Health Benefits Strategies
Private Insurance Exchanges

Presented By:
Brent A. Weegar, MBA
Principal
IPS Advisors
Established over 35 years ago, IPS Advisors is an independent fee based brokerage and consulting firm. Our governmental division services over 35 municipalities, counties and State agencies across Texas with their health and welfare benefits planning needs.

We provide specialized services through our core practice areas:

- Corporate Benefits Consulting
  - Long Term Strategic Planning
  - Fully Insured and Self Insured Benefits Programs
  - Health Risk Management Programs
  - Compliance Assistance
  - Benefits Administration
- Corporate Retirement Consulting
  - 457 Plans
- Life Insurance Portfolio Management
- Property and Casualty Insurance
Upcoming Important ACA Requirements

- **Employer Reporting**
  - First Reports due to employees by January 31, 2016, with respect to the 2015 tax year
  - Reporting is done on a calendar year basis regardless of plan year
  - Employers should consider collecting the dozens of required data points in advance
  - Final forms and instructions are now available

- **Code sections 6055 – Reporting by Health Coverage Providers**
  - Generally applies to any employer that provides minimum essential coverage to an individual and to health insurers for insured coverage.

- **Code sections 6056 – Reporting of Offers of Health Coverage**
  - Applies to “Applicable Large Employers” or “ALEs”
    - Employer that employs more than 50 full-time and/or full time equivalent employees
  - ALEs are required to file returns with the IRS to disclose coverage under employer-sponsored health plans, as well as to furnish employees with statements containing information that they must report to the IRS
Upcoming Important ACA Requirements

- Cadillac Tax Assessment
  - Applies to play nears beginning on and after January 1, 2018
  - Applies 40% excise tax to “excess” benefits that exceed statutory dollar limits
    - 2018 Unadjusted Employee Thresholds: $10,200 for employee-only coverage; $27,500 for family coverage
    - 2018 Unadjusted Pre-65 Retiree Thresholds: $11,850 for employee-only coverage and $30,950 for family coverage
  - Includes the following (subject to future IRS guidance)
    - Employee and Employer Contributions
    - Employer and employee contributions to health FSAs, HRAs, and HSAs
    - Retiree coverage
    - On-site medical clinics
    - Specified disease coverage and fixed indemnity insurance excludable from gross income
Health Care Cost Trends: 1999 - 2014

- Health care cost trend has dropped to the lowest rates in 15 years however trend rates continue to outpace inflation.
- Changes to plan designs and employee contributions are primary drivers of these results.

Source: Towers Watson / NBGH - The New Health Care Imperative Survey
Health Care Cost Trends – Per Capita Costs

- Employers continue to shoulder the load contributing on average $9,560 per employee or 76.3% or total plan costs.
- Since 1999, employer share has risen 28% while the employee share has risen 32%.

Source: Towers Watson / NBGH - The New Health Care Imperative Survey
A widespread trend in healthcare strategy recalibration is underway across the country due to rising employer costs, economic factors and the Patient Protection and Affordable Care Act.

- **57%** We are currently developing a strategy
- **18%** We have developed a strategy
- **21%** We have not yet begun developing a strategy but will do so
- **4%** We have no plans to recalibrate our strategy

Source: Towers Watson / NBGH - The New Health Care Imperative Survey
## Top 10 Strategic Focus Areas

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop/enhance workplace culture, where employees are responsible for their health and understand its importance</td>
<td>37%</td>
</tr>
<tr>
<td>Develop/expand healthy lifestyle programs and activities</td>
<td>36%</td>
</tr>
<tr>
<td>Make changes to avoid excise tax ceiling</td>
<td>31%</td>
</tr>
<tr>
<td>Adopt/expand use of financial incentives to encourage healthy activities, use of higher-quality providers and other behavior changes</td>
<td>29%</td>
</tr>
<tr>
<td>Review health care benefits in a total rewards context</td>
<td>28%</td>
</tr>
<tr>
<td>Analyze the viability of private exchanges</td>
<td>28%</td>
</tr>
<tr>
<td>Expand enrollment in ABHPs</td>
<td>27%</td>
</tr>
<tr>
<td>Adopt/expand use of new technologies to improve health engagement and cultivate more informed consumers of health care</td>
<td>22%</td>
</tr>
<tr>
<td>Redefine company subsidy for health care coverage (e.g., reduce for dependents, redefine as flat dollar amount, base more on employee behavior)</td>
<td>21%</td>
</tr>
<tr>
<td>Review competitor or industry actions</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Towers Watson / NBGH - The New Health Care Imperative Survey
By 2018, it is projected that enrollment on private health insurance exchanges could outpace enrollment on public exchanges (Accenture).

Estimated actual enrollment in private exchanges for 2014 exceeded 3 million enrollees vs initial projections of 1 million enrollees (Accenture).
What is a Private Exchange?

- At its core, a private exchange is a technology driven enterprise that sells insurance products to an employee group through an on-line store.
- What makes private exchanges unique is that employees are able to shop from a menu of health and welfare benefits and select a package that best suits their needs.
- Employers typically utilize a defined contribution approach with a private exchange offering an employee a fixed dollar amount to purchase benefits.
- Private exchanges are typically run by health plans or consulting firms.
# Private vs Public Exchanges

<table>
<thead>
<tr>
<th></th>
<th>Public Exchange</th>
<th>Private Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administrator</strong></td>
<td>Federal or State Government</td>
<td>Private Company</td>
</tr>
<tr>
<td><strong>Subsidies and Tax Credits for Individuals</strong></td>
<td>Available</td>
<td>Not Available</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td>Individuals, SHOP – Small Employers</td>
<td>Employers (Fully Insured and Self Insured)</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Health Insurance</td>
<td>Health Dental Life Disability Retirement Ancillary Benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Insurance Carrier Participation</strong></td>
<td>Multiple Carriers</td>
<td>Single Carrier or Multiple Carrier</td>
</tr>
<tr>
<td><strong>Customization</strong></td>
<td>No</td>
<td>Yes, Employers may retain flexibility in selecting participating providers and plans to offer.</td>
</tr>
</tbody>
</table>
IPS Advisors – Private Exchange

- IPS Advisors partnered with Liazon to provide our clients with a turnkey private exchange solution called Bright Choices.

- BrightChoices combines a on-line health and welfare benefits marketplace with a guided shopping experience for employees.
- Employees are provided with multiple product alternatives and decision support systems to create a package of health and welfare benefits that best suit their needs.
- BrightChoices is also a year round benefits administration tool with eligibility feeds to carriers and employer tools to manage enrollment, access reports, manage life events and changes in eligibility.
Private Exchange Types – BrightChoices

- **BrightChoices - Single Carrier Private Exchange**
  - Group Size Requirement – < 3,000 employees
  - Eligible Participants – Employees, Pre-65 Retirees and Dependents
  - Funding – Self Insured or Fully Insured
  - Single insurance carrier is selected to offer medical plans
    - Example: Aetna with seven plans offered

- **BrightChoices - Multiple Carrier Private Exchange**
  - Group Size – > 3,000
  - Eligible Participants – Employees, Retirees and Dependents
  - Funding – Self Insured or Fully Insured
  - Multiple carriers are selected to offer medical plans
    - Example: Aetna and UHC with 15 plans offered
Bright Choices – Exchange Basics

1. You give employees a set amount of money to spend on benefits.

Vendor provides technology support online and on the phone.

2. Employees shop in the online store and are guided to personalized benefits selections.

Vendor consolidates and handles administrative tasks.

You give employees a set amount of money to spend on benefits.
“My son has asthma, so we see the doctor often. I don't want to think about how much I spend each time. I need to protect my family in case something happens to me.”

“My favorite doctor doesn’t accept our HMO. I’d like to stop smoking, and I do worry about cancer as it runs in my family.”

“Doctors – I don’t go much. I want to spend as little as possible on premiums. I haven’t built up much in savings, so if I get sick and I’m not getting paid, I need a source of income.”

Chris & Family
Cost $1,800

Tom
Cost $650

Alicia
Cost $650
Private Exchange - Process

Employees fill out a simple questionnaire. They get additional educational information and guidance. They receive a personalized recommendation. They pick their portfolio of plans from a range of choices.
Private Exchange - Result

Chris & Family
Previously $1,800
With Bright Choices
cost is $1,300

Tom
Previously $650
With Bright Choices
cost is $550

Alicia
Previously $650
With Bright Choices
cost is $675

Everyone got what they wanted
and total savings are $575
Private Exchange – Case Study

Before Bright Choices

- PPO $$$$  

With Bright Choices

- PPO $$$$  
- PPO 1 $$$  
- HMO 1 $$  
- PPO HSA $$  
- HMO HSA 1 $$  
- HMO HSA 2 $  

Options:
- DENTAL  
- LIFE  
- LONG TERM DISABILITY  
- VISION  
- DENTAL 3 OPTIONS  
- LIFE 3 OPTIONS  
- LONG TERM DISABILITY 3 OPTIONS  
- SHORT TERM DISABILITY 6 OPTIONS  
- CRITICAL ILLNESS  
- ACCIDENT  
- TELEMEDICINE  
- WELLNESS 3 OPTIONS  
- PET
## Case Study

### Without Bright Choices
**Total $404k**

- **$299k**
  - Premium cost for 23 employees in a POS Plan

- **$342k**
  - Annual Renewal had they done the same old

### With Bright Choices
**Total $281k**

- **$209k**
  - Cost for 23 employees in plan of their choice

- **$72k**
  - Dental, Life, LTD plus Vision, Accident, CI, STD, Wellness, and Telemedicine

- **$62k**
  - Dental, Life, LTD

- $24k assumed spent from HSA

- **$185k in premium costs**

- Employer avoided a $43k rate increase
- Employees saved $55k in payroll deductions and gained $24k in their HSAs
- Employer saved $68k in cost including $24k to HSAs
# Private Exchanges - Pros and Cons

## PROS
- Potential savings from resulting employee shift to lower cost plans
- Predictable budget using a defined contribution approach
- Personalized shopping experience and not “one-size-fits-all” approach
- Funding flexibility with fully insured and self insured models
- Enhanced support and educational tools
- Benefits administration is outsourced

## CONS
- Cultural shift
- Long term empirical evidence of cost savings is TBD
- Potential adverse selection
- Pre-packaged health plan designs – less flexibility to modify internal components of plans
- Typically an on-line solution
## Future of Private Exchanges

- Initial results from early adopters of private exchanges show reduced growth in health insurance costs (Aon / Hewitt). However, there is a lack of long term data at this time.

- Substantial growth in market share and private exchange vendors is expected with empirical evidence of increasing demand.

- Short term enrollment growth within Private Exchanges will primarily be focused within the private sector and industries significantly impacted by the employer mandate.

- Private exchange strategies for Pre and Post 65 retiree health care will receive greater traction among public entities.

- Most employers will continue to take a wait-and-see approach toward private exchanges. Over 71% of employers want to see hard evidence that a private exchange can deliver greater value than their self-managed plans.
Thank You!

Questions?