Reducing Costs, Increasing Choice: Private Health Insurance Exchanges

Private exchanges provide payers with a competitive, value-generating solution to the challenges posed by public exchanges, employer cost control needs and the consumerization of healthcare.

Executive Summary

The Affordable Care Act (ACA) is catalyzing an increased consumer orientation in healthcare. It accelerates a trend already under way in which individuals gain more control over how they spend their healthcare dollars. In response, payers are developing innovative benefit plans and expanding sales channels to attract newer segments, support member choice and enhance members’ well-being with health advocacy programs.

Simultaneously, employers are working to reduce their rising healthcare expenses. One solution gaining popularity is to move from defined-benefit to defined-contribution plans for employees. Simply put, employers want to solely provide the funding mechanism for employees to purchase their own benefits. As employees are empowered to make their own choices about healthcare spending, they become more aware of the value of their coverage, are informed about quality and demand more choice (see Figure 1, next page).

Payers must meet these new demands from both employers and members in the growing direct-to-consumer market or risk losing market share and revenue. Private health insurance exchanges are an effective response for both group and individual sales. They allow employers to set their costs using defined contributions instead of defined benefits. Consumers gain more choice and control over their healthcare spending. Payers increase their value to employers while still offering quality healthcare options and an efficient way for members to shop and enroll.

Offering a successful private exchange requires much more than a marketing campaign: Exchanges represent a shift in payers’ core business models. As such, payers must rethink and reinvent processes to run direct-to-consumer operations that are both better than and different from the competition.
Private Exchange Drivers
The ACA will catalyze the “retail-ization” of healthcare.

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<thead>
<tr>
<th>Three Redefining Phenomena</th>
<th>2020 Retail Exchange Marketplace</th>
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<tr>
<td>1. Employers dropping coverage</td>
<td>The retail market will include more than 100 million consumers by 2020.</td>
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<td>2. A shift to defined contribution</td>
<td>Tomorrow’s exchange market</td>
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<td>3. The ACA individual mandate</td>
<td>40-60 million members from small employers/defined contribution exchanges</td>
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Figure 1

Private Exchanges: The Basics
Payers have many options when considering channel diversification strategies. The public health exchanges created by the ACA are multi-carrier exchanges geared toward individual and small group sales. Private exchanges can mirror a multi-carrier model as well, but the primary benefits of a private exchange for carriers apply to a single-carrier model and most immediately to the group population. In addition to helping payers retain and increase group sales and shift into the individual market, private exchanges enable payers to offer products beyond the major medical health insurance category, into dental, vision, ancillary coverage and financial services.

In the group sale, an employer contracts with a payer that offers a private exchange open to employees. The exchange enables employees to compare features and benefits of the payer’s various plans in a retail experience akin to an Amazon.com or Expedia.com, as well as purchase the desired plan directly from the payer.

Private exchanges are subject to fewer state and federal regulations than public exchanges. This gives payers more freedom in how they design the customer experience on their exchanges, the choice of plans offered and the level of customer service and support. Many health consumers shopping on a private exchange through their employers will not be eligible for the federal subsidies outlined in the ACA, simplifying payment and administration for payers and employers.

An Appealing Solution for Employers
Transitioning to a defined contribution approach helps employers flatten the cost curve of their benefits offering, while shifting choice – and more risk – to employees. Employers still want to offer valued employees high-quality healthcare choices. Private exchanges are the simplest way to provide defined contributions while offering choices that reflect the rising consumerism and retail style of direct-to-consumer sales in the healthcare marketplace. In one benefits survey, more than 25% of employers said they expect to offer employees access to a private exchange in the next three to five years.¹

Private exchanges include a wider range of plans than employers would otherwise offer, so employees can find coverage and products better suited to their unique needs. Also, not all employees will qualify for subsidies on state and federal exchanges, so by offering access to a private exchange, employers can give their employees choice, control and name brands without referring them to public exchanges.

Finally, a private exchange can reduce administrative costs for employers and brokers by streamlining sales, marketing, communications, guidance selection, enrollment and billing processes.

Private Exchanges: An Opportunity for Payers

Private exchanges offer payers the ability to connect directly with consumers, whether they’re employees or individual buyers. Defined contribution models disrupt payers’ relationships both with employers and with employees, who are now choosing products that best meet their needs. Empowered individual consumers buying insurance directly also disrupt broker channels. These consumers, especially younger “digital natives,” will demand more mobile, easy-to-use and social media-style tools in an online marketplace.

Yet amid the disruption caused by the move to defined contributions, payers that make the necessary fundamental shifts in their core business models can seize emerging opportunities, such as:

• **Offer additional value-generating products.** Payers may add ancillary products that are not subject to medical loss ratio regulations on private exchanges. These can include vision, dental, wellness, pet care, financial products and more, increasing options and serving a full range of individual needs.

• **Attract and retain employer clients.** Employers can balance the cost control of defined contributions with meaningful employee choice, making the private exchange model especially attractive in the changing healthcare market.

• **Strategically diversify sales channels.** A single-carrier private exchange enables payers to respond to market expectations and develop a channel that contributes to the bottom line. Whether or not a payer participates in a public exchange, a private exchange represents a strategic shift and is a response to increasing direct-to-consumer relationships and sales in healthcare.

• **Work in parallel with public exchanges.** On a public exchange, small group employees and individuals can select insurance plans, although not all of them will be eligible for federal health insurance premium subsidies. A private exchange enables payers to give employers, employees and individuals another option, one likely to offer a better user experience, excellent customer service and a wider array of products from which to choose. For individuals who are eligible for subsidies, having a private exchange will integrate eligibility checks and ensure that payers leverage the public exchanges for lead generation.

Rethinking Business Models, Reinventing Processes

Marketing campaigns alone will not create the competitive advantage that is possible with private exchanges. Rather, payers must rethink their value propositions and reinvent processes and workflows to support a true direct-to-consumer business (see Figure 2, next page). Some of the key capabilities and processes affected by becoming more consumer-centric include:

• **Products:** Payers must offer innovative, “individualized” plans and match the variety of offerings on a private exchange to the individual market or employee target audience.

• **Marketing:** Payers need to update marketing strategies and leverage access to new analytics. New messages, channels and state-of-the-art shopping experiences are necessary to reach a new mix of consumers, many of whom will expect personalized communications about plans and offerings tailored to their needs and accessible on devices of their choice.

• **Benefits administration:** Offering self-service functionality to benefits administrators will be a key differentiator for payers. Some of the salient features include employee management, defining classes, access to reporting, billing and payment tracking, and payroll calculations.

• **Customer experience:** It will be critical to offer consumers a well-designed, familiar shopping experience. Millennial generation employees will expect private exchange features and follow-up service to match those they use on other online shopping sites, such as easy comparisons and user reviews.

• **Systems and back-end support:** Payers will need to manage the integration of member data, enrollment processes, customer service and defined contributions into existing payer and employer systems to provide streamlined administration, such as offering employers a single place to view invoices.

• **Analytics:** Payers must continually evaluate private exchange results, gauging metrics such as consumer acceptance, plan performance, shopping trends, etc. Like other retailers, payers will need to use these results to adjust offerings and exchange features to respond quickly to customer demands.
**Private Exchanges: An Effective Competitive Advantage**

Offering a private exchange option is an effective solution to the challenge of reducing healthcare expenses while still offering employees quality healthcare choices. The private exchange model addresses the growing consumerization of healthcare, in which individual, empowered consumers control healthcare premium purchasing dollars, demand high quality at good value and buy directly from payers.

The private exchange concept is relatively simple; the quality and customization of plans and products available on the exchange will be critical in an increasingly competitive individual health insurance market. Payers must focus their core expertise on plan and product design. The operational and administrative features – including customer experience design, back-end support, systems integration and analytics – can be managed by service providers, further reducing costs.

The shift to defined contributions and private exchanges is well under way, regardless of implementation delays or challenges with the ACA. Payers that respond now will lead the market and gain competitive advantage among employers and individual consumers. Bringing a powerful single-carrier exchange solution to market quickly and effectively will be a differentiator among payers.

**Preparing to Offer Private Exchanges: An Internal Evaluation Checklist**

Key components to consider include:

- **Identifying stakeholders** (billing, client relations, IT, marketing, membership, producers/producer relations, product, sales, training, underwriting) and developing an implementation roadmap.
- **Detailing private exchange workflows** in the business and systems ecosystems.
- **Assessing suitability of existing products** for the private exchange marketplace and/or determining the need for new offerings.
- **Enlisting existing skills and capabilities** for direct-to-consumer marketing through a mix of social and traditional channels.
- **Assessing the ability and capacity** for providing ongoing support and service directly to individual consumers.
- **Identifying potential exchange partners** that offer complementary ancillary products and scoping the timeframe and technology requirements for integrating these partners’ offerings into the exchange.
- **Implementing reporting and analytics tools**, including near-real-time and real-time capabilities.

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**Comprehensive Private Exchange Business Solution**

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**Consumer-Driven Design & Interaction**

![Figure 2](Comprehensive Private Exchange Business Solution)
• **Remodeling back-end support processes** for managing defined contribution reporting, payroll deductions, accounting and tax reporting.

• **Understanding how billing data and invoices, enrollment and member management systems, products, sales and commissions will be designed and integrated into the private exchange.**

Once payers understand the new processes and skills required for successful private exchanges, they can then evaluate their internal abilities to create or enhance these capabilities.

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**Footnote**


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**About the Authors**

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About Cognizant Healthcare

Cognizant’s Healthcare Practice delivers deep domain consulting knowledge, information technology-driven leadership, and business process services supported by more than 30,000 healthcare industry professionals. We help healthcare organizations understand the impacts of reform, address regulatory mandates, manage costs, navigate risk, and grow profitably while positioning for the future. Consistently ranked among the Healthcare Informatics Top 100 (ranked #6 in 2011 and 2012), our integrated, end-to-end services and solutions support leading healthcare organizations worldwide, including 16 of the top 20 U.S. health plans, five out of six PBMs, leading care delivery organizations and intermediaries.

Cognizant HIX

Our solution helps health plans identify and address the specific strengths and challenges required to adapt to the HIX marketplace, including assessing readiness and defining business requirements; design and build of business processes and IT interaction across functions; review of operational requirements and vendor readiness assessment; and testing.

Together, Cognizant and Array Health provide an end-to-end private exchange solution leveraging the depth and breadth of both organizations’ experience, including Array Health’s over seven years of practical experience delivering software solutions to the carrier market, with a particular focus on defined contribution and private exchange platforms.

About Array Health

Array Health is a leading provider of private insurance exchange technology. Its cloud-based software platform enables health plans of any size to power their own branded online exchanges— a strategic channel that helps them compete and thrive in the post-health-reform world. With Array Health’s state-of-the-art member marketplace and support for defined contributions, insurers win and retain business by giving employers a way to control costs and members a better way to buy benefits. Array Health is a privately held company based in Seattle. To learn more, visit www.arrayhealth.com.

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