

WHITE PAPER

Private Health Exchanges

Making an impact on health care cost through employee engagement

Published
September, 2014



EXECUTIVE SUMMARY

Private health exchanges have been rapidly expanding over the past two years, amassing a growing number of employers adopting them as a new way to deliver health benefits to employees. Private exchanges essentially have two critical components, one being defined contribution financing (the allowance given to employees) and the other being the online benefits ‘shopping’ platform. Early adopting employers are finding these solutions to be a viable way to control cost while getting employees more involved and engaged in health care.

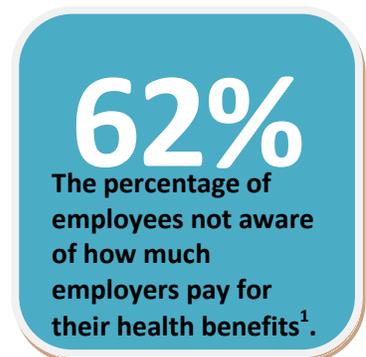
GlidePath, a private exchange solution operated by Blue Cross Blue Shield of Michigan since 2011, has seen three major trends occurring with its members on the private exchange platform, all with the end game of improving employee engagement. These observed behaviors are increased employee cost awareness, greater decision making by employees to ‘right size’ their benefits, and improved health savings account adoption.

This white paper provides a background on private exchanges, showcases how private exchanges are changing employee benefit dynamics, and illustrates findings from Michigan’s premier private exchange, GlidePath.

INTRODUCTION

It’s a fact. Most employees don’t understand how much their employers contribute to their health benefits. Not only are 62 percent of employees unaware of how much their employers contribute to their health benefits¹, but only 15 percent can even *estimate* how much health insurance costs in total². How is this so? After all, aren’t these same employees in a world of ‘extreme couponing,’ TJ Maxx® deals, and Kayak.com® comparison shopping for travel? It comes down to this. In the traditional way of delivering benefits to employees, those employees are not exposed to the realities of the true cost of health insurance. For the past several decades, employers, insurers and agents have been at the table making decisions about employee benefits, but unfortunately, employees – the real consumers of health care – have not. Since employees have not been a part of the decision making process, they naturally have more passively enjoyed the benefits provided by their employers. The exposure employees have experienced has been limited to “how much comes out of my paycheck?” and “what’s my co-pay when I go to the doctor or pharmacy?”

In parallel, employers have struggled with employee retention and have also experienced the harsh realities of health care cost inflation over the last several years. Each year, rates have increased for both employers and employees, as the underlying cost of health care has become more expensive. This inflation has been driven largely by increased use of health services (whether appropriate or not), the prevalence of expensive new technologies, lifestyle choices made by individuals, and the places individuals choose to receive care, among other factors⁴.



Employers have felt the pinch. And, as a result, they have taken on strategies such as raising deductibles annually and introducing wellness and incentive programs to combat this escalating health care cost trend. But, the fact is, after all of this, health cost increases continue to outpace worker earnings³ [see Figure 1], requiring

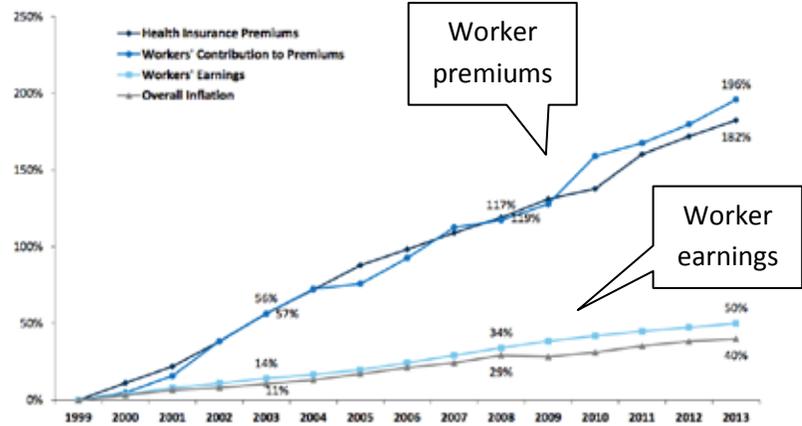


Figure 1 Health insurance inflation over time. Source: Kaiser Family Foundation, 2013

a whole new approach to how benefits get delivered to employees – an approach that gets employees, the consumers of health care, more involved in the up-front discussion to make sustainable change.

There are three major issues facing employers and their employees today when it comes to health care:

- Uncontrolled costs
- Lack of employee engagement
- Little or no employee choice with benefits

An emerging strategy to address these issues comes in the form of private health exchanges.

PRIVATE EXCHANGE OVERVIEW

Private exchanges are essentially made up of two parts – defined contribution financing and an online ‘shopping’ platform. With defined contribution financing, the employer sets a defined budget (an allowance) and is able to control overall annual increases through the fixed amount of funds they allocate to employees each year through a special account. The other part to the equation is the online shopping platform. With a private exchange, employers first choose a menu of benefits to offer employees and then set the budget. There is generally a wide variety of plans in the menu, ranging from



richer traditional copayment-type plans to leaner consumer driven health-type plans. Once employees get access to the online shopping platform, they are then in the driver’s seat to choose their own benefits from the menu, using decision support,

filtering, and other features to narrow down their choices. Think of this online shopping platform as the Match.com® of health insurance. Except, instead of finding a suitable life partner, employees specify their preferences and personal situation to be paired to the best fitting health plan for the year.

THREE WAYS PRIVATE EXCHANGES ARE CHANGING THE DYNAMICS OF EMPLOYEE ENGAGEMENT

Nine million individuals will be enrolled through private exchanges by 2015, according to recent research conducted by Accenture⁵. When employers move their organizations to private exchanges, their employees begin interacting with benefits in a completely new way.

Blue Cross Blue Shield of Michigan, which has operated a private exchange called GlidePath since 2011, has seen a shift in the behaviors of members who are on its private exchange.

Specifically, there are three trends occurring within BCBSM's private exchange population:

1. *Increased cost awareness*

As cited earlier, 62 percent of employees are not aware of what employers pay for benefits on their behalf. With the economy consistently strengthening in recent years, this becomes an issue when it comes to employee retention. If employees don't understand the value of the health benefits their employers are providing, those benefits mean less to them. Imagine how a young dependent benefits from his parents paying for things on his behalf. During this time, he probably doesn't know or care how

45%
The percentage of employers implementing or considering private health exchanges for full-time employees before 2018⁶.

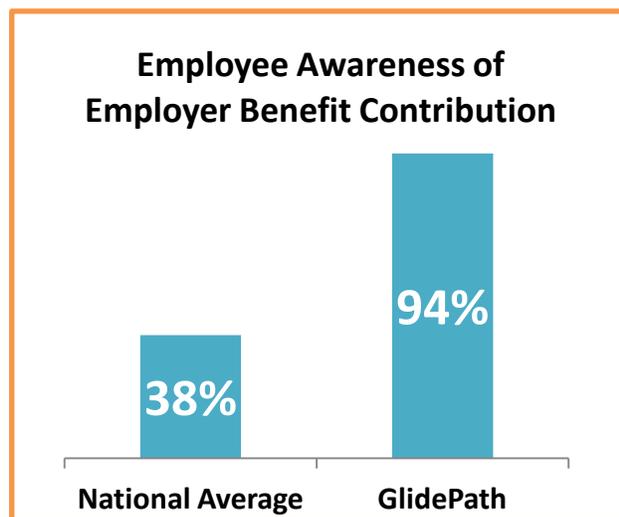


Figure 2: Employee awareness of employer contribution to benefits. Source: NBGH Survey, 2012

much of an income his parents make nor about the overall cost of living. Then, jump forward a few years. As he gets older, his parents start giving an allowance to help him learn to manage his own finances and make his own trade-offs before he is one day faced with a mortgage, utility bills, credit card payments and all of the other wonderful things that come along with adulthood. In the current employee health benefits model, most employers are still in the pre-allowance phase with their employees, making it extremely difficult to get employees

engaged in their health care costs.

In a private health exchange scenario employees are *active* participants in the benefits shopping process every single year. The defined contribution allowance gives them a pot of money to spend, and the online platform gives them a ‘.com’ shopping experience to purchase coverage. With GlidePath, for instance, employees are not only fully exposed to the amount of the contribution or allowance provided by the employer, but also to the true, full price tags of the benefits – not just the portion they pay. This information is front and center during the shopping and enrollment process to ensure employees get the complete picture.

As a result, 94 percent of members enrolled through GlidePath indicate that they understand the contribution their employers make to their benefits on their behalf [See Figure 2]⁷. This increased transparency, involvement and awareness created by the private exchange are critical steps toward making more long-term change.

2. Employee trade-offs and right-sizing of benefits driven by the employee vs. the employer

In today’s benefit model, employers choose a health plan or two to supply their entire workforce. According to the Kaiser Family Fund 2013 Annual Survey, 87 percent of employers offer only one health plan option to their employees⁸. Knowing that today’s workplaces are filled with employees with varying levels of income, family situations, health status and so forth, it becomes a challenge to meet those needs with a limited set of options. This not only puts a large decision burden on the shoulders of the employer, but leaves employees with few ways to control their own out-of-paycheck costs.

With private exchanges, employees get access to something they likely haven’t had previously – *choice*, and a lot of it. With increased choice comes the ability for employees to find benefits that best fit their personal needs from both a health and financial perspective. For example, when given a choice, 79 percent of members on the GlidePath private exchange chose plans with a deductible of \$1,000 or greater⁹. Considering that nationally, only 38 percent of those insured with employer-sponsored coverage are in plans with deductibles at this level¹⁰, this shows the impact of the employee making the choice instead of the employer. This has led BCBSM to believe that ***improved choice is driving members to make trade-offs in their benefits.***

How is this happening?

GlidePath, like some other private exchanges,

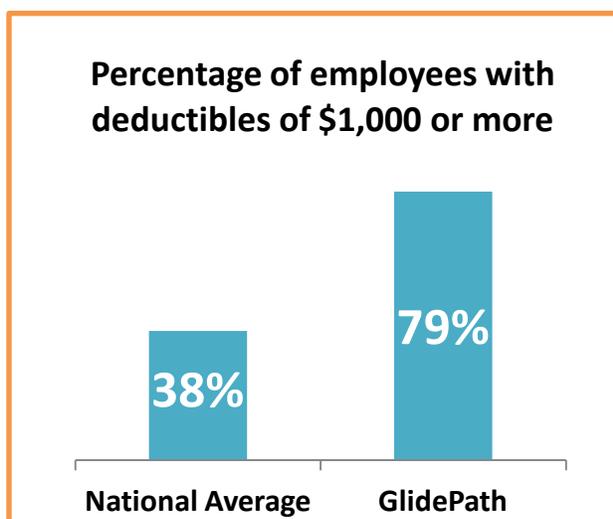


Figure 3: Employees with at least \$1,000 deductible with GlidePath vs. national average according to Kaiser, 2014

provides two ways for members to enroll in their benefits – online or by phone. A robust online decision support system asks questions to uncover the needs of members, ultimately pairing them to the most appropriate coverage. Through this process, many members realize they may be over-insured for what they personally need in terms of coverage. By phone, licensed, non-commissioned GlidePath advisors spend up to an hour one-on-one with members during enrollment, to ensure there is no question left unanswered. The focus during enrollment is now at the consumer level, closest to where the benefits are actually being used. Since employees have an allowance and are exposed to the true cost of their benefits, they are then motivated to use available tools to become savvy shoppers, as they likely would with any major purchase in their personal lives.

3. High rates of HSA adoption and account activation

High deductible health plans (HDHPs) paired with health savings accounts (HSAs) are available with most private exchanges. These plans were introduced nearly 10 years ago in 2005 as a way to bring down the cost of health care – by putting employees in the driver’s seat with an incentive to ‘protect’ the health dollars they now own in their accounts. Over the past decade, however, despite best efforts, employers have struggled to increase adoption in these plans. Employees have remained leery about dramatic

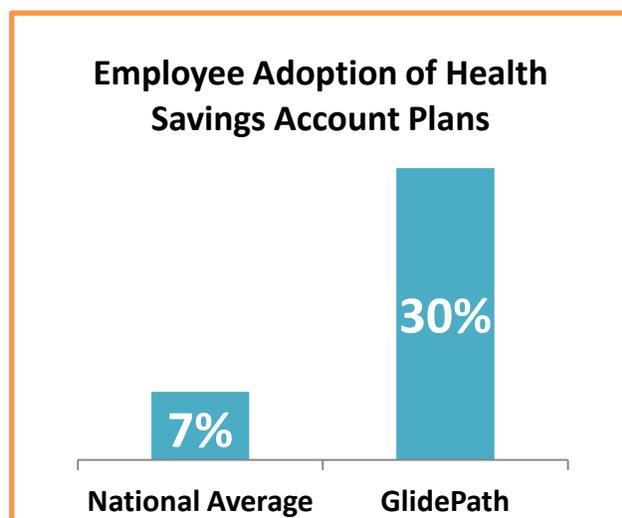


Figure 3: Employee adoption of HSA plans for GlidePath vs. the national average. Source: AHIP, 2014

changes in their benefits and the perception of greater out-of-pocket costs they may experience. Many HR departments have equally been stretched thin and not able to dedicate the needed time and resources to providing in-depth education to their employees about the HSA option.

With private exchanges such as GlidePath, the dynamic is different. The private exchange partner becomes an extension of the HR function, providing the much needed education and support to employees during key open enrollment times and throughout the year when employees are using their benefits. As a result of the one-on-one support with GlidePath, for instance,

members are enrolling in health savings accounts at a rate over four times the national average¹¹.

These results lead BCBSM to believe that private exchanges are emerging as a viable strategy to increase employee consumer driven health plan adoption.

CONCLUSION

Private exchanges have emerged as a viable way for employers to continue offering employer-sponsored benefits to employees. Popular media has increasingly covered this topic and featured the shift of large organizations such as Walgreens, Darden Restaurants, IBM and Sears Holding Company to this new model. While there may not be one silver bullet to address all of the challenges of health care

costs, one large step toward a more sustainable ‘bending of the cost curve’ is getting employees actively involved in the shopping and selection process. Private exchanges have been built with the end consumer in mind, and are designed to do just that.

Elevated interest and growth in private exchanges

“Employers are moving more quickly than forecasted to offer health insurance to their workers through private exchanges¹².”

– New York Times, June 2014

ABOUT THE GLIDEPATH PRIVATE HEALTH EXCHANGE

GlidePathSM GlidePath, operated by Blue Cross Blue Shield of Michigan, is Michigan’s premier private health exchange solution. Introduced in 2011, GlidePath has experienced *five-fold growth* over the past several months by providing cost predictability to employers and greater choice to employees. GlidePath combines defined contribution financing with a private exchange platform. Members receive one-one-one support during and after the benefits enrollment process.

For more information regarding the GlidePath private health exchange, visit GlidePathBenefits.com.

SOURCES

1. National Business Group on Health, 2012 <http://www.businessgrouphealth.org/pressroom/pressRelease.cfm?ID=200>
2. LIMRA http://www.limra.com/Posts/PR/News_Releases/Employees_Across_All_Generations_Value_Employer-Sponsored_Benefits_%E2%80%95_But_Most_Don%E2%80%99t_Understand_the_Actual_Costs.aspx
3. Kaiser Family Foundation 2013 Employer Health Benefits Survey, 2013
4. <http://www.kaiserhealthnews.org/stories/2012/october/25/health-care-costs.aspx>
5. <http://newsroom.accenture.com/news/three-million-employees-enrolled-in-private-health-insurance-exchanges-in-2014-according-to-accenture.htm>
6. http://www.pbgh.org/storage/documents/PEEC_Executive_Summary_2013_FINAL.pdf
7. GlidePath Member Survey, January 2014
8. Kaiser Family Foundation 2013 Employer Health Benefits Survey, 2013
9. GlidePath Enrollment Report, 2014
10. Kaiser Family Foundation 2013 Employer Health Benefits Survey, 2013
11. GlidePath enrollment reporting, 2014 vs. AHIP January 2014 Census, July 2014
12. http://www.nytimes.com/2014/06/12/your-money/private-health-care-exchanges-enroll-more-than-predicted.html?_r=0

TJMaxx, Kayak.com, and Match.com are not affiliated with Blue Cross Blue Shield of Michigan or Blue Care Network. Each is a registered trademark of its respective owner.



Nonprofit corporations and independent licensees
of the Blue Cross and Blue Shield Association