

## Private insurance exchanges “Outlook is good”

### Insights from the Deloitte Center for Health Solutions 2015 Survey of US Employers

#### Executive summary

What future moves might employers make around their health benefit strategies in the face of coverage changes, rising costs, and pressure to recruit and retain talent? One popular option is private insurance exchanges (PIX), online marketplaces that allow employers to shift to a defined contribution for health care. Some employers have already implemented private exchanges and others are considering them.

Findings from the Deloitte Center for Health Solutions 2015 Survey of US Employers\* suggest that employers are positive about private exchanges and their potential for decreasing costs, simplifying the employer's role in benefit administration, and providing employees with comparable, higher-quality coverage at a lower cost. Employers who have already implemented private exchanges (adopters) are even more positive than those who have not moved to private exchanges (non-adopters).

Of the adopters (11 percent of respondents), only eight percent say they are not satisfied with their current private exchange and only one in five says it has not reduced costs.

It appears that the trend of employers embracing the shift to private exchanges may be growing. Thirty percent of non-adopters say they are interested in moving to private exchanges, and the majority of those interested (62 percent) say they are likely to move in the next one-to-two years.

\*The Deloitte Center for Health Solutions (DCHS) conducted an online survey of 700 employers between February and March 2015. Respondents were randomly selected from an online panel of US employers, and chosen to complete the survey if they met the inclusion criteria: Responsible for making health benefits program decisions for their company and work for a US company with 50 or more employees. Deloitte also conducted a survey of US employers in 2012 and 2013.

Since there is an expressed willingness to move, understanding employers' preferences and concerns will likely be crucial for health plans and other stakeholders in the private exchange business.



## Background

In 2014, about 2.5 million individuals at companies of all sizes enrolled in health insurance plans through private exchanges.<sup>1</sup> That number is anticipated to increase over the coming years because private insurance exchanges (PIX) are an attractive option for employers looking to manage their current/future health care costs while also preparing for the Cadillac tax.<sup>\*\*</sup> Private exchanges are created by private sector companies, including health insurance companies and brokerage or consulting firms. They are a vehicle for employers to move away from a defined benefit model, where employers provide a fixed set of health benefits to workers, to a defined contribution model, where employers offer employees a fixed amount of money to purchase health plans. Employers using a private exchange give employees their allotted money and direct them to an exchange where they can shop for a health plan and other benefits, like dental insurance, based on options that the employer has preselected. The exchange can offer a variety of plans with different premiums, co-pays, deductibles, and coverage options. PIX platforms tend to have consumer-support tools, such as physician finders, user-friendly questionnaires to help identify appropriate plans, cost calculators, and access to ancillary offerings like health savings accounts (HSAs).

**\*\***The Affordable Care Act's "Cadillac tax" begins in 2018 and is a non-deductible excise tax on high-cost, employer-sponsored plans (starting at \$10,200 for individual coverage, \$27,500 for group coverage). Employers will be responsible for calculating the tax per employee and apportioning it among their insurers and plan administrators.

## Highlights from the Deloitte Center for Health Solutions 2015 Survey of US Employers

### Employers believe that private exchanges can control their health care costs



**38%** of employers surveyed agree that they can control their health care costs with PIX

### Employers believe that private exchanges provide value along several key dimensions



**~45%** of employers surveyed agree that PIX simplify their company's role in benefit administration and help them comply with the ACA

### Employers are open to exploring multiple models for their private exchanges



**40%** of employers surveyed who have not adopted a PIX would prefer a carrier-sponsored exchange if they were to implement an exchange in the future

### Employers who have not adopted a private exchange yet have some concerns



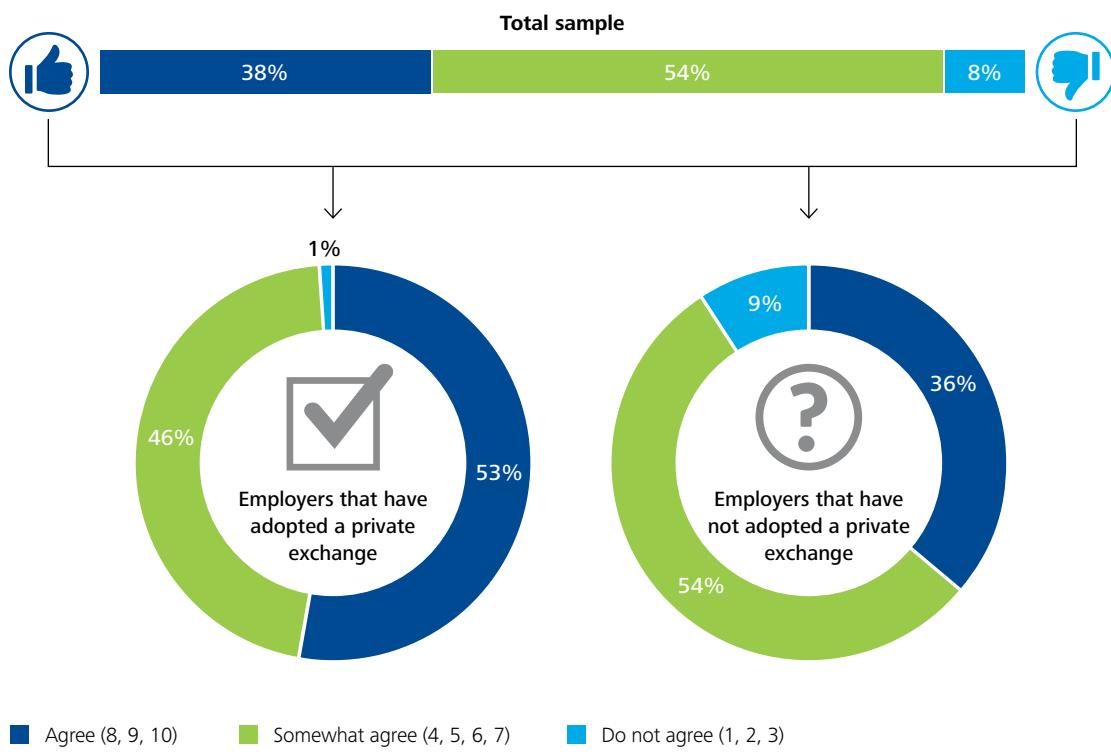
**~55%** of employers surveyed who have not adopted a PIX are concerned about fee levels and perceived value

**Employers are generally positive about the potential for private insurance exchanges to contain employer health care costs, simplify the employer's benefit administration role, and offer employees more value.**

Almost all of the employers who participated in the Deloitte survey agree to some extent that private exchanges control employer health care costs. Employers with private exchanges (adopters) are more likely than those without private exchanges (non-adopters) to say that they contain employer costs (Figure 1). More than half (53 percent) of adopters agree that private exchanges control employer health care costs compared with 36 percent of non-adopters.

**Figure 1. Employer views on private exchanges containing employer health care costs (adopters vs. non-adopters)**

On a scale of 1 to 10, where 1 is "totally disagree" and 10 is "totally agree," to what extent do you agree or disagree that private exchanges contain employer health care costs?



Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

Surveyed employers believe that private exchanges provide value along several key dimensions: They are a vehicle to help improve employee satisfaction; they help employers comply with requirements of the Affordable Care Act (ACA); and they simplify the employer's role in benefit administration (Figure 2). About 45 percent of employers agree that private exchanges:

- Give employers the ability to comply with the ACA
- Simplify their company's role in benefit administration, and
- Create an easier way to offer a defined premium approach.

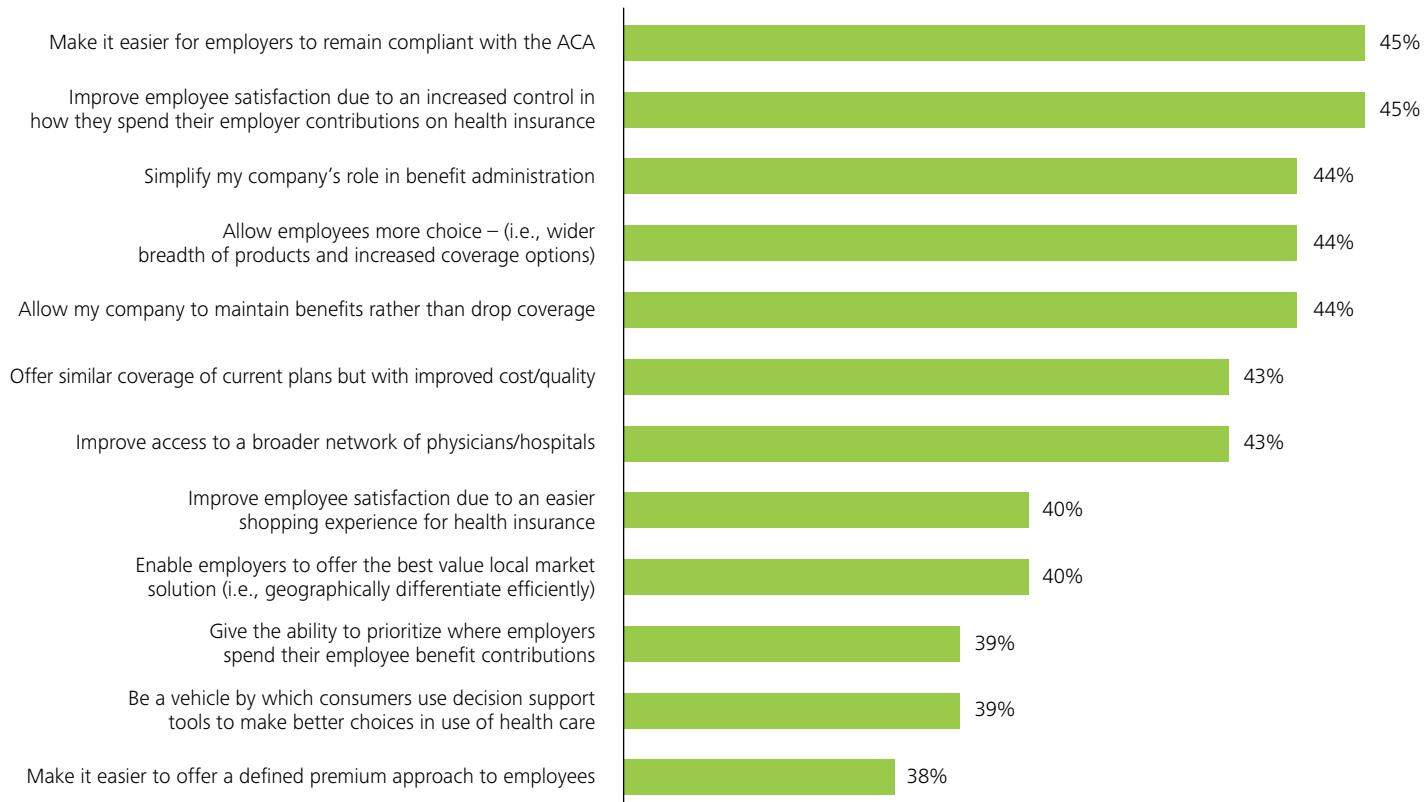
Private exchange adopters are generally more positive about their impact than non-adopters. The greatest contrasts between the two groups are their belief that private exchanges:

- Simplify the role of employers (60 percent vs. 42 percent)
- Make it easier to offer a defined premium approach (62 percent vs. 35 percent), and
- Improve access to broader physician/hospital networks (57 percent vs. 41 percent).

Additionally, adopters are more positive that private exchanges help them offer the best value, local market solution, and plans with improved cost and quality (at same coverage level). There is less difference between adopters and non-adopters about the impact of private exchanges on improving employee satisfaction. Private exchanges can give employees increased control in how they spend their employer health insurance contributions.

#### **Figure 2. Employer (total sample) views on private exchanges and impact on company and employees**

On a scale of 1 to 10, where 1 is "totally disagree" and 10 is "totally agree," to what extent do you agree or disagree with the following statements about the impact of private insurance exchanges on health care costs?



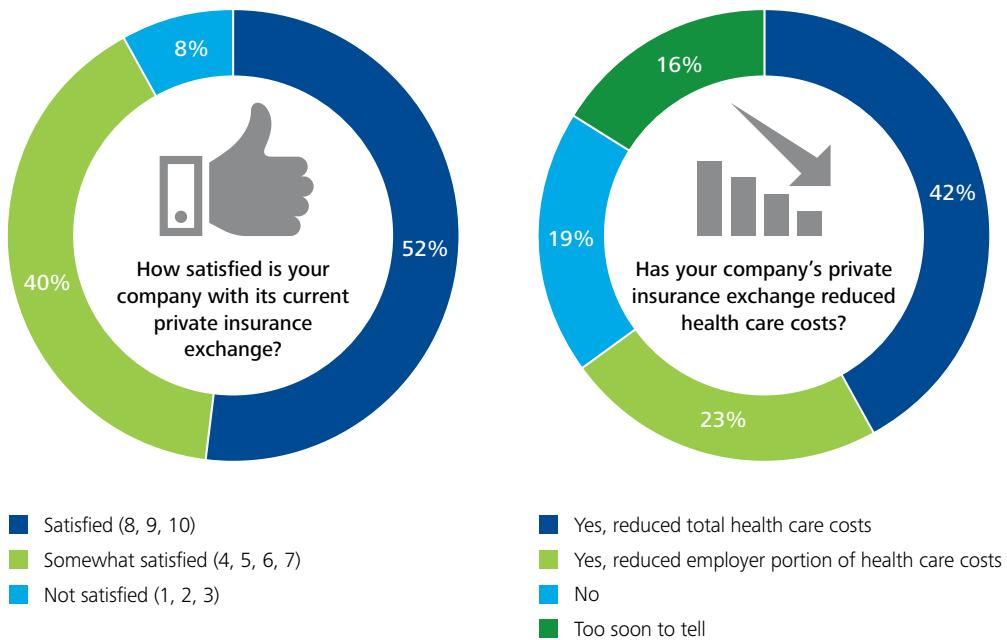
Percent of employers who answered 8, 9, or 10

Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

### **Employers who have adopted a private exchange see value, are satisfied, and became “converts.”**

Eleven percent of respondents say they are currently using private exchanges. Of those 11 percent, only eight percent say they are not satisfied with their current private exchange (Figure 3). And only one in five says that their private exchange has not reduced health care costs.

**Figure 3. Employer (adopters) views on their current private exchanges**



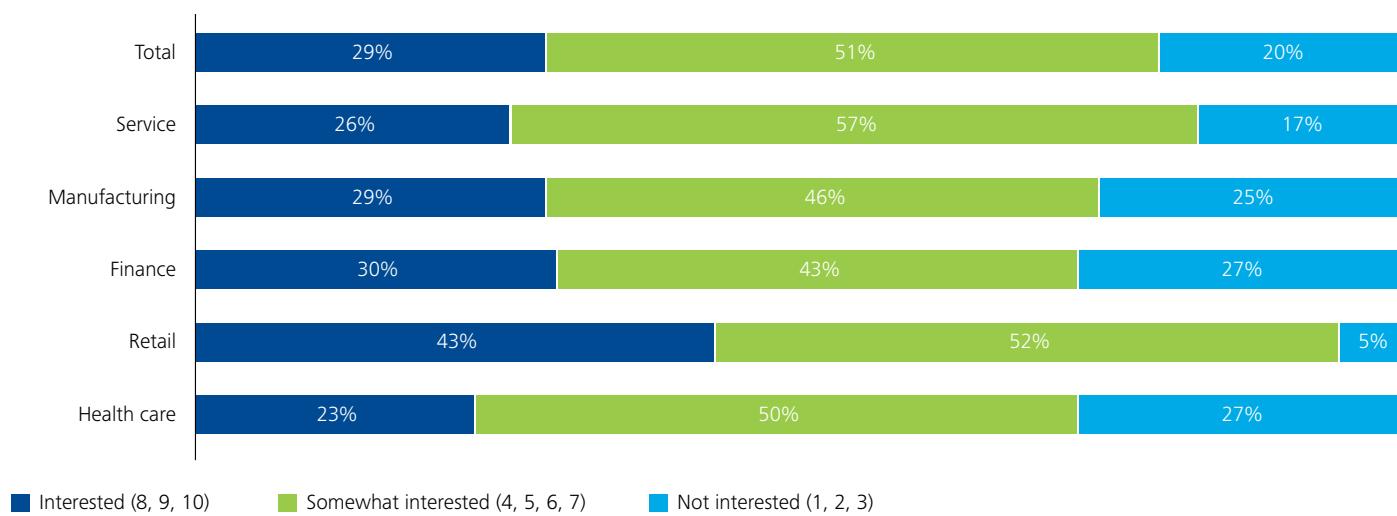
Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

**Among current non-adopters, there is interest in moving to private exchanges – most likely in the next one-to-two years.**

Thirty percent of employers say they are interested and half say they are somewhat interested in using private exchanges to manage costs. Interest varies by industry and company size, with retail expressing the most interest (Figure 4).

**Figure 4. Employer (non-adopters) likelihood of adopting a private exchange**

On a scale of 1 to 10, where 1 is “not at all interested” and 10 is “very interested,” how interested is your company in using [a private insurance exchange] to manage total health care costs?

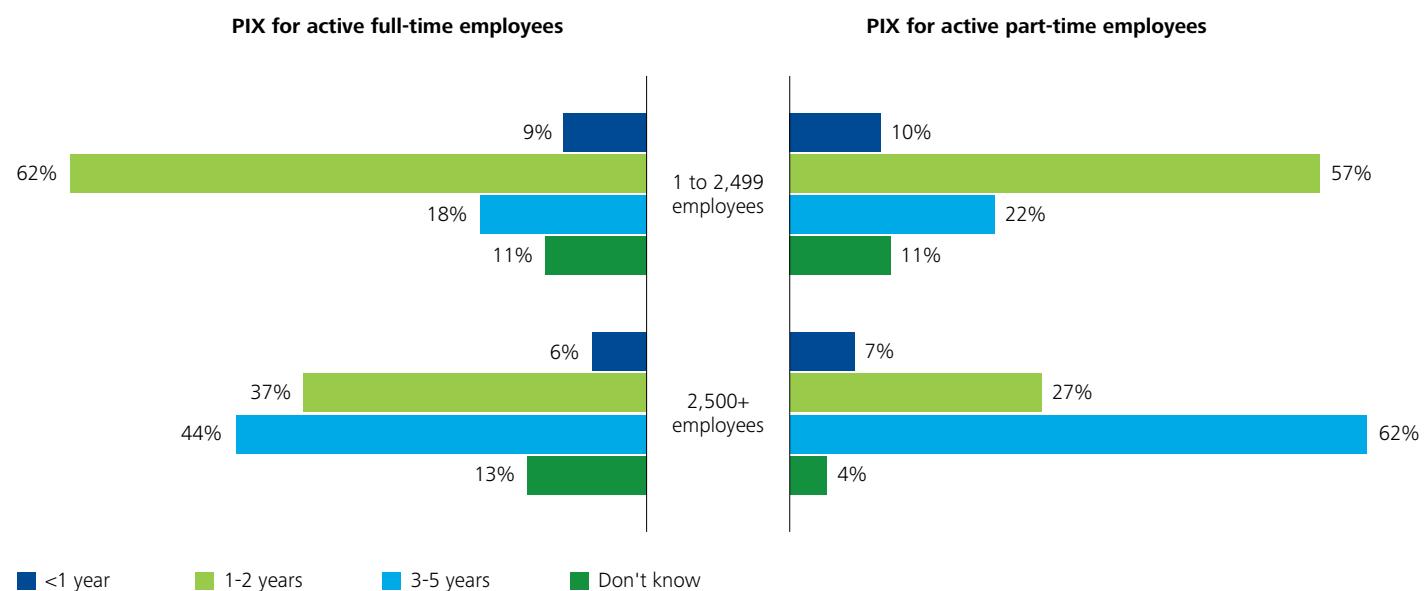


Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

Employers anticipate moving to a private exchange sooner rather than later. Sixty-two percent of respondents anticipate moving their active full-time employees to a private exchange in one-to-two years (data not shown). About one in five respondents say that moving in three-to-five years is more likely. The anticipated timeframe for moving varies by employer size (Figure 5). Interest in moving active employees to private exchanges in the next couple of years is greatest for mid-market (<2,500) employers.

**Figure 5. Employer (non-adopters) anticipated timeframe for adopting a private exchange, by firm size**

What is your company's anticipated timeframe for adopting a private insurance exchange for the provision of your health benefits program?



Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

## Employers are open to exploring different product and sponsor models.

One-third of employers express a preference for multi-carrier competition in a private exchange (Figure 6). Nearly two-thirds of employers see a role for narrow networks or may be open to such a role. One in five mid-market employers (<2,500 employees) has no preference. Almost three in four employers prefer or may be open to an insurance carrier-sponsored exchange.

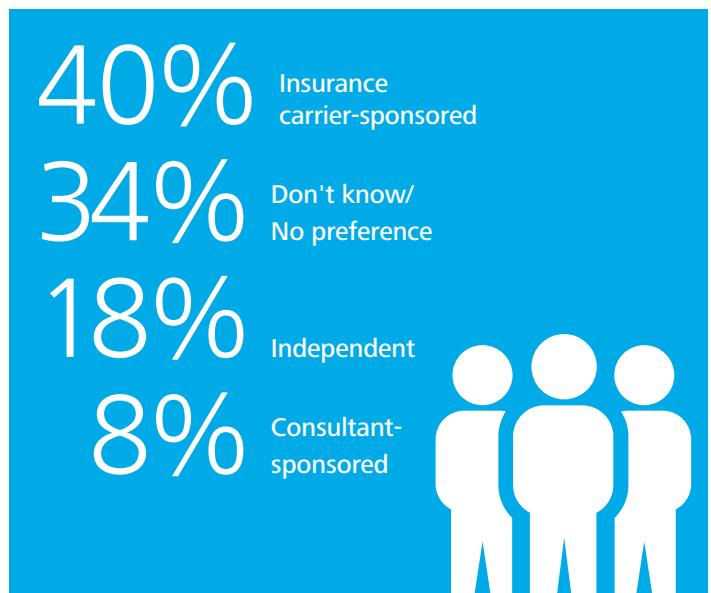
**Figure 6. Employer (non-adopters) preferences for type of private exchange**

If your company were to implement a private insurance exchange for any of your employees, which of the following would be preferred?

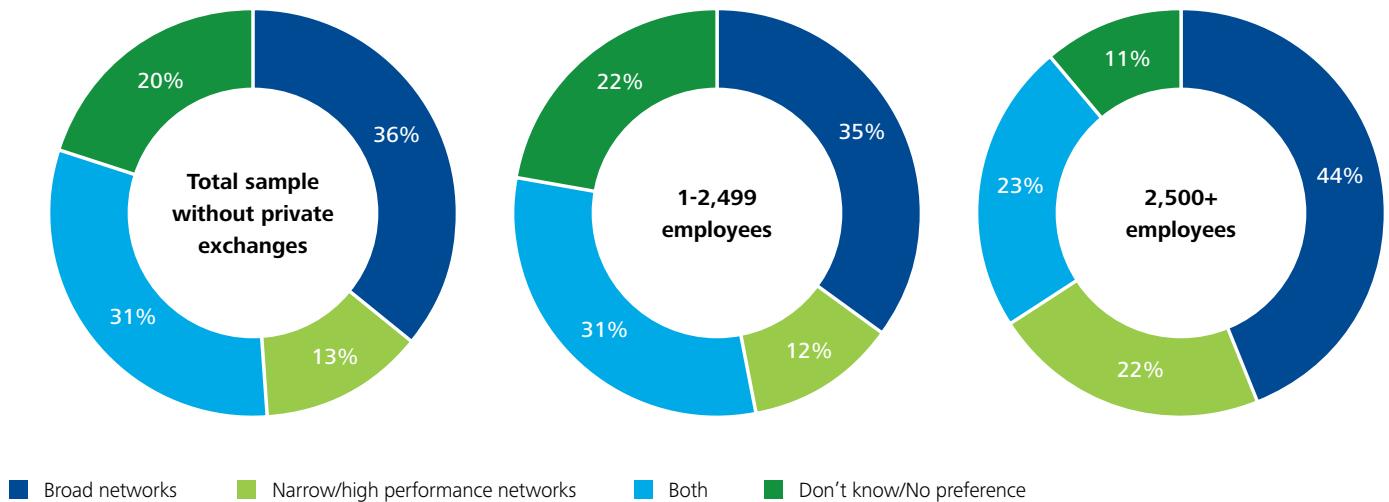
**Carrier type preferences**



**Sponsor type preferences**



**Network type preferences by firm size**



Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

**Employer concerns that may prove to be barriers to adoption include fee levels and perceived value to consumers.**

Employers rank fee levels and perceived value as high concerns (Figure 7) when they consider adopting an exchange. Fewer employers say they are concerned about lack of flexibility and control.

**Figure 7. Employer (non-adopters) concerns regarding adopting a private exchange**

You mentioned previously that currently your company does not have a private insurance exchange. With regard to private insurance exchanges, how concerned are you about the following factors?



Percent of employers who answered 8, 9, or 10 on a scale of 1 to 10 where 1 is "not at all concerned" and 10 is "highly concerned."

Source: Deloitte Center for Health Solutions 2015 Survey of US Employers

## Conclusion

Private exchanges appear to be increasingly popular as a platform for employers to deliver health care benefits to their employees. Findings from the Deloitte Center for Health Solutions 2015 Survey of US Employers reveal that many employers are interested in using private exchanges and believe that they provide value along several key dimensions, including controlling costs and improving employee satisfaction. Employers are open to exploring various exchange models, including sponsor types and network types (including narrow networks). Survey results suggest that many employers considering moving to private exchanges are likely to do so in two years or less. However, there also are a number of employers who appear hesitant to move forward, citing barriers such as administrative fees and the question of consumer value. Health plans and others offering private exchanges should consider understanding and addressing these barriers to increase employer adoption. It's too soon to tell if private exchanges will fulfill their potential, but if they do, they may significantly impact health plans' role and value in employer-sponsored health care.

## Survey methodology and sample

Potential survey respondents were randomly selected from an online panel of individuals responsible for making health benefits program decisions and who work for a US company with 50 or more employees. The interviews, conducted from February 23 to March 6, 2015, took an average of 15 minutes to complete. Seven hundred respondents completed the survey. Eligibility requirements included the following:

- At least 18 years old
- Currently employed
- Does not work for the government, and
- Holds one of the following positions:
  - Owner
  - Chief Executive Officer or President
  - Chief Financial Officer
  - Chief Operating Officer
  - Chief Human Resources Officer
  - Executive responsible for health benefits program or director/manager of employee benefits
  - Office manager or benefits administrator.





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# Deloitte Center for Health Solutions

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The source for health care insights: The Deloitte Center for Health Solutions (DCHS) is the research division of Deloitte LLP's Life Sciences and Health Care practice. The goal of DCHS is to inform stakeholders across the health care system about emerging trends, challenges, and opportunities. Using primary research and rigorous analysis, and providing unique perspectives, DCHS seeks to be a trusted source for relevant, timely, and reliable insights.

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