

Private Exchanges: Two Leading and Innovative Approaches 1 Year Later



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Agenda

Two Approaches

- Basic Concepts of Each Approach
- New Dynamics in the Marketplace

Reaction to Date

- Client and Vendor–Partner Motivators
- Client and Vendor–Partner Challenges
- Surprises

Lessons Learned and Future Vision

- Post Open Enrollment Observations
- Looking Forward

Two Approaches

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- New Dynamics in the Marketplace

The Relative Futility of Discount Rates and Plan Design— Underlying Costs are Irrational

Tylenol with
Codeine Pill



IV Fluid Bag



Neck Brace



Echocardiogram



Knee
Arthroscopy



California Pacific Medical Center	\$36.78	\$137	\$154	\$1,791 Hospital fee only	\$14,110
Market Price	\$0.50	< \$1	\$19.99	\$358 Includes doctor	\$2,037

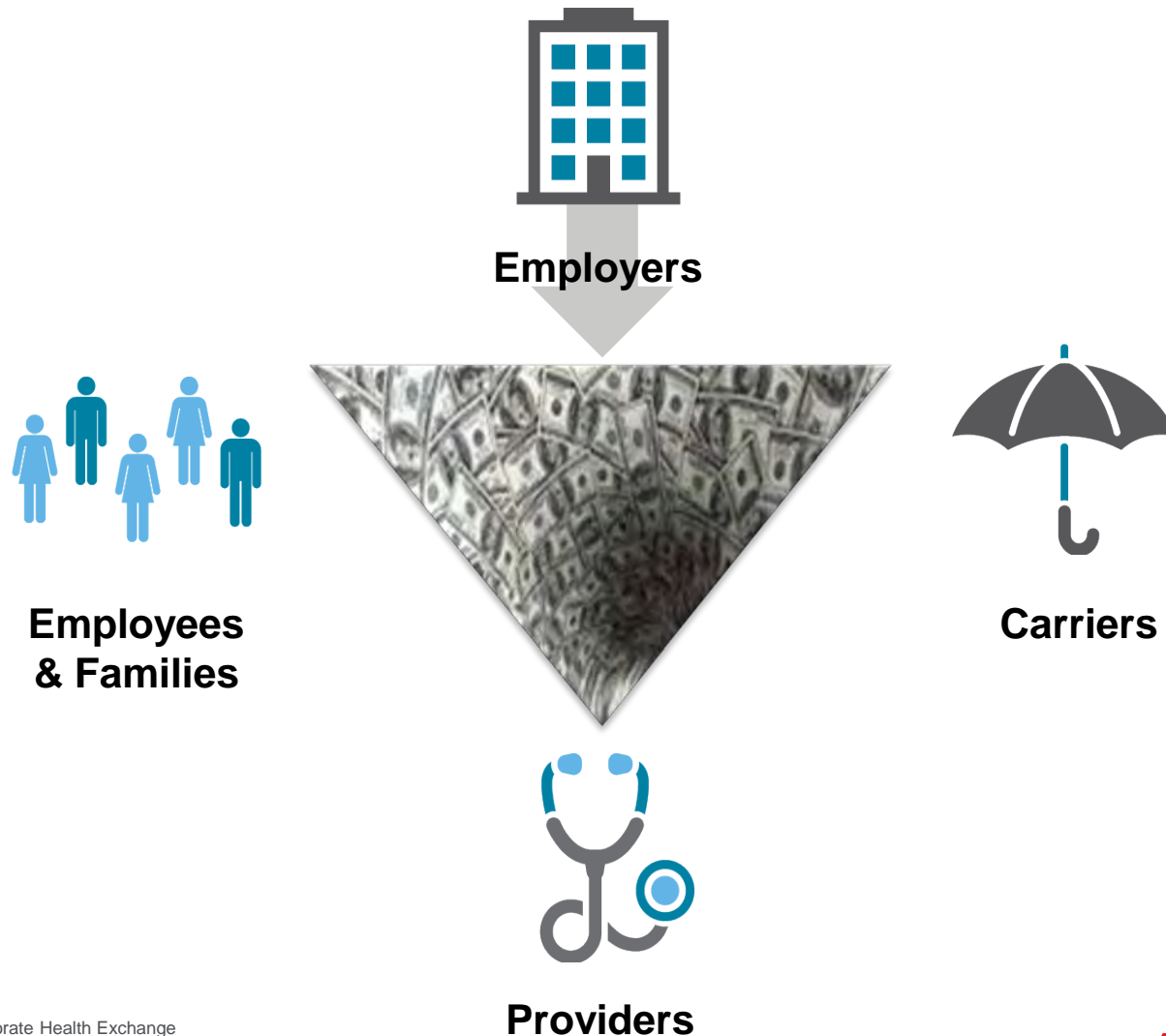
Sources: California Pacific Medical Center chargemaster; Health Care Blue Book; CVS in San Francisco

Myth from Reality—What Health Care Exchanges are *Really* About



Heavily Subsidized Self-Insured Plans Encourage Market Inefficiency

Risks, incentives, and accountabilities are not aligned

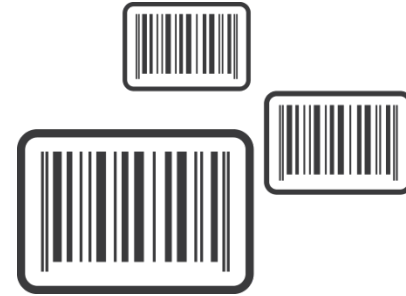


How the AH Health Exchange Works: Realign Accountabilities and Incentives



Consumerism

Standardized Plans
Attractive Buyer's Market
Transparency



Competition

Multiple Carriers
Fully-Insured
Risk Adjustment

HOW DO PRIVATE EXCHANGES DIFFER FROM ONE ANOTHER

1

Product Suite

- Medical / RX Only
- Comprehensive benefit portfolio including dental, vision, life, disability, critical illness and more

2

Exchange Sponsor

- Consultant/Broker
- Technology Firm
 - Carrier
- Partnership

3

Funding Flexibility

- Fully-Insured only
- Both Fully-Insured and Self-Insured

4

Carriers Available

- Participating carriers
 - Single Carrier
 - Multi-Carrier

5

Benefits Administration Services

- Online enrollment platform
- Payroll / Carrier integration
- Decision support tools
- Call center support
 - Employee communications

6

Target Market Segments

- Small to Mid
- Large to Jumbo
- All employer sizes

Mercer Marketplace

Basic Concept

- One-stop shopping for employers and employees
- Structured flexibility
 - Mercer Marketplace is stocked with a wide range of standard products and carriers
 - Mercer helps employers decide which plans/options are best for their organization and employees
 - Employer retains fundamental decisions:

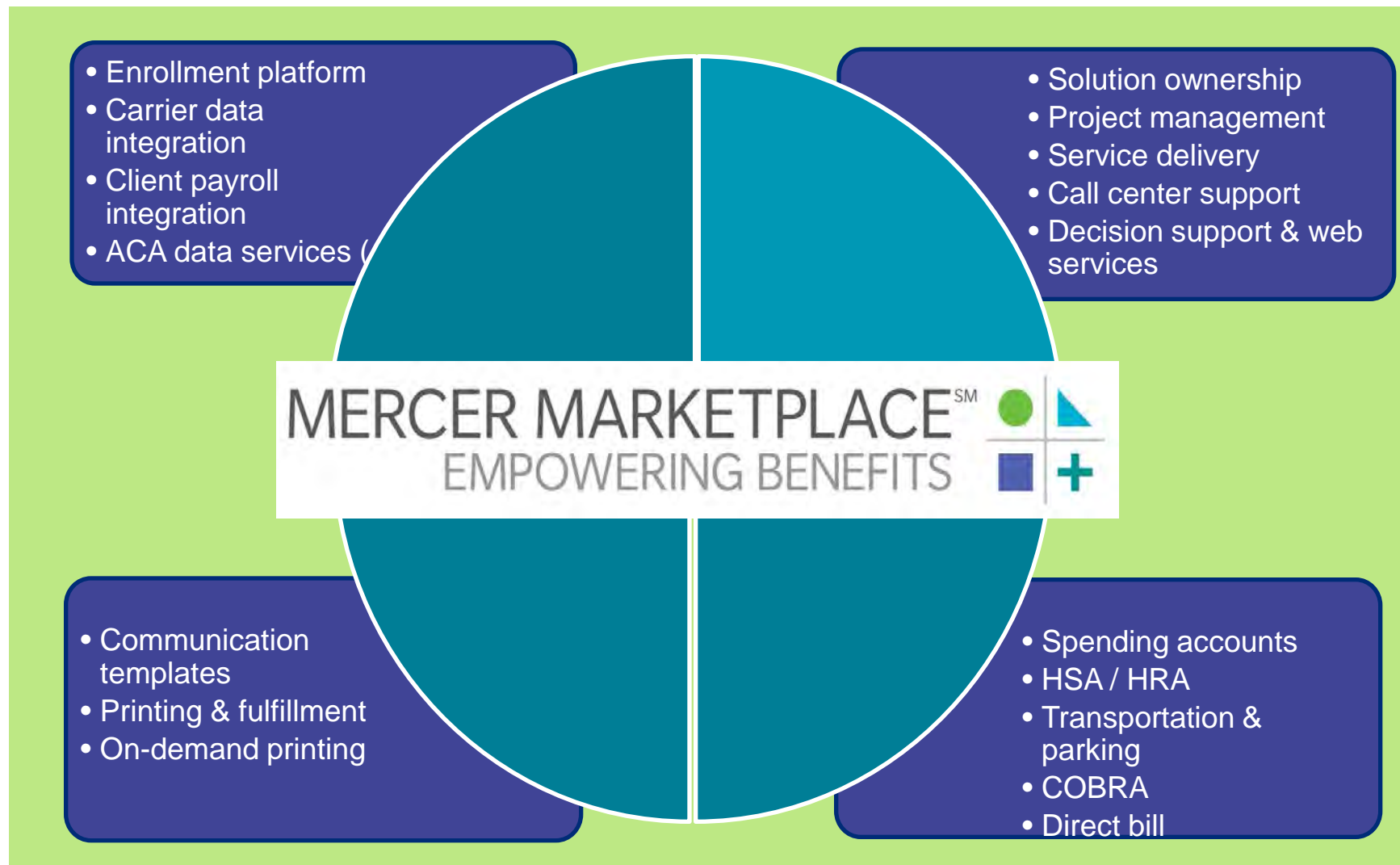
Funding approach

DC or not DC

Cost sharing with employees

How to incentivize health & wellness

Mercer Marketplace Solution Partnerships



Mercer Marketplace

Comprehensive Benefit Options

Medical

- Medical
- HSA
- Health Care FSA
- Dependent Care FSA

Supplemental Medical

- Accident
- Critical Illness
- Hospital Indemnity

Dental and Vision

- Dental
- Vision

Life

- Employee Term Life
- Spouse Term Life
- Child Term Life
- AD&D
- Permanent Life

Disability

- STD
- LTD

Transportation

- Transit Account
- Parking Account

Other

- Group Legal
- Home & Auto
- Identify Theft
- Pet Insurance

Mercer Marketplace Less Burden for HR

Mercer takes most of the administrative responsibilities off of HR's hands, freeing up time to handle other people-related issues.



Employee Inquiries

**Open Enrollment
Management**

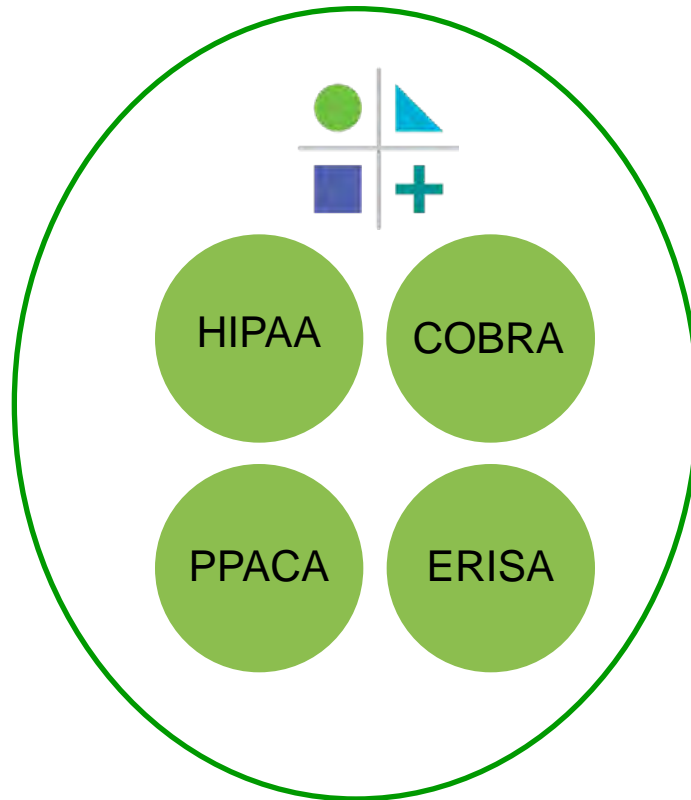
Carrier Reporting

**Employee
Communications**

Mercer Marketplace

Standardized Processes and Compliance

Mercer Marketplace supports your efforts to ensure that your benefit plans follow standardized processes and are in compliance.



Mercer's National Survey of Employer Sponsored Health Plans 2013

Key Themes

Health benefit cost grew 2.1% in 2013 – a 16-year low
Employers warn of a rebound in 2014

Most employers say health reform will increase their spending in 2014
Many take action to counter ACA cost challenges

Employers remain committed to sponsoring health benefits
Sustainable health programs will require workforce planning, proven strategies

Widespread interest in private exchanges as a way to add choice
While controlling cost and simplifying administration

CDHP enrollment continues to grow, matching enrollment in HMOs
Employers use CDHPs to meet cost, choice and compliance goals

Health management programs stress innovation and engagement
Most employers that measure ROI see lower trends

Reaction to Date

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Employers Face Ongoing Benefits Challenges

EMPLOYER CHALLENGES

Cost of providing benefits

Employers' costs continue to outpace earnings and inflation by three times

Resources required to manage benefit programs

79% of US employers cite one-stop shop for all administration as reason to integrate core and voluntary benefits

Health Care Reform

How to address increased costs plus design, communication, and administration implications



HOW MARKETPLACE HELPS

Cost control

Innovative ways to control costs instead of cost-shifting

Choice for employees

Expanded plan options and tools to help make decisions

Streamlined management and administration

End-to-end process for delivering benefits

Top Three Reasons for Moving to Mercer Marketplace

63%

Simplified administration and compliance

47%

Ability to better manage future costs,
defined contribution facilitation

41%

Achieve immediate cost savings

Note: Reflects % of early adopters ranking reason as a significant factor in their decision to move to Mercer Marketplace; for most clients, more than one reason played a significant role.

Employees Have Concerns About Their Benefits

EMPLOYEE ISSUES

Importance of benefits as attraction/retention factor

53% say benefits play a significant role in their decision to stay with their employer

Low satisfaction with current benefits

Only 24% think that their benefit program is “very good”

Flexibility to choose benefits that fit their needs

Almost half would like to have flexibility to reduce the value of some benefits and increase the value of others

HOW MARKETPLACE HELPS

Cost-efficient, convenient buying

Informed benefits buying decisions

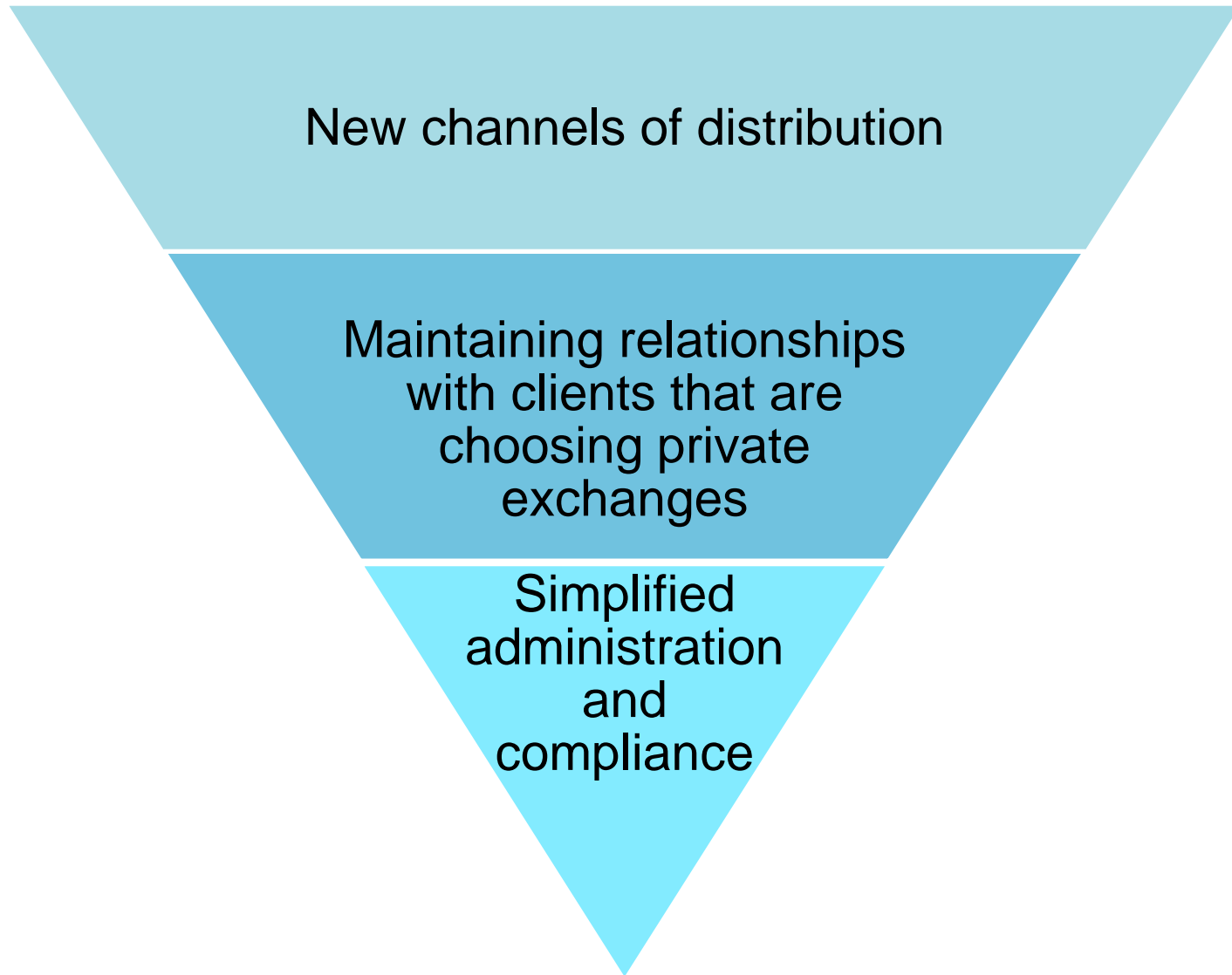
Comprehensive coverage

Wider range of coverage options

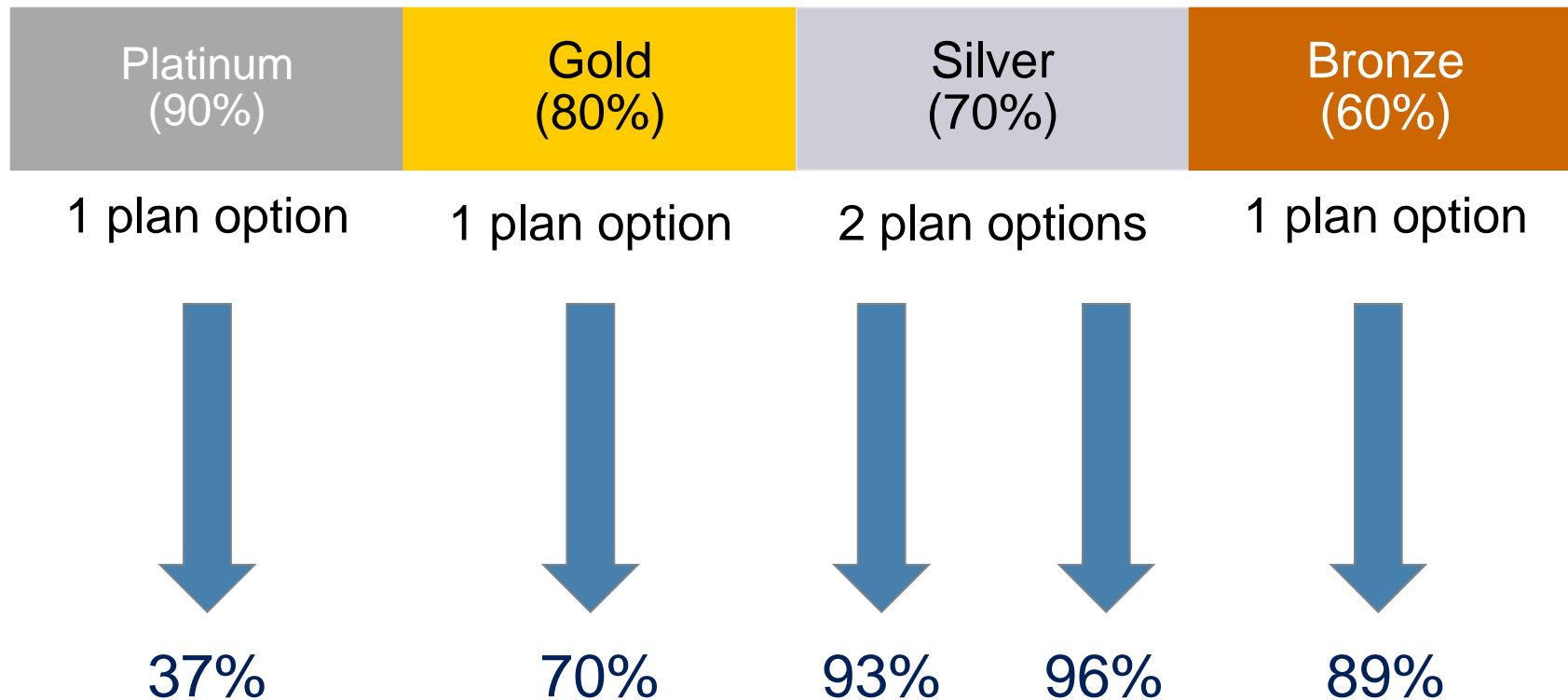
Personalized benefit portfolios

Customized benefit plans to meet employee and family needs

Top Three Reasons for Vendors to Partner with Mercer Marketplace



Mercer Marketplace Percent of Employers Offering



Six Essential Elements of a Health Exchange

No “silver bullet”; there are six key levers working in concert to support our Value Proposition



Scorecard

2013

- 3 Employers
- 13 Carriers
- 100,000 Employees
- 200,000 Members
- 49 States Plus DC



2014

- 18 Employers
- 20 Carriers
- 330,000 Employees
- 700,000 Members
- \$2.8b in Premium

2015

- Many more employers going through the process

Lessons Learned and Future Vision

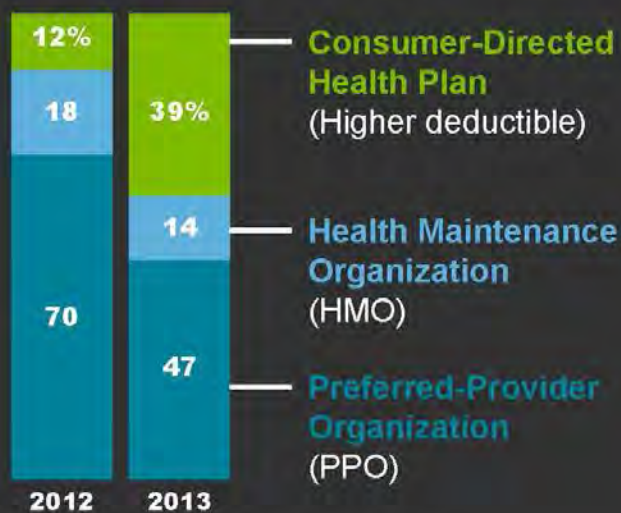
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It's Working!

On the Exchange

Workers' choices changed for 2013 when they used an exchange.



Source: Aon Hewitt The Wall Street Journal

The Tale of the Tape

42% “bought down” to less expensive coverage

26% “bought up” to richer coverage

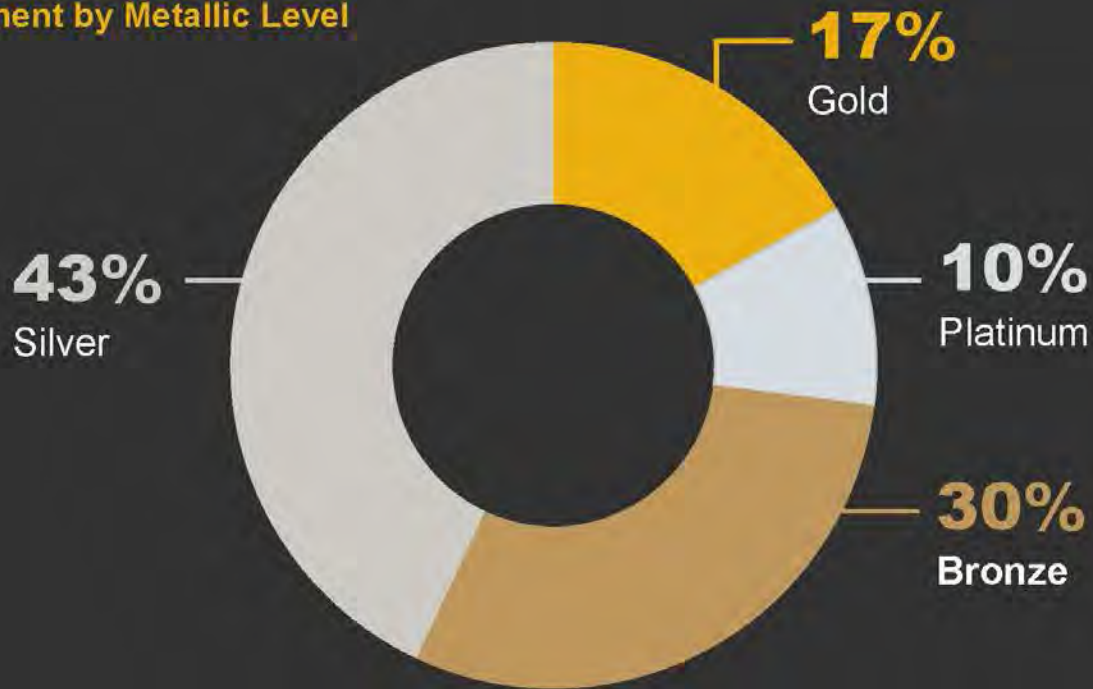
32% kept comparable coverage levels

What's covered, including preventive care, is the same across metallic levels



More Rational Insurance Purchasing

Enrollment by Metallic Level

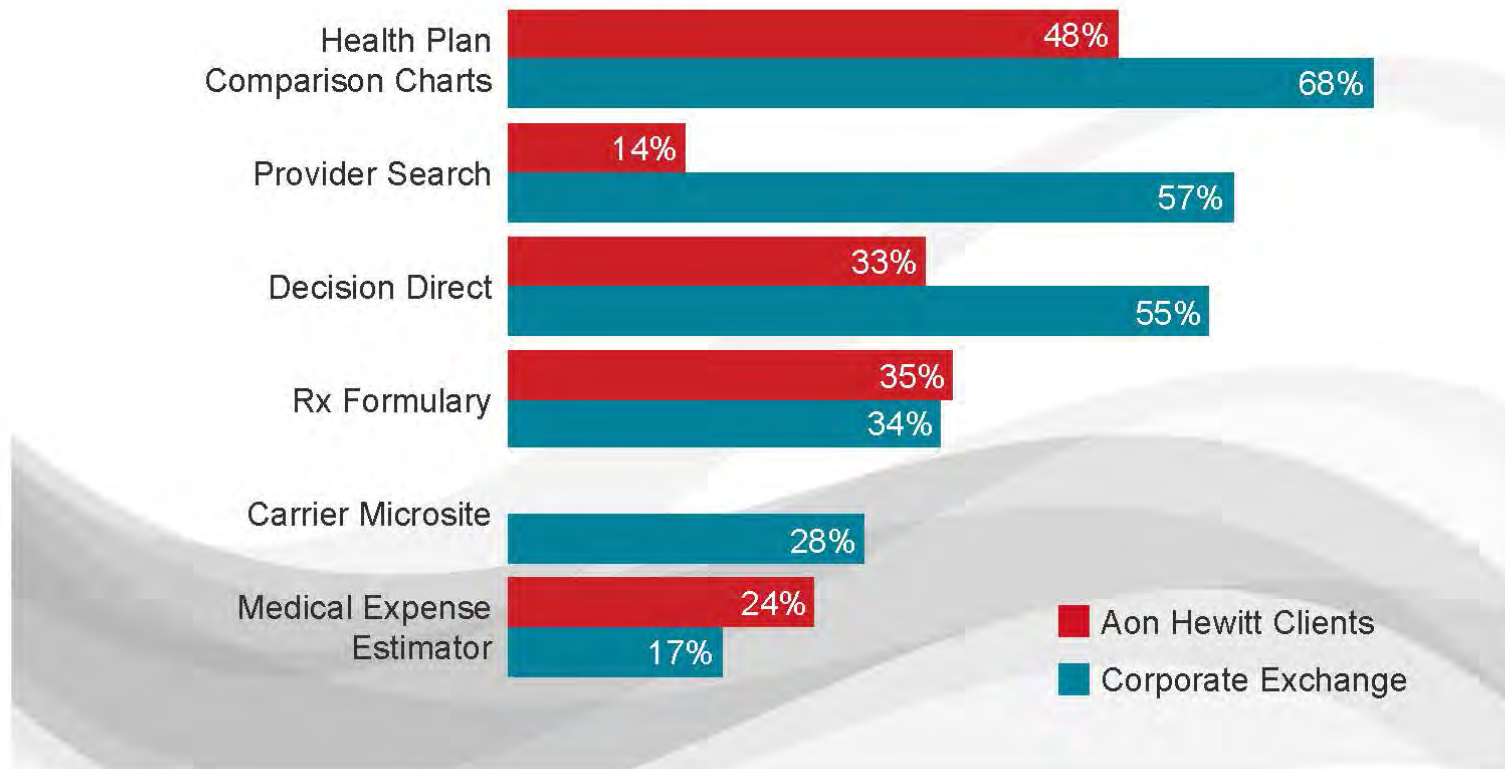


Total Premium Volume
\$2.8 billion



We Finally Engaged Employees as Consumers

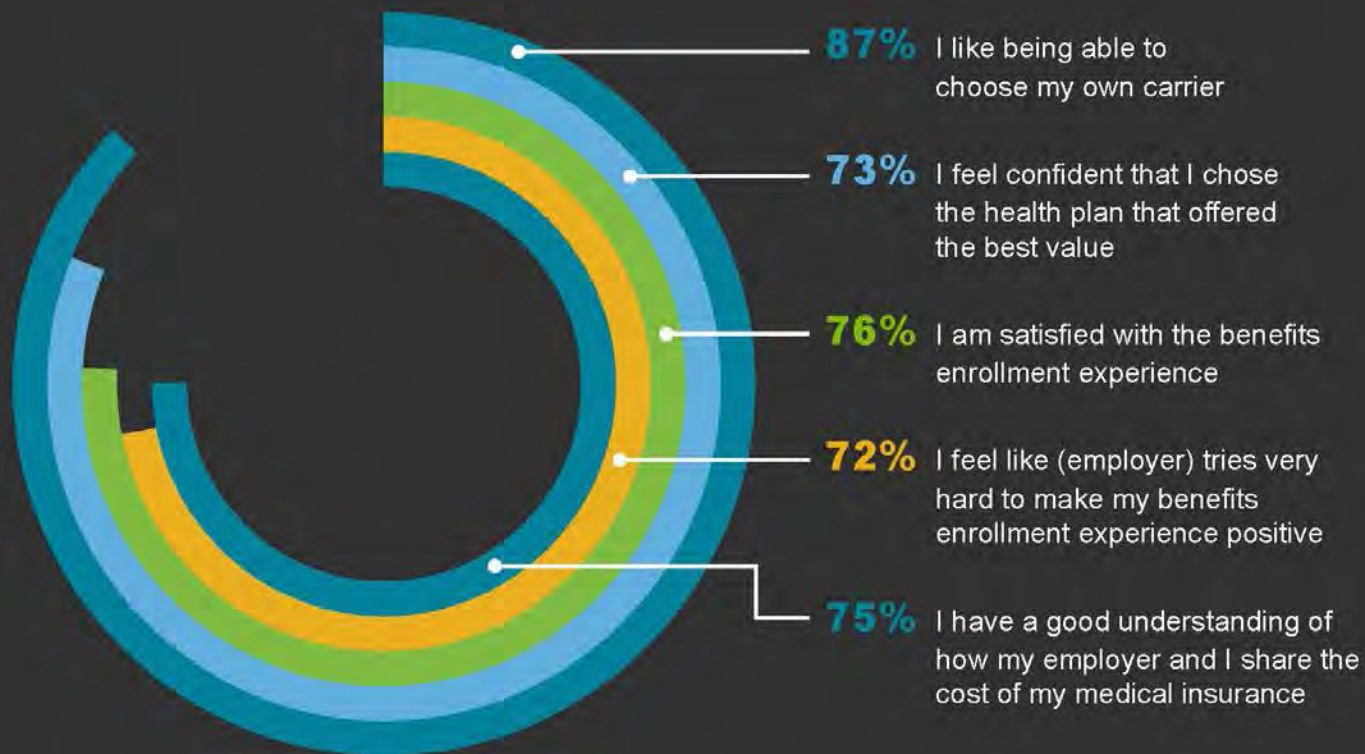
Percent of Eligible Employees Using



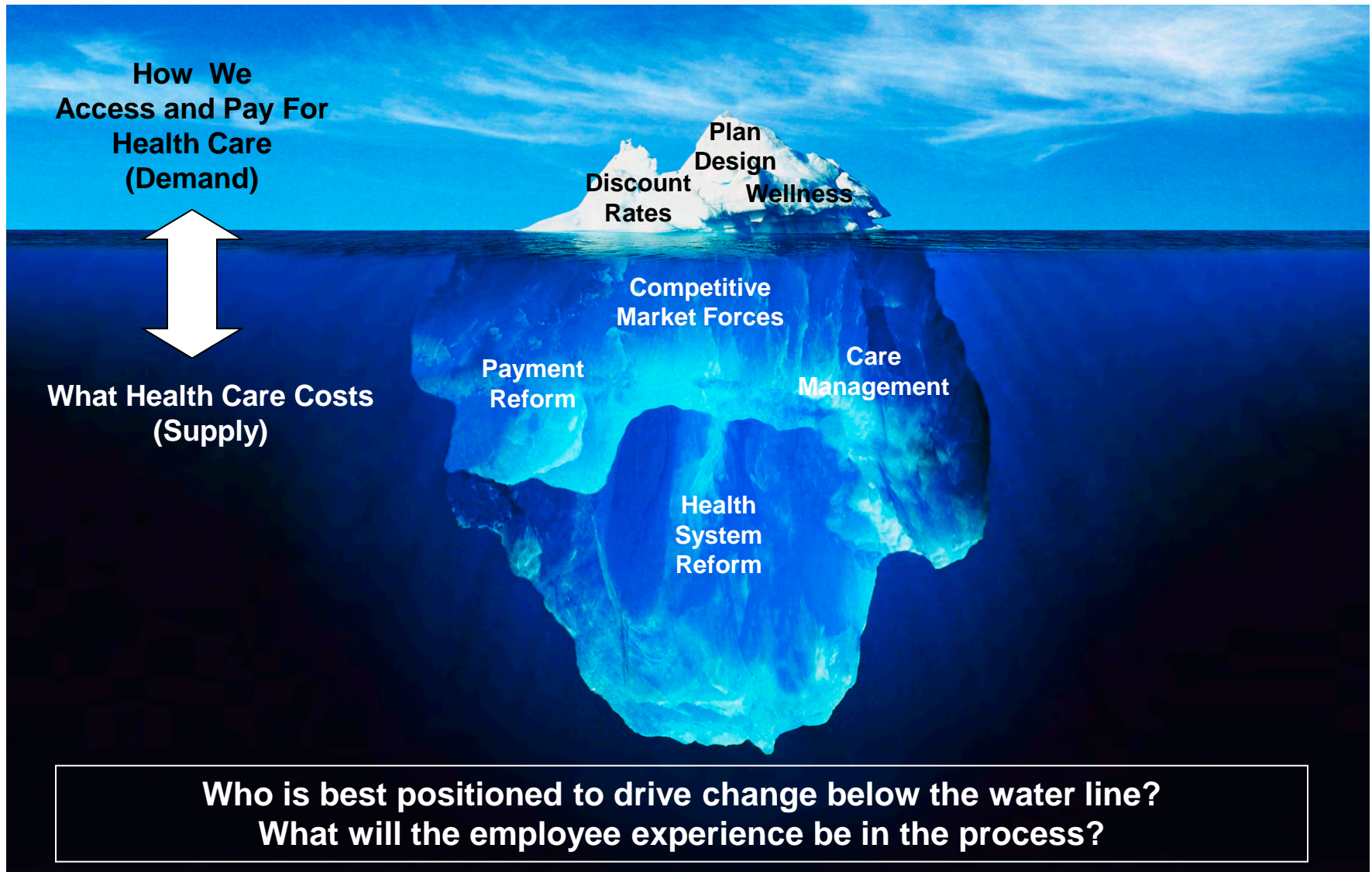


Employees Valued and Embraced Choice

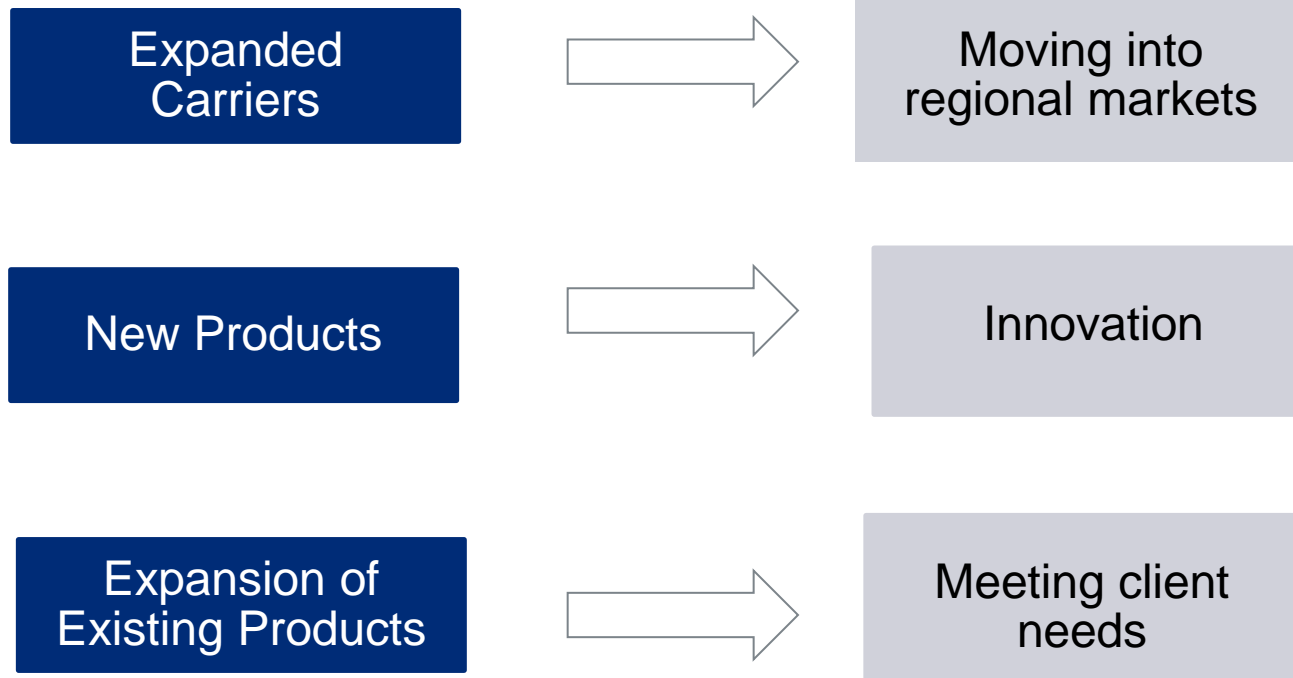
Enrollees who agreed with the following statements



Evaluating Exchange Solutions—Does it Drive *Real* Change, or is it Repackaging of Traditional Levers Above the Surface?



Restocking Mercer Marketplace for 2015





Mercer MarketplaceSM is a **private benefits exchange** that will enable employers with 100 to 100,000+ employees to choose from a set of **superior benefits** from **multiple insurance providers**.

Questions?

