

A close-up, high-contrast photograph of a wolf's face. The fur is dark and textured, with a prominent red eye that glows with a bright, fiery light. The lighting is dramatic, highlighting the texture of the fur and the intensity of the eye.

Deloitte.

Private exchanges
Wolf at the health
plan's door?

The case for an offensive strategy

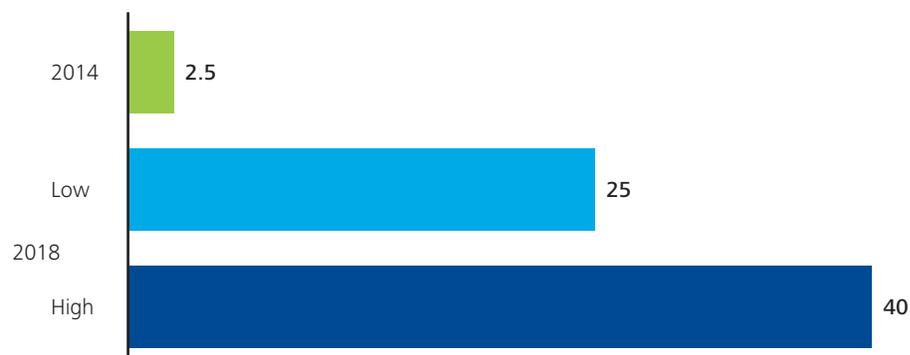
What's at stake?

Pundits project private exchange (PIX) enrollment to accelerate rapidly; between 30 and 50% of employers are considering moving to a private exchange for full-time active employees by 2018, suggesting that a shift in the group health care benefits space might be at hand.¹ In addition, numerous press releases in 2014 have described substantial growth in private exchange enrollment.² These data points corroborate Deloitte Consulting's and various other projections³ that private exchanges could grow from 2.5M covered lives in 2014 to 25-40M covered lives in 2018. Health plans such as Aetna, Cigna, United, WellPoint, and select "Blues" are participating with both proprietary and 3rd party exchanges — but many other health plans are still formulating a response.

These plans should develop a strategy quickly given the private exchange momentum in the marketplace propelled by broad macro trends:

1. Rising health care costs are causing employers to explore PIX as a mechanism for better cost control.⁴
2. Employers, especially small and medium size ones, are looking for solutions to handle ever more complex benefits administration and compliance responsibilities.⁴
3. Emergence of public exchanges has made the notion of benefits marketplaces and employees having choice "mainstream"; consumers are expecting significantly more choice in benefit options.
4. Private exchanges allow consultants/brokers to reinsert themselves as the key "control point" in configuring benefits for employers.
5. Publicly owned consultants have leveraged expectations for growth in sponsored private exchanges into higher stock valuations.⁵
6. Retail powerhouses such as Costco and Sam's Club (WMT) have launched private exchanges aimed at individuals and small employers.

Private exchange adoption scenarios by 2018 (MM members)



¹ Meta study of 7 surveys presented at GNPH Webinar-Payor Perspective, May 20, 2014

² Press Releases from Aon Hewitt, Mercer, and Aetna

³ Various reports, including Morgan Stanley (30MM by 2017), eHealth (46MM by 2018)

⁴ PEEC, "Private Exchange Employer Survey Findings", December 2014

⁵ Morningstar, "Insurance Brokers Find Opportunity in ACA", January 5, 2015

Private exchanges: Value drivers

Private exchanges: Current value drivers

Group private exchanges enable employers to control and budget their costs and help employees choose lower cost options through a number of key features such as greater choice of health plans and plan designs, defined contribution, tailored narrow-networks, a wide selection of ancillary products, online enrollment and decision support tools.

These features are not uniquely offered by private exchanges. They have been available for some time already to large employers with a focus on employee benefits through consultant-enabled, customized traditional group solutions — the difference is that through private exchanges, these features are now also available cost-effectively to less benefits-focused and/or smaller employers. As such, more and more employers are seeing the opportunity to use private exchanges as a way to accelerate the transition to defined contribution, to “outsource” benefits provisioning and “right-size” employee benefit coverage levels.

So far, we’ve seen limited evidence that private exchanges help reduce total health care costs. We’ve seen total premium reductions for employers because 40–60% of first time private exchange participants select less coverage (right-sizing of benefits)⁶ but that may not translate into reductions in total health care costs.

What is a group private exchange?

Online, pre-packaged comprehensive benefits products and integrated services marketplaces run by health plans, consultants, brokers, or technology companies.

They allow employers and other groups to outsource group benefits provisioning and potentially other administrative services, while providing employees the ability to shop for health care and other benefits.



Private exchanges: Potential future value drivers

Ongoing consumer engagement



The area that will likely continue to receive the most attention is consumer engagement — turning the participant exchange interaction from a few weeks a year enrollment transaction to a year-round engagement to activate the consumer to improve health and thus drive affordability.

Big data hub



If private exchanges can gain membership and control member access, they can be in a position to become the hub for aggregating data and analyzing it for population health management purposes and realize actual health care cost savings, not just buy-downs.

Broad product portfolio



Although health care benefits were the genesis of private exchanges, they have rapidly expanded into voluntary products. For example, Array/Highmark reported a 31% jump in ancillary product uptake by employees on their private exchange.⁷ Some exchanges are also enabling employers to connect their part-time and newly retired employees to public exchanges and retiree exchange offerings — trying to become the one-stop provider of end-to-end benefits services.

Administrative savings and simplicity for employers



Many small and medium size employers are looking for end-to-end integrated services to go with their benefits packages. Private exchanges will likely continue to expand their offerings to include services like benefits administration and compliance management to meet these needs.

Market access for new entrants



Local health plans and risk-taking providers can use private exchanges to connect directly with local, regional, and national employers.

⁶ KFF, “Examining Private Exchanges,” p. 11; Aon reported 42% of participants exhibiting this behavior, while Bloom reported 66%

⁷ KFF, “Examining Private Exchanges,” p. 18

Private exchanges: Health plan implications

It's too soon to tell if private exchanges will succeed in fulfilling their ambitions, but if they do, they can significantly impact the role and value of health plans:

Reduced employer access

Private exchanges are aggressively selling the value of their models to employers with an increasingly full suite of end-to-end benefits services. As more and more employers move to exchanges, access to them is going to be increasingly controlled by the private exchange.

Reduced consumer access

Most exchanges today equip employees to manage annual plan selection. As exchanges expand capabilities to support consumers year round, the health plan is further insulated from the consumer, shifting the opportunity of that relationship to the exchange for providing additional products and services.

Commoditization

Driving to simplify product comparisons for the consumer some exchanges have established standard benefit design specifications which reduces product differentiation opportunities for plans and will increase price competition.

Services disaggregation

Dependent upon the exchange model, the historical integrated value proposition of the health plan may be under assault. Certain models carve out pharmacy services, medical management, and/or wellness services. This "unbundling" threatens to further commoditize the health plan to compete on the remaining product components, stripping out opportunities for profit and for direct relevance to the employer.

New opportunity for local health plans and providers

An insurer can bring novel offerings to market, enabled by an exchange platform. For example, Fairview and North Memorial Vantage partnered with Medica — a Minnesota-based health plan — to develop an ACO-based group product offered through the "My Plan by Medica" private exchange.⁸

It's too soon to tell if private exchanges will succeed in fulfilling their ambitions, but if they do, they can significantly impact the role and value of health plans.

⁸ Bloom Health, "ACOs in Action," March 2014, p. 3

The disaggregation and disintermediation risk of private exchanges to health plans



Health plans: Strategy options



So what is a health plan to do? Health plans need a dual-pronged strategy to play defense against 3rd party sponsored private exchanges disaggregating and commoditizing their value proposition while also playing offense with a proprietary offering.

Selectively participate in 3rd party private exchanges

To defend accounts switching to private exchanges and to compete for new business health plans need to selectively participate on 3rd party exchanges. The ideal 3rd party private exchange is one that allows a plan to reach new markets while staying true to its value proposition and business model. The key challenge is getting a fair share of members vis-à-vis the other health plans.

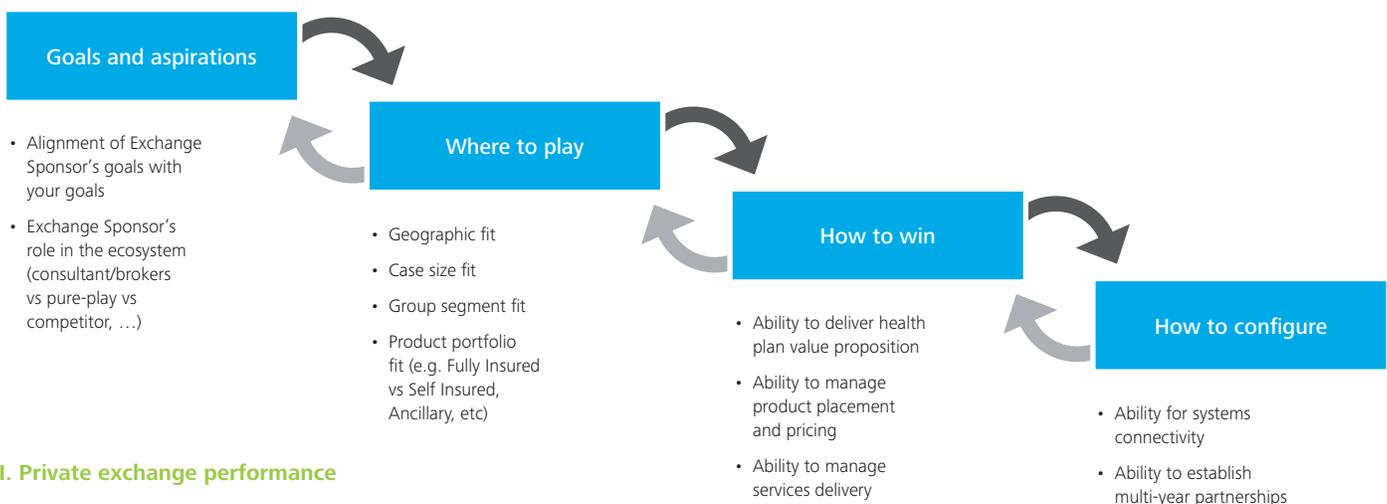
Bring a proprietary private exchange solution to market

Health plans also need to design and launch their own private exchange solution to gain share by bringing a differentiated product to market and also tap into new sources of revenue through the additional services that exchanges offer group administrators.

The private exchange — which can be developed either on a proprietary basis or together with complementary health plans and/or technology partners — ideally offers configurable end-to-end employer and employee facing services to small and medium size groups.

3rd party private exchange evaluation framework

I. Alignment between private exchange value proposition and health plan strategy



II. Private exchange performance

- Size and growth/long-term sustainability
- Service delivery quality
- Reputation

Contacts

To learn more, including steps
you may take right now, please contact us:



Paul Lambdin

Director
Health Plan Exchange Strategy Leader
Deloitte Consulting LLP
plambdin@deloitte.com
+1 203 722 7564



Sanjiv Luthra

Senior Manager
Human Capital
Deloitte Consulting LLP
sluthra@deloitte.com
+1 617 823 3472



Joris Prikken

Senior Manager
Strategy
Deloitte Consulting LLP
jprikken@deloitte.com
+1 312 486 2807

This is part one of a five part series focused on the "Five Consumer Experience Trends Health Plans Can't Ignore." For more information, please visit www.deloitte.com/us/Consumerism

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