

BENEFITS INSIGHTS

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Private Exchanges Overview

Private exchanges are marketplaces where employees can compare and purchase health insurance and other voluntary benefits. Private exchanges, though, are different than the public Health Insurance Marketplace established by the Affordable Care Act (ACA).

Individuals in private exchanges do not have access to premium subsidies, and plans do not necessarily have to have standardized coverage tiers (bronze, silver, gold or platinum). Below are the two main types of private exchanges:

- **Single-carrier exchanges**—Operated by a single insurance carrier that offers various plan options to employees, often using a technology platform. Under this model, employees will not have access to plans from other insurers. This type of exchange typically is used by small to mid-sized employers.
- **Multi-carrier exchanges**—Operated by a third party (such as an insurance broker) that offers various plan designs from multiple insurance companies on a technology platform. Insurers compete with one another by offering plans with varying price points, provider networks and more.

Defined Contributions

Private exchanges have the ability to operate using a defined contribution model. Currently, most employers pay a portion of their employees' health care premiums each month. Under the defined contribution model, though, employees are given a fixed dollar amount (for example, \$200 or \$300 per month) to purchase health coverage or other voluntary benefits on a private exchange.

Many have compared the idea of private exchanges to companies' retirement savings plans. In the past few decades, many employers have transitioned from offering pensions (a defined benefits plan) to 401(k) accounts (a defined contribution model) in order to better control costs.

Potential for Growth

The recent popularity of private exchanges is clear when examining market trends. Currently, approximately 2 to 3 million people are enrolled in private exchanges.

Rising health care costs have given birth to consumer driven health plans (CDHPs), which encourage individuals to be smarter health care consumers. CDHPs, though, have not sufficiently reined in health care costs. As a result, some employers are looking for another way to control costs—and some think that private exchanges could be the answer.

Oliver Wyman, a global consulting firm, estimates that 40 million people will be enrolled in private exchanges by 2018. Most major surveys conducted by exchange providers, consultants and third-party cooperatives put the expected adoption of private exchanges between 20-33 percent over the next five years.

Potential Benefits

The following are some of the perceived benefits of private exchanges:

- **Contain costs**—Under the defined contribution model in a private exchange, employers can limit the amount of money they contribute each month—helping to limit their health care expenses.
- **Encourage employee participation**—Private exchanges can give employees more health plan options, allowing them to choose a plan that works best for them and their families. In addition, private exchanges may encourage employees to be wiser health care consumers.
- **Reduce HR burden**—Instead of handling benefits in house, employers can save administrative time by partnering with a private exchange that handles health plan administration.

Potential Disadvantages

The following are some potential disadvantages of private exchanges:

- **Drop in employee morale**—Some experts believe that private exchanges will shift costs to employees, many of whom are already struggling to manage their high out-of-pocket costs. As a result, employers could see a drop in employee morale and productivity if employees are worried about their financial stability or if they delay medical care due to cost concerns.
- **Too much flexibility**—Having too many choices can be overwhelming for employees, and employees may not understand what they are signing up for or the extent of their coverage. This can lead to more questions for HR staff—eliminating one of the potential benefits of using a private exchange.

Outlook

Given the novelty of private exchanges, much remains unknown about how they will operate, implementation costs and their long-term benefits. Furthermore, private exchanges are not always right for every business.

A study by Prudential Group Insurance found that 60 percent of employers view brokers as the most valuable source for transitioning to a private exchange and educating employees. Superior Benefits can provide consultative information that shows available options and work with you determine the best course of action for your business.

For more information on private exchanges and on cost savings, contact Superior Benefits today.