

The Power of Choice: The Game-Changing Combination of Private Exchanges and Health Savings Accounts

A quiet revolution is under way that could
change the face of health care in America

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iHC The Institute
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Executive Summary

- Consumerdriven, LLC and HSA Consulting Services, LLC approached 33 private exchange (PEX) vendors and gathered data and conducted interviews with the objective of determining if there was a relationship with the “method” of benefit distribution (i.e. PEX), the financial incentives used (i.e. defined contribution vs. subsidized premium) and HSA plan and account adoption.
- We were surprised that many Private Exchange (PEX) vendors were caught off-guard by this research request, and in fact, found most were unaware of the HSA adoption they were creating, and apparently were not tracking it. In some cases, exchange vendors would not disclose their results because they considered it proprietary information.
- For those PEX vendors tracking HSA Adoption, the results were stunning – compared to 8% of the commercial insurance marketplace (group and individual) electing HSA plans today (according to AHIP), these private exchanges – especially using a defined contribution approach - were seeing a six to eight fold increase in HSA adoption.

Bottom line: The HSA plan adoption opportunities in exchange environments represent a quantum leap improvement over the current incremental growth of the HSA market

- Our findings have caused us to reassess the potential market growth in the HSA market. We predict that 50 million Americans will be covered by HSA Qualified plans by 1/1/2019 and that HSA account adoption will grow to 37 million in that time period, up from 11 million today (according to Devenir). We predict that exchanges will drive more than half of that growth.
- When this growth is realized and supported as we envision, it will change the face of health care in America, due to the dramatic changes that happen when 50 million individuals approach the system with an ownership mentality, engaging more deeply in their own health outcomes, seeking transparent health options, prices and quality information, and saving for their future health care needs.
- We believe that there are significant opportunities and challenges ahead for all HSA Stakeholders as more employers embrace PEXs and Defined Contribution as their benefits distribution and financing strategy among them:
 - Early examples of HSA enrollment experience in leading private exchanges serve as the best examples of how to introduce the consumerism concept, match the right products to the right consumers based on attitudes, needs, and resources, and seamlessly implement and support the new experience.
 - This could become a market dream come true for HSA account trustees, but if growth happens without proper guidance and support, the resulting high-deductible-only experience could backfire and become a nightmare of wasted opportunity
 - The PEX consumer experience should be built with the HSA consumer in mind, since such a large number of individuals will be choosing HSA-qualified plans. Failure to do so could be more than a missed opportunity; it would certainly result in a diminished consumer experience or even outright dissatisfaction.
 - Insurers that are strong at CDHP products and pricing will thrive; all others will struggle.
 - Advisors must create or participate in the exchange revolution and be strong in the HSA opportunity and proficient in implementing defined contribution strategies, or they will find themselves replaced by advisors with stronger capabilities.
 - Individuals will find value in being presented choices among HSA account options.

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About Us

We are pioneers in Consumer Driven Healthcare and HSA strategies and true believers in the power of consumer choice. We work independently and together to help clients to improve growth and profitability and to make the most of your opportunities in the emerging exchange marketplaces.

	
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<p>John Young is a leading national consultant in all things Consumer Driven, including Health Plan Strategies, HRA and HSA Plan Design and Pricing, Defined Contribution, Transparency and Exchange Strategies. He was a pioneer in the beginning of Consumer Driven Health and continues to be devoted to improving the consumerism customer experience through all stakeholders - health plans, HSA custodians, employers, benefit advisors, and doctors and hospitals. He is active in advising policy makers and trade organizations on health care reform and consumerism. He is an active speaker and conference leader, known for his entertaining style and enthusiasm. John is a long-time board member and now a consultant to the Board of Directors of the HSA Council of the American Banking Association, a member of the League of Leaders for the Institute for HealthCare Consumerism, a member of the CDHC Solutions Editorial Advisory Board, and a board member of the Healthcare Choice Coalition. He's been in the employee benefits industry for more than 28 years. John was previously Senior Vice President, Consumerism for CIGNA Healthcare. In December 2012, John received the John J. Robbins Senior Memorial HealthCare Consumerism Leadership Award from the Institute of HealthCare Consumerism (theihcc.com) and in 2010, John was recognized as Health Plan Innovator by CDHC Solutions Magazine in their Consumerism Industry Superstars Issue.</p>	<p>Todd Berkley is a leading practitioner in managing the business of Health Savings Accounts and now a leading consultant focused on CDH growth strategies. As HSA Business Leader for OptumHealth Bank (part of UnitedHealthcare) from 2005 to 2012, he was a driving force from shortly after start-up to making Optum a perennial industry leader in health accounts. While at Optum, Optum's HSA business grew from 50,000 accounts to over 850,000 with balances exceeding \$1.7 billion. Todd drove many industry innovations, such publishing insights into consumer spending saving and investing activity, allowing consumers to trade off pricing elements to meet their individual needs, and guiding development of a best in class web experience and education suite. Todd is a long-time board member and now consultant to the ABA HSA Council, and has been an active member of AHIP HSA Leadership Council and ECFC Working group and other industry advocacy activities. He was instrumental in helping the industry tell its story to key lawmakers, regulators and administrators during the health reform debate, helping to preserve HSAs growing impact in health care. His family has been on an HSA plan since 2006 and owns 18 HSAs to keep a pulse on the latest developments at key HSA custodians. Todd earned his MBA at the Harvard Graduate School of Business and is a past president of the HBS Club of Minnesota.</p>

About The Institute for HealthCare Consumerism

The Institute for HealthCare Consumerism is the only multi-platform, collaborative environment focused exclusively on innovative health and benefit management. It's a place for employers (including human resources and benefits managers, wellness executives, C-suite executives, financial management decision makers, executives), TPAs, solution providers, brokers, advisors, consultants, and administrators of regional health plan providers to learn, connect and share through The Institute's publication, HealthCare Consumerism Solutions, its bi-annual live conference the IHC FORUM and its online community at www.theihcc.com.



The Collective Voice on Innovative
Health & Benefit Management

About PrivateHealthCareExchanges.com

To help the industry navigate the variety of emerging private exchange solutions, The Institute for HealthCare Consumerism created PrivateHealthCareEXCHANGES.com, the industry's only guide and database for private exchanges. The database contains over 140 exchange solutions – with sales contact information included – that's searchable by geography, single or multiple carriers, individual or group plans, target market segment, connectivity with the public exchanges and more. For more information on how you can access the database, visit www.privatehealthcareexchanges.com

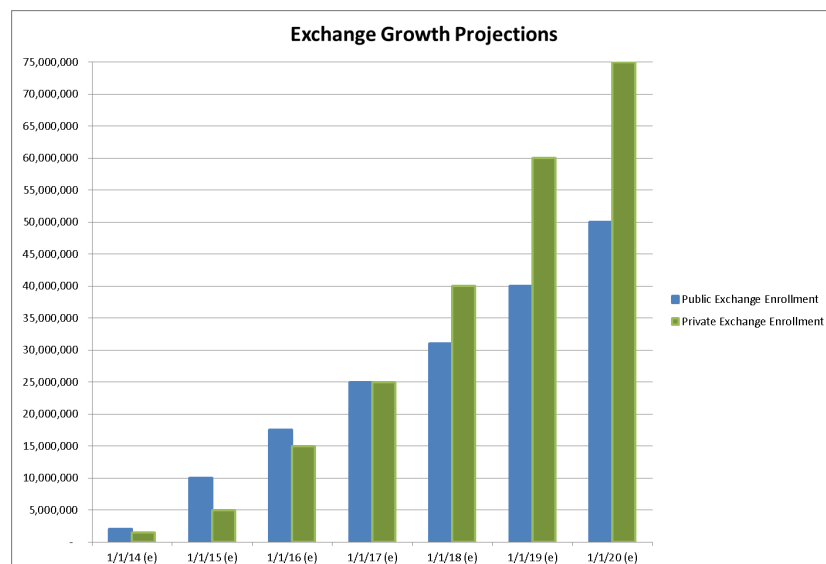
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Analysis

Demystifying the Private Exchange/Marketplace space

- PEXs are *the* current “hot topic” in the benefits industry, but not just a passing fad.
- It’s actually not a new capability, as components of PEXs have existed for years. The Affordable Care Act (ACA), improved technology, plus success from top PEX vendors have created this industry’s biggest buzz since the introduction of HSAs or of outcomes-based wellness programs.
- There is industry wide consensus - PEXs are expected to grow, and grow quickly. Estimates on future growth differ, but all estimates point to explosive growth in PEX strategies. PEXs today have an estimated 1.5 – 5 million members depending on how you define a PEX (example – websites selling personal insurance are identifying themselves as “exchanges” or “marketplaces”)
- Estimated Growth:

Consultant	Estimated PEX Enrollment	By Year
Accenture	40 million	2018
Oliver Wyman	39.1 million	2018
Goldman Sachs	35 million	2019
EBRI	15 million	2020
Consumerdriven, LLC HSA Consulting Services, LLC	75 million	2020



Source: HSA Consulting Services, LLC and Consumerdriven, LLC

- In the recent PEEC (Private Exchange Evaluation Collaborative) survey, 45% of respondents plan to implement a PEX by 2018.

Various Forms and Approaches to PEX:

- Similarities between PEXs are few. Generally, all PEXs have benefit “options”, plus transparency of either the employee or total cost of these options. Differences and approaches between PEXs are therefore many; the industry is fond of saying, “if you’ve seen one exchange, you’ve seen one exchange”.
 - Exchanges can be “Single Source” – where one insurer provides multiple plan design options, or “Multiple Source” – where many insurers offer options side by side in the same exchange (this is the Public Exchange Model, and some Private Exchanges utilize this approach).
 - Health insurance options inside PEXs can be individual products or group products. Individual products are always fully-insured, but group health insurance products inside these exchanges can be fully-insured, minimum premium (shared risk), or self-insured.
 - Benefit options in PEXs can be pre-packaged products or customized products for each employer. Some PEXs focus on customizing doctor and hospital networks – limiting higher cost providers in an effort to reduce costs.
 - Additional differences in PEXs include the funding strategy (defined contribution – where employees receive a defined amount of money up front to spend on the options), or subsidized premiums within the exchange (which show the employees their net cost), or a combination of the two.
 - PEXs can and often include products beyond medical, including dental, spending accounts, standard ancillary and voluntary products.
- Consultant PwC categorizes four types of PEX sponsors –
 - Carrier- sponsored – Insurer providing their own solution.
 - Broker/Consultant sponsored – Advisors providing clients and prospective clients PEX solutions.
 - Technology Solutions for contract – bswift, for example.
 - Single Business Focus/Pure Play - “Branded” PEXs with proprietary products on the shelf. Bloom or Liazon, for example.
 - Within each type, there are various strategies and approaches.
- The best PEXs include a strong “Decision Support” capability – including questionnaires to help employees navigate their options, algorithms to limit choices, phone support, WIIFM (What’s in it for me?) comparisons. PEXs also see an opportunity to integrate wellness and other population health management programs across their platforms.

- As employers choose PEXs, PEXs will need to be accountable to deliver on their stated value proposition – demonstrated in data and reports important to employers. We see a growing emphasis in reporting and analysis that demonstrates trend reduction.

The Prevalence of Defined Contribution Healthcare financial models within Private Exchanges/Marketplaces

- Definition: Defined Contribution (DC) strategy in a PEX - employers choose a set amount (\$) to contribute towards an employee's healthcare. The employee is then responsible for choosing between plans and other options available to them in a PEX environment.
- The obvious advantage of Defined Contribution (DC) for employers is predictable costs (especially in fully-insured models).
- Depending on the form of the PEX, DC also gives employers a new authority – the choice of the level of involvement, if any, over plan options offered in the exchange. At minimum, PEX provides greater employer flexibility or control over the plan offerings. On the other end of the spectrum, the PEX determines the plan options, the employer is only financing the employee's involvement.
- Some consider DC an "elegant off-ramp" to sponsoring benefits, an intermediary step to moving to a compensation only model.
- In the recent PEEC (Private Exchange Evaluation Collaborative) survey, 1/3 of employers plan to move to full defined contribution as a strategy in the next two years.
- We are estimating, based on our conversations, that DC strategies are only represented in 20% of PEX enrollment. This was a surprise to us as we expected a higher incidence of DC strategies within PEX. Possible Reasons:
 - Many organizations have benefit plan premium contribution strategies that are inequitable (meaning employees receive more or less employer contribution depending on the plan they select). Also, often these strategies are not visible, meaning the employee doesn't know the true value of the employer's contribution. Any strategy has winners and losers, but a DC strategy makes this visible, and sometimes represents a wholesale change. The financial difference for employers that subsidize both by plan premiums (% based contribution vs. flat dollar) and enrollment tiers (single vs. family) may cause them to hesitate to adopt a DC strategy immediately.
 - Advocacy naturally follows expertise: DC can be a complicated evaluation – and there is a difference in industry expertise and capabilities on the approach from PEX vendors. Those with more expertise recommend it, notably Bloom Health.

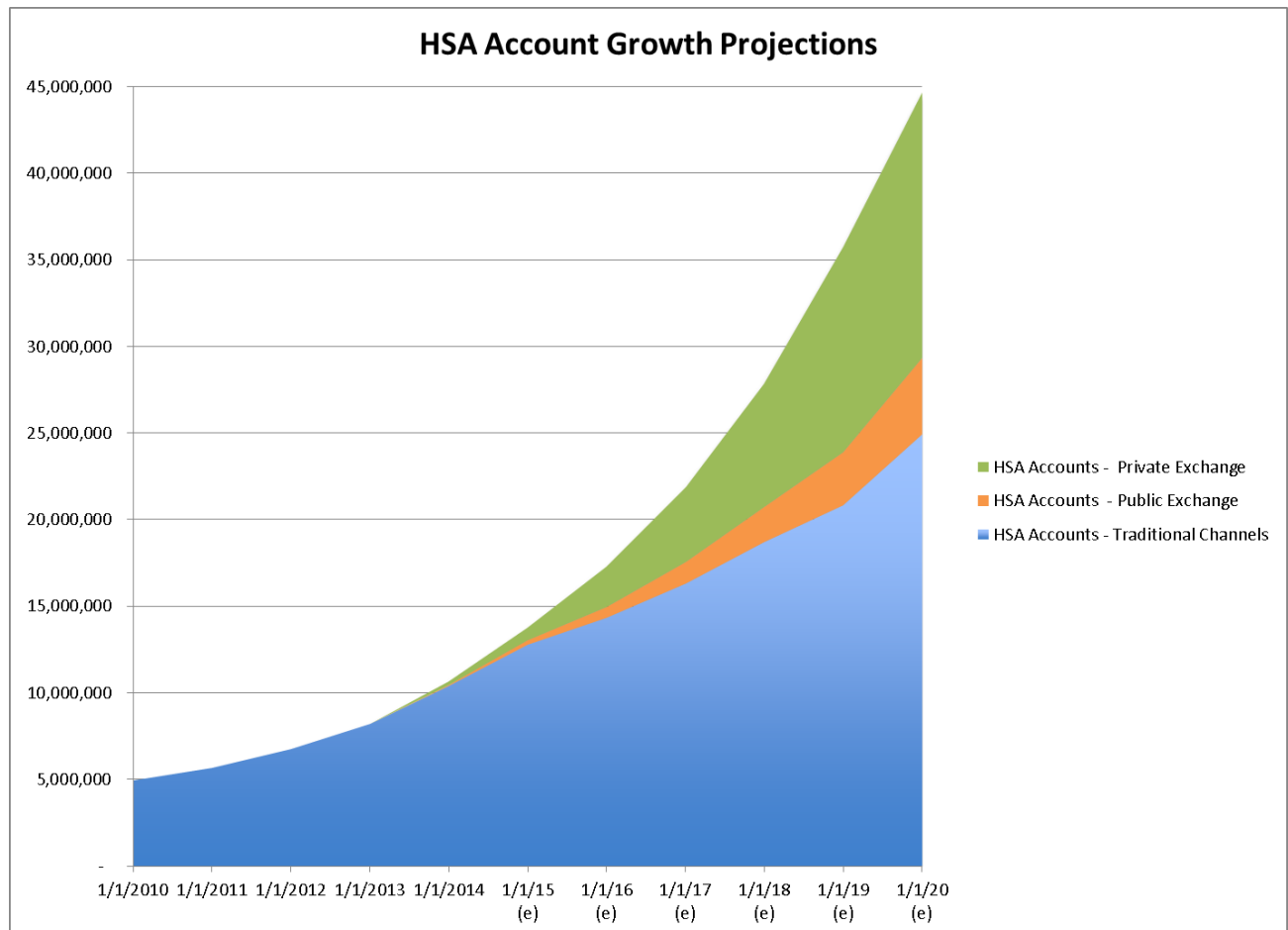
HSA adoption in PEX strategies as of January 1, 2014

Private Exchange	% Electing HSA- Qualified Plans in 2014	Notes
Bloom Health	48%	98% of previous year HSA enrollment renewed in second year.
AON Hewitt	49%	32% enrollees said they based their decision on price 23% selected coverage similar to what they had previously.
Liazon	65%	80% elected different value plans than what they had before, vast majority buy down. 80% of those electing an HSA qualified plan opened an HSA.
Arthur J. Gallagher	65%	90% open an HSA.
Gravie	70%	Sells individual accounts to the small group marketplace
BrocorXchange	67%	Mostly individual products sold in the small employer market through brokers.
Alegeus	63%	
ConnectedHealth	22%-65%	Customized PEX per employer – uptake of HSA participation varies by employer's strategy, and availability and pricing of Health Plan offerings.
VelaPoint	45%	A general agency, offering PEX utilizing individual plans through affiliate organizations, like Health Partners America.
Anonymous Exchange	95% have access to an HSA-qualified plan	47.8% of all employees on the exchange have an HSA account.
Connecture	42%	Estimates 80% open an HSA account.
Towers Watson	84% have access to an HSA-qualified plan	16% of all employees on the exchange are eligible for an HRA plan.

➤ Summary:

- We see a six to eight fold increase in HSA adoption in PEXs compared to the traditional approaches used today in the commercial marketplace.
- In PEXs with a Defined Contribution strategy and strong decision support, HSA plan and account adoption is higher.
- Gravie, although technically not an exchange, has similar experience to exchanges in employee self-selection of HSA Qualified Plans.

What do we expect in HSA enrollment, and how much comes from exchanges?



Source: HSA Consulting Services, LLC and Consumerdriven, LLC, Historical numbers from Devenir

- HSAs will continue to grow 25-30% per year, with up to half of that growth coming from PEX and Public Exchanges. By January 2020, we estimate we will grow from nearly 11 million accounts today (according to Devenir) to nearly 45 million accounts, with 20 million accounts created by Public and Private Exchanges.
- Why does HSA enrollment matter?
 - According to the recent “8th year Cigna Choice Fund Study”, people on CDHPs improve health measured by reduced health risk. In a study of full replacement clients, there was a 28% decrease in high risk individuals and a 14% increase of low risk individuals for employers on CDHPs vs traditional plans. In addition, over a two year period, a separate study saw a 6% decrease in total health risk in account-based plans vs. traditional plans. Bottom line, CDHP done right will improve health. PEXs will increase HSA enrollment, especially with a DC strategy. Improved health and lower health risks are additional by-product cost savings employers can achieve when shifting to a PEX/DC strategy.

Behavioral Economics and Private Exchanges

Daniel Kahneman, psychologist, who won the 2002 Nobel Peace Prize in Economics, says people make decisions based on emotion vs. reason 70% of the time. We believe a number of behavioral economic principles are in play when individuals control and self-select their own benefit plans in Exchange/Marketplace environments. These principles include:

- **Channel Factors** - the more specific the directions on "how to" do something; the more likely it will be that the action will be taken. People will be less likely to get confused or to make a wrong turn.
- **Status quo bias.** Inertia, or the tendency not to change, is especially significant when choices are complex. In order to help people embrace new options, current plan designs should be changed.
- **Choices:** Choices are appreciated and competition between options does help keep costs lower. However, too many options can create confusion and decision-making paralysis. Without a way to help people choose options best suited for them, it is recommended to limit the number of options so that the choices offered are meaningful and differentiated, not overwhelming.
- **Loss-aversion bias.** People tend to overvalue the prospect of losing something of value and to undervalue the prospect of gaining something of value. In other words, losing hurts worse than winning feels good. Therefore, new health plan options, even if actuarially equivalent, are automatically seen as less valuable than the plan in which the individual is already enrolled. Considerable communication is necessary to help people understand the true value of new plans.
- **Temporal Discounting:** The present overwhelms the future. Smaller rewards today often win over bigger future rewards. This negatively affects HSA election amounts. People generally don't save what they could or should.
- **Social Norms:** What is everyone else doing?
- **Choice Architecture and Framing** – How choices are presented has a substantial influence on the decisions people make.

These principles provide PEXs significant challenges and opportunities to support individuals as they make new choices for themselves. Observation: Even though PEXs may be a new experience for people, when individuals are supported, they will choose benefit plans of lower value than their previous year's election 60-80% of the time. PEXs that focused on the customer experience and providing meaningful decision support were a more satisfying experience than what individuals received in traditional settings. It is our belief that PEXs will be more effective and provide competitive differentiation when they provide resources and approaches that factor for these behavioral economic principles.

Key HSA learnings for all stakeholders within exchange/marketplace approaches

Stakeholders	Key HSA Learnings
Employers	<p>Since many more employees are selecting HSAs in PEXs, their PEX partner should demonstrate clear HSA strength – both in communications and execution.</p> <p>Employer contributions to the HSA accounts generate increased plan enrollment and significant increased account adoption.</p>
Employees/Individuals	<p>PEXs represent a second generation of consumerism – now they are selecting the plan most appropriate for them and their families. In DC environments in PEXs, 2/3 of employees are self-selecting higher cost-share (lower premium) benefit plans. On average, about half are selecting HSA qualified plans today, which is likely to grow in the future.</p> <p>Up front questionnaires, concierge tools, and resources including help lines are critical to supporting this new consumerism. The best strategies provide a type of “financial planner” level of assistance – somewhat like a “health plan advisor” – to help employees make the most prudent decisions on plan selection, and to maximize the value from their choices, including the HSA Account, when appropriate.</p> <p>Employees may not like the PEX or health plan partnered HSA custodian, preferring to choose another market option, based on familiarity of brand or account features that meet their needs.</p> <p>Bottom line: Supporting the individual to understand HSA plans and to set up the HSA account and fund appropriately at the point of enrollment is critical.</p>
Advisor	<p>Expertise in PEX is a business development opportunity – one PEX leader says 2/3 of 2015 enrollment is coming from non-managed clients – in other words, new business. Advisors have therefore a lot to lose or a lot to gain by sponsoring or participating in PEXs.</p> <p>Most mid-market brokers are currently developing their own exchange products, often partnering with third party PEX solutions.</p> <p>Advisors can no longer ignore the HSA Account and opportunity because of the growth in adoption of HSAs in PEX environments. Without strong HSA expertise, advisors will find themselves ill-equipped to support their clients. Advisors that do not know the DC value proposition are also at risk, even if they operate a PEX.</p>

HSA Custodian

Alignment of PEXs with HSA custodians vary – either it is one custodian for the entire book of PEX business, or it is tied to the health plan election by the individual, or the PEX doesn't care about the HSA, or doesn't support the opening of an account. This potentially is the best or worst thing for HSA Custodians.

Best scenario – HSA Account Adoption will increase dramatically – because the HSA opportunity is clearer and supported by the PEX.

Worst – The HSA opportunity is not supported, so the individual picks an HSA qualified plan but does not open an account, leading to a dissatisfying customer experience.

Threat- Market share for HSA custodians will shift to PEX-partnered relationships, which will hurt non-partnered HSA custodian market share. This will be similar to when being tied to the right health plan drove HSA account growth. Now, future growth opportunities will be dependent upon both health plan and PEX partnerships.

Insurer

Insurers are developing proprietary exchanges as well as determining partnerships with PEX vendors (i.e. what insurance products to put on PEX shelves). This will create different distribution models for the insurer, plus create opportunities for new customers. Likewise, an insurer who passes on exchanges will likely lose market share.

The insurer with strong, supported CDHP solutions and keen underwriting strength and experience, will be winners, as those products, when on PEX shelves will be priced appropriately and supported in the customer experience.

Voluntary Products are seeing increased adoption in PEX environments. In one case, 25% of employees selected a voluntary product, when none had them previously.

We believe there are tremendous opportunities ahead for HSAs in PEXs.

Our predictions, observations and recommendations:

- Prediction: PEXs present HSA account custodians with their greatest growth opportunity for the future, and an opportunity to realize a dream – to change the face of healthcare as we know it - as millions of people, empowered by financial incentives and consumerism resources, are unleashed to engage directly in their own healthcare choices. Alternatively, it could be a nightmare, if huge numbers of unprepared individuals choose high deductible plans without proper guidance – perhaps even without any knowledge that HSA accounts even exist - and then ultimately blame the resulting poor experience on the PEX or other industry stakeholders.
- Observation: Some PEXs show us the best examples of a coordinated and supported enrollment experience, coupled with a DC strategy, leading to massive adoption of HSA qualified plans and accounts. This creates engaged individuals making good decisions that benefit all stakeholders. These individuals grow more health literate, more confident, more assertive, and improve their health. However, this isn't an industry standard today. Some PEXs don't support the individual in this way, and seem to be oblivious to the HSA opportunity - and the end result can be disastrous – with dissatisfied individuals, having elected high cost-share plans and unaware of the tax savings available, will miss the HSA opportunity or worse, rejecting these plans in the future. We fear this will be the experience in the 2014 ACA public exchange environment, where few or no tools or education regarding HSA account options were provided.
- Recommendations: The consumer experience in the PEX should be built with the HSA experience in mind, since such a large number of individuals will be choosing HSA-qualified plans. Focus should be made in the following areas:
 - Educating consumers on how CDH plans and accounts work
 - Helping individuals understand their family's health needs
 - Helping individuals understand the financial implications within the available choices
 - Helping individuals navigate the PEX Options
 - Framing the Choices to understand or choose between HSA offerings such as payment options, receipt management, card access, and investments
 - Helping the consumers understand the long term financial planning implications to save for future health care costs.
- Prediction: PEX are well positioned to change the traditional customer experience, specifically, becoming core to the ongoing customer experience vs. an enrollment and education tool. PEXs can incorporate various tools and resources to help improve the consumerism value proposition, either augmenting or in some cases replacing what a health plan may offer. Independently, they may be better positioned to help the individual with both the health and financial aspects of an employee's decisions, coordinating both needs from one source.
- Prediction: Advisors must create or participate in the exchange revolution, or they will find themselves replaced by advisors with a strong PEX solution. Likewise, they must be proficient at DC and HSAs. A consumerism emphasis and bench strength will be necessary for advisors to compete and win.

- Prediction: Employers will redirect resources normally devoted to benefit strategy and delivery to workplace wellness and productivity. PEXs are well positioned to help their clients create these supported cultures of health.
- Prediction: The PEXs that win will do the best job of helping individuals become more comfortable with their options, more aware of their ownership responsibilities, more literate on health care topics, more aware of how to make the most of their HSA accounts. The PEXs that understand the behavioral economics principles at play and provides resources to help people with their irrational tendencies, will win.
- Prediction: Individuals will eventually want choices among HSA account options versus one custodian linked to a PEX or health plan.
- Prediction: Insurers that are strong at CDHP will thrive, those who are not will struggle.