

# THE FUTURE OF EMPLOYER-SPONSORED INSURANCE

The new supplier/distribution dynamics in the employer-sponsored benefits market – private exchanges and provider competition

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Howard Lapsley

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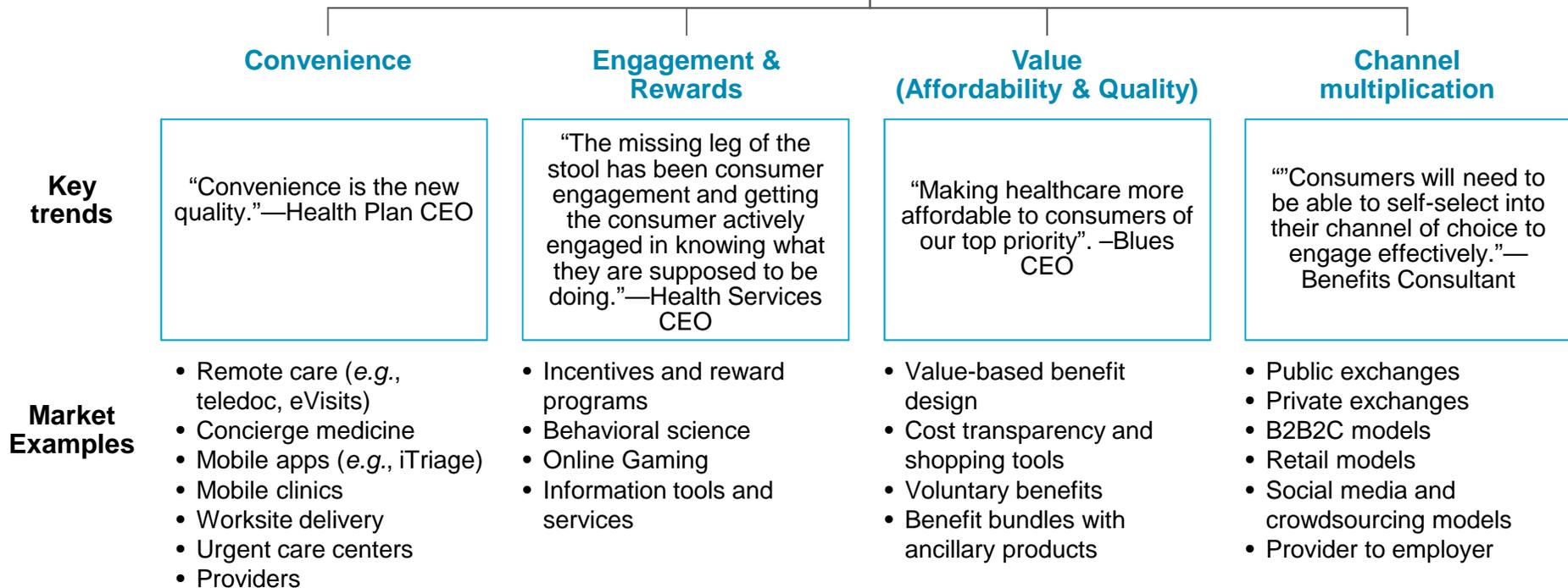
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# Supplier/Distribution Dynamics in Context

## Part of the broad trend of healthcare moving to retail

### Retail 2.0

*Healthcare is shifting from a wholesale, supply-side model to retail, demand-driven industry. The ability to successfully engage consumers will be central to determining future winners.*



Focus of today’s discussion is on private exchanges and new provider models

# Why Private Exchanges?

Demand for integration, convenience, and a better customer experience

*The cost, complexity, and risk of providing health benefits are greater than ever...*



*...and a private exchange provides an integrated, turnkey solution that addresses those challenges*

Sam Smith  
Member since: April 1st, 2010  
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Your Employer  
**IMAGINARY CO.**  
<http://www.imaginaryco.com>

Last Year Your Employer Spent  
**\$4,500**  
on your health care (premiums only)

Your Account Balances  
Based on the family members you needed your insurance plan to cover, your employer has deposited the following amounts into your Accounts.

Account Balance: **\$5,250.00** = Insurance Dollars: **\$5,000.00** + Other Benefits: **\$250.00**

What does this mean? Why is the balance split into two parts?

*For employers:*

- Benefits cost trend that outpaces inflation
- New PPACA coverage & compliance requirements
- Cost pressures to reduce HR admin staff
- Mobile, multi-state workforce
- Need for differentiated employee value proposition in a competitive talent market

*For employees / consumers:*

- Increasing responsibility for their own healthcare costs
- Complex, unfamiliar market with ever-increasing number of channels and products
- Mobile and social shopping experiences the norm

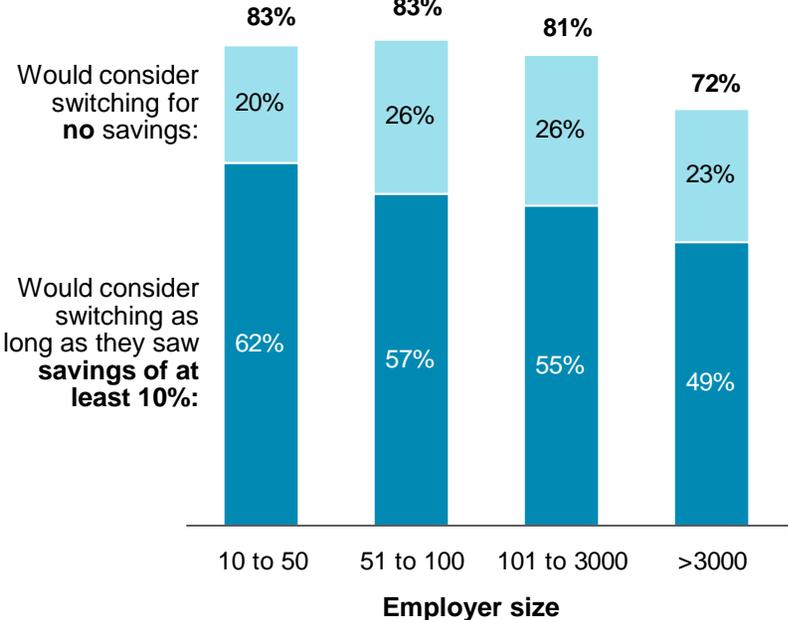
- Ability to support defined contribution enables cost predictability
- “One-stop-shop” admin and compliance services reduce HR staff time required
- Can be a single national platform (vs. state-level public exchanges)
- Wide range of plans and benefit solutions offered, with clear, standardized information about each one
- 21<sup>st</sup>-century shopping experience, including guided decision-making, mobile access, and social integration

# Greater Choice and Greater Cost Sharing for Employees

## The employer market is expected to undergo a shift towards defined contribution and private exchanges

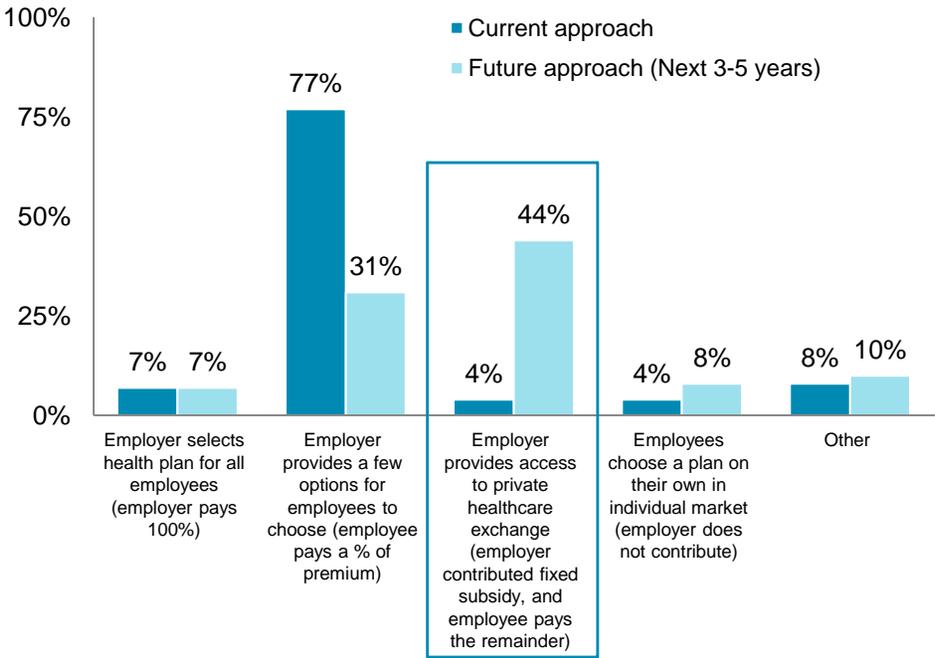
### A majority of employers would consider switching to a private exchange

% of employers who would consider switching to a private exchange



### In the next five years, many employers are anticipating a big shift in their benefits model

% of employers by benefits strategy



There may be an opportunity for selling both core medical and supplemental to employees through private exchange / defined contribution models

Source: Oliver Wyman survey of 1,329 employers, weighted based on employer size, December 2011.

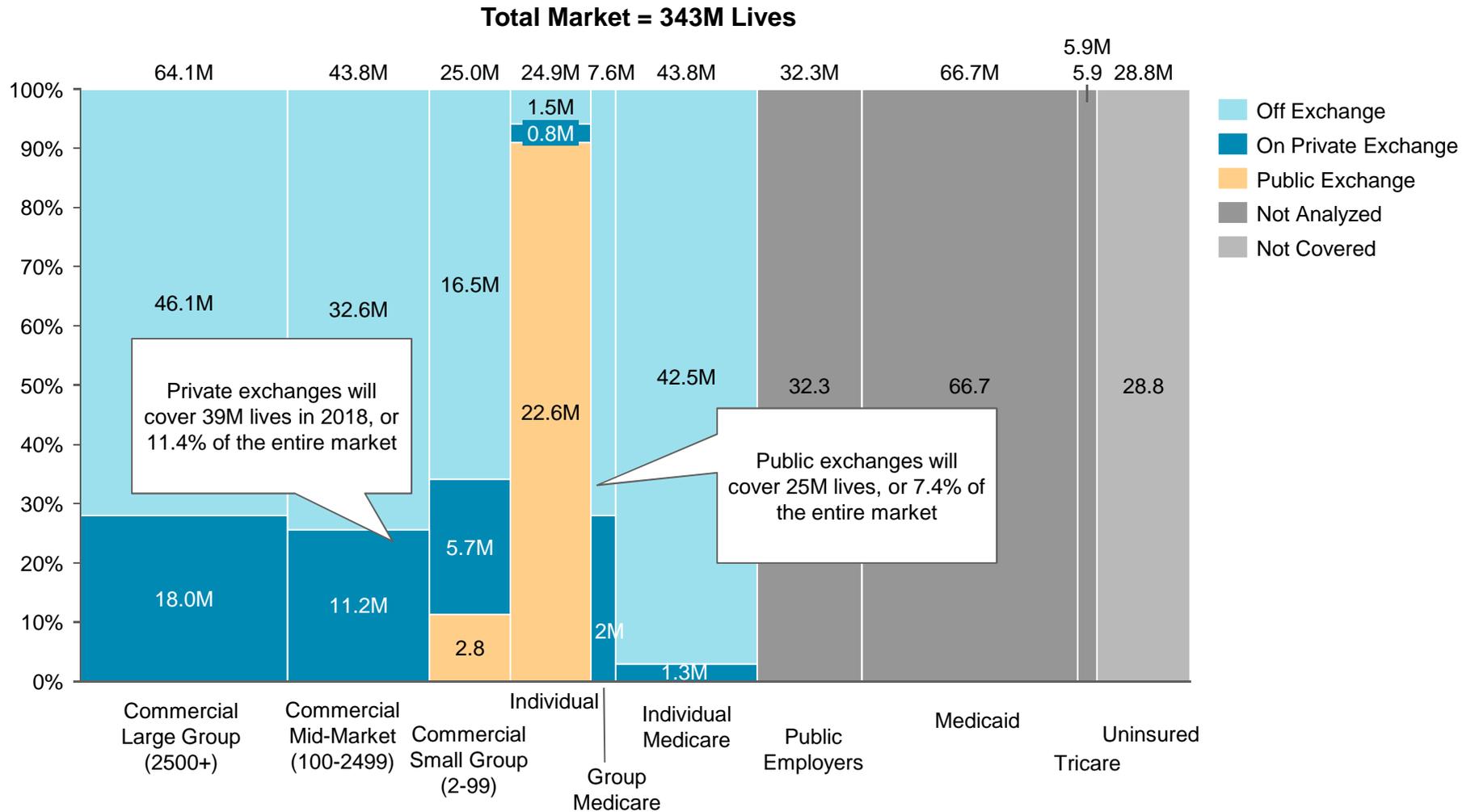
# Four Primary Trends Affecting Private Exchange Adoption

DC shift a major driver for group; public exchanges reduce individual opportunity

Trend	Impact
<p><b>A</b></p> <p><b>Employer Shift from Defined Benefit to Defined Contribution</b></p>	<ul style="list-style-type: none"> <li>• Employer desire to flatten the benefits cost curve and shift trend risk to employees will drive <b>conversion from DB to DC health benefits</b>, much as it did in retirement</li> <li>• Private exchanges represent the <b>simplest way to implement DC</b>, while providing the “cover” of improved employee choice</li> </ul>
<p><b>B</b></p> <p><b>SHOP Adoption</b></p>	<ul style="list-style-type: none"> <li>• SHOP represents a <b>competitor to private exchanges</b>; adoption of SHOP reduces the addressable market for private exchanges in the small group segment</li> <li>• SHOP’s <b>value proposition is mixed</b>, with premium incentives for some employers tempered by potential for sub-par product and rate shock in some segments; SHOP design decisions over next several months could have a <b>material impact on initial adoption</b></li> </ul>
<p><b>C</b></p> <p><b>Increased Coverage of Uninsured Individuals</b></p>	<ul style="list-style-type: none"> <li>• Subsidies and penalties provided by the PPACA will <b>increase the size of the individual segment</b> through inflow of uninsured</li> <li>• Vast majority of currently uninsured individuals will be subsidy-eligible in 2014, driving those who purchase coverage to do so on public exchanges, which <b>limits the opportunity for private exchanges</b> to gain these new lives</li> </ul>
<p><b>D</b></p> <p><b>Public Exchange Adoption</b></p>	<ul style="list-style-type: none"> <li>• More than half of individuals who already purchase their own coverage today will also become subsidy-eligible in 2014, likely <b>shifting lives away from private exchanges</b> (and other existing channels) onto public exchanges</li> </ul>

# Healthcare Market in the US in 2018: Covered Lives

## Over 64M lives on public and private exchanges by 2018



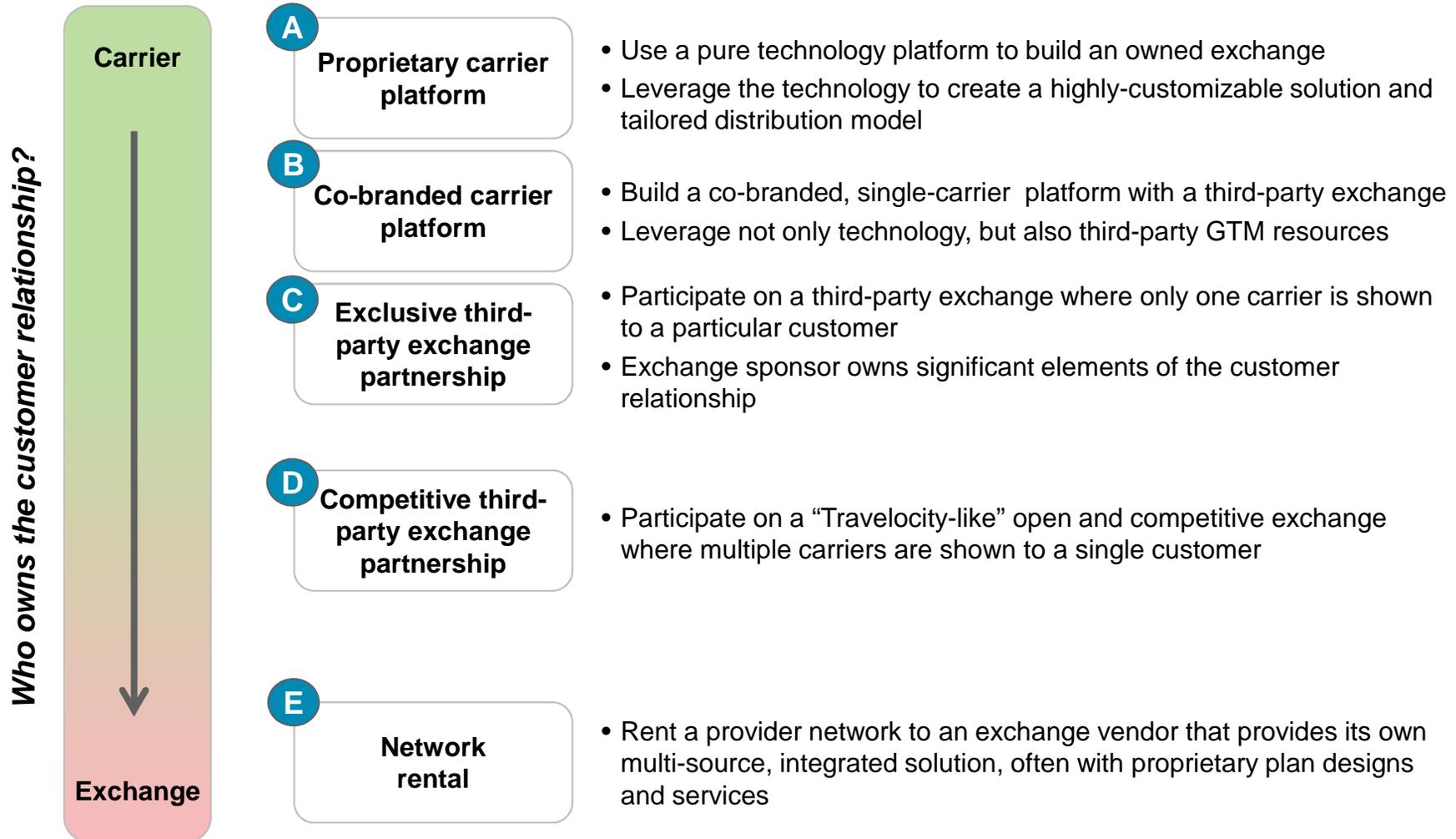
Note: Medicare Individual includes duals.

Sources: Bureau of Labor Statistics; Medical Expenditure Panel Survey; Aon Hewitt 2012 Health Care Survey; Oliver Wyman Employer Surveys; Society of Actuaries; Barclays; Kaiser Family Foundation; Oliver Wyman Analysis

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# Emerging Private Exchange Models

## Five initial private exchange participation models



# Private Exchange Market Landscape

30+ exchanges and 10+ technology providers announced to-date

	Defined Benefit (DB)			Defined Contribution (DC)				Individual		Medicare			
	ASO	Fully Insured			ASO	Fully Insured			Indiv.	Employers as Channel	Direct to Consumer	Group	Indiv.
		SG	MM	LG		SG	MM	LG					
<b>A. Proprietary carrier platform</b>													
<b>B. Co-branded carrier platform</b>													
<b>C. Exclusive 3rd party exchange partnership</b>													
<b>D. Competitive 3rd party exchange partnership</b>													
<b>E. Network rental</b>													

## Early Adopters of Private Exchanges

Sears Holding Corp. and Darden Restaurants Inc. announced that they are switching their employees to a private exchange.

### SEARS HOLDINGS CORPORATION



- Sears is switching 90,000 full time employees to a defined contribution health-benefits program
- Sears has not disclosed the annual amount per employee but mentioned that employees will have a choice of 15 health insurance plans instead of four through Aon Hewitt's multi-carrier online exchange
- Employees will be able to get the full "shopping" experience where they see the full cost of the plan and are able to contribute out of pocket for additional benefits individually

DARDEN  
RESTAURANTS.



- Darden Restaurants Inc. will let its 45,000 full time employees choose new coverage by November which will kick in on January 1<sup>st</sup>, 2013
- Employees will receive the defined contribution allowance based on family size and purchase insurance through Aon Hewitt's multi-carrier online exchange
- With the DC program, employees will be able to choose from five medical plans
- Darden's DC will rise as health care costs climb

#### Source:

- 1 Matthews, Anna Wilde. Wall Street Journal Online, 26 September 2012
2. Murphy, Tom. AP business Writer, 18 November, 2012

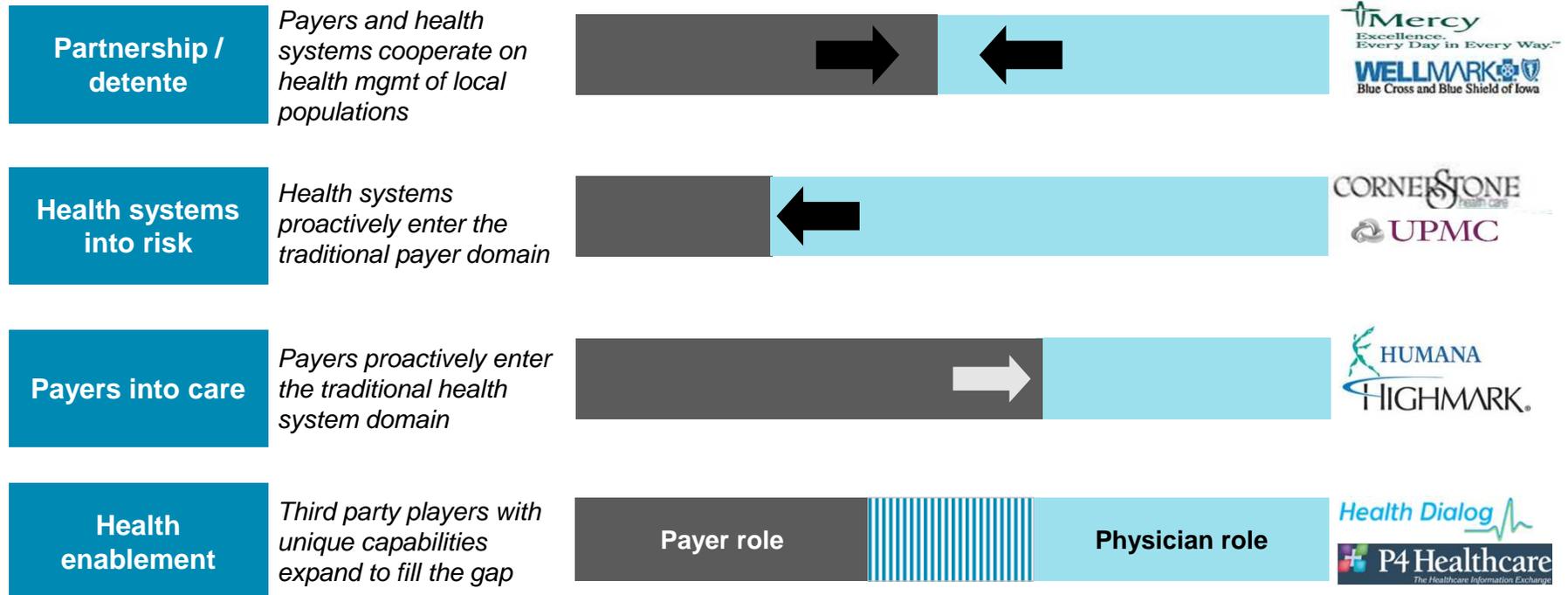
# Provider as collaborator: Payers and health systems are moving beyond their traditional adversarial roles to create a variety of converged models

## Traditional Model



## Evolutionary Future Models

## Examples



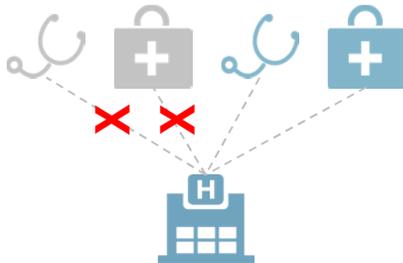
# Provider as competitor – In the near term, providers may be advantaged over plans in their ability to reduce care cost and pass savings on to employers

## Mechanisms for Provider-Driven Care Cost Reduction



**Narrow Networks**

- Willingness to offer narrow network solutions that broad-access plans may not
- Providers with aligned or owned physicians will be able to offer an narrow, but comprehensive product



**Reduced Leakage**

- Successful reduction of leakage out of system into higher-cost physicians and facilities
- Revised physician incentive structure to keep referrals within the system



**Patient-Centered Care**

- Expertise in care and population management to reduce cost for chronic patients
- Ability to focus on coordinated care within system to better manage high utilizers

In the longer term, we expect that providers will try to compete with plans for employer business using new models

### “Productized” Risk

- Provider takes risk on a procedure or total population
- Employer’s financial exposure is capped



### Retail Care Delivery

- Retail-centric care delivery offered to employers as a low-cost alternative site of service
- Offers convenience and broad access for employees



### Specialty Carve-Outs

- Providers with expertise in high-cost conditions (e.g., CKD / ESRD) offer to “carve out” specific populations
- Employers may contract with multiple providers using a “best of breed” approach



## Takeaways

- Private exchanges not a fad - will be key component of the future employer benefits marketplace
- Private exchanges are not all alike – different geos, target employers, value propositions, capabilities
- Private exchanges represent the ultimate co-opetition
- Private exchanges part of a comprehensive retail product and distribution strategy
- New entrants and partnerships will emerge as meaningful exchange competitors
- Local dynamics vary significantly necessitating a targeted approach

