

# Private Exchanges to Radically Transform Health Insurance



BY JOHN SAILER / SENIOR EDITOR

**P**rivate health insurance exchanges are expected to grow substantially and dramatically change the way employers provide health care, including vision, to employees.

While the public health insurance exchanges have gotten much of the attention, both good and bad, resulting from the passage of the Affordable Care Act (ACA), the insurance executives that *Vision Monday* interviewed predict that their counterpart, private exchanges, are destined to have an even greater impact on managed care once they become established and group buyers become aware of the benefits of using them to provide health care to their employees.

As a result, the promise of more managed vision care plans sold via private exchanges is destined to increase the number of patients seeking access to eyecare. (See “How Will Private Exchanges Impact Optometrists?” page 64).

In 2013, major companies such as Walgreens, Sears, and Darden Restaurants made headlines when they moved their employee coverage to private exchanges, and the transition has gained momentum since then.

With fewer than one million enrollees in 2012, enrollment through private health insurance exchanges tripled to three million in 2014 and then

doubled again to an estimated six million in 2015, according to a new report by Accenture. With predictions of 100 percent growth year-over-year, private exchanges have the potential to reshape employer-sponsored health insurance, which covers 149 million people, according to the Kaiser Foundation.

While still in their infancy, having been established only in the past couple of years, studies predict that private and public exchanges will each reach matching enrollments of 30 million by 2017, and private exchanges will surpass public exchanges by 2018, enrolling a predicted 40 million lives compared to the 31 million expected to enroll through public exchanges that year. (See chart on “Public vs. Private Exchange Annual Enrollment,” page 67.)

“Private exchanges are becoming more mainstream, as employers recognize more of the vendors offering exchanges than in the past,” according to a survey of 446 employees from 34 different industries released by the Private Exchange Evaluation Collaborative in December 2014.

The change is happening not only as a result of the Affordable Care Act, which established public exchanges as a format upon which private exchanges could be modeled, but also as part of the trend toward consumers having much more say in their health care and insurance coverage choices while simultaneously working toward reducing costs.

“Around the time that the Affordable Care Act was

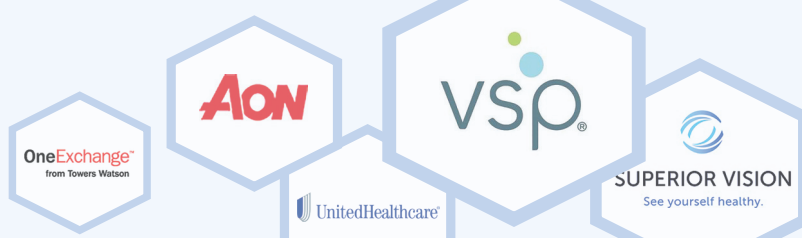
passed, many of us had conversations with our clients, and what they told us was they had increasing health care costs, increasing administrative burden, and at the same time employees didn’t really have a lot of choice, so Mercer Marketplace was created in response to many of our clients’ needs,” said Sharon Cunningham, business leader for Mercer Marketplace.

Providing options from which employees select their health insurance coverage allows employers to switch from a defined benefit model, in which employers are the ones who choose the health coverage for their employees, to a defined contribution model, in which employers provide a fixed amount of money for employees to spend shopping from among a selection of available plans online.

Health insurance executives compare this major transition from a payor-driven to a consumer-driven model to the transition that occurred when companies began switching from pensions to 401(k) plans. Rather than employers making the choices, instead they provide options from which their employers can select investments, in the case of 401(k) plans, and health coverage, in the case of private health insurance exchanges.

While private exchanges enable employers to change to a defined contribution model, they also allow the company to remain involved in their employees’ health care.

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## How Will Private Exchanges Impact Optometrists?

In three to five years, more than one-quarter of employers are considering moving to a private exchange, according to recent surveys by Aon Hewitt and Mercer, both of which manage private exchanges that include vision benefit options.

With the potential for increased enrollment, this could be good news for vision plans and could ultimately result in more patients seeking eyecare. According to the Kaiser Foundation, “employers have more control over how to allocate their benefit dollars between medical and ancillary plans, and exchange sponsors report that consumers appear to be re-allocating dollars from medical to ancillary.”

As more companies make the transition to private health insurance exchanges, the managed vision care executives that *Vision Monday* interviewed all also predict that this will result in more patients accessing eyecare.

“We help people see by providing access to affordable, high quality eyecare and eyewear, and there are all different paths to provide this, so private exchanges are something we’re very interested in,” VSP Vision Care president, Jim McGrann, told *Vision Monday*. “As another vehicle to provide access, it will increase focus and attention on the importance of eye health. Overall, its impact on optometrists is that it will increase access.”

Andrew Alcorn, president of Superior Vision Benefit Management, agrees that private exchanges will ultimately result in more access to more patients. “Optometrists could potentially see the number of people covered by vision plans continue to grow because all private exchanges will have a vision component that may or may not have been available as a benefit package earlier,” he said. “More and more Americans will certainly have access to



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vision care.”

Jeff Everson, general manager for VSP Vision Care’s strategic alliance/private exchange business unit, added, “It gives members a choice of how they want access to vision care, and that’s why it’s important for us and others to participate. Every day another private exchange asks us to take part. We see a big enrollment in 2016.”

Celina Burns, president of Davis Vision, agrees that 2016 will be the year for substantial growth among private exchanges. “We’re projecting significant momentum in the private

**“Exchange sponsors report that consumers appear to be re-allocating dollars from medical to ancillary.”**

**—The Kaiser Foundation**

exchange space in 2016 and beyond,” she told *Vision Monday*, and studies support that prediction. (See chart on “Public vs. Private Exchange Annual Enrollment,” page 67.)

Dave Bailey, senior vice president and national practice leader of UnitedHealthcare Specialty Benefits, which offers the vision plan ranked highest by J.D. Power last year, said, “When private exchanges evolve and get traction, we’ll have more and more opportunities to cover members with vision plans.” ■

# Vision Care's Place in the Realm of Private Exchanges

**B**roadly defined, private exchanges are websites that enable consumers to compare and purchase health insurance, typically with a defined contribution provided by their employer. Most are operated either by insurance companies themselves, benefit consultants, or technology platforms. (Private exchanges should not be confused with the public health insurance exchanges established as a result of the Affordable Care Act, see “Public vs. Private: What’s the Difference?”)

While some firms were quick to establish private exchanges over the past couple of years, others are taking a wait-and-see approach before launching one. At the end of last year, the Kaiser Foundation identified about 20 private exchange platforms with about 2.5 million people enrolled through them (not including what Kaiser defines as e-brokers selling to individuals rather than to groups). Exchange platforms predict significant growth (often greater than 100 percent) year over year.

## Single vs. Multi-Carrier Exchanges

Most private health insurance exchanges can be divided into two types—single carrier exchanges and multiple carrier exchanges. A single carrier exchange promotes one company’s products to members and employers. Multiple carrier exchanges connect employers and their employees to a variety of coverage plans from a number of different insurance companies. (See chart, “Two types of private exchanges, with many variations,” page 67.)

While single carrier exchanges are operated by one insurance carrier, multiple carrier exchanges can either be a fully competitive model where a set of health plans compete side-by-side or its line-up of plans can be customized by the employer or the exchange.

According to a report from Booz & Company, a global management consulting firm that produced a series of white papers on the topic, “. . . preferences for the type of private exchange model are likely to

## PUBLIC VS. PRIVATE: WHAT'S THE DIFFERENCE?

Driven by an ongoing need to control the cost of benefit programs and a desire to simplify benefits administration, private benefit exchanges – which can be established now – have become an attractive option for employers. They differ in several important ways from public exchanges.

### DIFFERENCE BETWEEN EXCHANGES:

|                            | PUBLIC EXCHANGE  | PRIVATE EXCHANGE  |
|----------------------------|--|---|
| <b>WHO SPONSORS IT?</b>    | Governmental entity – either a state or the federal government (if the state delegates responsibility)   | Private company   |
| <b>WHAT DOES IT OFFER?</b> | Primarily medical, dental, and/or vision insurance through multiple carriers   | Medical, dental, and vision, plus, for some, an array of other insurance products ranging from life to disability to critical illness to home and auto – either through a single carrier or multiple carriers |
| <b>WHO USES IT?</b>        | Primarily individuals buying insurance on their own and small businesses with up to 100 employees  | Primarily active employees and retirees of the sponsoring organization, and their dependents  |
| <b>WHO PAYS?</b>           | Consumer, small employer, or both (federal subsidies are available to individuals with household incomes up to 400% of the federal poverty level who are not eligible for employer coverage) | Consumer and employer   |

SOURCE: Mercer

vary. . . research shows that most employers favor multi-carrier exchanges to provide broader choice to their employees, limit the burden of administering a more complex offering, and yet stay somewhat involved in the options employees can select.”

However, the same consulting firm found that a substantial percentage prefer single carrier exchanges: “. . . roughly 30 percent of employers would prefer single carrier exchanges. This preference may be due to their legacy relationships with single carriers, along with their interest in choosing carriers and designing plan benefits (including keeping their group rating) to better recruit and retain talent.”

Among the private exchanges launched early that

represent both types and include the opportunity to sign up for vision coverage are Aon Hewitt’s Aon Active Health Exchange, Buck Consultants’ RightOpt exchange, Mercer Marketplace, and Towers Watson’s OneExchange.

## Vision Companies Onboard

“We started participating in private exchanges as soon as they became available,” said VSP Vision Care’s president Jim McGrann. “A couple popped up in 2013, which is the first year we got involved. We are present in almost all of the private exchanges, either directly or white labeled through our alliance partners. We’re looking for their competitive edge over the public exchange market.”

McGrann told *Vision Monday* that among the exchanges in which VSP participates are Buck’s RightOpt exchange and an

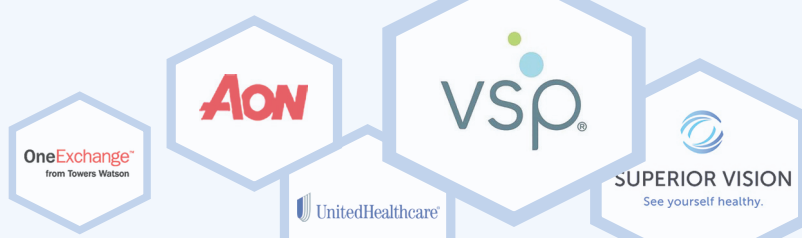
exchange operated by Aflac as the sole vision care provider, in Mercer Marketplace as one of many vision plans, and on the Aon Active Health Exchange as one of four vision plans.

“MetLife, UnitedHealthcare, and VSP have been with us since Jan. 1, 2013, and EyeMed was added Jan. 1, 2015,” Rob Malley, VP of Aon Exchange Solutions, told *Vision Monday*. Employers offering vision plans through the Aon Exchange more than doubled from 11 in 2014 to 23 in 2015, according to Malley.

“EyeMed will be in all of the exchanges that make sense to us,” said John Lahr, OD, VP/medical director of EyeMed Vision Care. The EyeMed private

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# Private Health Insurance Exchanges to Grow Substantially

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## Why Private Exchanges?

There are a number of reasons employers have switched or are considering the switch to private health insurance exchanges. Among the most influential is the unprecedented change occurring in health care as a result of the Affordable Care Act. Specifically, the public exchanges established to sell health insurance to individuals created a format on which private exchanges were modeled.

"The influence of public exchanges got more employers thinking about it," Andrew Alcorn, president of Superior Vision Benefit Management, told *Vision Monday* about the launch of private exchanges. "Providers like us have the opportunity to participate as standalone plans, which is not permitted on public exchanges."

In addition to the influence of the Affordable Care Act, other reasons include rising health care costs, the desire for more options while reducing administrative burdens, a trend toward consumer choice, and new technologies. Also, in some cases, benefits consultants have established exchanges as a means to remain relevant in an era of unprecedented change in health care.

"Employers are trying to figure out how to control their overall health care spend, and they can't continue down the path of cutting benefits," Rob Malley, VP of Aon Exchange Solutions, told *Vision Monday*. He explained that Aon Hewitt developed its Aon Active Health Exchange after spending a lot of time in Washington, D.C., during the formation of the ACA. They realized that creating a competitive market in which the consumer decides would lower prices. "Make it like a retail shopping experience, and competition lowers prices every time," he said.

"The convergence of a number of critical factors—the unsustainable rise in benefit costs, health care reform, consumer-driven solutions, and improving technology—is transforming the provision of employee benefits," added Eric Grossman, senior partner and exchange business leader in Mercer's Health &

Benefits business. "Private benefit exchanges give employers the ability to continue offering competitive benefits to employees, which is important for attraction and retention, while actively managing spending and reducing their administrative responsibilities."

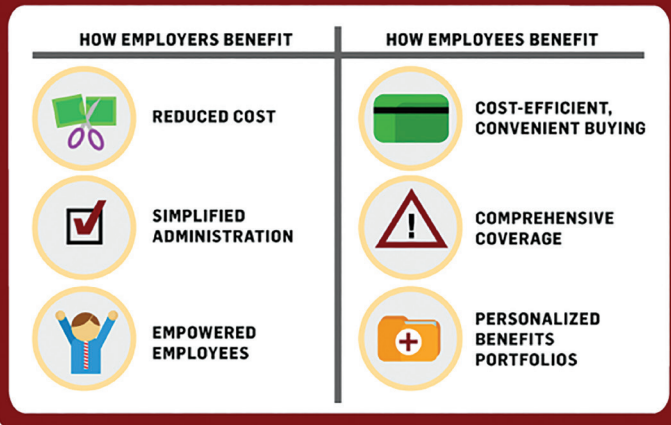
## Slow Start Gains Momentum

"The pace at which we thought companies would move to private exchanges has been slower than expected," said Jim McGrann, president of VSP Vision Care, which participates on a number of private health insurance exchanges. (See "Vision Care's Place in the Realm of Private Exchanges," page 65.) He estimates that VSP Vision Care's strategic alliance/private exchange business unit accounts for about 10 percent of overall revenue. Of that, close to 5 percent is comprised of business derived from private exchanges. Still, he predicts that private exchanges will grow over the next three to five years. "Once they understand what private exchanges can do, they will start to move more quickly, and we will see the growth we were anticipating in 2013 and 2014 happening in 2016 and 2017."

In some cases, companies are first testing out the private exchange concept with retirees. McGrann believes that companies' tentative steps toward participation could be based on a desire to keep control. "Benefits are an important part of the relationship between a company and its employees, and a lot don't want to give up control," he said. "One thing that we are seeing is some organizations that are offering it are testing it out first with their retirees. For example, we cover 500,000 IBM retirees through a private exchange."

## SO, WHAT'S IN IT FOR ME?

Private benefit exchanges offer distinct benefits for both employees and employers, especially in an era where benefits' costs and availability are an ongoing concern to both.



SOURCE: Mercer

In addition to IBM, other notable major companies using private exchanges for their retirees as of 2014 are Time Warner, General Electric, Whirlpool, Caterpillar and Kinder Morgan.

According to a survey of 446 employees from 34 different industries released by the Private Exchange Evaluation Collaborative in December 2014, "37 percent of respondents have implemented (14 percent) or are considering (23 percent) a private exchange for their post-65 retirees."

"The employer market in reality hasn't aggressively moved toward private exchanges yet," said Davis Vision president Celina Burns, who added, "the operative word is yet. There's no question that there's going to be growth in the private exchange segment."

While growth on private exchanges has been slow, it has also been steady since they started appearing around 2013. By October of 2014, Mercer Marketplace announced that 247 companies chose the exchange for their active and retired employees. That has since grown to over 260 employers. In total, across the full range of its active, retiree, voluntary



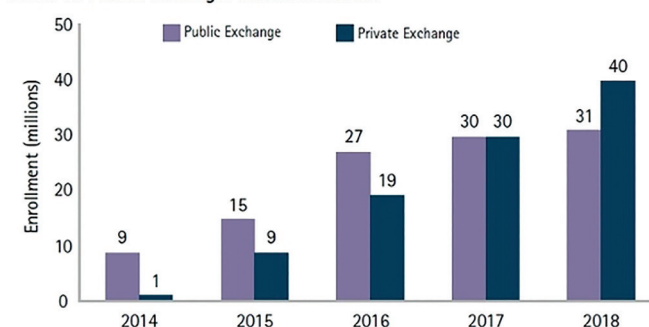
benefits only and individual medical, Mercer Marketplace will provide access to benefits to approximately 2.5 million lives in 2015, according to the company.

“Further evidence of our momentum is the acquisition of 40 new clients not previously served by Mercer’s health business in addition to our continued growth with existing clients,” said Julio A. Portalatin, Mercer’s president and CEO.

The December 2014 Private Exchange Evaluation Collaborative study found that “47 percent of employers have implemented or plan to consider utilizing a private exchange for full-time active employees before 2018, up from 45 percent in 2013; 6 percent have already implemented and 41 percent plan to consider before 2018.”

Dave Bailey, senior vice president and national practice leader, United Healthcare Specialty Benefits, agreed that a slow start will make way for further growth. “It will take time, but private exchanges will eventually be a large portion of our business,” he told

Public vs. Private Exchange Annual Enrollment



Source: Private Exchange: Accenture analysis, based on data from: U.S. Census, Bureau of Labor and Statistics, Kaiser Employer Health Benefits 2012 Annual Survey. Calculations exclude post-65 retirees and individuals.

Public Exchange: Congressional Budget Office 2013 Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage, CBO’s February 2013 Baseline, depicts average monthly enrollment, including spouses and dependents for individual and SHOP.

*Vision Monday*. “Based on the activity in the marketplace, there wasn’t much business at all in this just a couple of years ago. Now we are seeing significant groups participating.”

Eventually, enrollment through private exchanges is expected to surpass that of public exchanges. (See

“Public vs. Private Exchange Annual Enrollment, left) “The potential for private exchanges to grow in the medium to long term is strong,” according to Booz & Company, a global management consulting firm that produced a series of white papers on the topic.

“After a flurry of activity in 2013 and 2014 among large employers, many feel we have moved beyond the ‘early adopter’ stage and are poised

for broader acceptance,” according to The Institute for Healthcare Consumerism’s private exchange blog dated Feb. 17, 2015. “Private exchanges are becoming more commonplace with more organizations than ever before implementing exchanges or actively considering them.” ■

## Where Does Vision Care Fit Among Private Exchanges?

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exchange team manages relationships with 15 to 20 exchange operators, according to a company spokesperson, who told *Vision Monday* that the number is changeable.

Davis Vision is currently participating in four private exchanges, three of which rolled out Jan. 1, 2015, “so they are in their infancy, start-up phase,” said Davis Vision president Celina Burns, who estimates that the company serves about 2,500 members through the private exchanges. Davis Vision is also the first vision participant on SpendWell, a unique exchange that defines itself as a direct-care marketplace that “is bringing e-commerce to routine health care services.” Another vision plan is expected to join SpendWell soon. (See “Spendwell: A Unique Type of Exchange,” online at [www.VisionMonday.com](http://www.VisionMonday.com).)

This year, UnitedHealthcare launched its own proprietary private exchange that will offer vision plans. The company also participates in other private exchanges, including ones run by Aon, Mercer and Liazon, according to a company spokesperson. Dave Bailey, senior vice president and national practice leader of UnitedHealthcare Specialty Benefits, said, “Participating with the major private exchange options in the marketplace is an exciting distribution channel for us. When they first hit the market, it was more of a larger group play, but now it’s trickling down to mid-size and small group employers as well. We have a lot

of demand and a lot of opportunity as they start to get more traction to convert them into new members.” ■

| Exhibit 6<br>Two types of private exchanges, with many variations |  |   |
|---|--|---|
|   | Single carrier exchange  | Multi-carrier exchange  |
| Overview  | Operated by a single carrier, many times in partnership with a technology platform, where the carrier will offer exchange-specific plans to the employer   | Operated by a 3 <sup>rd</sup> party that puts together a line-up of health plans and ancillary offerings from multiple carriers that often (but not always) compete side-by-side on the platform  |
| Selected platforms  |  |   |
| Additional detail   | <ul style="list-style-type: none"> <li>Carriers bring benefits to existing group accounts with increased choice and defined contribution, paired with an improved technology platform</li> <li>Target small to mid-size employers, depending on carrier</li> </ul> | <ul style="list-style-type: none"> <li>Range from highly customizable markets, to fully competitive exchanges mirroring the public marketplaces</li> <li>Targets employers of all sizes, with the fully competitive exchanges reserved for jumbo employers</li> </ul> |

SOURCE: KFF Interviews with private exchanges, KFF analysis

