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PRIVATE EXCHANGES OFFER NEW OPPORTUNITIES AND SIGNIFICANT PERILS

The state-based and federally facilitated exchanges created by health care reform and set to be active in 2014 have garnered much attention. Meanwhile, private exchanges are beginning to get some attention and could expand significantly in specific markets and in structure over the next few years. Vendors providing such private exchanges are claiming positive results in total employee enrollment last year, and say they expect this to be the trend. Clearly, private exchanges will not be appropriate for every employer (for many reasons). However, for an employer of the right size and industry, exploring private exchanges may be a worthwhile exercise. Private exchanges have the potential to bring together buyers and sellers, potentially empowering new opportunities in the health insurance marketplace.

Given an employer's objective to limit its cost for health care coverage, the most popular model of private exchange coverage is a defined-contribution plan. Under this plan, employees are provided a flat dollar amount by their employer to purchase the type of medical and ancillary products they wish. For small- to medium-sized employers, this form of coverage offers several benefits, including reduced administrative costs, cost certainty for the risk averse, and access to multiple plans.

Employers switching to a defined contribution plan through a private exchange may be providing their employees more choice, but with this choice comes the potential for adverse impacts on all parties. Most employees are not fully "health literate," and therefore are unlikely to select the coverage that is right for their individual needs. Those that are health literate put insurance companies at risk because of adverse selection; these employees know their health status the best. (Wilson Partners expects adverse selection to be a significant issue facing exchanges.) With more expansive options offered to employees, some may be unable to decide which plan is best and choose not to spend much time trying to pick the optimal plan. They may also recognize later in the plan year that they should have selected a different plan. For example, an individual with knee pain may decide not to have elective surgery. When the knee pain becomes severe, the individual would likely delay knee replacement surgery until the next plan year when he or she can elect a plan that covers this service. Many employees are also satisfied with their current health plan available through their employer and feel as if they have more input in plan structure and design.

The two current market leaders actively promoting their private exchange products are Mercer and Aon Hewitt. Both providers use an internet-based platform that offers decision-support tools, provider choices, and benefit design options. Mercer is expecting 10 major insurers to be included on the exchange for 2014, including Aetna, Humana, UnitedHealth Group, and Cigna, along with various Blue Cross Blue Shield plans. Mercer claims that private exchange coverage is feasible for employers that have over 100 employees. However, it is unlikely that larger employers will adopt a private exchange model, as the value of self-insured plans are expanded under ACA and provide employers with a greater ability to successfully manage plan cost.

Wilson Partners is of course available to discuss the appropriateness of a private exchange model for your organization.

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