Private exchanges are changing insurance

Private exchanges are shifting the way we think about and buy health insurance – and they’re changing the whole game.

Unlike most consumer products today that can be purchased online, insurance has traditionally been bought and sold in a quite outdated fashion – through in-person meetings, sales calls, paper brochures and mailed applications – up until now.

Private exchanges are online marketplaces, much like the well-known website amazon.com, where people and businesses can shop for, compare and buy health insurance. Exchanges are the “new kid on the block” – with flashy online portals and scores of options. Everyone’s curious about what they can do and if they’ll truly offer a viable alternative to traditional direct-to-insurer benefits.

While private exchanges existed prior to health care reform, they may not have taken hold as strongly or as quickly, except for the details of the law going into effect. More and more exchanges are entering the marketplace than ever before. Businesses can leverage private exchanges to better control health care spending, save on administration costs and better communicate their health care options. Still, the emergence of private exchanges means three distinct changes to how benefits are bought and sold. Carefully and fairly equipping employees for these changes will be paramount in the months and years ahead.
Three game-changing shifts to the benefits landscape

The advent of private exchanges changes the way benefits are bought and sold in the U.S. in three distinct ways.

1. **One-stop shopping for multiple benefits options.**
   Traditionally, employers might have three, four or even five carriers offering different types of benefits. Private exchanges make it possible for employees to view a variety of benefits choices and enroll in one place. From major medical insurance and dental insurance to life, disability and cancer insurance, private exchanges can help employees assess their choices and purchase insurance in one seamless experience.

2. **Exchanges will offer streamlined administrative support for employers.**
   Private exchanges compile multiple insurance products for employers and streamline the administration process. They offer the prospect of a seamless administrative experience for multiple benefits offerings, and employers may even rely on a private exchange to help meet rigorous compliance requirements that were set forth by health care reform. This is especially noteworthy for small businesses that, typically, don’t have a dedicated human resources staff.

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**Private Exchange Basics**

**Health care reform readied the market for private exchanges to emerge.** Separate and different from the government marketplaces, the emergence of privately run exchanges is largely an unintended side effect of health care reform, but it is directly tied to the trend toward health care consumerization. As the government set up its publicly run marketplace, private entities began to build marketplaces to remain competitive and better align with consumer-facing markets – as opposed to historically doing business almost solely with employers.

**Private exchanges take two forms - single-carrier or multicarrier.** Single-carrier exchanges offer employers the exchange environment with one insurance carrier – beneficial for those who have a preferred carrier and want the benefit of an online shopping experience or want more control over benefits. Multicarrier exchanges are often third-party platforms and can offer insurance products from multiple carriers.

**Private exchanges are different from government marketplaces.** Unlike government marketplaces designed to primarily offer major medical insurance, private exchanges can offer a robust variety of benefits, inclusive of major medical and important voluntary benefit policies. Additionally, private exchanges are run by private industry – which may offer more viable technology solutions than the government exchanges have offered. Private exchanges may connect with government marketplaces, and many may even have the capability to determine eligibility for and assist in administering health care tax credits and subsidies.
3. More responsibility for decision and buying power is placed on employees.

Employers are still involved in choosing a private exchange to deliver benefits, but these online marketplaces are tailored to individual consumers. Some exchanges may even introduce defined contribution, changing how employees pay for their benefits. Comparison shopping will inevitably drive consumers to consider price more heavily than with traditional insurance. There’s no doubt that insurance is a complicated topic, and the average individual is not a benefits expert. The consumer focus of private exchanges continue to drive the need for innovation to make benefits easier for people to understand their options and make informed decisions.

**What is defined contribution?**

Defined contribution is a way for employers to control the amount they pay toward benefits. Through this option, employees receive an account credited by the employer for insurance. It’s like an allowance for the employee to spend on the health care they choose. If the employee wants more robust coverage than their employer’s contribution can cover, the employee can choose to pay the remaining portion of the bill.

**Carefully equipping employees for what’s ahead**

Consumerization of health care is not new – it’s a much broader trend. The reality is that with or without exchanges, individuals will continue to make more and more decisions when it comes to their health. Still, the emergence of exchanges is a game-changing shift in benefits delivery, in which everything, from how employers offer insurance to the way employees protect their health and well-being, is quickly and fundamentally changing. What’s more – individuals may not be prepared; in fact 65 percent of employees would be able to pay less than $1,000 for out-of-pocket expenses if an unexpected serious illness or accident occurred today.¹

Private exchanges are changing how insurance is bought, sold and considered, which may mean important shifts for employers and the benefits they provide their workforce. As employers consider private exchange options, it’s important to remember that employees continue to look to their employer to understand changes to their benefits. Employers should consider how a private exchange can help maximize their benefit delivery, as well as the resources and support the exchange offers to help equip and inform employees to make more informed benefits decisions.

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Source

1 2017 Aflac WorkForces Report.

This material is intended to provide general information about an evolving topic and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer or individual will have to consider in their benefits decision-making process. We strongly encourage readers to discuss their HCR situations with their advisors to determine the actions they need to take or to visit healthcare.gov (which may also be contacted at 1-800-318-2596) for additional information.