



The Evolving Exchange Marketplace:
EBPA Presentation
December 6, 2012

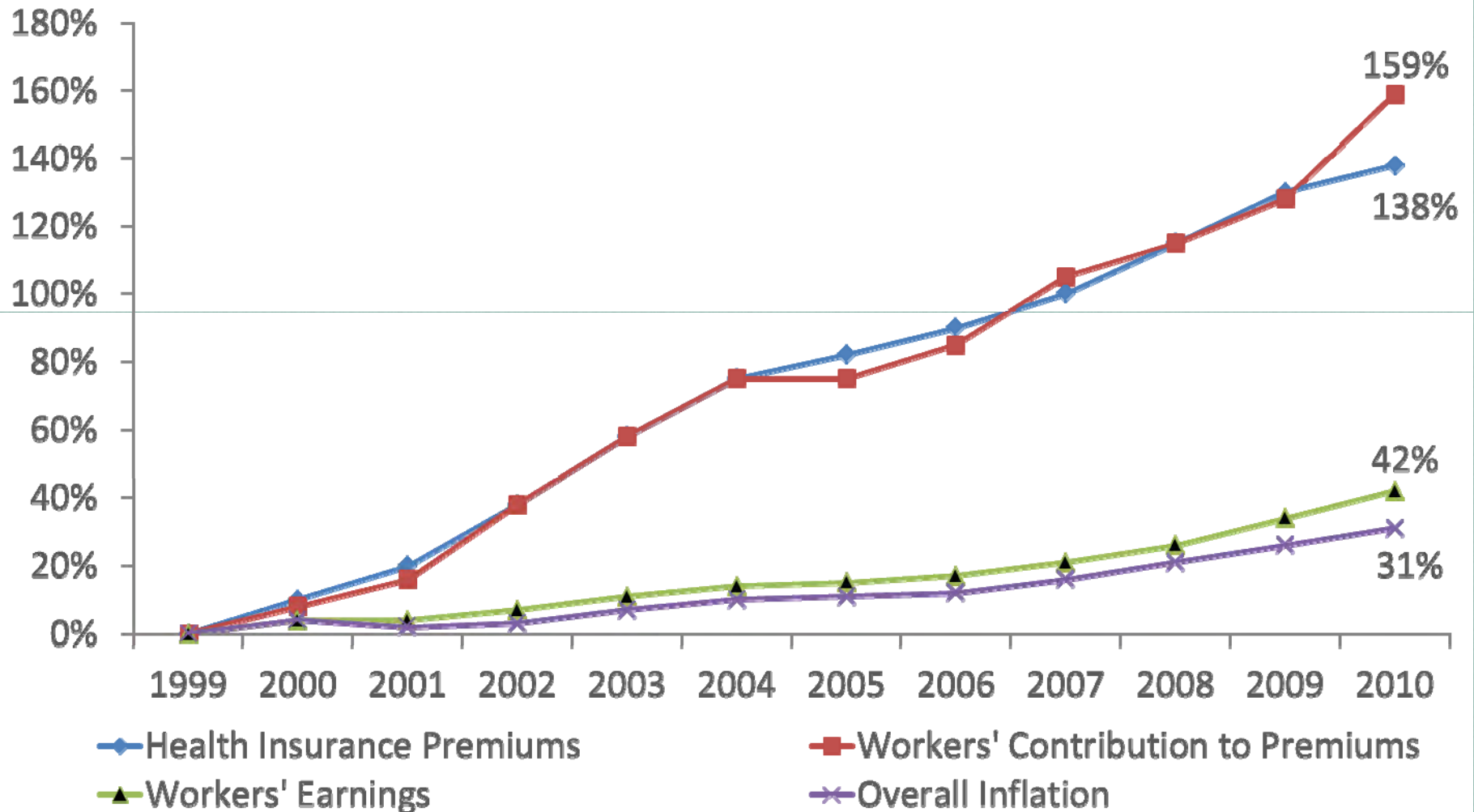
Today's Discussion

- Macroeconomic Perspective: Why Now? and Employer Response
- Defined Contribution and Exchanges Defined
- Public vs. Private Exchange Alternatives
- Components of an Effective Defined Contribution (DC)/Private Exchange Solution
- Value Proposition to Key Stakeholders
- Competitive Landscape
- The Potential Impact of Transitioning to DC
- Future Landscape: The Direction of the Exchange Market

The Healthcare Challenge

- Current costs and expected trends are creating a significant financial burden for employers
- While cost management initiatives can soften the trend curve, they will likely not be able to achieve company financial objectives without becoming disruptive
- Growing economy reinforces the need to use benefits to attract and retain the best talent
- Market dynamics are creating an opportunity for employers to think differently about the role they play in delivering healthcare benefits
- A key strategy being considered is a transition to a Defined Contribution (DC) structure
- Effective implementation of a DC solution requires a broad vision that goes beyond the concept of a fixed subsidy

The Imbalance of Total Compensation



Source: Kaiser / HRET Survey of Employee-Sponsored Health Benefits, 1999 – 2010. Bureau of Labor Statistics, Consumer Price Index, US City Average of Annual Inflation (April – April), 1999 – 2010, Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999 – 2010 (April – April).

Key Healthcare Challenges For Employers

- Affordability
 - For the company
 - For plan participants
- Employee Engagement
 - Meaningful choice
 - Competitive level of benefits
- Predictability
 - Sustainable/manageable trend
 - Budgetable healthcare expense

Responding To The Challenges: Potential Strategies

Traditional

- Design – increased cost sharing
- Pricing – increased contributions
- Overall structure – more limited, design and provider choice
- Innovative delivery solutions (e.g., clinics)
- Compliance models

Defined Contribution

- Fixed/defined subsidy
- Expanded design platform
- Purchasing leverage through a healthcare exchange
- Effective decision support and positive consumer experience
- Uniform model across all participant groups (active, pre-65, post-65)
- Evolution towards a total benefits solution

What Employers Are Considering

State Exchanges

- Limited market segments
 - Narrow range of benefits
 - Limited choice architecture
 - Concerns over consistency in service delivery and long term viability
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Private Exchanges

- Emerging mechanism for offering benefits
 - Primary vehicle is an online purchasing marketplace
 - Exchange models typically incorporate defined contribution strategies
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Defined Contribution

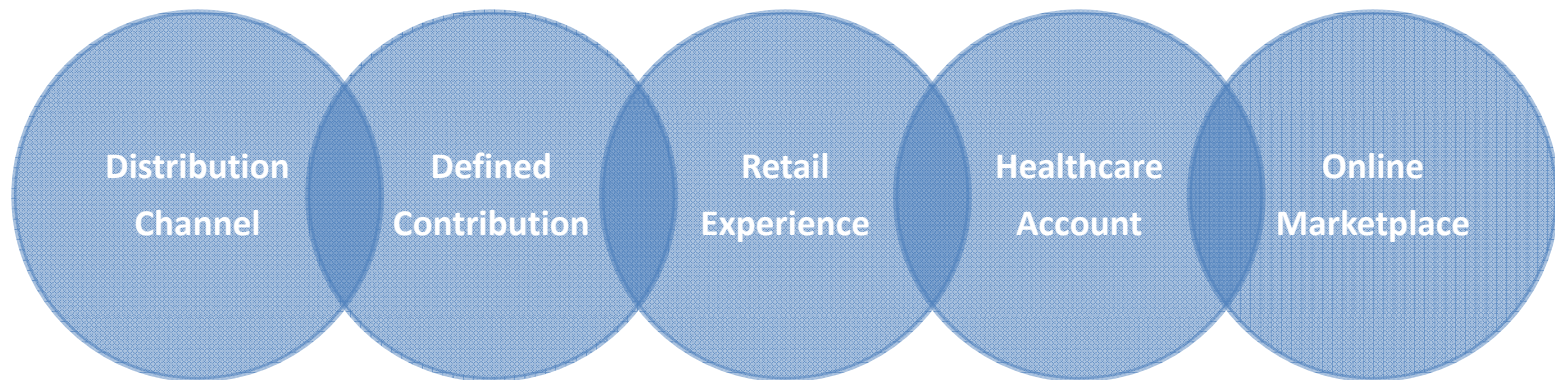
- Allows employer to create a “budgetable” trend line
 - Most models are account based
 - Absent other components, a fixed subsidy solution will have a limited shelf life
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Retiree Medical Exchanges

- Existing alternatives in an accepting marketplace
- Marketing focus has been on post-65 individual coverage solutions
- Recent implementation challenges have resulted in some market volatility

What Are Private Exchanges?

Emerging mechanism for offering medical and specialty employer benefits and wellness offerings through an online platform directly to retirees/consumers.



Public Exchanges vs. Private Exchanges

(Anticipated Healthcare Reform Changes)

	Public Exchange <i>Will it Happen?</i>	Private Exchange <i>Is Happening</i>
Governance	State / Federal	Private
Market Segments	2-100 & Individual	All Group sizes
Product Offerings	Health & Dental	Health, Dental, Life, Wellness, all Ancillary
Carrier Choice	Determined by state	Determined and controlled by exchange and participating employers
Billing	Traditional billing methods	Integrated health account tracking to manage DC dollars
Funding	Government subsidies individually paid Traditional employer contribution	Defined contribution

Defined Benefit vs Defined Contribution



Defined Benefit

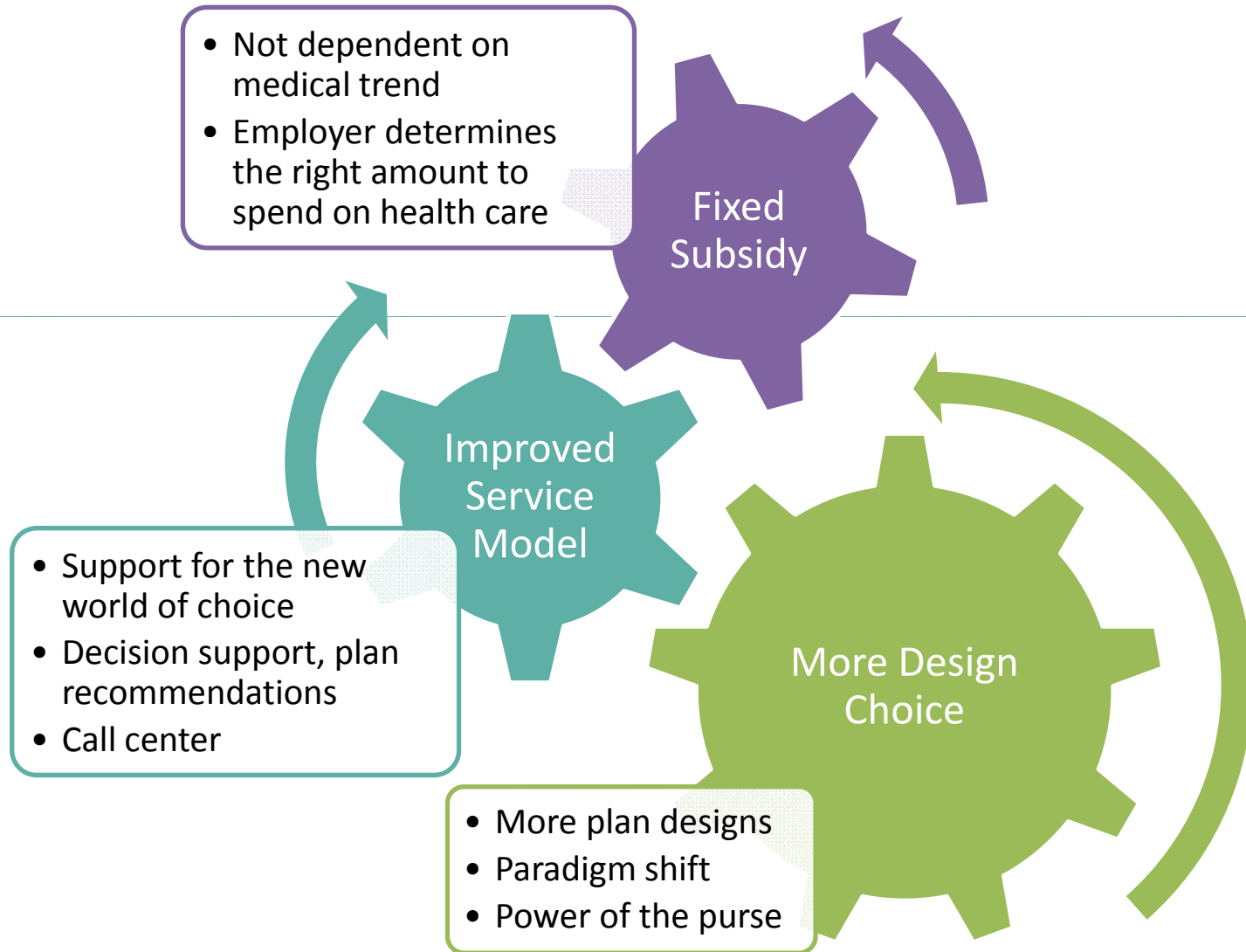
- Variable employer cost
- Uncertainty over annual increases
- Limited coverage options selected by employer
- Point of service decision making



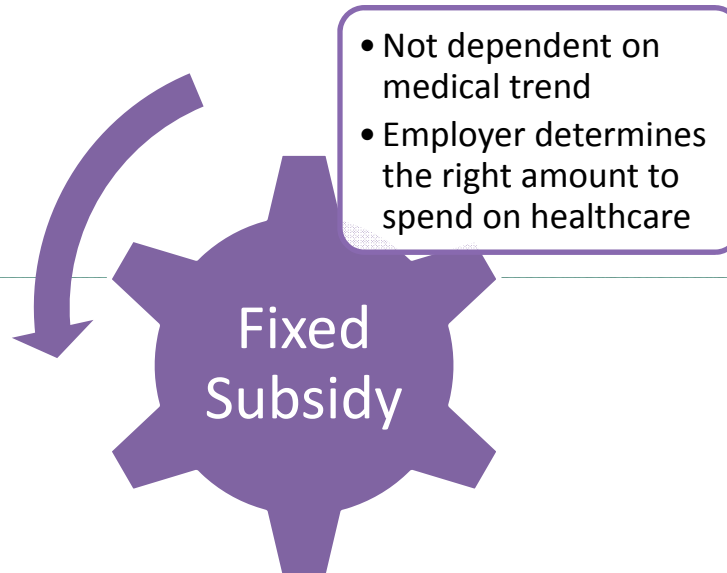
Defined Contribution

- Fixed employer subsidy
- Controlled rate of annual increases
- More plan choices for employees
- Combines point of enrollment and point of service decision making

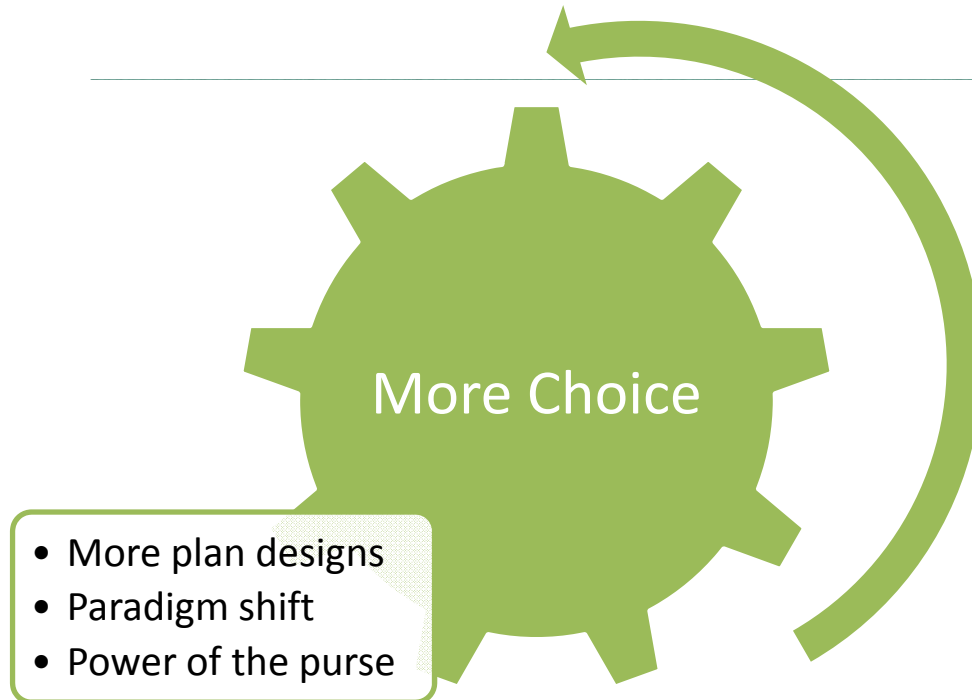
Core Principles of a Successful DC/Private Exchange Solution



Core Components of a Successful DC Solution

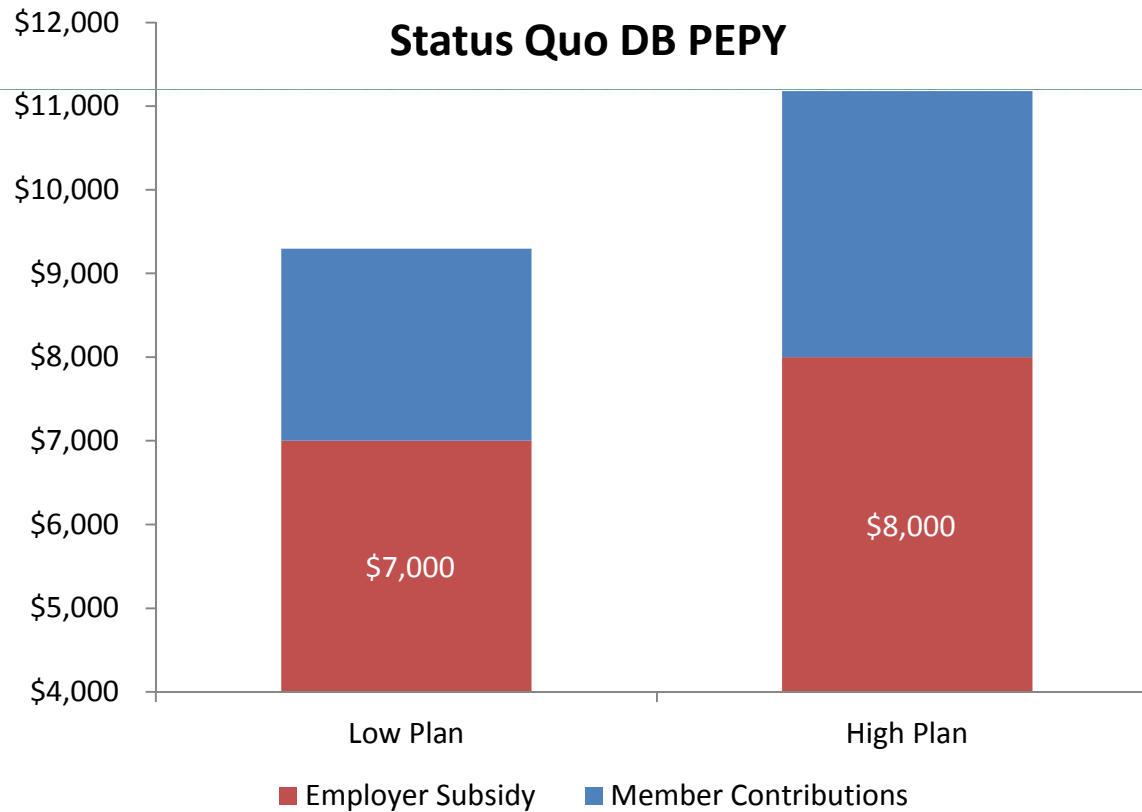


Core Components of a Successful DC Solution



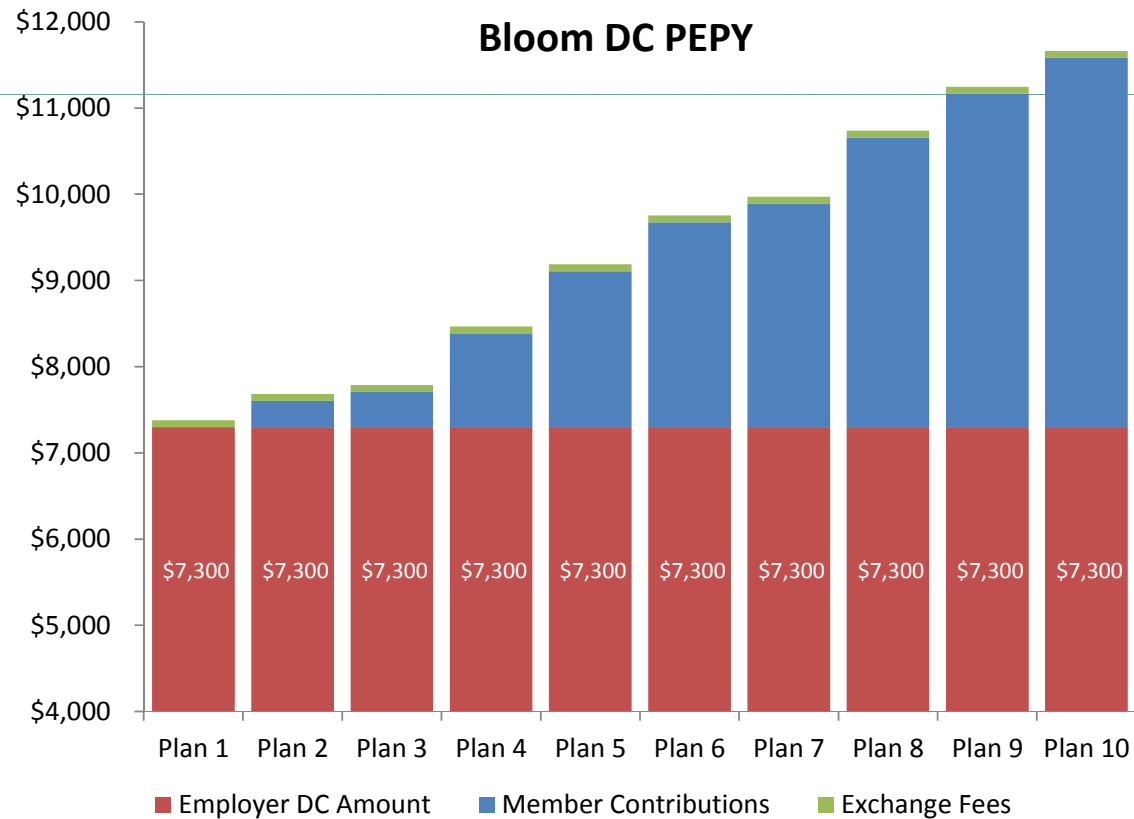
Why Design Expansion Is Critical: Defined Benefit Constraints

- Employer is at risk for migration and adverse selection
- Employee choice is limited, and employer subsidy is not transparent

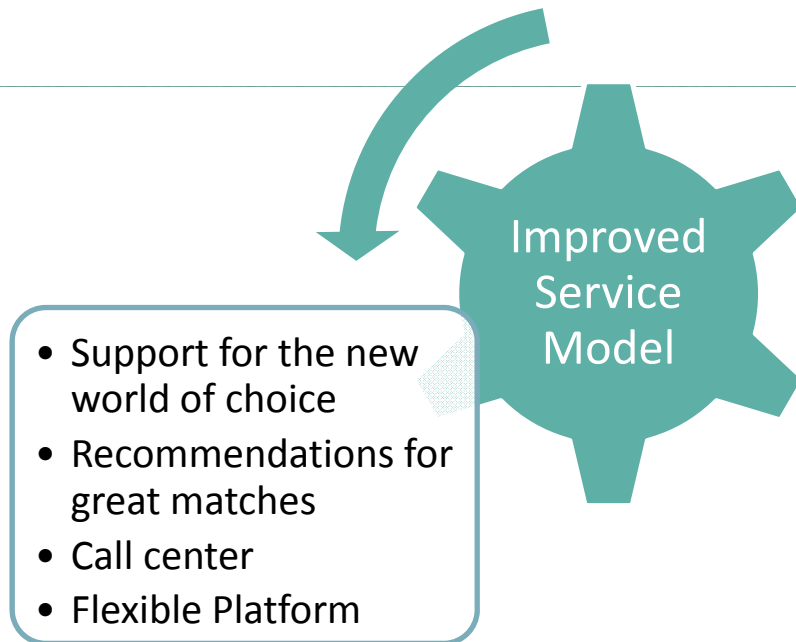


Why Design Expansion Is Critical: Defined Contribution Solutions

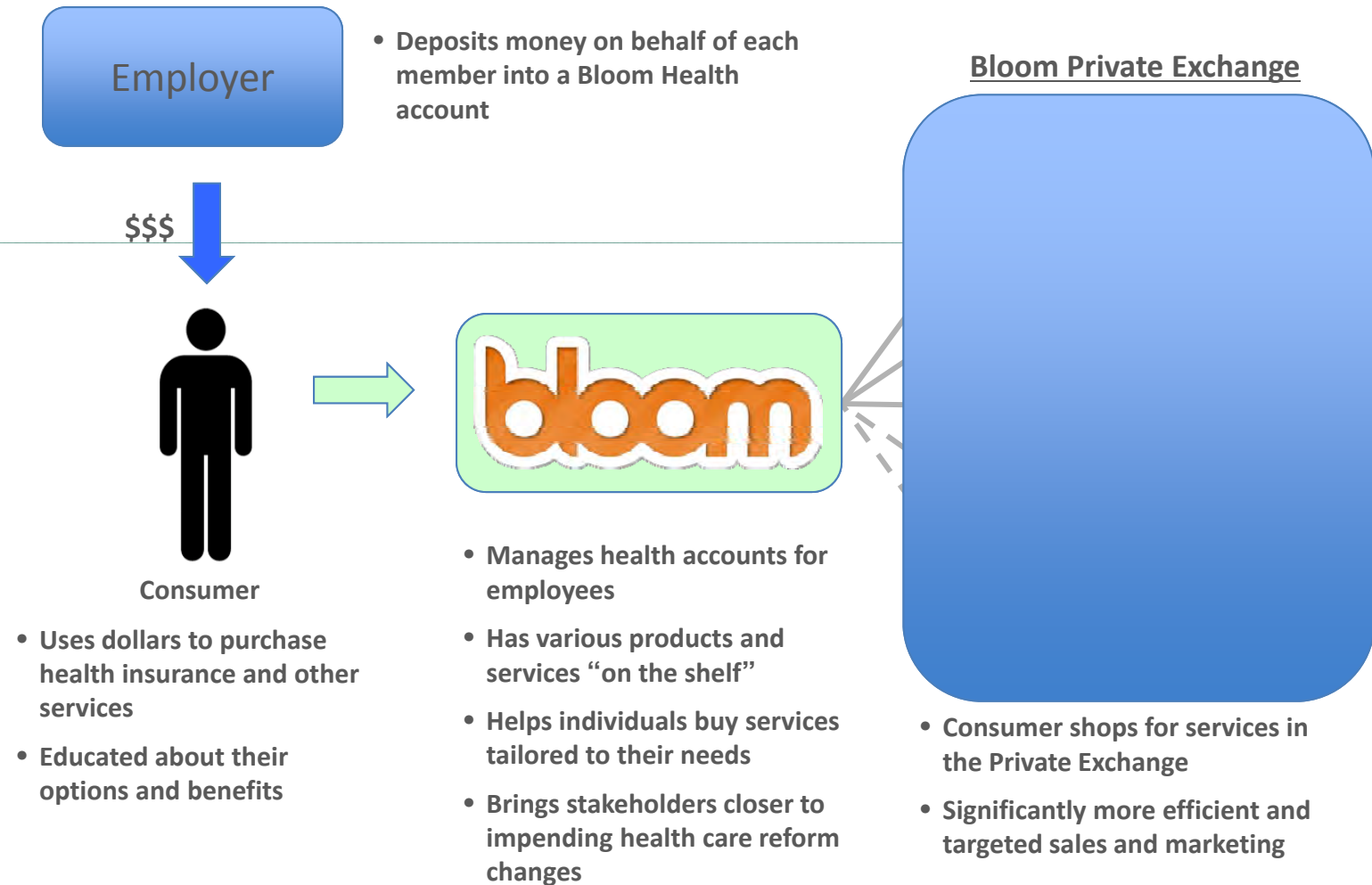
- Employer fixes (reduced) Defined Contribution, eliminating migration risk
- Employee choice spans a wider spectrum of plan value, and employees are happier having the power of the purse



Core Components of a Successful DC Solution



The Private Exchange Model



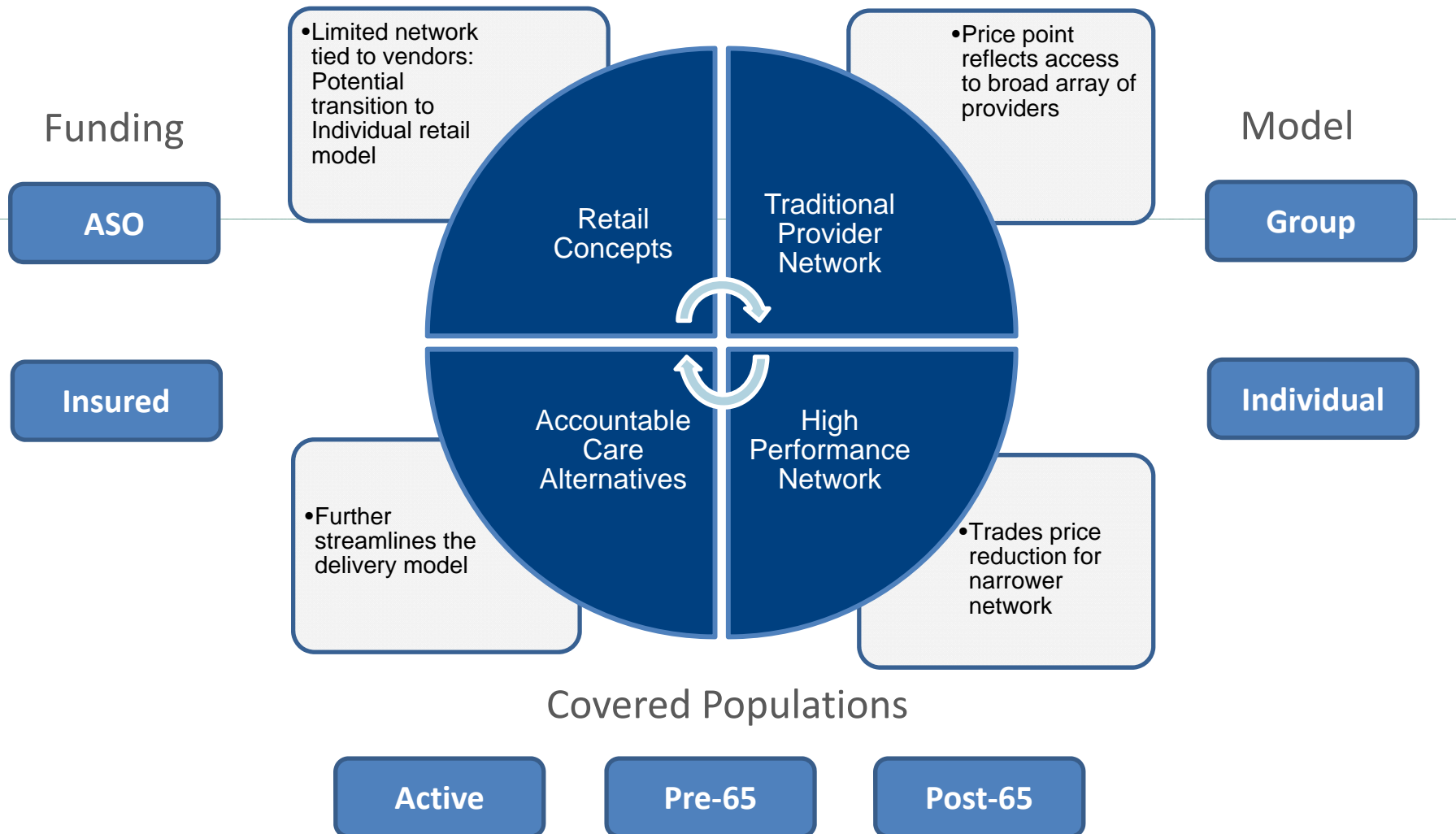
Decision Support

A combination of online and live support that generates a custom list of recommended health products and related services that best match specific needs.

The screenshots illustrate the user journey through the decision support tool, from initial survey and personality assessment to the final selection of an insurance plan based on personalized criteria.

Platform Flexibility

Structure



Key Funding Considerations

Self Funded

- **PROS**
 - Allows for greater design flexibility
 - Allows larger employers, who can handle claims variability, to avoid risk charges and premium taxes
 - Capitalizes on potential impact of medical management initiatives
 - Benefits directly from “buy down” effect
- **CONS**
 - Not a true DC solution
 - Limits potential leverage of a multi-carrier model

Fully Insured

- **PROS**
 - Risk transfer creates true DC approach
 - Allows for future trend to be tied to non medical inflation indices
 - Facilitates multi-carrier solutions (with effective risk adjustment)
 - Defines true value of medical management/wellness
- **CONS**
 - Imposes risk charges and premium taxes
 - Requires compliance with insurance regulations

Value Delivered Through the Defined Contribution / Private Exchange Model

Employer Value Proposition

- Delivers greater control over total benefit costs and annual spending increases
- Offers solution for employers seeking to transition Retirees and/or Actives to defined contribution benefits
- Provides engaging, consumer-friendly channel
- Reduces administrative burden and costs
- Supports employer in promoting healthier, happier, more productive workforce

Consumer Value Proposition


- Expands consumer choice and control
- Optimizes plan selection based on employee needs, financial status, and risk tolerance
- Promotes increased awareness of costs and cost variance
- Delivers familiar, online consumer-friendly retail experience

The Competitive Landscape

Private Exchange Market

AON Hewitt


ExtendHealth[®]


ArrayHealth[®]


ZaneBenefits


bloom
HEALTH


HIGHMARK[®]
Blue Cross Blue Shield
An Independent Licensee of the Blue Cross and Blue Shield Association


WELLPOINTSM

connected health


Walgreens

HCSC
Health Care Service Corporation


Blue Cross
Blue Shield
of Michigan


LIAZON

BENEFITFOCUS[®]

TOWERS WATSON




CaliforniaChoice[®]
Your Health. Your Choice.[®]

xerox 

What Differentiates the Competitors?

Philosophy

Scope of Service

Flexibility

Decision Support

Carrier Support

Long Term Sustainability

DC Impact Analysis

- Focused actuarial analysis to determine Defined Contribution (DC) value proposition for employer
- Assesses financial impact on three key stakeholders
 - Employer
 - Employees
 - Shareholder
- Facilitates strategic discussion regarding
 - Structuring plan design alternatives
 - Setting the DC subsidy
 - Creating balance between employer's objectives and the ability to deliver a competitive/affordable benefit to plan participants

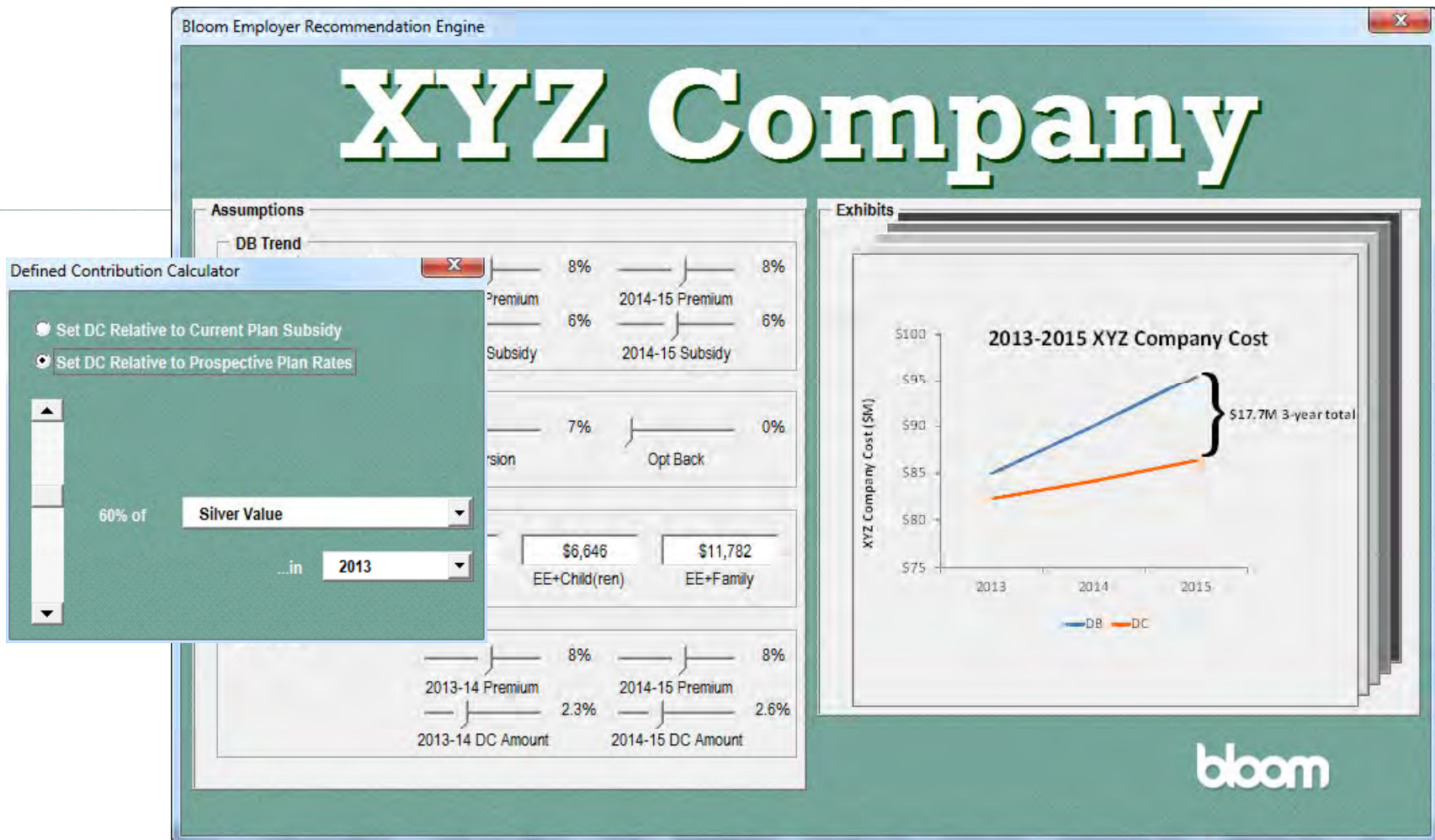
Data Requirements

From most recent plan year prior to proposed DC implementation:

- Employee Census
 - Plan and coverage tier elections
 - Include opt-outs
- Summary Plan Descriptions
 - Or equivalent benefit provision detail
 - Include detail of any employer funding of HRA or HSA
- Insured Premiums or Budget Rates
 - Include employer cost for any funding of HRA or HSA
- Employee Payroll Contributions

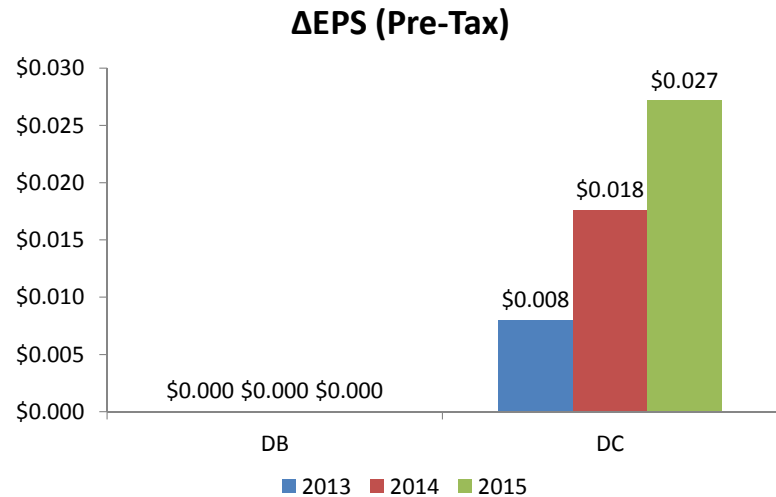
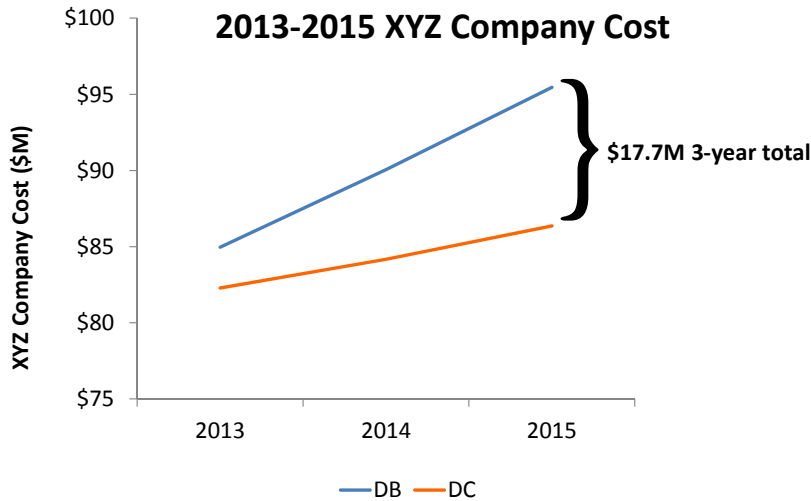
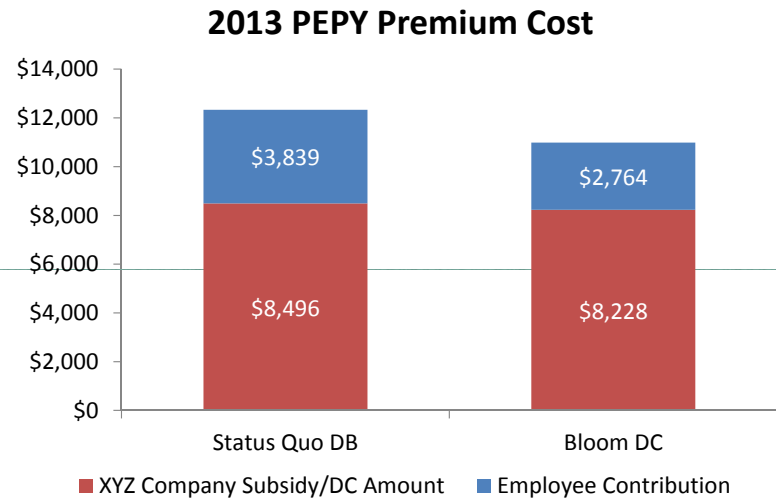
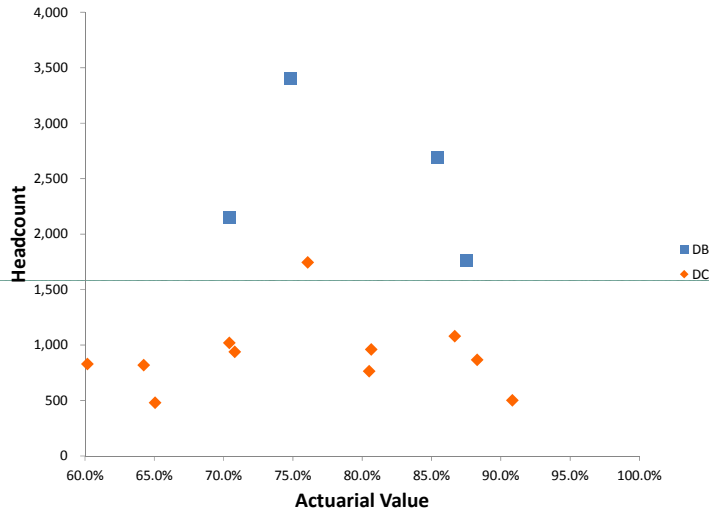
Employer Recommendation Engine Dashboard

Real-time, interactive modeling helps client establish DC amount, identify potential savings, and understand out-of-pocket expense for employees.



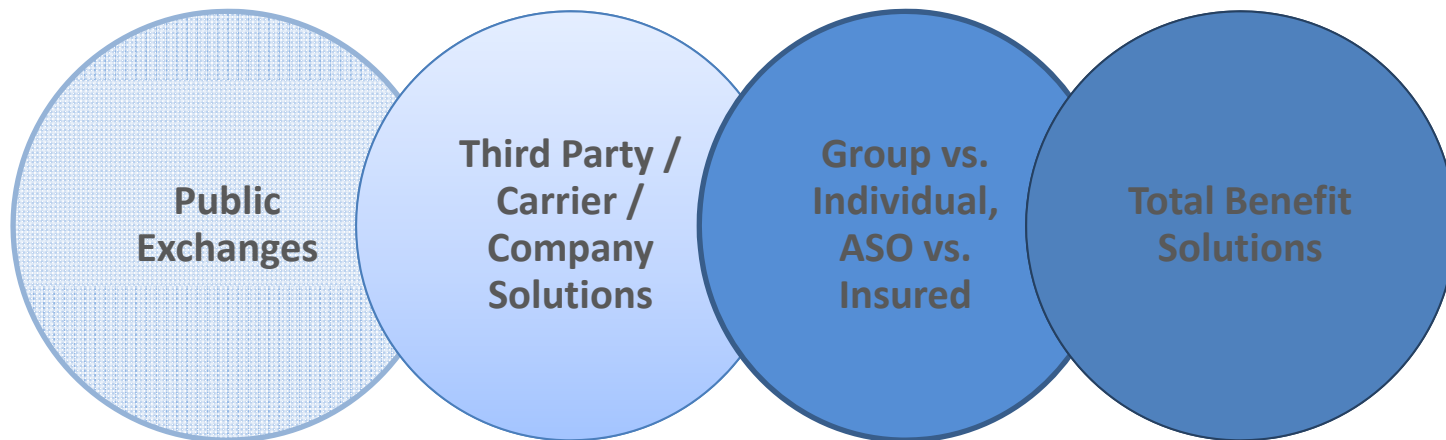
Employer Recommendation Engine Key Exhibits

Impact on expected plan migration, average premiums and contributions, and potential savings for all key stakeholders.



The Future Landscape

The exchange market is evolving. The future of the marketplace will be determined by several factors, including unsustainable cost, the Affordable Care Act, and different market actors. To a large extent, the direction exchanges head will be determined by the market itself.



QUESTION & ANSWER