Healthcare Reform Sparks Rise of Private Marketplaces

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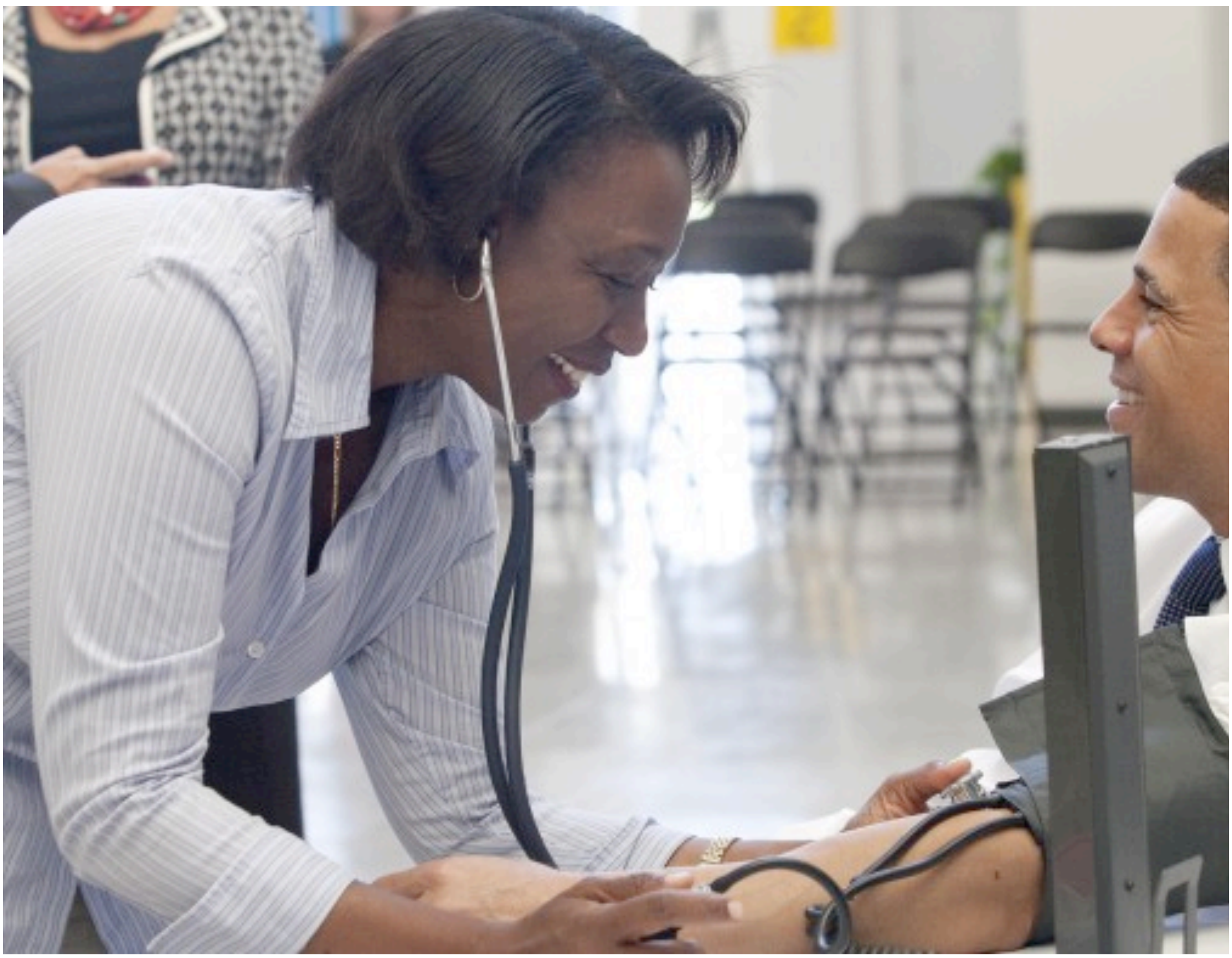
health insurance marketplaces, health IT



Insurers and other healthcare players seek to compete with state-run public insurance marketplaces mandated by Affordable Care Act

Employees will be hearing the term “health insurance exchange” often in coming years. Instead of offering health insurance directly to employees, some employers plan to give them a fixed sum of money to purchase insurance through a private exchange, also known as a marketplace.

Like the public exchanges states are setting up to comply with the Affordable Care Act that overhauled the healthcare system, private healthcare marketplaces connect individuals with insurance plans through an online portal. The difference is that these are private entities that employers contract with to offer insurance benefits to employees.

“It’s sort of like a 401(k) model, in that employers give employees a fixed amount of money to spend on health insurance premiums for plans offered in a third-party exchange that the company contracts with,” said Howard Lapsley, a partner in the health and sciences division of management consulting firm Oliver Wyman. By using an insurance marketplace, employers have more control over their healthcare benefit costs, he noted, while employees have more choice and flexibility in choosing an insurance plan.

A 2012 Booz & Co. report found that sponsors of private marketplaces range from management consulting firms, including Aon Hewitt, Buck Consultants and Towers Watson; online ventures such as eHealthinsurance; and major health insurers, such as the joint investment in marketplace operator Bloom Health by Blue Cross Blue Shield of Michigan, Health Care Service Corp. and WellPoint.

Employers have long wanted to shift from a defined-benefit to a defined-contribution model for offering health insurance, but were reluctant to toss employees onto the individual market – where many would be unable to purchase affordable plans because of age or illness. Starting in January 2014, however, insurers will be barred from denying coverage to people with health problems or charging them more than other customers. This has made the defined-contribution approach more feasible. Thirty-six percent of employers said they would consider moving to a defined-contribution health benefits strategy within the next 10 years, according to a 2011 HR Policy Association survey. Forty-four percent of companies that responded to an Aon Hewitt survey said they would likely offer health benefits through a marketplace within the next three to five years.

Marketplace of Customer Service

A private marketplace is more than a portal for matching employees with a menu of health insurance plans. Although they vary in structure, private marketplaces also manage other aspects of administering healthcare benefits – such as customer service and employee wellness programs.

Private marketplace sponsors are pursuing different strategies in their plan offerings. Buck Consultants, a Xerox company, recently launched RightOpt, which offers a choice of plans from one insurer in each geographic market. It has contracted with two employers with a total of 125,000 employees and will go live in the fall.

“We quilted the network together so an employer has the same benefit plan design across the country,” said Sherri Bockhorst, principal and leader of Buck Health Exchange Solutions.

After analyzing more than 300 metropolitan markets, looking at network breadth and quality, the firm partnered with the most efficient delivery models, she said. RightOpt is targeted at employers with at least 3,000 employees, since Xerox already has relationships with large employers.

“By growing volume through large employers in first year, we gain improved volume purchasing quickly;, we will then be able to take those cost advantages and deliver it to smaller employers. And when you look at the data, smaller employers are more consistently evaluating the public exchanges as an option,” she said.

Aon Hewitt’s marketplace offers about 10 plans from multiple health insurers, including Blue Cross Blue Shield, Cigna, Health Net, Kaiser Permanente and United Healthcare.

Operations began in January, with Sears Holdings and Darden Restaurants as its first customers. Both have reported many more employees switching to a different health plan than expected, according to Mike Christie, exchange sales leader at Aon Hewitt.

“This model gives employees more flexibility and control,” said Christie. That flexibility is a 180-degree turn from the way employers had been trying to manage costs in the past, by limiting networks and boosting employee copayments and deductibles, he said.

The marketplace also changes the way employees think about healthcare benefits, says Christie, since some had been “over-insuring” with more expensive plans.

Employees enrolled in marketplaces are more sensitive to price differences and health plan features than they were before using an exchange, said Lapsley of Oliver Wyman.

“Price is absolutely king,” said Lapsley. Pointing to Massachusetts’ healthcare reforms, which formed the basis for the national model, he said “the well-established brands didn’t hold a candle in market share to the upstart brands that were a third of the cost.”

Questions Remain on Insurer Risk, Employee Reward

Although private marketplaces are getting good marks from employers and employees, some issues still need to be addressed, says Lapsley.

It remains to be seen how risk will be spread among the insurance plans participating in the marketplace. In addition, in areas dominated by one health insurer, it may be a challenge for a private marketplace using a multi-carrier model to find enough options for employees.

Data so far indicates that employers using RightOpt will save about 5 percent to 12 percent off total medical spending, said Bockhorst, including the costs of administering wellness and pharmacy benefits.

As private marketplaces grow in popularity, insurers will begin to target their marketing to individuals and the owners of the exchanges, instead of employers, as has been the case.

Yet while advent of marketplaces may mean more choice for employees – as well as more predictable costs for employers – it also means that employees will need more education on how to choose the best plan, said Lapsley.