



# How Will Buying Insurance Change in the Next Five Years

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The healthcare industry is speeding toward major changes in the next few years, urged forward by the regulations enacted by the Patient Protection and Affordable Care Act (PPACA). Many of the changes take effect as early as this year. Rather than making health insurance easier on employers, PPACA regulations and the ambivalent media coverage of it have left business owners lost in a horse-race mentality, questioning what's at risk if they don't adapt to the changes in time.

Are the PPACA regulations running on schedule, or has the timeline changed? Will PPACA help drive costs back down? Will employees blame their employers for the changes to their healthcare benefits? Is PPACA succeeding or failing?

In the next five years, employers and employees will be introduced to a whirlwind of changes,

including the introduction of exchanges, competition and choice. If employers fall behind in making the changes, they risk incurring fees and frustrating their employees by not being able to meet their needs. However, by preparing for the changes coming down the line, business owners can offer their employees more freedom and coverage satisfaction than ever before, and it all starts with exchanges.

### **Introducing Public and Private Exchanges**

One of the biggest changes companies can expect to see is the introduction of exchanges to the mass market. By October 1, 2013 employers need to explain the existence and services of exchanges. A health insurance exchange is an online store where individuals can go to buy health benefits. Currently, there are two channels for exchanges: the private and public arena. The public exchange is managed by the state government and will include a national exchange known as the Health Insurance Marketplace. Private exchanges are run by insurance brokers on a more local level.

Exchanges are meant to solve many of the problems with today's healthcare. Business owners have watched as insurance premiums doubled in the past ten years, cutting into their profits and confounding any attempts at a fixed budget. The new trend, however, among businesses that offer health insurance plans skews toward utilizing private exchanges. With a private exchange, employers can contribute a set dollar amount towards each employee's



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health benefits, and employees can select a plan that best fits their and their families' needs.

The number of those maintaining a "grandfathered" plan, or a plan that was in effect on March 23, 2010 and has changed little since, are dropping. According to research conducted by the Kaiser Family Foundation, only 58 percent of firms offering health benefits include at least one grandfathered plan in 2012, a drop from 72 percent with at least one grandfathered plan in 2011. **Similarly, a recent survey conducted by J.D. Power and Associates indicates 47 percent of employers are likely to utilize private exchanges.** In the next five years, early adopters will settle into regular users, and as providing self-funded plans become more expensive, trends towards exchanges will continue to rise.

Though government-run public exchanges are new, some private exchanges have been operating for a few years prior to the legislation of 2010 and have the added advantage of experience. For example, Bright Choices<sup>®</sup> has been in business for over five years, giving the company the chance to establish a proven track record of meeting employers and employees' needs. Such private exchanges also have established support networks and educational tools for guiding companies through the switch to an exchange model.

### **Adding Competition and Personal Responsibility**

An unrenowned change in the healthcare



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model is the introduction of competition to the marketplace. In the current model of healthcare, carriers set the price on group insurance packages for companies. If employers do not like the rate they're given, it's up to them to shop around. In the exchange model, carriers don't carry the same clout.

Just like any store looking to diversify product offerings, private exchanges will reach a point where they will have multiple insurance products available from different carriers. When a carrier understands their plan will be available next to another insurance carrier's plan, they'll have to give some thought about how to price that plan. **This means that for the first time in over a decade employers would see health insurance rates go down, and their contribution dollars will extend even further.**

Employers can also leverage the new private exchange model as a competitive benefit to attract and keep a talented workforce. Private exchanges enable employers to offer a wide menu of benefits to employees. This saves employers from needing to select one or two plans and hope they are robust enough to meet employees' individual needs. With a defined contribution model, employees can know the assets they are receiving as a part of working for the company.

In fact, by enabling employees to see the actuarial value of benefits provided through private exchanges, some of the responsibility for personal healthcare shifts onto the individual.



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In the past, employees were handed a package plan put together by the company which may or may not fit the staff's needs. This style disengages employees from the process of understanding and selecting the best option of coverage. Often, when offered a selection of plans, employees are more likely to simply choose whichever plan is closest to what they had the previous year. Without support, this trend could continue.

Private exchanges revolutionize the process for employers and employees alike by engaging employees in the process and giving them the freedom of choice. **As employees become proactive in selecting their benefits, they'll need to weigh the cost of their actions.** Higher risk or unhealthy decisions will mean more out of pocket expenses, while adopting a healthier lifestyle will help the employer's contribution to cover more. Businesses can take this a step further by implementing a wellness program to help reduce the number of claims they have for certain disease types, like diabetes or blood pressure, which can lead to those catastrophic conditions that can break the bank. Either way, the responsibility to live health-conscious lifestyles is placed back on the individual, rather than the employer.

### **The New Way to Buy Benefits**

Within the next few years, employees will have more choices in health insurance than ever before. Employers, therefore, will have to think hard about strategically maximizing the



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impact of providing certain benefits. Defined contribution models allow employers to easily budget year-over-year for the company, but if the insurance rates still increase, the increase gets passed on to the employee. Similarly, if no clear educational tools are in place, employees could mismanage their benefits purchase and regretfully pay more out of pocket throughout the year. These are critical moments for your company's success with exchanges.

**While it is yet unclear the support options the public exchange will offer, private exchanges can help mitigate the crucial steps in determining contribution amounts, educating employees, and navigating the benefits store.** Private exchange partners will also help businesses stay on top of the timeline set forth in PPACA and avoid penalty fines for missing deadlines or standards. Private exchanges help businesses stay competitive in their industries by rolling out strategic contributions and effective employee education.

With an effective private exchange, the transition to a defined contribution model is much like transitioning to purchasing shoes from a large catalog. People already shop, fill out official records, bank and file their taxes online: following step-by-step instructions offered in a private exchange is just as easy. The burden is lifted off employers as well: StoudtAdvisors, in partnership with Bright Choices, goes through the process of deciding which carrier is giving the most competitive quote and analyzing the benefits offered. StoudtAdvisors then works



with employers to discern what their defined contribution model should be. At this point, the team equips the employer for the new model's rollout, and follows up with one or more employee education sessions. These sessions ensure employees understand what benefits are available as well as how to navigate the benefits store comfortably.

To partner with StoudtAdvisors and to benefit from the tools and services they offer for private exchanges, contact David Stoudt at 717-581-6150 or Scott Labrecque at 717-581-6165 or visit <http://www.stoudtadvisors.com/brightchoices.html>.

As part of their commitment to helping employers and employees with the shift to using exchanges, StoudtAdvisors produces monthly educational white papers written as a series. Look for next month's piece which covers how private exchanges provide untold freedom for employers and employees alike.