Navigating Healthcare’s Transition to Private Exchanges

By Rich Birhanzel, Scott Brown, and Joshua Tauber

Roughly 170 million people in the U.S. receive health insurance through employer-sponsored plans. It’s an entrenched practice that took root during World War II and that, largely, has served the workforce well. However, it still lets employers decide what’s best for the covered group, leaving employees little flexibility in individualizing their benefits.

Private health insurance exchanges — which have been bolstered by the rollout of the Affordable Care Act — aim to address this need for choice. Our research at Accenture, which we gleaned from publicly available corporate filings, market analysis, and our industry experience, shows that about 3 million people in the U.S. already receive their employer health benefits through a private exchange — a number expected to swell to 40 million by 2018. (See the exhibit “Private Exchange Annual Enrollment.”)

This growth will greatly expand health insurance personalization and, on balance, offers employers opportunities to stabilize costs and simplify administration. However, with these potential rewards come risks that require vigilance. To make the most of the potential of private health insurance exchanges, companies will need to bear in mind several new realities.

What’s Happening Already

Walgreens, Sears, and Petco are among the largest of the thousands of U.S. employers that have already begun providing their employee health benefits through private exchanges. Health insurers and benefits consultants, such Aon Hewitt, Towers Watson, and Mercer have lined up to operate them.

Employees enrolled in private exchanges are already seeing the advantages. They can tailor their health benefits to their own personal health and financial circumstances — and can enjoy the convenience of the exchanges’ online, retail-like shopping experience. A 2013 Accenture survey showed that, although awareness of the exchanges remains low among people not yet enrolled, 85% of consumers who were presented with the concept expressed a neutral-to-positive outlook about it.

Many employers who use these exchanges are shifting to a defined contribution approach, which enables employees to shop for benefit options, with a fixed dollar amount, in an online marketplace. This approach can stabilize, or even reduce, the organization’s overall benefit costs and make it easier to predict costs down the road.

The defined contribution approach also enables an organization to shift some of the burden of administering plans to the private exchange operator. The exchange typically provides key functions, such as billing and financial management, enrollment and eligibility, and reporting. When, for example, billing is consolidated across multiple products and insurance carriers, perhaps bundled with collection and disbursement of payments, complexity drops dramatically for the employer.
What the Future Could Offer
As employees are empowered to make more decisions about their health care coverage, they will seek out price transparency tools and comparative data to help them make smarter choices.

For some consumers, this could mean purchasing “less” health insurance. Research by Accenture shows that about one-fourth of employees on private exchanges will trade some portion of health benefits for other products and services. This may translate into lower monthly premiums through voluntary selection of higher deductibles, narrower health networks, and other trade-offs. We find that more than half of people who go this route will use some of their remaining allocated funds to buy ancillary benefits, such as vision coverage, as well as auto, home, or even pet insurance.

Nevertheless, the effects of private exchanges on the health care industry at large are tough to predict at this stage. But our research at Accenture suggests that currency will be built on the loyalty of consumers, who are increasingly willing to switch away from service providers that fail to meet their expectations, especially in health care. With more skin in the game, patients will expect a consumer experience that is on par with that of other industries — and they will choose providers accordingly.

Clearing the Obstacles
The flexibility of a private exchange comes with more decision-making responsibility for employees as they weigh their own health-risk projections against personal finances. The expense of, say, a chronic-use medication, is easy to forecast, but other costs are not. For example, opting for a lower monthly premium could backfire if a family member suffers an unexpected, costly injury. The consequences may rebound to the employer if diminished health or financial pressures affect the employee’s morale or job performance. Like the sophisticated tools that aid consumers with online transactions in other industries (such as online retail, travel, and financial services), companies will need decision support tools to help employees model or tailor benefit selections according to their personal circumstances.

The expansion of private exchanges will also cause growing pains for care providers. Uncompensated care, for which the provider receives no payment from the patient or insurer, already amounts to an estimated $413 billion since 2000. Accenture forecasts that the level of reimbursement that hospitals and doctors collect directly from patients with employer-sponsored plans will rise by an estimated 7% — or an additional $3.7 billion — by 2018. New risk-bearing arrangements, such as pay-for-performance, accountable care structures, and bundled payments, are already changing the patient collections process. Many providers will find that new exchange plans increase the level of patient “first-dollar responsibility”; newly developed collections capabilities should account for this greater patient responsibility.

Exchange models will vary across market segments, ranging from very simple versions to premium ones that offer highly tailored solutions to employer-partners. However, our analysis suggests that lagging technology for managing benefits administration could constrain the growth of some exchanges. To reduce costs and minimize errors in administering highly customizable products, exchange operators will have to automate their systems. For example, those that do not streamline enrollment and eligibility processing for their employer-partners will effectively fail on the core promise of simplified administration.

Early signs from the private health exchange market are positive. Employee enrollment is growing faster than expected, and employees are personalizing health benefits to better meet their needs. Exchanges will surely demonstrate greater value as operators gain experience and evolve their offerings, even as the tremendous velocity of change stretches capabilities and presents challenges for consumers, employers, and other stakeholders. The next few years will be crucial in determining the extent to which private exchanges deliver more cost-effective, consumer-centric health care services.

Rich Birhanzel, Scott Brown and Joshua Tauber are the coauthors of Accenture’s research series on private health insurance exchanges.

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