged to support employee education on defined contributions and private exchanges, to help ensure the employees' new healthcare experience is successful.
- **Cost Risk for Employees:** With the shift to defined contribution, there is the potential for more costs to be shifted from the employer to the employee. The company controls its costs, but the employee bears risk of rising costs, subject to the way their employer adjusts its contribution over time.
- **Change in Carriers and Plan Designs:** Most private exchanges are set-up with limited carrier and plan design options for the various lines of insurance coverage. Employers may need to change some of the carriers and plan designs to provide the benefits they wish to offer through the private exchange.
- **Technology Infrastructure:** Employees need internet access for the online interface of a private exchange.

### What Businesses Benefit Most From Private Exchanges?

The change from a traditional employer-sponsored benefits plan to a defined contribution private exchange requires full commitment from the employer. The following are characteristics of employers best suited for a private exchange:

- A need for greater control to budget costs of healthcare for employees.
- A culture that is eager for expanded choice to select benefit options.
- Employer willingness to provide healthcare cost transparency to employees.
- An employee population with internet and email access.
- Employer willingness to invest resources to educate employees about the private exchange.

It remains to be seen how well private exchanges will address the challenges many employers face in providing competitive and cost-effective benefits to their employees. At this point, there is every indication that exchanges, both public and private, are going to change the way many Americans purchase their health insurance. At Parker, Smith & Feek, we stand ready to help you determine if a private exchange makes sense for your employee benefits program.

*As always, should you have any questions, please contact your Parker, Smith & Feek Benefits Team.*