



Individual Market-Based Benefit Sourcing Strategies

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Agenda

- Corporate Exchange Overview
- Medicare-eligible Retirees
- Pre-Medicare Retirees – State Exchanges

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An Obsolete Engine – Prelude to Corporate Exchange



Source: Bureau of Labor Statistics, Aon Hewitt Health Value Initiative

So What?

- The more health care supply in a given market, the higher the cost
 - Unwarranted Variation: The Overuse, Underuse and Misuse of Care (Dartmouth Atlas Project 2007)
- 40%-60% of all U.S. health care spending is waste – Significant Opportunity
- Private group plans substantially subsidize the rest of the U.S. system
 - Utilization in the rest of the system is about to grow dramatically
 - Reimbursement rates for Medicaid and Medicare are getting reduced

The Current Model is Broken – We Must Change

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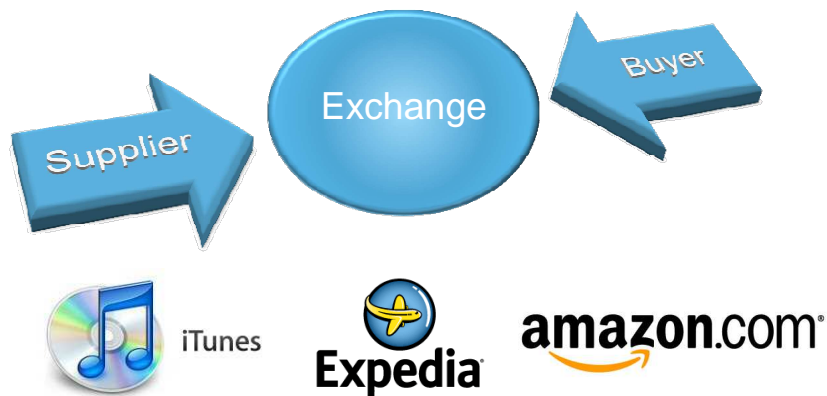
The Private Exchange Landscape

	Single Carrier	Multi-Carrier
Fully Insured	Risk transfer— but cost increases	Risk transfer, leveraged competition, best-in market efficiencies, employee choice—but less control over plan design
Self-Insured	Traditional model — more employee choice but no risk transfer	Employee choice, best-in-market efficiencies—but less leverage over carriers and no risk transfer and less predictability

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What is an Exchange?

An exchange is a competitive marketplace that consists of suppliers and buyers



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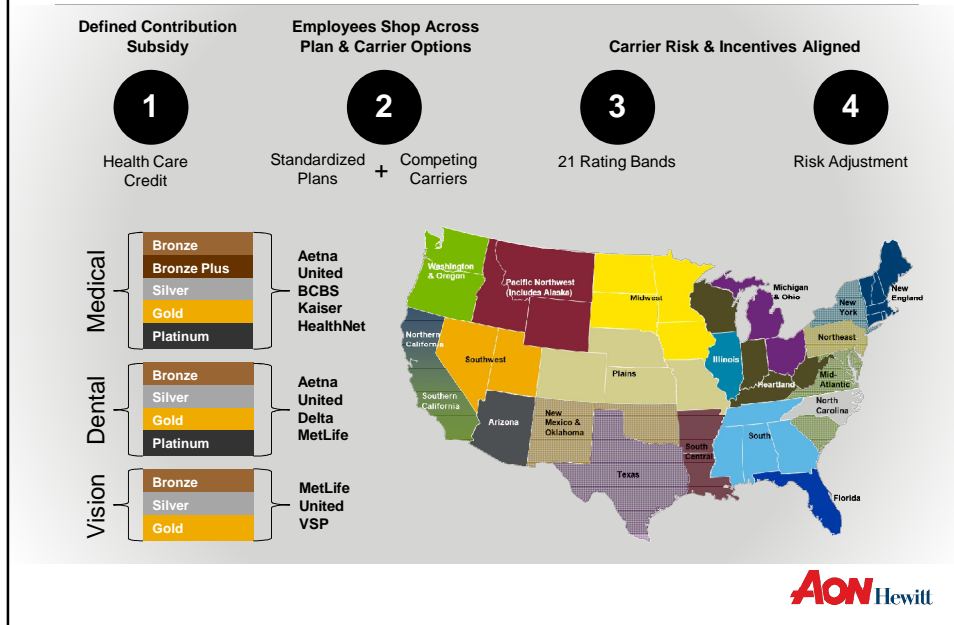
Corporate/Private Exchange Goals

- Create a **competitive market** in health care benefits at a retail/consumer level
 - Will drive efficiency and mitigate trend through competitive forces
- Facilitate the **movement to a defined contribution model** for those employers who are aligned with this philosophy
 - Jump off the health care trend curve to a compensation-like rate of increase
- **Expand choice, drive efficiency and simplicity**, but allow consumer selections that could not be driven unilaterally at the employer level
- **Provide an alternative** to state exchanges for large employers before 2017, and transition to an individual model when the market is ready
- Consolidate purchasing power in the private sector to **drive systemic reforms of the health care delivery system**

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What It Is—and How It Works



Plan Design Highlights

	Bronze	Bronze Plus	Silver	Gold	Platinum
Medical Plan Design					
INN Deductible (single/family)	\$2,750 / \$5,500	\$2,000 / \$4,000	\$1,500 / \$3,000	\$600 / \$1,200	None
INN Coinsurance	20%*	20%*	20%*	10%*	0%
INN OOP max (inc ded)	\$5,950 / \$11,900	\$5,000 / \$10,000	\$3,750/\$7,500	\$3,000 / \$6,000	\$1,500 / \$3,000
Hospital Inpatient Per Admission	20%*	20%*	20%*	10%*	\$250 Copayment
Primary Care / Specialist	20%*	20%*	20%*	\$20 / \$35 Copayment	\$20 / \$35 Copayment
Emergency Room	20%*	20%*	20%*	10%*	\$100 Copayment
Rx Plan Design					
Deductible & OOP Maximum	Included w/ medical	Included w/ medical	Included w/ medical	OOP included w/ medical	OOP included w/ medical
Retail Generic	20%*	20%*	20%*	\$5 Copay	\$4 Copay
Retail Brand Formulary	20%*	20%*	20%*	20% (up to \$50 maximum)	\$20 Copay
Retail Brand Non-Formulary	20%*	20%*	20%*	40% (up to \$100 maximum)	\$40 Copay
Actuarial Value of Plan	65%	70%	75%	81%	92%

* After deductible

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2014 Aggregate Financial Results

Cost Drivers

- Risk charges
- Profit charges
- Premium taxes
- Mandated benefits
- Commissions

Cost Reducers

- Competition
- Risk adjustment
- Best-in-class networks/provider discounts
- Pricing approach
- Standardized designs
- Reduced admin/consulting costs



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A Retail Shopping Experience Encourages Real Consumerism

The screenshot displays the AON Hewitt enrollment portal. On the left, users can select who is covered under the plan, including Christopher Sample, Maria Sample, and Susan Sample. Below this, there is a section for tobacco use. The main area shows a 'Choose Your Option' section with a table of plan options:

Plan Type	Annual Deductible	Coinsurance	Out-of-Pocket Maximum	Monthly Premium
Bronze Plans (2)	\$2,750	50%	\$5,950	\$520 - \$4,000
Bronze+ Plans (3)	\$2,000	50%	\$6,000	\$1,828 - \$5,362
Silver Plans (4)	\$1,600	50%	\$3,750	\$2,932 - \$6,844
Gold Plans (5)	\$500	50%	\$3,000	\$7,180 - \$12,472
Platinum Plans (6)	\$0	100%	\$1,500	\$8,812 - \$14,632

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Given the Opportunity for True Consumerism, Employees Engage

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% of employees “bought down” to less expensive coverage and saved on payroll deductions
- 26% “bought up” to richer coverage than prior year (including many for whom the richer coverage had been previously unavailable)
- Less than 1/3 of employees remained at comparable level
- What’s covered, including preventive care, is the same across plan levels
- Under a true DC application the employer’s cost does not vary based on plan level chosen – fostering real consumerism

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The Individual Market – Medicare Eligible Retirees

- Robust individual Medicare market options currently provide choice, value, diversification, and savings

Health Care Options	Description
Medicare Advantage (Part C)	<ul style="list-style-type: none"> ▪ Privatized Medicare benefits which replace Traditional Medicare ▪ HMO, POS, PPO, PFFS, Special Needs Plans ▪ Approximately 10.5 million Medicare beneficiaries receive coverage through the 2012 individual Medicare Advantage market, representing approximately 21% of total Medicare enrollment
Medigap	<ul style="list-style-type: none"> ▪ Private indemnity plans which supplement Traditional Medicare ▪ Ten standard, federally and state regulated designs available nationally ▪ Approximately 10.0 million Medicare beneficiaries have 2012 individual Medigap coverage, representing approximately 20% of total Medicare enrollment
Medicare Part D Prescription Drug Plans (PDPs)	<ul style="list-style-type: none"> ▪ Medicare Part D prescription drug benefits delivered through private plans ▪ Standard or enhanced coverages ▪ Approximately 17.5 million Medicare beneficiaries have 2012 individual Part D coverage

- Dental and Vision coverages are also available

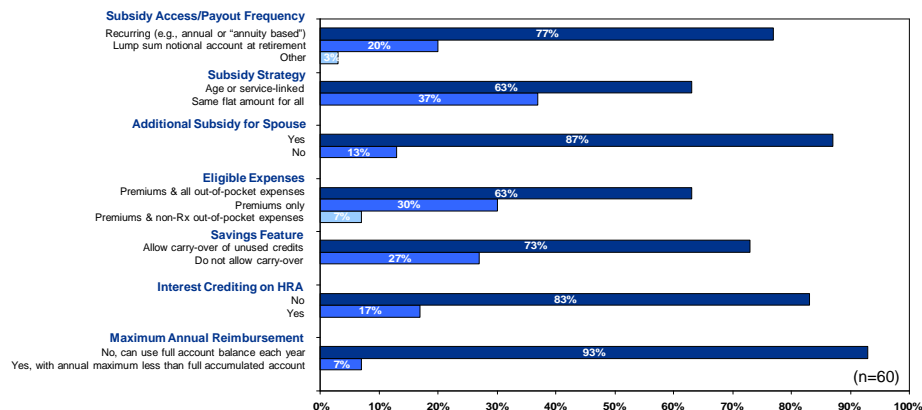


Individual Market-Based Sourcing—The Approach

- Eliminate the traditional group insurance approach and support open-market purchasing
- Provide tax-effective health care cost reimbursement through a **Health Reimbursement Arrangement (HRA)**
 - Notional accounts supported by ongoing (or “lump sum”) employer subsidies
 - Account use determined by the employer (subject to IRS guidelines)
 - Premiums for individual Medicare supplements, Part D Rx plans, Medicare Advantage
 - Part B premiums
 - Out-of-pocket expenses
 - Based on January 2013 guidance, HRAs generally need to be provided through a **stand-alone, retiree-only legal plan structure** to avoid the requirement to comply with the PPACA group insurance market reforms (e.g., no annual limit on essential health benefits, no lifetime limit on benefits, etc.)
- Partner with an administrative coordinator, or “**exchange**”, to facilitate guided access to the individual market, support retiree understanding, decision-making, and perform enrollment/administrative functions, **at little or no cost to the plan sponsor**

Post-65 Exchanges—Current Landscape

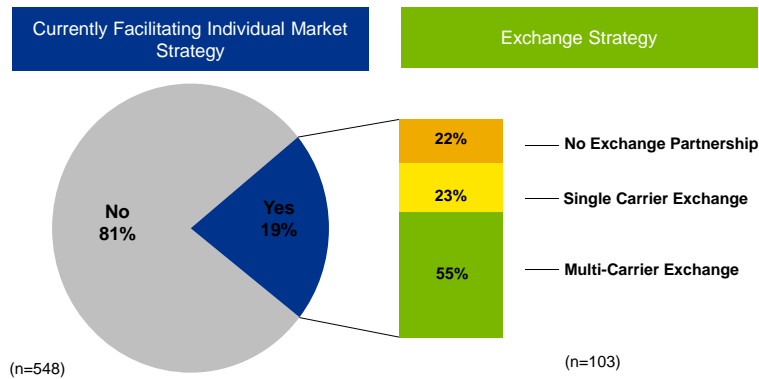
- Plan sponsors currently providing a subsidized HRA are doing so under a variety of design features intended to **balance administrative simplicity with retiree flexibility**



Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

Post-65 Exchanges—Current Landscape

- 19% of plan sponsors are currently leveraging an individual Post-65 retiree market-based sourcing strategy for all or a portion of their retiree group
 - A multi-carrier private exchange partner is the most popular exchange strategy



Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

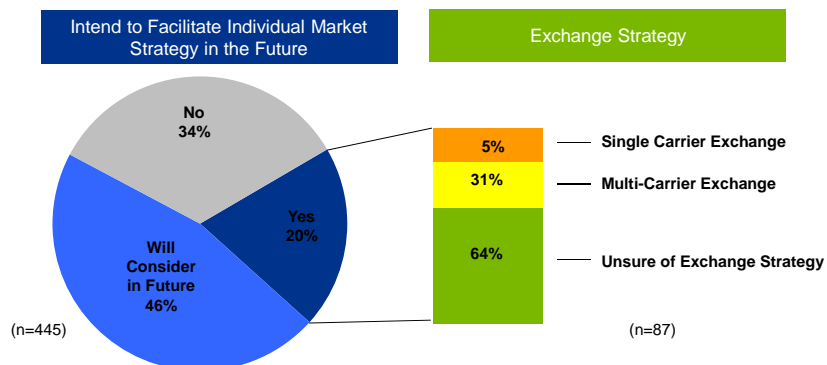
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Post-65 Exchanges—Future Outlook

- 66% of plan sponsors will **at least consider** leveraging an individual Post-65 retiree market-based benefit sourcing strategy for all or a portion of their retiree group in the future, with the ultimate exchange strategy yet to be determined
 - Most plan sponsors will likely gravitate to **multi-carrier exchanges** due to the choice and diversification opportunities



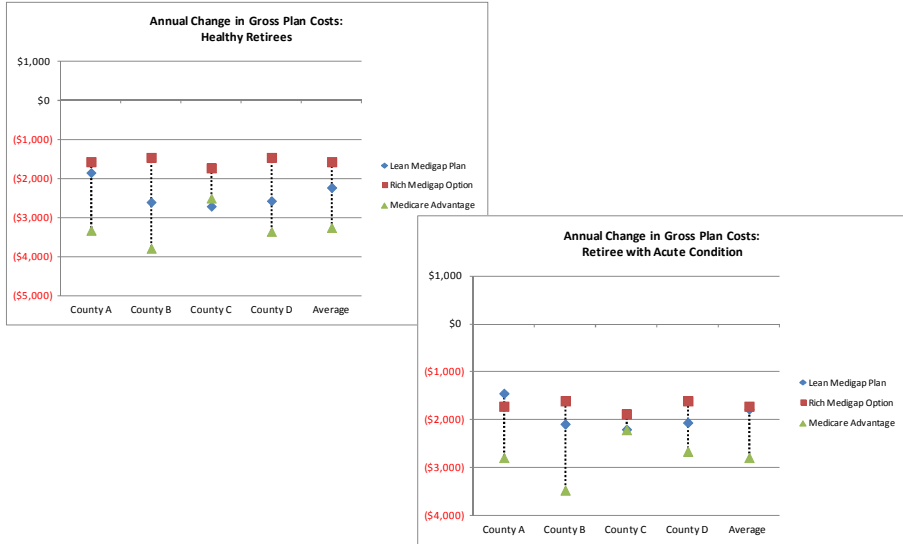
Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

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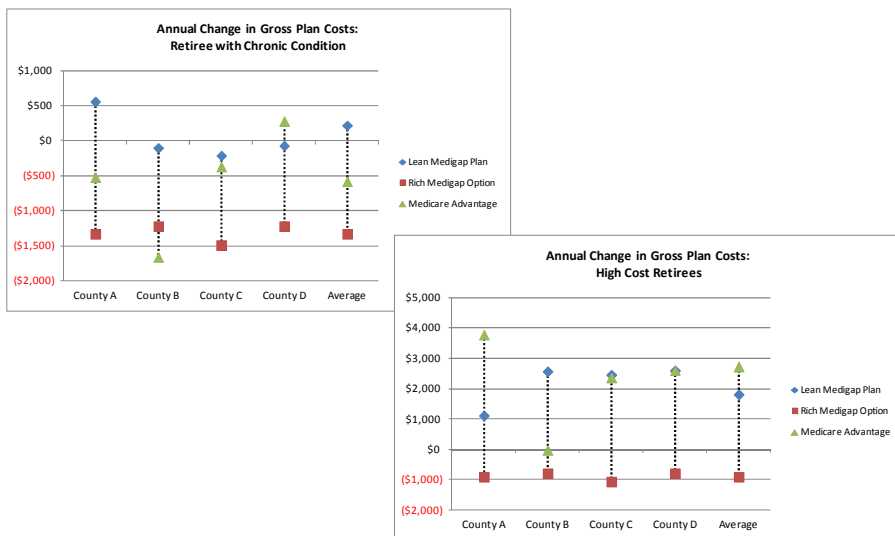
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Post Exchanges—Financial Opportunity/Participant Impact Analysis Example



Post 65 Exchanges—Financial Opportunity/Participant Impact Analysis Example



Pre-65 Retiree State-Sponsored Exchanges—The Opportunity

Traditional Employer-Sponsored Environment (Pre-2014)

- Ongoing erosion in plan sponsors offering and subsidizing group-based Pre-65 retiree health care
 - Subsidies capped or eliminated, impacting retiree affordability
- Fragmented individual health insurance market characterized by high costs, limited coverages, and the ability to rate-up or deny coverage based on health status in many cases
- Lack of access to affordable and comprehensive coverage may discourage retirement, and impact workforce planning

Reformed Individual Market (2014+)

- Guaranteed access to a variety of comprehensive individual coverages regardless of health status
- Direct federal premium and cost-sharing subsidies based on income, which tends to decline in retirement
- Indirect subsidies inherent in plan premiums due to favorable rating rules, so that premiums for older participants are limited to 3X the premiums for the youngest
- Creates a viable individual health insurance market for 2014+, which allows plan sponsors to move to a tax-effective defined contribution subsidy strategy delivered through an HRA

Health Care Reform creates a viable individual health insurance market for Pre-65 retirees beginning in 2014, which will directly address many current challenges and create new opportunities for plan sponsors

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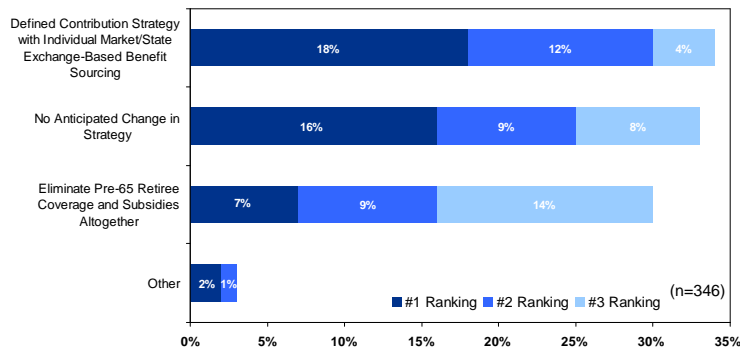
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Pre-65 Exchanges—Future Outlook

- Many plan sponsors **expect to change their Pre-65 retiree strategy** to leverage the new state exchanges, with strategy changes taking place some time after 2014

In Light of the Opportunities Created by the State Exchanges, Health Care Market Reforms, and Federal Subsidies Beginning in 2014, Which of the Following Long-term Strategies Are You Favoring with Respect to Pre-65 Retiree Coverage?



Source: 2013 Aon Hewitt Retiree Health Care Strategy Survey

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Pre-65 Retiree State-Sponsored Exchanges—Strategy Considerations

Key Considerations

- Plan sponsor decision concerning changing the Pre-65 retiree health care benefit sourcing strategy and subsidy is **relatively straightforward**
 - Plan sponsors have long been moving toward an exit strategy well before PPACA
 - Availability of guaranteed issue, comprehensive coverage with both implicit and explicit subsidies in the individual market is very appealing
 - Shared Responsibility/Free Rider “pay or play” mandate does not apply to retirees
 - A move to the individual market avoids the impact of the Excise Tax on Pre-65 group coverage
 - Exchanges will create adverse selection issues for Pre-65 group-based health plans, if continued
- Plan sponsors can support some level of **tax-free defined contribution subsidy via an HRA**
 - Provide tax-free reimbursement of premium and out-of-pocket costs for exchange coverage
 - Presence of a tax-free plan sponsor HRA-based subsidy **negates retiree eligibility for federal premium credits**, which are based on taxable income
 - HRA is a group health plan and is subject to the Excise Tax, if reimbursement is high enough
- An individual market-based Pre-65 retiree health care strategy is a **natural progression** for plan sponsors who are contemplating or who have already moved to an individual market-based sourcing strategy for Medicare-eligible retirees
- Plan sponsors who have not yet moved to individual market-based benefit sourcing for at least future Medicare-eligible retirees, may **consider such a strategy for both Pre-65 and Post-65 retirees simultaneously**
 - An individual market-based strategy for Pre-65 retirees only may require retirees to re-enroll in the group program upon attaining Medicare-eligibility, which may not be desirable or practical

Pre-65 Retiree State-Sponsored Exchanges—Observations

Most states (36) are using the Federal exchange mechanics

Massachusetts is using the Connector Model, established prior to the Affordable Care Act

Connecticut is using a state-run exchange

Observations on CT offerings via exchange

- Many plans offered at Bronze level, with rates around \$500 per month for a 60 year old
- Smaller selection of plans offered at Silver and Gold level, with rates approximately \$700 (silver) and \$800 (gold) per month
- No Platinum plans currently offered
- **Observations:**
 - Effect of selection is built into the premium rates
 - Availability of guaranteed issue, comprehensive coverage with both implicit and explicit subsidies in the individual market is very appealing
 - Exchanges will likely create adverse selection issues for Pre-65 group-based health plans, if continued