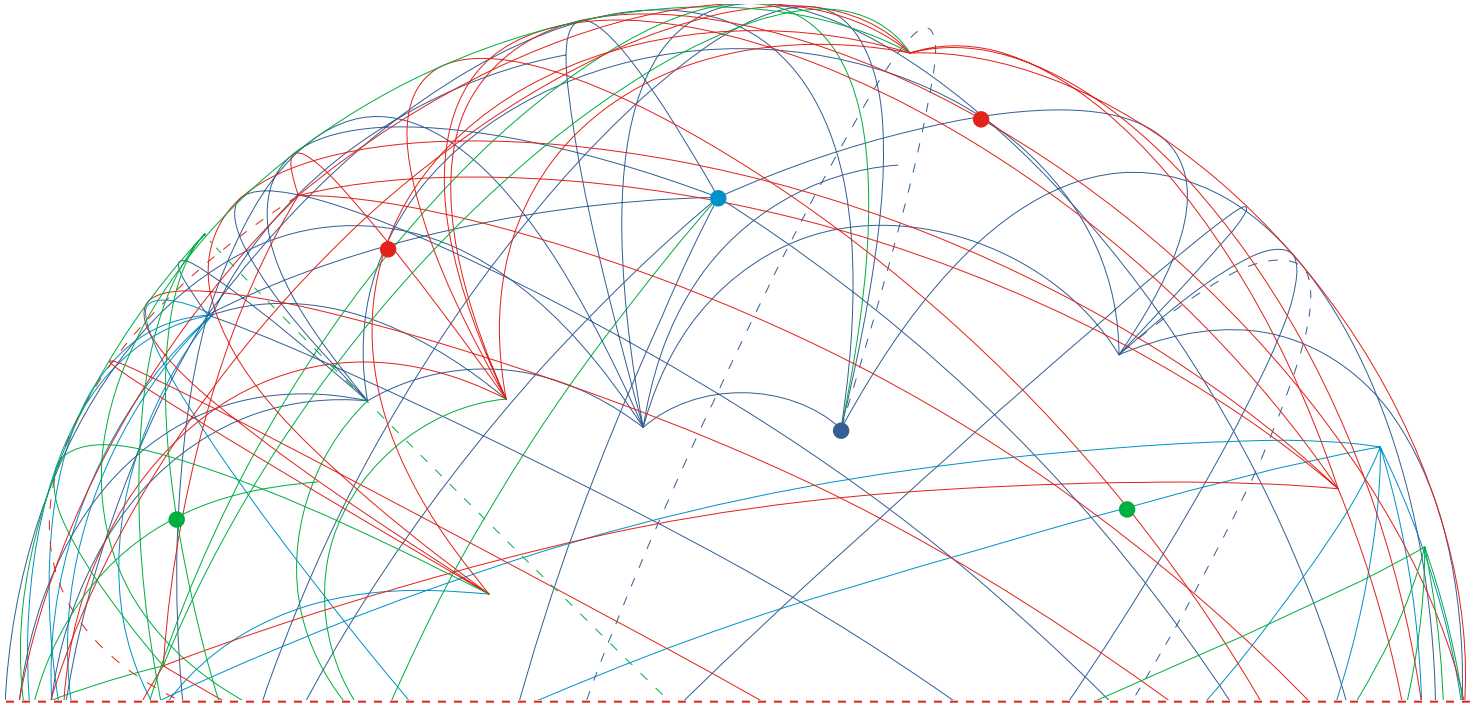


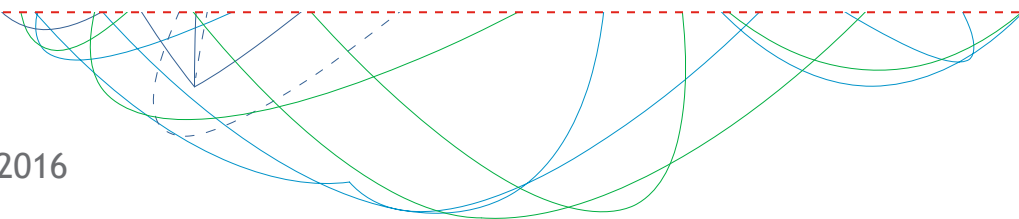


Private Exchange Research Council



Understanding Product Offerings and Choices on a Private Exchange

October 2016



Understanding Product Offerings and Choices on a Private Exchange

Overview

The benefits landscape is changing dramatically as a growing emphasis on employee well-being and greater attention to the diverse, personalized needs of each employee and their family take hold. Technological advances and new administrative platforms are giving companies the ability to elevate the benefits selection process to a consumer-grade experience, now refined further through the emergence of private exchanges.

A recent report by Gartner Research identified “digital commerce” as a key force in shaping today’s benefits landscape, as it has “led consumers to expect that shopping for health insurance should be similar to shopping for retail and financial products via online websites. Consumers expect to have personalized information and tools to make purchasing decisions.”¹

Private exchanges enable and accelerate this type of “digital commerce” by providing employees with:

Choice and flexibility: Private exchanges are online stores, or marketplaces, in which employees can shop among diverse benefits offerings from leading national and regional carriers.

Convenience: Employees can shop for and seek out information about benefits products using their computer or smart phone, just as they do with sites like Amazon or Zappos.

Personalization: Employees can use decision support tools to help design a benefits package tailored to their unique needs at price points that work best for them.

A look at what’s in this paper:

Executive Summary -----	4
Approach/Methodology -----	5
Detailed Findings -----	6
Future Considerations -----	17
Conclusion -----	17

¹ Gartner, “Market Guide for U.S. Healthcare Payer Private Exchange Technology,” Constance Sjoquist, May 27, 2016



In this white paper, we provide one of the industry's first in-depth examinations of the types of decisions employees are making when given the power of choice.

Specifically, we explore the following questions:

- What types of benefits are employers offering their employees through a private exchange? How is this evolving over time?
- What are employees buying when they have myriad choices? Which products are the most popular? Are they buying plans based on their needs? Are they buying products that provide them with adequate financial protection?
- In an era of consumer-driven health care, to what extent are employees migrating toward Health Savings Account (HSA)-qualified Medical plans?
- To what extent do system recommendations impact employee buying decisions?
- How do employee purchases on a private exchange change over time?

Future research will delve even further into how system recommendations influence employee selections, how employer contributions influence buying choices, and how choices evolve over time.



Executive Summary:

Based on our analysis of behavior on Liazon exchanges, employer benefits offerings are becoming more robust. **Employers are offering more products, and greater variety in plan options**, in an effort to meet diverse employee needs and desires.

- Employers, on average, offer 14 different product categories to their employees through a private exchange.
- The median number of Medical plan choices being offered to employees is six, and employers are even offering significant choice among Dental and Vision plans.
- Company size doesn't affect the number of plans being offered: Larger companies (200+ employees) offer the same median number of Medical, Dental, and Vision plan choices as smaller companies.
- Overall, more smaller-sized companies are offering non-traditional voluntary products (Legal plans, Pet insurance, Identity Theft Protection, and more) compared to larger companies.
- However, the most year-over-year growth is occurring for supplemental health insurance products (specifically, Accident, Critical Illness, and Hospital Indemnity) and Flexible Spending Accounts, driven primarily by larger companies.

Employees are embracing the shopping experience as is evidenced by the number of products being purchased and the variety in purchasing patterns.

- There is a tendency among employees to match benefits decisions to their socio-economic circumstances. For example, those who purchase more products tend to have greater financial means (just as they may make more purchases of consumer goods), have a greater need to address health issues or financial challenges, or are at a point in their lives where greater financial security becomes more attractive (e.g., Gen Xers with young families).
- Take up of HSA-qualified plans on private exchanges surpasses industry averages, and is rising, as high deductible health plans become much more generally accepted. And those buying HSA-qualified plans tend to fit a profile we'd expect – younger, male, healthier, higher-paid, and with fewer financial issues.

Recommendations have a strong influence on buying patterns.

- Employees are responding to advice, education, and guidance from decision support tools.
- Recommendations are beneficial for identifying products that would be a good fit for each employee, and many employees are following through on the guidance they receive and making appropriate decisions.
- At the same time, people are also making independent choices and tradeoffs given their desires and financial constraints.

Approach/Methodology

This analysis was based on data from companies using a Liazon private exchange between 2013-2015 who offered four or more Medical plan options and had 10 or more employees who went through the enrollment process at any point throughout the plan year.

Size of sample



Employee study sample

2013	2014	2015
22,750	84,152	159,588



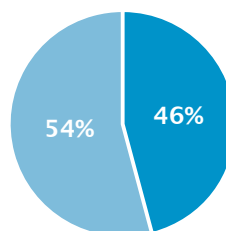
Number of companies in study sample

2013	2014	2015
312	586	740

Employee characteristics were similar to the general working population:

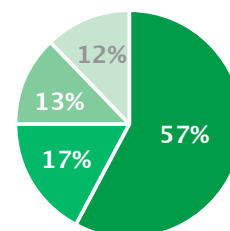
Employee characteristics, 2015

GENDER



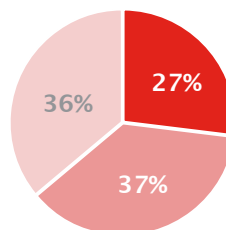
Female
Male

SALARY GROUPS



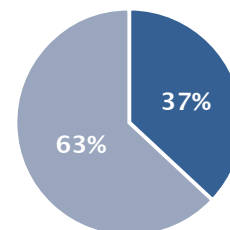
Less than \$45K
\$45K to \$65K
\$65K to 100K
\$100K+

GENERATIONS



Baby Boomers
Gen X
Millennials

DEPENDENT STATUS



With Dependents
Without Dependents

Notes:

- Employees may have interacted with an exchange several times throughout the enrollment period before deciding on their purchases, producing multiple sets of product recommendations. The recommendations considered in this analysis are based on all interactions that may have occurred, not just the last recommendation received.
- Data excludes products offered outside of the exchange or those paid in full by the employer, such as Life or Disability.



Detailed Findings

What products are employers offering on private exchanges?

Employers are offering a broad range of benefit types and plans on their exchanges, and expanding their offerings over time.

The majority of companies are offering six or more Medical plan choices as well as numerous choices for Dental and Vision. In fact, 10% of companies are offering 12 or more Medical plans. There is no difference in the median number of plans offered for these product types based on company size.

Figure 1

Range of plan options for Medical, Dental, and Vision

Plans per company

Percentiles	10 th	25 th	50 th	75 th	90 th
Medical	4	5	6	10	12
Dental	3	3	3	5	7
Vision	2	4	4	4	4

While it's common for companies to offer Medical, Dental, and Vision insurance, most companies also offer a wide range of ancillary products, including:

Figure 2

Product category	% of companies offering product
Health Savings Account	95.7
Employee Life Insurance*	87.7
Spouse Life Insurance*	87.2
Child Life Insurance*	87.2
Legal Plans	74.1
Identity Theft Protection	71.4
Long Term Disability*	71.2
Short Term Disability*	71.2
Telemedicine	70.3
Pet Insurance	67.7
Health Coaching	66.1
Accident Insurance	46.8
Critical Illness Insurance	41.8
Medical Flexible Spending Account	25.9
Dependent Care Flexible Spending Account	23.5
Hospital Indemnity Insurance	12.7
Transit Flexible Spending Account	6.4
Parking Flexible Spending Account	5.1
Spouse Critical Illness Insurance	2.4
Child Critical Illness Insurance	2.0

* Some companies offer Life and Disability insurance as employer-paid offerings, which are excluded from our figures.



Figure 3 shows a breakdown of the percentages of companies that offer each product, by company size.


Figure 3

Product offerings by company size, 2015

Percentage of companies offering a product category

Product category	Smaller companies <200 employees	Larger companies ≥200 employees
Medical Insurance	100%	100%
Health Savings Account	97%	94%
Dental Insurance	96%	96%
Vision Insurance	96%	94%
Employee Life Insurance*	86%	92%
Child Life Insurance*	86%	88%
Spouse Life Insurance*	86%	88%
Telemedicine	73%	73%
Legal Plans	76%	63%
Health Coaching	75%	69%
Long Term Disability*	73%	67%
Short Term Disability*	72%	67%
Identity Theft Protection	69%	59%
Pet Insurance	67%	63%
Accident Insurance	31%	69%
Critical Illness Insurance	26%	65%
Hospital Indemnity Insurance	4%	27%
Medical Flexible Spending Account	19%	39%
Dependent Care Flexible Spending Account	17%	41%
Transit Flexible Spending Account	7%	10%
Parking Flexible Spending Account	6%	8%

 More common among smaller companies

 More common among larger companies

* Some companies offer Life and Disability insurance as employer-paid offerings, which are excluded from our figures.



Observing the same set of companies over two years, the number that offer these types of ancillary products is increasing over time. The growth from 2014 to 2015 was greatest for Hospital Indemnity (+90%), Critical Illness (+79%), Accident (+57%), and Flexible Spending Accounts (most notably for Transit and Parking FSAs, up 139% and 129%, respectively). Across the board, these increases were driven primarily by larger organizations. Availability of Telemedicine and Health Coaching has declined, likely because these services are being incorporated into more Medical plans.

Figure 4

Product offerings, 2014 to 2015*

Percentage of companies offering a plan in that product category

Product category	2014 (%)	2015 (%)	% Change 2014 to 2015
Transit Flexible Spending Account	4.2	5.8	138.9
Parking Flexible Spending Account	4.0	5.1	129.4
Hospital Indemnity Insurance	7.2	13.8	90.3
Critical Illness Insurance	24.0	42.9	78.6
Accident Insurance	30.3	47.6	56.9
Medical Flexible Spending Account	24.0	28.0	16.5
Dependent Care Flexible Spending Account	22.6	26.1	15.5
Identity Theft Protection	60.8	69.5	14.2
Vision Insurance	92.8	97.0	4.5
Employee Life Insurance**	84.1	87.6	4.2
Child Life Insurance**	83.7	87.2	4.2
Spouse Life Insurance**	83.9	87.2	3.9
Legal Plans	72.3	74.8	3.5
Dental Insurance	93.7	96.5	3.0
Short Term Disability**	69.5	71.3	2.7
Long Term Disability**	70.4	71.1	1.0
Medical Insurance	100.0	100.0	0.0
Health Savings Account	95.3	95.1	-0.2
Telemedicine	72.3	69.0	-4.5
Pet Insurance	71.3	66.7	-6.5
Health Coaching	74.1	65.0	-12.3

* Among companies who offered each product in both 2014 and 2015.

** Some companies offer Life and Disability insurance as employer-paid offerings, which are excluded from our figures.



What products are employees buying on private exchanges?

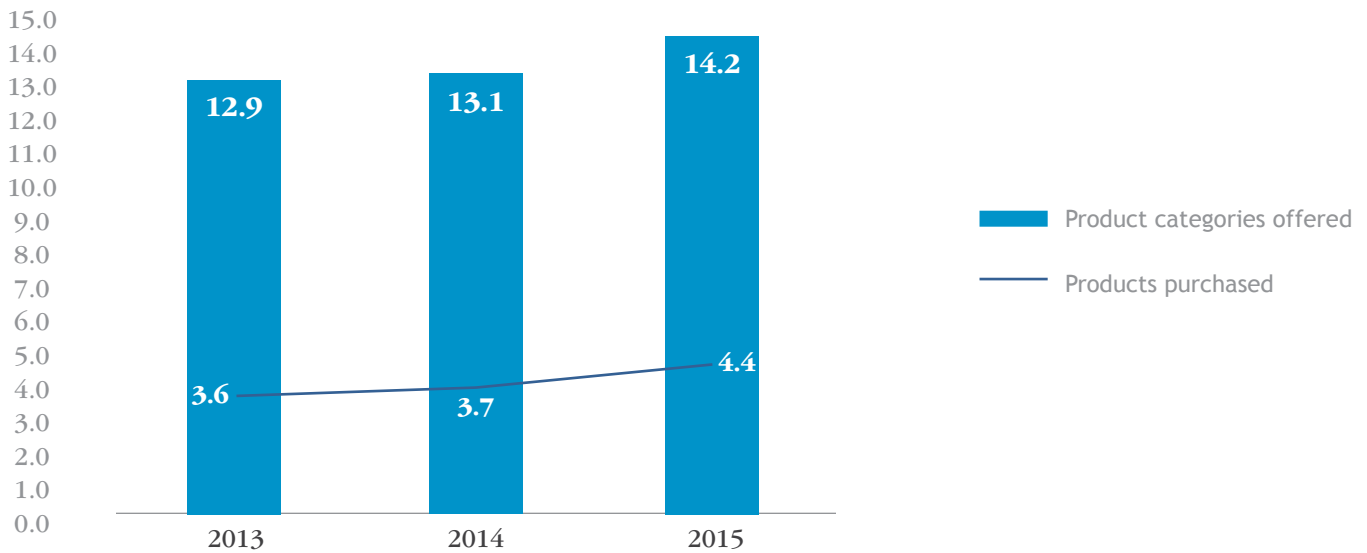
Consumers are purchasing a variety of products to fit their unique needs, and the number of products purchased is increasing over time.

Employees who purchased at least one product bought an average of 4.4 products in 2015 compared to 3.6 products in 2013 – more than a 20% increase.

Figure 5 shows the trend in the average number of products purchased from 2013 to 2015, as well as the average number of products offered by employers using a Liazon private exchange.

Figure 5

Average number of products offered and purchased*



* Among employees who purchased at least one product.



A large segment of employees are heavy purchasers. Among a common set of employees buying at least one product in both 2014 and 2015, 15% purchased seven or more products in 2015, compared to 12% in 2014.

The breakout of how many products people purchase by demographic yields some interesting insights as well. Not surprisingly, people with higher incomes tend to purchase more products, with 56% of those making more than \$100k buying four or more products, compared to 30% of those with salaries under \$45k.

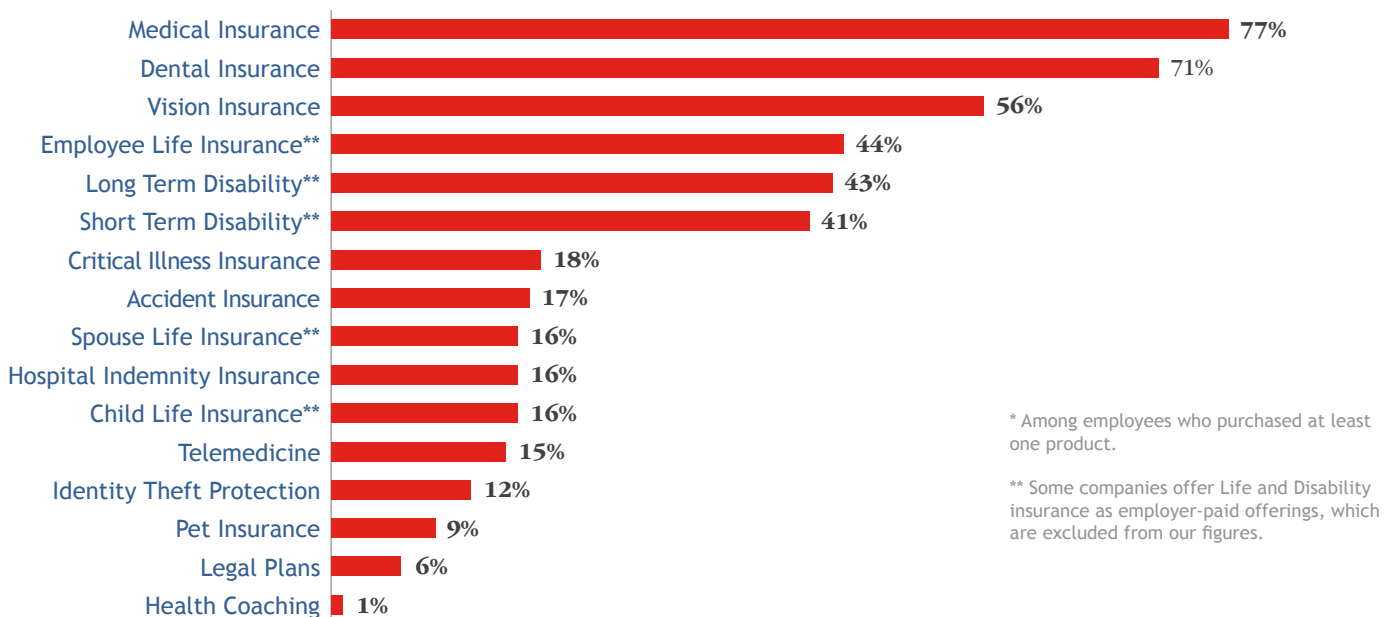
Gen Xers (those born between the mid-1960s through the 70s) tend to purchase the most products compared

to other generations; approximately 44% purchased four or more products, compared with 42% of Boomers and only 30% of Gen Yers (those born in the 80s through the mid-90s). This generation, sometimes called the “sandwich generation” because of responsibilities to both their parents and their own children, are showing an understanding of the need to protect themselves financially against unforeseen events. Additionally, the data indicate that married people, and those in poor health, tend to purchase more products.

As expected, employees most frequently buy Medical, Dental, and Vision insurance.

Figure 6

Percentage of employees purchasing products on a Liazon private exchange, 2015*



In terms of trends, the biggest uptick in purchases over time is seen for Legal plans, Hospital Indemnity insurance, Identity Theft Protection, Telemedicine, and Critical Illness insurance. This lends further credence to the idea that if you offer people new types of products that benefit them, they will be receptive to them.

Figure 7 shows the percentage increase in purchases of these products and more from 2013 to 2015.

Figure 7

Product purchases, 2013 to 2015*

Percentage of employees who purchased a plan in each product category when offered

Product category	2013 (%)	2015 (%)	% Change 2013 to 2015
Legal Plans	2	6	200
Hospital Indemnity Insurance	9	16	78
Identity Theft Protection	7***	12	71
Telemedicine	9	15	67
Critical Illness Insurance	12	18	50
Child Life Insurance**	11	16	45
Long Term Disability**	32	43	34
Vision Insurance	48	56	17
Spouse Life Insurance**	14	16	14
Short Term Disability**	36	41	14
Pet Insurance	8	9	13
Health Savings Account	19	21	11
Employee Life Insurance**	40	44	10
Health Coaching	1	1	0
Dental Insurance	72	71	-1
Medical Insurance	84	77	-8
Accident Insurance	19	17	-11

* Based on employees who were offered the product and purchased at least one product in 2013, 2015.

** Some companies offer Life and Disability insurance as employer-paid offerings, which are excluded from our figures.

*** Based on 2014 to reflect the first full year the product category was offered on the exchange.



Do private exchanges influence enrollment in HSA-qualified Medical plans?

There is a steady increase in employees enrolling in HSA-qualified Medical plans on Liazon private exchanges – rising from 38% in 2013 to 42% in 2015. Further, when compared with industry averages, enrollment in HSA-qualified Medical plans is significantly higher in an exchange environment, as shown in Figure 8.

Figure 8

Purchase of HSA-qualified Medical plans



Figure 9

Who's buying an HSA-qualified plan?

		Percentage enrolling in an HSA-qualified plan	Year=2015
Gender	Female	39%	
	Male	44%	
Generations	Boomers	39%	
	Gen X	42%	
	Gen Y	45%	
Pay	<45K	39%	
	45K-65K	43%	
	65K-100K	44%	
	100K+	49%	
Financial Issues	Yes	35%	
	No	48%	
Health Status	Poor/Fair	28%	
	Good	35%	
	Very Good/Excellent	44%	
High Utilization	Yes	32%	
	No	47%	

This increased interest in HSA-qualified plans on private exchanges may be due to a number of factors: **1)** Employees on an exchange are seeing the full cost of all their Medical plan options, and often will choose to buy less expensive plans since they can reap the cost savings. **2)** Employees on an exchange are becoming more educated about the different plan options available to them and are learning how to use high deductible plans together with an HSA to save them money. **3)** Many employees on an exchange are receiving recommendations that identify HSA-qualified plans as the best for them due to the financial savings and the ability for them to offset additional financial risk with other types of products.

Those electing HSA-qualified plans are more likely to be younger, male, healthier, higher-paid, and have fewer financial issues. These are the people who should be purchasing HSA-qualified plans because they are more likely to benefit from them financially.

Figure 9 provides a demographic breakdown of HSA-qualified Medical plan purchasers.

² See Kaiser Family Foundation and Health Research & Educational Trust, 2016 Employer Health Benefits Survey. Average enrollment in an HSA-qualified plan was 15% in 2015 and 19% in 2016.



Are employees who purchase HSA-qualified plans opening and funding Health Savings Accounts?

Forty-two percent of employees on Liaison exchanges enrolled in an HSA-qualified plan, and of these, 63% opened an HSA. Of those who opened an account, 86% funded their account, though most contributed less than \$2,000 for the year. This finding suggests a missed opportunity for these employees to gain the tax advantage by investing more in their HSAs.

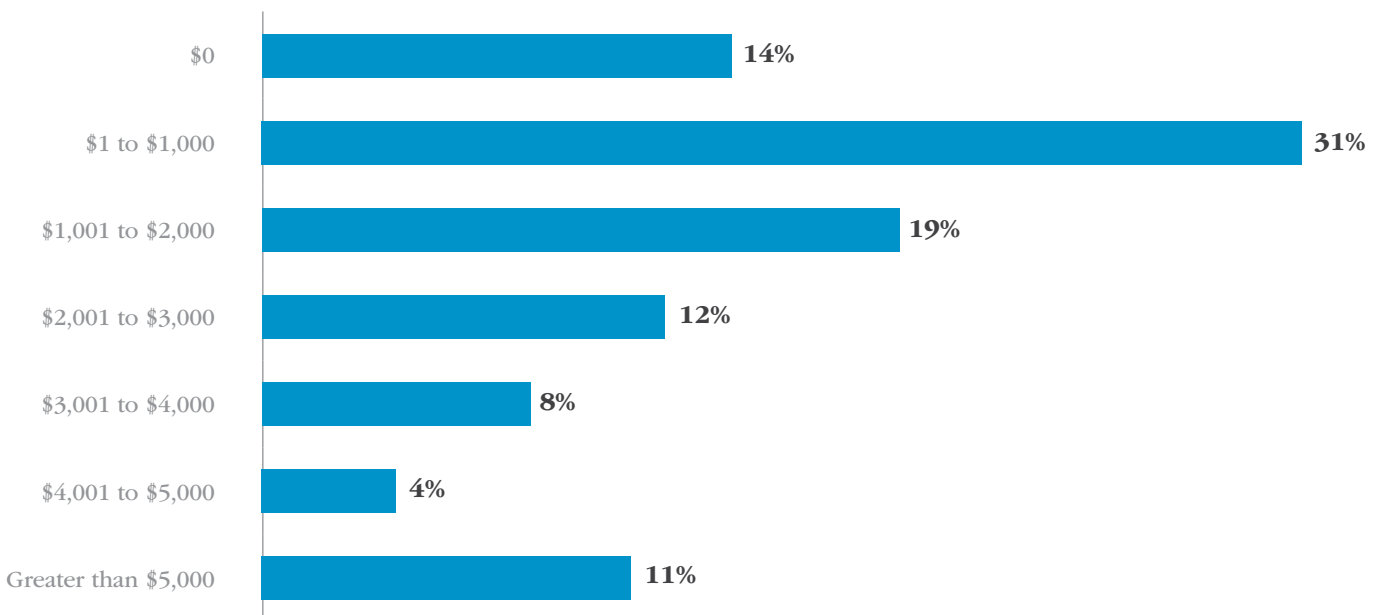
It's important to note, however, that these numbers may

underestimate total HSA enrollment since some employees may not be opening an HSA if they already have one from a previous employer. Additionally, total contributions may be higher since these numbers only report employee contributions. Many companies offer a contribution, or seed money, to their employees' HSAs as a way to encourage them to elect as well as open one, and this additional money is not reflected here. As a result, some employees may not be contributing to these accounts as much or at all with their own money and are choosing to only fund them through employer seeds.

Figure 10 shows a breakdown of how much employees are contributing to their HSAs.

Figure 10

Employee HSA contributions in 2015*



Note: The contribution limit for individuals for 2015 was \$3,350 and for families, \$6,650.
* Among employees who enrolled in an HSA-qualified Medical plan and signed up for an HSA.



What impact do recommendations have on buying decisions?

Liazon private exchanges use a “recommendation engine” which goes beyond the standard filtering and sorting of plans to recommend specific plans to individuals. The sophisticated algorithm will actually learn about each user’s situation, lifestyle, and personality – things that are key to determining coverage needs – to recommend the coverage that is right for them. It is then up to the user to decide which plans to purchase.

For Medical plans (the most widely-offered and expensive product), there is a growing trend for employees to buy the recommended plan: 38% of employees bought the recommended Medical plan in 2015, up from 32% in

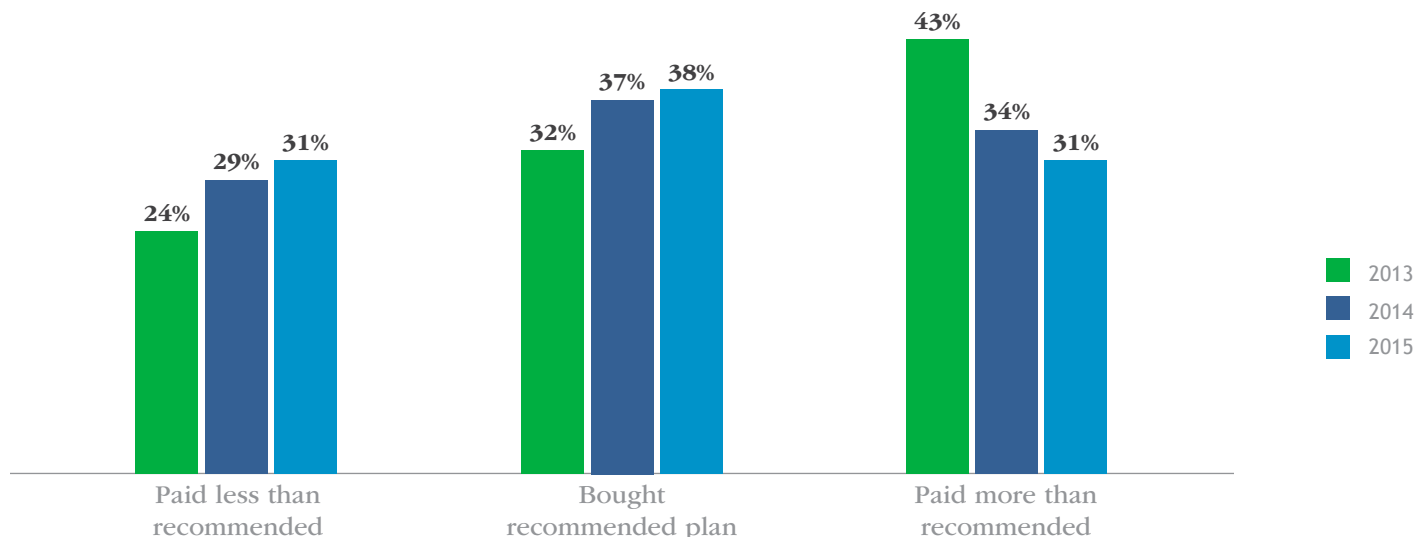
2013. This uptick may be due to employees becoming more comfortable shopping for their own benefits on an exchange, and therefore becoming more trusting of the recommendation engine over time. In addition, employees are becoming more familiar with HSA-qualified plans as more employers choose to offer them, and are therefore more likely to purchase these plans when they are recommended.

These figures are in line with expectations, as other Liazon data indicate that employees use the recommendation as an anchor point and then adjust their purchase decision from there.³

Figure 11 indicates the percentage of employees that chose the recommended Medical plan, or chose a plan that cost more or less than what was recommended.

Figure 11

Did employees buy the recommended Medical plan and how have buying patterns changed over time?



³Liazon’s internal analysis of plan selections by ~4,000 employees of one client: 48% chose the recommended plan, while 28% chose plans with similar costs as the recommendation, 2015.



About one-third of employees bought up from the recommendation (spent more than the recommended amount) and another one-third bought down.

compared to the recommended plan, while employees who buy up purchase plans only modestly more expensive than the recommended plan.

The data also show that employees who “buy down” purchase a Medical plan at a considerably lower price

Figure 12 indicates how much employees buy up or buy down when they deviate from the Medical plan recommendation.

Figure 12

How much did employees buy up or buy down from the recommended Medical plan?



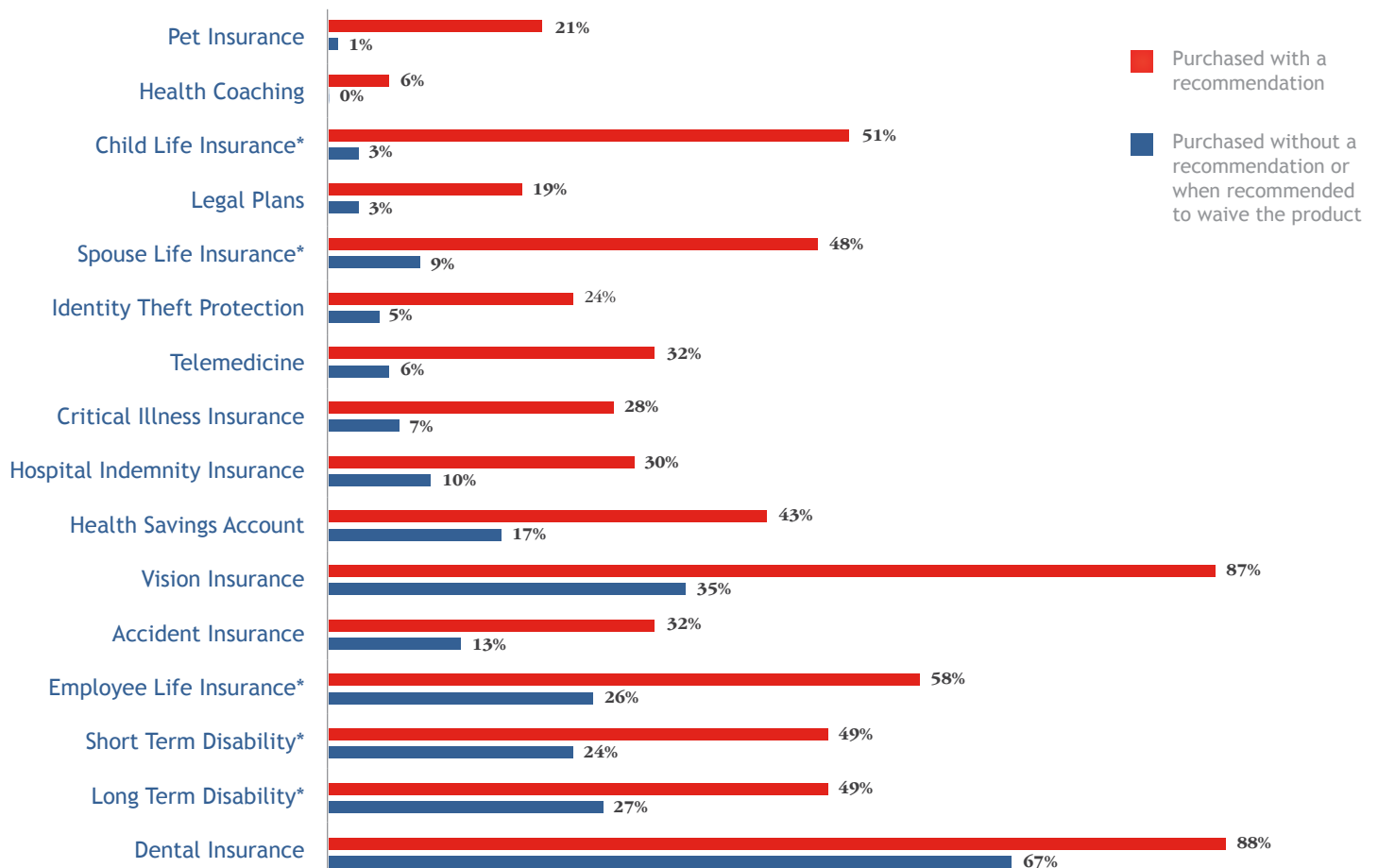
Overwhelmingly, the data point to more employees being likely to purchase a product if it is recommended to them. In fact, the purchase rates for most products that were recommended were at least two to four times higher than for those same products purchased without being recommended, or with a recommendation to waive the product. For example, 87% of employees buy Vision insurance

when recommended to do so, compared to 35% who buy it without a recommendation or with a recommendation to waive. (See Figure 13.) These findings further support the implication that employees trust the recommendation and understand its value, and also reflect the system’s ability to accurately assess the needs of employees in order to recommend products that will benefit them.

Figure 13

Does the recommendation impact buying decisions?

Year=2015



* Some companies offer Life and Disability insurance as employer-paid offerings, which are excluded from our figures.



Future Considerations:

We intend to delve deeper into these early findings to discover more about how recommendations influence product selection on private exchanges and how choices evolve over time.

Some of the questions we'll tackle include:

- How are employees interacting with the decision support tools – are they getting multiple recommendations before locking in their benefits?
- Beyond Medical, how often are employees buying the recommended products and plans? If they don't buy the recommended plans, do they tend to buy plans that are more or less expensive?
- What types of employees are more likely to take the recommendation as is?
- Do the types of products employees buy change over time to more closely reflect the recommendations?
- Do people tend to move into HSA-qualified plans or higher deductible plans over time when recommended to do so?
- How does employee spending change over time compared to the employer contribution?
- What impact, if any, do rising premiums have on Medical plan selection over time?
- What are the differences in benefits shopping and buying habits between men and women?

Conclusion:

As private exchanges continue to gain traction, **exchange offerings are becoming more robust and employees are becoming more engaged with their benefits.** Exchanges are evolving to add more products to meet the broad range of needs of American families in today's uncertain and financially insecure economic environment.

Employers are seeing the value of offering more product choices and greater variety in plans, while employees are building unique benefit portfolios that suit their particular needs. The data show that they are actively shopping and purchasing wisely, taking into consideration the decision support and guidance provided. Buying patterns indicate they are making benefits decisions that make sense based on their financial situation, life stage, and other socio-economic considerations.

As we continue to track employer and employee behavior on private exchanges, we look forward to sharing further research to help make sense of the ever-changing benefits landscape.





Private Exchange Research Council

About the Private Exchange Research Council (PERC):

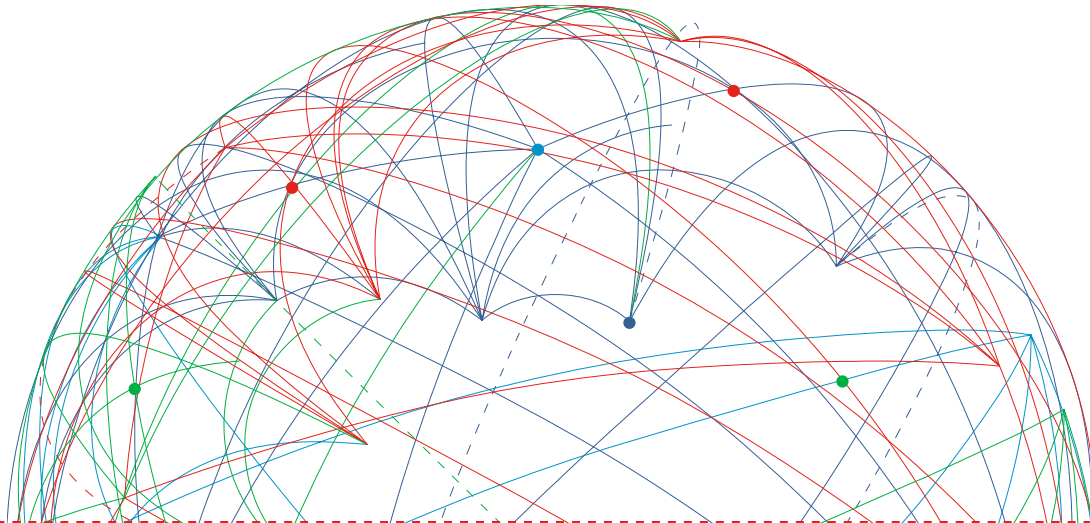
The Private Exchange Research Council (PERC) was established in 2015 to access and analyze data from hundreds of thousands of employees who have purchased benefits through Liazon private exchanges. PERC is comprised of private benefits exchange experts and top national brokers and consultants. As private exchanges are poised to strengthen employee engagement, empowerment, and education, this think tank will provide the market with insights into how people are making decisions when shopping for their benefits.

PERC plans to explore frequently asked questions with

respect to private exchanges, such as how demographic and behavioral factors influence buying decisions, the impact of decision support on buying patterns, and how buying patterns change over time, among others.

PERC is uniquely positioned to provide this information, which is unprecedented in the industry, because of access to data from Liazon, a leading operator of private exchanges with nearly a decade's experience in the industry.

PERC member companies include: [Arthur J. Gallagher & Co.](#), [AssuredPartners](#), [BB&T Insurance Services](#), [Lawley Insurance](#), [Liazon/Willis Towers Watson](#), and [Lovitt & Touché](#), along with health law and policy expert [Chris Condeluci of CC Law & Policy](#).



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