

**Private Exchanges: Data Illustrating the Impact of
a Retail Shopping Experience Aided by Decision
Support and Education Tools**

Alan Cohen and Christopher Condeluci



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By: Alan Cohen* and Christopher Condeluci†

For the past two decades, it has been increasingly difficult for employers to provide health insurance coverage to their employees. This is due in large part to the sky-rocketing costs of healthcare. In response, employers have adopted a number of strategies intended to control costs, including offering consumer driven health plans, shifting more of the cost onto employees, reducing benefits, and implementing cost-saving initiatives like wellness programs. In the wake of the enactment of the Patient Protection and Affordable Care Act (“PPACA”), employers – both fully-insured and self-insured – are examining a new strategy that offers diversity of choice, leverages technology to aid employees in making decisions regarding their health benefits, and allows the employer to better manage its health costs from year-to-year. This strategy includes determining a set allocation of dollars per employee and the deployment of a retail marketplace that offers a wide menu of health insurance products to employees. This retail marketplace is often referred to as a private health insurance exchange or a “private exchange.”

What Is a Private Exchange?

At its core, a private exchange is a marketplace – typically operated by insurance brokers, benefit consultants, independent private businesses, or insurers – that “sells” group health plans to employees of large and small employers – both fully-insured and self-insured – through an electronic platform.¹ What makes a private exchange unique is its ability to enable these employees to shop from among a wide variety of health plan options, and in some cases ancillary/supplemental insurance products, through the use of creative, interactive technology. While there are varying private exchange business models in, for example, the group health insurance market, there are certain features that will make a private exchange particularly attractive to employers and employees. These features include: a defined contribution/fixed contribution payment system, expanded “employee choice,” a decision support system, coupled with interactive education tools and administrative support.

Liazon’s Bright Choices Private Exchange

Liazon – a pioneer in the deployment of private exchanges – has developed the Bright Choices® Exchange (“Bright Choices”), an electronic platform offering a sophisticated decision support system that includes “recommendation logic” coupled with interactive education tools. In addition, Liazon offers its more than 2,000 employer clients a defined contribution/fixed contribution payment system, and allows the employees of these employer clients to choose from a wide array of health plan designs and other employee benefit programs – including ancillary/supplemental products – from a variety of insurance carriers. Liazon also partners with employers that self-insure their own employees’ health risks.

¹ Note that there are other companies that are considered private exchanges that sell health insurance products in the “individual” health insurance market through an electronic platform.

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The following describes the features of Bright Choices in greater detail, and examines data indicating how leveraging these features allows employees to choose a health insurance package that best fits their needs, often times at a lower cost to both the employee and the employer.

Defined Contribution/Fixed Contribution Payment System

A defined contribution/fixed contribution payment system works particularly well in a private exchange setting. Here, the employer decides how much it will spend on health insurance – and other benefit programs, if any – each year, and the employer gives its employees a fixed contribution amount to purchase these benefits. The employer may then determine the rate at which the fixed contribution amount would increase each year. In this case, the employer can have a more certain view of its costs for health insurance over a specified period of time (e.g., 5 years), which provides a level of certainty and cost predictability. It is important to point out that in most private exchanges that offer defined contribution/fixed contribution funding – like Liazon’s Bright Choices – the employer is making a fixed contribution that employees may use to purchase a “defined benefit.” In this case, the defined benefit is the underlying health plan, which in 2014 will meet all of the new requirements under PPACA.

Expanded “Employee Choice”

Health Plans

What makes a private exchange unique is its ability to enable employees to shop from among a wide variety of health plans with varying plan designs. Unlike the traditional distribution model where an employer offers only one, two, or three health plan options, a private exchange offers many more. Liazon’s Bright Choices can offer up to 40 different health plans, ranging from high-cost sharing and “narrow network” plans, to low- or no-cost-sharing plans and plans with unrestricted networks. Here, the difference in cost between the plan designs may be as great as 60% or more. Offering this broad “inventory” promotes choice and consumerism. Although a number of employees continue to obtain higher-cost health plans, data collected by Liazon indicate that such broad employee choice results in employees – on average – choosing a lower-cost plan.

Ancillary and Supplemental Insurance Products

A private exchange also offers the employee a wide menu of ancillary and supplemental insurance products (e.g., stand-alone dental plans, hospitalization insurance, life and disability insurance, and specified disease coverage). Offering supplemental health products alongside health plans affords an employee the opportunity to aggregate insurance coverage – usually at a lower cost – instead of purchasing a more expensive plan that may offer benefits and services the employee does not want or need. In addition, a private exchange – like Liazon’s Bright Choices – may allow an employee to enroll in important protection products such as life and disability insurance, and other plans that are valued by employees like health coaching programs or doctor tele-consult offerings.

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Decision Support and Interactive Education Tools

A key ingredient of a private exchange is decision support functionality. This decision support system helps the employee determine which health plan or insurance package is best for him or her to purchase. One of the more sophisticated forms of decision support is referred to as “recommendation logic,” which is deployed through Liazon’s Bright Choices. Here, the employee is asked a series of questions relating to, among other things, the employee’s expectations of care utilization (such as pregnancy or prescription drug use), along with the employee’s risk tolerance, financial position, and health status. The recommendation logic aligns the answers to these questions – along with, for example, public data on healthcare costs and utilization – with the health plans and ancillary/supplemental products offered through the private exchange, and it recommends a plan or package of plans that best fits the employee’s needs.

A private exchange – including Liazon’s Bright Choices – may also include interactive education tools as part of its decision support. Here, the employee may, for example, review informational material or watch an educational video explaining the benefits and services offered under particular products. In this case, the employee can take advantage of these education tools to better understand why the particular plan or insurance package was recommended, or the employee can use the education tools to shop for coverage on their own.

What Are the Benefits of Offering Expanded “Employee Choice” and Decision Support?

As the data indicate below, when offered a wide range of health plans and ancillary/supplemental products – and assisted through recommendation logic and interactive education tools – on average, employees are choosing a lower-cost health plan. In this case, the employee is spending less on health coverage, which means the employee may increase their take-home pay (i.e., the employee may be salary reducing less compensation, which increases their net wages).

It is also important to point out that some employees are actually purchasing a higher-cost plan. This illustrates that offering defined contribution/fixed contribution does not result in a “race-to-the-bottom.” Instead, employees are purchasing a more robust health plan based on their needs or personal preferences to obtain comprehensive coverage.

In short, expanded employee choice and decision support allows an employee to personalize their own health benefits package and choose the type of health coverage that is right for their needs/preferences. Employee choice and decision support puts the control over health insurance decisions in the hands of the employee – and out of the hands of the employer – and allows the employee – not the employer – to make the trade-offs between premium costs and the level of desired health insurance coverage. Furthermore, when employees choose, it leads to smarter utilization of benefits. In other words, when employees choose their own healthcare coverage, employees understand the benefits better, and use them more wisely.

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Data Compiled By Liazon Indicates That When Employees Have Choice – Along with Decision Support and Education Tools – It Results In Savings to the System

DATA RELATING TO HEALTH COVERAGE

In General

Data compiled by Liazon indicate that when given a choice – with the help of decision support tools – employees tend to make very different choices, and most employees gravitate towards the lower-cost plans. As the data below indicate, the majority of employees (60%) chose the lower-cost health plans available to them. The remaining employees split rather evenly among the remaining health plans, with a number of employees purchasing higher-cost plans that provide more robust coverage. In addition, approximately 52% of employees enrolled in a health plan that qualifies them to establish and contribute to a health savings account (“HSA”).²

Methodology

Liazon analyzed a subset of their data in three insurance markets (Metro New York City, New Jersey, and Western New York), utilizing all records that could be analyzed in aggregate across employers.³ This data set represents 2,503 individuals employed at small and mid-sized companies. Average price was determined per plan based on employee-only coverage. The pricing spread between the most and least expensive plan was stratified into thirds. Plans were then grouped into three categories (high, medium, and low relative cost).

Approximately 52% of employees enrolled in a health plan that qualifies them to establish and contribute to a health savings account (“HSA”).

² An HSA-qualified health plan is a high-deductible plan with a deductible of at least \$1,250 for single and \$2,500 for family coverage and an out-of-pocket maximum of \$6,250 for single and \$12,500 for family coverage for 2013.

³ Records included all active employers with a “standard offering” of a variety of health plans that have a plan year beginning on or before January 1, 2013. A “standard offering” of health plans is defined as a selection of plan options that is offered off-the-shelf to the employees of these employers.

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Data from Metro New York City

Employers working with Liazon in Metro New York City offered their employees eight different health plan designs from a leading national health plan. The cost differential among this inventory of plans was approximately 44%. For example, the monthly premium for the highest-cost plan was \$605, while the monthly premium for the lowest-cost plan was \$339. Importantly, 69% of the employees chose the lowest-cost options. This is in contrast to 23% of employees choosing the highest-cost options.

Plan Description	% Selected	Relative Pricing	Average Pricing	Pricing Tier
Open Network \$1,500 Deductible Plan	7%	100%	\$605	High
Closed Network \$2,000 Deductible Plan	16%	83%	\$500	
Open Network \$3,000 Deductible HSA Qualified Plan	3%	74%	\$448	Medium
Closed Network \$2,500 Deductible HSA Qualified Plan	6%	70%	\$425	
Closed Network \$20/\$40 Co-pay Plan	26%	61%	\$369	Low
Closed Network \$3,500 Deductible HSA Qualified Plan	6%	60%	\$360	
Closed Network \$30/\$50 Co-pay Plan	29%	59%	\$356	
Closed Network \$5,000 Deductible HSA Qualified Plan	8%	56%	\$339	

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Data from New Jersey

In New Jersey, employees of employers working with Liazon were offered 10 different health plan designs, also from a leading national health plan. Here, the cost differential among plans was approximately 61%. For example, the monthly premium for the highest-cost plan was \$681, while the monthly premium for the lowest-cost plan was \$267. Significantly, 77% of the employees chose the lowest-cost options. This is in contrast to 8% of employees choosing the highest-cost options.

Plan Description	% Selected	Relative Pricing	Average Price	Pricing Tier
Open Network \$1,500 Deductible Plan	3%	100%	\$681	High
Closed Network \$30/\$50 Co-pay Plan	5%	97%	\$659	
Open Network \$2,000 Deductible Plan	0%	93%	\$635	
Open Network \$2,000 Deductible HSA Qualified Plan	1%	79%	\$539	Medium
Closed Network \$1,500 Deductible Plan	2%	78%	\$533	
Closed Network \$2,000 Deductible Plan	3%	65%	\$446	
Open Network \$2,500 Deductible HSA Qualified Plan	10%	62%	\$419	Low
Closed Network \$2,500 Deductible Plan	12%	57%	\$385	
Closed Network \$1,650 Deductible HSA Qualified Plan	10%	55%	\$377	
Closed Network \$2,500 Deductible HSA Qualified Plan	55%	39%	\$267	

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Data from Western New York

In Western New York, employers working with Liazon offered their employees eight different health plan designs from a leading regional health plan. In this case, the cost differential among plans was approximately 61%. Here, the monthly premium for the highest cost plan was \$585, while the monthly premium for the lowest cost plan was \$227. Interestingly, 34% of employees chose a low-cost option. This is in contrast to 39% of employees choosing a high-cost option. Many of the employers in Western New York consist of small companies opting to bypass the decision support entirely, and it is interesting to note the more even spread among the lower- and higher-cost plans than in the above examples.

Plan Description	% Selected	Relative Pricing	Average Price	Pricing Tier
Open Network \$25/\$40 Co-pay Plan	15%	100%	\$585	High
Open Network \$30/\$50 Co-pay Plan	12%	94%	\$547	
Open Network \$30/\$50 Co-pay \$7 Generic Rx Plan	10%	82%	\$480	
Open Network \$1,000 Deductible Plan	2%	81%	\$472	Medium
Open Network \$2,000 Deductible Plan	3%	74%	\$431	
Open Network \$1,300 Deductible HSA Qualified Plan	25%	60%	\$352	Low
Open Network \$2,600 Deductible HSA Qualified Plan	12%	52%	\$302	
Open Network \$5,500 Deductible HSA Qualified Plan	22%	39%	\$227	

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DATA RELATING TO ANCILLARY AND SUPPLEMENTAL INSURANCE PRODUCTS

The data were also analyzed with respect to the selection of ancillary and supplemental insurance products.⁴ Results showed that employees tended to purchase a broad range of these products to supplement and complement their health plan and round out their benefits portfolio. The most popular ancillary health choices were dental and vision coverage. For example, 72% of employees chose a stand-alone dental plan and approximately 45% chose a stand-alone vision plan. Even benefits such as health coaching, tele-doc consults and pet insurance were selected up to 10% of the time.

In the case of protection products, 71% of employees selected life insurance and around 53% of employees elected long-term disability (LTD).⁵

Category	% Selected ⁴
Dental	72%
Vision	45%
Supplemental Health	N/A
Health Coaching	3%
Tele-Doc Consults	7%
Life Insurance	71%
LTD	53%
STD	N/A
Pet Insurance	5%

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⁴Dental, vision, health coaching, tele-doc consults, life, LTD, and pet insurance were analyzed within the same New York and New Jersey dataset as medical to retain consistency of data. However, Western New York was excluded from this analysis as most of the companies in that dataset were sole proprietorships that were not eligible for ancillary group benefits. Short-term disability (STD) insurance, while often available in the Bright Choices Exchange, was removed from this analysis because of the prevalence of company-paid coverage and salary continuation programs. Supplemental health products, also generally available in Bright Choices, are not consistently offered in New York due to state restrictions, and were therefore removed from this analysis.

⁵In a minority of instances, employers earmark contribution dollars specifically for life or LTD. This increases adoption.

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What Does This All Mean?

Detractors of private exchanges argue that expanded “employee choice” is confusing to employees. These observers also contend that employees are not equipped with the skills to understand the differences between 10 to 20 plan designs – along with the menu of the supplemental/ancillary products – and ultimately choose a health plan or health insurance package. However, data indicate that when employees are given a choice – and offered assistance through a decision support system, which includes innovative, interactive education tools – employees appear to be choosing a health plan that best fits their needs. And, a majority of the time, employees are choosing the less expensive plans among the set of health plans offered. As a result, there is tangible savings at the “plan selection” level for both the employee and the employer. The data also indicate that there is no “race-to-the-bottom,” as many detractors of private exchanges contend. Employees are still opting for higher-cost, robust benefit plans in cases where these plans are best for them.

The data also indicate that employees are selecting ancillary and supplemental insurance products to complement their health coverage selection. As discussed, offering these products alongside health plans affords an employee the opportunity (1) to purchase a low-cost health plan and (2) to add specified coverage for, for example, dental and vision visits and other routine services. Employees are also choosing to insure themselves from catastrophic health events (e.g., Critical Illness insurance) and purchasing coverage to protect themselves in the event they become disabled. These data illustrate that employees are taking into account other life-altering events and purchasing life insurance. Interestingly, while employees do not appear to be selecting wellness products, they are selecting tele-doc consult services.

Data indicate that when employees are given a choice – and offered assistance through a decision support system, which includes innovative, interactive education tools – employees appear to be choosing a health plan that best fits their needs.

Conclusion

Are private exchanges the future? As healthcare costs continue to rise, more and more employers and employees are likely to look to private exchanges. Why? Because private exchanges provide a consumer-friendly way to purchase health insurance, and partnering with a private exchange can result in tangible savings, as the data compiled by Liazon indicate. It is likely that private exchanges will help those employers who want to hold on to employer-sponsored coverage to continue to provide such coverage. In addition, it is likely that private exchanges will help employees become better consumers of healthcare. Regardless of whether PPACA is fully implemented or modified due to a shift in politics in the coming years, private exchanges will play a critical role in the future of healthcare.

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