



# Traditional Benefit Offering, Private Exchange, or Hybrid Strategy:

## Which is Right for Your Workforce?

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## INTRODUCTION

**Employee benefit leaders are constantly balancing a vast array of challenges, including combating rising costs, adhering to evolving regulations, and maintaining a competitive offering—all while managing their daily duties and driving important initiatives. To successfully handle these demands, employers' benefits strategies must constantly adapt to meet the changing needs of their workforces, businesses, and industries.**

In recent years, to broaden offerings of traditional benefits administration solutions, private exchanges and marketplaces have quickly gained the attention of employers seeking an answer to their benefits balancing act.

Private exchanges enable employees to select from a broader range of benefit choices, while the technology powering the exchange should support evolving aspects of benefits enrollment and administration, focus on education and advocacy with decision

### At-A-Glance Guide *from* Empyrean Benefit Solutions

This At-a-Glance takes a closer look at consumer-driven benefit strategies, to help you determine the approach that best fits your workforce and business.



support, help manage regulatory compliance requirements, and provide knowledgeable customer service to participants. However, simply implementing these marketplaces is not enough to control benefit costs over the long-term.

Many employers—especially larger organizations—have so far refrained from implementing an exchange, and are likely watching the experiences of early adopters to gain a better understanding of how this strategy may apply to their needs.

Today HR can utilize a traditional benefits administration offering, marketplace or private exchange, or—with the support of a modern technology platform—implement both simultaneously to execute a *hybrid strategy*. But each organization faces unique challenges, meaning no strategy is a one-size-fits-all. To determine the right fit for their needs, employers must carefully consider strategic and technological options alongside their current *and* future needs.

After a period of rapid growth, private exchange adoption has slowed dramatically—upsetting previous estimates and surprising some experts.<sup>1</sup>



## The Influence of Technology on Benefits Consumerism

Benefit teams face a difficult challenge when it comes to educating and engaging their employees. 98% of employees agree that understanding their benefits is important<sup>2</sup>, and 79% believe they need to be more engaged with their coverage choices<sup>3</sup>. However, almost 3 in 4 employees find reading about their benefits to be too arduous—and nearly half of all employees would rather talk to an ex or walk on hot coals than enroll in their benefits!<sup>4</sup>

As more cost responsibility shifts to workers, nearly 90% of employees will expect more from their benefit enrollment experiences—including more decision and customer support.<sup>5</sup>

**Your employees need the right support, choice and enrollment experience to make the switch from passive participant to active consumer, regardless of your benefit strategy.** Your employees are already savvy digital shoppers: Many members of your workforce are likely also part of the 83% of primary household shoppers that browsed for and purchased products via online marketplace Amazon.com last year.<sup>6</sup> In fact, 70% of your employees prefer to enroll in their benefits electronically<sup>7</sup>, and half of employees say benefits enrollment should mimic shopping on Amazon.com.<sup>4</sup>

**83%** of U.S. primary household shoppers used Amazon.com to browse and purchase products in 2016.<sup>6</sup>

**70%** of employees want to enroll in their benefits electronically.<sup>7</sup>

**50%** of employees believe the benefits enrollment experience should be similar to shopping on Amazon.com.<sup>4</sup>



A robust benefits administration platform can enhance a traditional benefits offering by delivering an online shopping experience and expert support to help employees make better educated and more confident coverage decisions. This same technology should also enable HR teams by streamlining enrollment tasks, managing eligibility, ensuring regulatory compliance, reliably managing (and protecting) data, providing insights, and preventing the errors, risks, and headaches of paper-based enrollment methods.

A marketplace or exchange solution can provide many of these same benefits to employers and their employees, because they are typically built using a benefits administration technology platform as their foundation. The most capable exchanges are built on the most powerful benefits administration technology. The quality of your marketplace experience will directly depend on the benefits administration platform supporting it.

The right foundational technology will deliver an intuitive benefits shopping experience employees to employees, while reliably scaling and adapting to manage administrative demands as your organization continues to evolve.

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## Private Exchange Adoption Today

In 2013, consulting firm Accenture estimated that 40 million people would be enrolled in a private exchange by 2018. By 2016, however, this number had only reached 8 million. Exchanges have mainly been implemented by smaller companies ranging from 100 to 2,500 employees, while larger employers have been more reluctant to adopt marketplaces at this time. Likely, larger employers are waiting to see how this strategy plays out for other organizations before moving to an exchange of their own.<sup>1</sup>

Though exchange adoption has slowed versus initial expectations, employers remain highly interested in transforming their employees into more knowledgeable benefits consumers—and for good reason.

Employers may see the negative consequences of benefits confusion in unnecessary costs related to ill-fitting plan choices and employee dissatisfaction. Now 53% of employers consider creating an enrollment shopping experience to be at least a somewhat important goal for next year, with 17% considering moving their workforces to an exchange by 2018.<sup>8</sup>

**While shifting to a consumer-driven strategy may initially help lower costs, it is critical that employers recognize that an exchange is simply another benefits delivery tool, not a cost-control solution.**

**9 in 10** employees choose the same benefits year after year, despite 42% of them estimating they waste up to **\$750 per year** due to mistakes made with their benefits.<sup>3</sup>

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## Private Exchanges' Real Effects on Cost

Benefit leaders are constantly looking for ways to manage their spending, and some exchange providers have suggested that this strategy can help lower benefits costs—but what kind of savings can employers expect?

Traditional benefit offerings typically follow a *defined-benefit model*. In this model, employees choose from a limited number of plans, usually three or less, and their employer pays a portion of their premiums. The amount an employer spends each year will vary depending on the plans their employees elect.

Private exchanges, however, follow a *defined-contribution model*. This is a consumer-centric approach to benefits, where companies designate a fixed amount to contribute per individual employee or family. Employees then choose from around four or more plans, and pay any remaining cost of coverage after their employer's contribution. This allows employers to set a maximum limit on their benefits spending—which can help to lower costs and make benefit budgets more predictable when shifting from a defined-benefit model. Approximately 25% of employers follow a defined-contribution model, and 23% are considering implementing it next year.<sup>8</sup>

### DEFINED-BENEFIT MODEL

Traditional employer-sponsored benefits. Employees choose from a limited number of plans, usually three or less, and their employer pays a part of the premium. An employer's benefits spending will vary depending on the plans their employees elect.

### DEFINED-CONTRIBUTION MODEL

A consumer-centric approach to employer benefits, often involving a private exchange. Employers designate a limited amount to contribute per family. Employees then choose from around four or more plans, and pay the remaining cost of coverage after their employer's contribution.



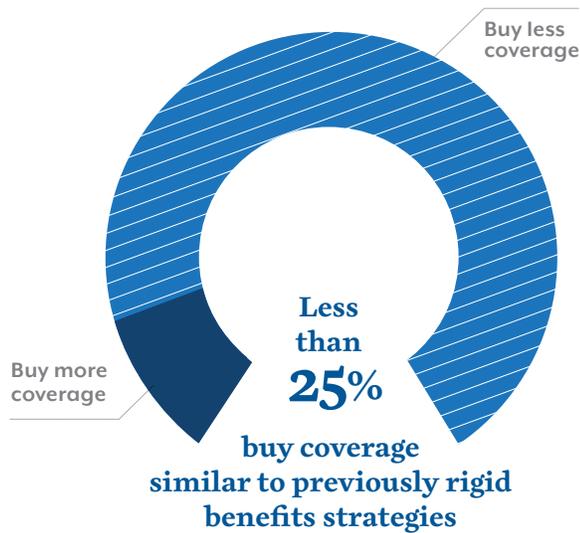
**When initially moving to an exchange, employers typically see the most significant cost-savings during the first and second year after implementation.** This is partly the result of the switch to a defined-contribution model. Employers may also see lower benefit costs as a result of expanding their coverage options, which enables employees to select plans that are a better fit for them and their families compared to more rigid offerings. According to Accenture research, over 25% of employees will elect less coverage when offered more choice—a phenomenon referred to as “*benefits tradeoff*”.<sup>1</sup>

As an example based on our own platform, most employees typically purchase *leaner* coverage during their first year on the Empyrean exchange, and less than 25% buy *similar* levels of coverage. In the second year, 70% of employees *keep* their coverage level, indicating high satisfaction with their new benefit selections.

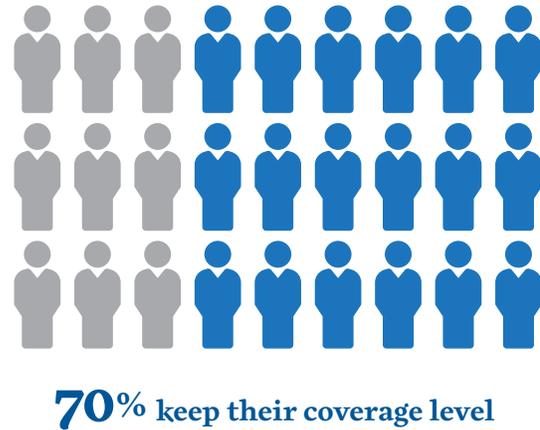
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FIRST YEAR ON EMPYREAN EXCHANGE



SECOND YEAR ON EMPYREAN EXCHANGE



However, while your own employees may select less expensive coverage selections when provided the option, the overall cost of care continues to rise. Health insurance premiums for family coverage have increased 58% since 2006 and 20% since 2011.<sup>9</sup>

**After one to two years, employers' cost-savings from an exchange can become static.** This is because employees' benefit selections generally stabilize after the second year on an exchange, so companies no longer see dramatic savings due to changing coverage selections. While this is logical, it can surprise those employers that primarily move to a private exchange to lower costs.

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## More Things to Consider

Implementing a marketplace strategy may not be a guaranteed way to directly lower benefit costs, but this approach may offer your organization opportunities to achieve significant ROI in other areas.

39% of employees say their current benefits do not meet their needs or meet their needs only somewhat well.<sup>10</sup> This alarming number of potentially dissatisfied employees could have a big impact on productivity, loyalty, and turnover—but providing a wider range of coverage choices and comprehensive decision support tools can help.

With a variety of options to select from, employees can find the plans that fit them and their families best, and this translates to employee loyalty: 70% of employees say benefits that could be tailored to their needs would *increase* their company loyalty.<sup>11</sup>

### **YOUR BENEFITS MAKE A DIFFERENCE**

**84%** of employees that are highly satisfied with their benefits are also highly satisfied with their jobs.<sup>12</sup>

**74%** of employees that are highly satisfied with their benefits want to remain with their employer for 5+ years.<sup>12</sup>

**70%** of employees say benefits that can be tailored to their needs would increase their company loyalty.<sup>11</sup>

**74%** of employees agree their company's benefit offering can help reduce turnover.<sup>13</sup>



It is imperative that HR teams deliver engaging and informative benefit experiences to their workers, especially as they try to combat climbing costs and compete for top talent. Utilizing a proven benefits administration platform paired with a focus on consumer engagement can make this task significantly easier to manage, while also yielding positive results for your strategy – regardless of whether it follows a traditional or more consumer-centric approach.

On the Empyrean platform, employees are fully supported both during enrollment and throughout their plan year by our robust technology and expert teams. Ensure your employees receive a similarly high-caliber experience with a solution that features the following:

- An intuitive enrollment experience with an easy-to-use user interface.
- Decision support tools, including a statistics-based and expertly-designed recommendation engine, educational materials, online access to plan documents, and assistance available from a licensed benefit advisor.
- A mobile-responsive website that enables employees

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to fully and completely access and engage with their benefits at any time and from any internet-connected device, instead of forcing employees to use a mobile app that limits functionality and requires constant updates.

- Knowledgeable customer service teams that learn your specific plans and strategy, field and answer employees questions, and serve as advocates for your workforce.

For employers, the right platform will ease many of the burdens of administering a benefit program. When handled by a reliable partner, your team can gain the time, clarity, and peace of mind to maintain a smoothly running strategy. A strong technology provider will offer the following:

- Communications tailored to your different population segments to enhance employee engagement with relevant, targeted messages.
- Robust tools that empower your team with benefits management and reporting capabilities.
- Comprehensive regulatory solutions to help you maintain compliance and avoid the heavy penalties associated with Affordable Care Act (ACA), COBRA, and other legal requirements.

**When handled by a reliable partner, your team can gain the time, clarity, and peace of mind to maintain a smoothly running strategy.**



- A rules-based system with proven and reliable data management, enrollment, and eligibility processes to minimize errors and risk.
- Client-dedicated and responsive service teams to provide expert support with implementation, daily solution management, reporting, and all other needs.

With the support and tools provided by a strong technology partner, your employees can become more educated consumers, while you gain the efficiencies and insights needed to keep ahead of the curve. **However, it is crucial to remember that the ROI you see will *depend directly* on the capabilities, reliability, and ongoing support of the technology partner you choose to power your strategy.**

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## How a Strategy-Agnostic Platform Can Help You

Your benefits strategy is likely to shift and evolve over time, and it's imperative that your solution is agile enough to keep up. To do this, the benefits administration platform powering your approach should utilize modern technology and be *strategy-agnostic*—meaning it can manage your benefits regardless of the type of strategy or carriers you choose to employ. A strategy-agnostic platform will provide the flexibility to evolve and improve your benefits offering over time, with fewer technology modification costs and hassles than on an outdated, inflexible, or hard-to-scale system.

### STRATEGY-AGNOSTIC PLATFORM

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## Choosing the Right Technology to Enable a Hybrid Strategy

As you consider your options, you must take into account the different populations comprising your workforce and each population's distinct needs. How can you be sure your strategy will maintain proper alignment with your recruitment and retention goals—and help manage costs as your organization grows? How do you foresee your company *and* benefits evolving over time?

For some employers, a *hybrid strategy* is the smartest fit for their organization. This new strategic approach simultaneously employs both a defined-benefit *and* defined-contribution model to meet the needs of different employee populations while leveraging modern technology.

In a hybrid approach, an employer will offer benefits to active employees following a traditional defined-benefits model. At the same time, benefits are offered to retirees through an exchange, following a defined-contribution model. A hybrid-strategy enables employers to provide the competitive benefits and coverage active employees are seeking, while also granting a means to better predict and manage costs through retiree benefit programs.

### HYBRID STRATEGY

Employers offer benefits to active employees following a traditional defined-benefit model. At the same time, benefits are offered to retirees through an exchange, following a defined-contribution model.

A hybrid strategy enables companies to provide the competitive benefits active employees are seeking, while also enabling them to better predict and manage costs through retiree benefit programs.



To be effective, however, this solution requires the right level of technological support. **Not all benefits administration platforms can deliver a streamlined hybrid-strategy experience.**

Legacy systems typically run on outdated and convoluted programming that cannot be sufficiently altered to manage a traditional benefits offering and exchange at the same time. Instead, employers are forced to use separate systems for each offering. Each system requires independent implementations, change fees, and data management processes – which can lead to confusion, poor data aggregation, higher costs, errors, and a slew of other headaches.

Modern strategy-agnostic technology solutions are fully capable of supporting a hybrid strategy on just one system. With Empyrean, as a specific example, clients can administer both a traditional benefits offering and exchange via a single, *natively-integrated* platform.

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## Conclusion

Employee benefits move fast, and your needs will constantly shift due to both expected and unexpected changes. While considering a strategy to fit your company's current requirements, you must also make sure your approach can adapt to any additional changes that are on the horizon...and beyond.

By utilizing a modern, strategy-agnostic benefits administration technology platform, you can confidently maintain the control and flexibility you require to remain adaptive and successful, no matter what lies ahead.

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## About Empyrean

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Empyrean Benefit Solutions is one of the fastest-growing providers of technology and services for managing employee health benefits programs. Empyrean provides enrollment, eligibility management, ACA reporting, and other plan administration services to employers, insurance brokers, and healthcare exchanges. Unlike other providers, Empyrean combines the industry's most client-adaptive and configurable benefits technology platform with expert, responsive service to deliver Hi-Touch benefits administration.

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