Insight Driven Health

Private Health Insurance Exchange Enrollment Increases 35 Percent to 8 Million in 2016; Continues to Force Industry-Wide Evolution

Private health insurance exchange vendors need to demonstrate meaningful differentiation—or see their market share erode as traditional benefits providers catch up in terms of technology and experience.

Accenture estimates 8 million people in the United States enrolled in a private health insurance exchange for the 2016 benefit plan year, a 35 percent increase over the prior year (see Figure 1). While adoption remains substantial, it represents a deceleration from the annual growth rate of more than 100 percent since 2013, when Accenture began studying private health insurance exchange enrollment trends.

Growth continues to be fueled by midsize employers, which Accenture defines as companies with 100 to 2,500 employees. Similar to the previous year, many large employers continue to sit on the sidelines. However, there is evidence of adoption by larger customers. Mercer announced 2016 enrollment of 222 companies and 633,000 eligible employees in its active exchange. This represents an increase of about 10 percent in average number of employees per company, compared to its 2015 enrollment of 170 companies and 440,000 eligible employees.

Private health insurance exchanges—online marketplaces for people to choose their employer-sponsored health benefits—are entirely separate from state and federally sponsored exchanges established under the Affordable Care Act (ACA).

Figure 1: Private HIX enrollment reached 8 million in the 2016 benefit plan year

Source: Accenture 2016; calculation includes pre-65 employees and dependents.
Market and regulatory forces compel employers to re-examine their approach to traditional benefits

Traditional benefit plan designs and delivery models are unsustainable. These forces will continue to pressure employer benefits moving forward (see Figure 2):

- Healthcare costs continue to grow, making it increasingly costly and complex for employers to administer traditional benefits programs.
- Employees bring high expectations from retail experiences to healthcare, escalating the need for robust digital experiences and greater choices.
- Regulation continues to add pressure in the form of increased administrative burden (e.g., reporting requirements).

Private health insurance exchanges need to be great, not ‘good enough’

Current private health insurance exchange vendors must create meaningful differentiation before incumbents deliver an experience that is adequate enough to meet the benefits challenge. But how?

One option is to help employers modernize benefits. Many employers remain undecided, so to move them from considering to joining a private health insurance exchange, vendors need to demonstrate that they can deliver a differentiated experience across four key elements:

1. Meaningful actuarial choice
2. Healthcare cost control
3. Reduction in administrative burden
4. Digital decision-making experience

However, the window of opportunity for the current pool of exchange vendors is narrowing. Traditional vendors have noticed the innovations that companies are bringing to the benefits space, and they are reacting by folding in similar capabilities to their own experience. For instance, they are boosting core offerings, such as embedding next-generation decision support tools directly into traditional enrollment platforms and offering a wide variety of plan choices. Therefore, if current private exchange providers cannot convert customers now, they will start to lose out to traditional players that are evolving their capabilities.

What do exchanges need to do?

Private health insurance exchanges have been successful by delivering meaningful actuarial choice and a more retail-like digital experience than core benefits providers. However, to convince the remaining set of employers to move, exchanges will need to deliver against three dimensions:

1. Demonstrate stabilization or reduction of year-over-year healthcare costs

Medical costs continue to climb as both a relative share of employers’ cost structures and in absolute dollars. If private exchanges can demonstrate a meaningful cost impact to employers, they will be well positioned for growth. The value proposition varies depending on who holds the risk (see Figure 3).

Fully insured exchanges, which typically offer a standardized set of plans from multiple carriers, promise to compete on price and limit annual increases in premiums. Moving forward, these exchanges must show that competition among carriers is yielding sufficient savings over time to offset any forgone savings from a self-insured structure, particularly for larger companies.

For those exchanges offering self-insured plans, employers will need to see that private health insurance exchanges are meaningfully reducing costs. By switching to a private exchange, employers can help facilitate employee self-selection of less robust plans—a win-win for employees who may have been over-insured with limited options in their legacy offering.

Accenture research has illustrated this “benefits tradeoff” where by offering consumers choices, more than one in four will select leaner coverage. But this benefit will be seen only in the first year. To remain relevant, self-insured exchanges need to demonstrate ongoing cost benefits by empowering consumers to better manage costs, as explained below.

2. Reduce the administrative burden

Private health insurance exchanges should make the case for reduced administrative burden for human resources administrators. The need goes well beyond the intake of an employee census or managing life events. To truly deliver value, exchanges will need to demonstrate how their digital platforms can help employers beyond the basics (see Figure 4).

Examples include:

- Turnkey solutions for ACA reporting (e.g., automation of 1095-C generation and distribution)
- Automated task management (e.g., employee status changes)
- Targeted communications (e.g., for individuals who have not enrolled, mass health campaigns)
• Simple online solutions or services for complex employee situations (e.g., complex households with differing eligibility and life event circumstances)
• Reduction in the need for paper management (e.g., mailroom and fulfillment operations)
• Providing robust enrollment and ongoing service capabilities for employer/employee (e.g., digital and call-center based decision support)

3. Satisfy today’s digital consumer

Creating a compelling digital experience that is distinct from existing benefits providers will be a boon for current exchange providers. This goes beyond simply providing an array of digital tools. Instead, exchanges must align those tools to business objectives for plan sponsors using the exchange.

As an example, for self-funded exchanges to provide meaningful cost reduction in year two and beyond, they should take advantage of the digital entry point the employee experiences when shopping for plans. Improving the digital experience could mean providing transparency tools that empower employees to select high-quality, low-cost providers at the point of enrollment. Alternatively, employers could provide ongoing communications linked to premium reductions for those employees who participate in wellness programs.

Mobile enrollment can also provide a leapfrog opportunity for private health insurance exchange providers. A mobile solution allows exchanges to reach an expanded audience and increase potential penetration to customers who may have constituents lacking regular computer access (e.g., retail, food service). Many employers continue to rely on paper enrollment, which is more costly and burdensome than digital. The move to mobile can potentially alleviate the need for paper enrollments within their employer population, saving time and money.

Who will prevail?

Current private health insurance exchange vendors have a unique opportunity to capitalize on the market and regulatory forces that are compelling employers to change their approach to benefits. If these vendors can deliver on the key elements of a private exchange, they can capture share in a market that will continue to grow. If they cannot deliver meaningful differentiation, legacy providers will evolve to meet the market and regulatory needs that are driving the need for private exchanges.

Figure 3: Exchange variation based on funding mechanism

<table>
<thead>
<tr>
<th>Funding Mechanism</th>
<th>Exchange Value Proposition</th>
<th>Secondary Benefits</th>
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<tbody>
<tr>
<td>Fully Insured</td>
<td>Carriers compete directly with standardized plans leading to lower average premiums</td>
<td>Predictability in costs</td>
</tr>
<tr>
<td>Self-Insured</td>
<td>Provide more choice to consumers while maintaining the benefits of a self-insured offering</td>
<td>Self-insured generally cheaper</td>
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Figure 4: Opportunities for private exchanges to reduce administrative burdens

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Methodology

For the fourth year, Accenture conducted an analysis and projection of United States enrollment in private health insurance exchanges, focusing on individuals and dependents under the age of 65 who receive group health insurance through an employer. Current 2015 enrollment was calculated by assessing enrollment activity in private health insurance exchanges through December 31, 2015. The research was conducted in January 2016.

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