

## Why Are Employee Benefit Consulting Firms Opening Health Insurance Exchanges?

Healthcare reform has spurred many changes in the U.S. healthcare system and more are on the way. Many U.S. companies are seeking to make significant changes in how they finance and manage their employee benefit programs. They are seeking to minimize the effects of rising healthcare costs and decrease their level of involvement with managing employee healthcare benefits. In response to client needs and marketplace changes, employee benefit consulting firms (EBCs) are seeking ways to embrace the changes healthcare reform brings and develop long term business opportunities from it. The opening of web-based health insurance exchanges by leading EBC firms has far reaching impact in the marketplace.

These four leading EBC firms have organized health insurance exchange business units:

- AON Hewitt: Corporate Health Exchange
- Buck: RightOpt
- Mercer: Marketplace
- Towers Watson: OneExchange

Historically, these firms provided guidance to larger public and private companies in managing their health benefits and compensation plans. Insurance exchanges have been in operation well before the advent of healthcare reform but they were not part of the service repertoire of the larger employee benefit consulting firms. The operation of web-based health exchanges is something new for them and it augments their expertise and marketplace position.

They are having a direct and positive impact on employers and their workers, health insurance carriers, managed care organizations, pharmacy benefit managers and potentially the investment community. Through the exchanges, the EBCs are already forming different business model strategies. Buck utilizes a single carrier per state approach. By doing so, they negotiate an economic rate in exchange for featuring only that health plan's products to a particular state's clientele. Mercer also offers myCustomHealth, an exchange they have operated prior to healthcare reform's implementation which is dedicated to retiree health plans in addition to their new Marketplace exchange. AON Hewitt bills itself as the first corporate health benefit exchange and offers products from multiple health plans. Towers Watson promotes broad-based offerings for full- and part-time workers, as well pre-65 and Medicare retirees.

Several key drivers are behind this marketplace change:

### Healthcare Reform

Obamacare has mandated state governments to each provide a web-based exchange for individuals and small employers to purchase insurance which provides a large scale, technical model for commercial markets. While insurance exchanges have been around for a while, they are not necessarily familiar to everyone. The requirement that each state must operate a web-based health insurance exchange has significantly raised the profile of the insurance exchange model nationwide. Those states choosing to opt for the Federal government to run their state exchange are still obligated to eventually take over its operation

Employers are seeking ways to avoid the “Cadillac Tax”. They are seeking to offer health plans to their employees without being penalized for overgenerous benefits. The excise tax will be on healthcare coverage whose aggregate cost for workers exceeds \$10,200 for self-only coverage and \$27,500 for other coverage. The tax is 40 percent of the amount the worker pays in excess of those limits. Although the tax doesn't kick in for another four years, it is already being acted upon by companies seeking to plan ahead. A study by Towers Watson revealed a total of 60 percent of employers believe the excise tax will have either significant or moderate influence on their health-care benefits strategy in 2014 and 2015. Employers are taking preemptive steps now to determine their effectiveness and then fine-tune them prior to the effective date of the tax. By providing employees a fixed financial sum to purchase their own insurance through an exchange, employers can control benefit spend and plan design better –and avoid the Cadillac Tax on their company.

### **Client Need**

Employers are seeking ways to lower their healthcare benefit costs and lessen their involvement in the management of them. By operating the exchanges, EBC firms shoulder more of the administrative and technical burden of managing healthcare benefits. Employers have confidence in the EBC firms as they are familiar with the benefits they have offered in the past, their corporate organizational structure and their finances.

### **Plan Provider Knowledge**

The EBC firms know the plan providers well. This includes insurance carriers like Aetna, Cigna Humana and United Healthcare, managed care organizations like Blue Cross Blue Shield plans and Kaiser, as well as pharmacy benefit managers (PBMs) such as Catamaran, CVS Caremark or Express Scripts. The plan providers are often evaluated by EBCs on behalf of their corporate clients based on the level of service they provide and the level of cost control/reduction they deliver. The plan providers are the entities marketing their plans through the exchanges operated by the EBC firms. Employers are comfortable the EBC firms will be responsible in closely overseeing what is promoted to their employees through the exchanges by the plan providers.

### **Control**

By operating the exchanges through which their clients have their employees purchase health insurance, EBCs have a greater degree of control over them. The entry way onto the exchanges by insurance carriers, managed care organizations and pharmacy benefit managers is negotiated with the EBCs. Since the EBCs have direct control over what organizations will be allowed to promote plans through their exchanges, the EBCs have greater leverage over them from the start and if the exchange concept grows, will become an even more critical point of access for plans to vie for. As the exchanges are the conduit through which a company’s employees choose their benefits, the EBCs have more direct access to them. Finally, it will be much more difficult for a client to disengage themselves from an EBC firm who is also operating the exchange through which employees are purchasing their insurance.

### **Financial**

The EBC firms operating exchanges are developing and/or strengthening revenue streams. They are providing an additional service to employers and the plan providers so they can derive more income from both. As the exchange concept further establishes itself, EBC firms can open the exchange access to companies that manage 401K/investment plans to employers and other interests. This can provide them with even more income.

There is much uncertainty as to how well and how long individual states can operate their own exchanges. They require continual administrative and IT resources to run plus customer service support for beneficiaries. In a sense, they will become their own unique type of government agency that may fall far short in their ability to self-fund themselves based on income they derive from plan providers promoting plans through them. If states begin to struggle in managing their individual exchanges, the EBCs may be in a financial and technical position to run them on behalf of the states. The states will in effect be outsourcing the operation of the exchange to the EBCs.

### **Competitive Advantage**

As the marketplace evolves, EBCs with exchanges may find themselves to have distinct advantages over the other large EBC firms which do not operate exchanges. They are taking an integral position within the early stages of healthcare reform in the United States. By operating the exchanges, they establish a position in the marketplace that makes use of their demonstrated experience and enables them to develop new ones, especially in the areas of e-commerce and digital marketing. In terms of client retention, the services the exchanges provide further entwine them with clients and assures them of having a greater role in benefit management decisions of clients which ultimately impacts the EBC's level of financial success.

### **Looking Ahead**

EBCs will have a stronger position with insurance carriers, managed care organizations and PBMs as the exchanges are a key access point to beneficiaries. Both client and non-client employers with conventional health insurance coverage models will consider them as an option. Moving forward, the marketplace can expect the EBCs to further develop their exchanges. They will seek to generate more revenue from them and fortify an integral position with clients and the healthcare industry.