Buyer beware: Can your private exchange deliver on the back-end?

By Scott Carver

With the rollout of the first federal and state health insurance exchanges, the transformation of the U.S. health care system got officially underway. Another transformation is starting now and will follow fast on its heels: The shift of all employee benefits from defined benefit to defined contribution.

This transition mirrors the decades-long migration of employers from defined benefit pension plans to defined contribution, employee-controlled, 401(k)s. Unlike that transition, which took place before we had the Internet, this transition will be powered by advanced Web technology and will likely accelerate, fully unfolding over the next two to three years. The vehicle for this transformation will be private benefit exchanges set up by insurance carriers and brokers and employer groups.

As we saw with healthcare.gov, an insurance exchange is very complex and a lot can go wrong. These stakeholders, especially brokers and employers, need to begin familiarizing themselves with the technology requirements for a successful exchange.

With many benefit exchanges, employees will come in with a defined contribution from their employer and figure out where and how to spend it. Do you buy health insurance from Blue Cross or Aetna or United Healthcare? Do you want life or disability insurance? Pet insurance? Would you like a flex spending account with that?

A variety of technology players are standing up these exchanges, and of course they all want to create a Google or Amazon-like shopping experience for the employee. Consumers today expect nothing less. But the comparison to consumer shopping ends there. With consumer shopping, you have a very small number of stakeholders and the transactions are pretty straightforward.

Benefit exchanges are incredibly complex on the back end. There are medical, dental, life and disability insurance carriers. There are reimbursement account administrators. There are payroll and HRIS platforms. There are pharmacy benefit managers. There are wellness providers. That's the part the employee never sees, but that exchange owners — corporate HR departments, and insurance brokers or carriers — will have to deal with every day.

The success of the exchange depends on ease of use for all these other people too. Pick the wrong technology provider, and you'll be fighting fires and frustrating employees every day, no matter how Amazon-like the shopping experience is for the end user. A good exchange solution needs to manage the entire business process end-to-end.

Employers and plan administrators need to be able to shop for the products that employees will be able to pick from and assemble a comprehensive product mix, before the employees even show up.

Once the employee selects their benefits, the real work of the exchange begins. Insurance companies need to get data on who enrolled in what program. Insurance brokers need to receive their sales commissions, and since they also act as advisers to their employer customers, they need continued access to data to help with problems.

Employers need to figure out how much to pull from peoples' paychecks and how much to pay to the different insurance companies. There's a treasury function that handles billing and distributes payment. Data has to flow correctly through a lot of different entities or the whole process breaks down.

There is a constant stream of highly sensitive data flowing through these systems that affects every aspect of the business process. A robust online exchange will handle this complexity with no problems, while an immature exchange will hit the wall pretty quickly.

Here's what you need to look at to determine whether the system running the exchange can deliver on the back end:

• Connectivity with carriers and third-party systems: The exchange needs to connect to insurance carriers, HSAs, FSAs, COBRAs, wellness vendors and to the employer's payroll and HRIS system to keep up with employee status changes. The vendor should have a proven process and protocol for secure information exchange with each of them.

• Transaction processing sophistication: The platform should be rules-based and configurable to accommodate individual employer needs. Eligibility requirements, waiting periods, new hire rules, and split deductions are just a few examples where rules vary between employers, and that variation derails many platforms.

• Scalability and security: The platform should be scalable and elastic, to support both the overall growth of the exchange and handle peak periods of concurrent use. It should have regular penetration testing and security audits, including an annual SOC II audit.

• Employer administration: The platform should automatically apply all of the employer's rules around what employees can see and shop for. It should be able to manage coverage that requires some of level of health review and approval. It should automate routine benefit administration tasks such as full time to part time, change of location, promotions and the like.

Billing function: The last thing employers want as a result of greater employee choice is to receive 15 different bills from 15 different vendors. They want one consolidated bill and one payment that gets distributed to the various carriers in the marketplace according to each one's rules so they don't have to deal with it. The exchange should handle all of that.

Employers will join an exchange because they think it will be easier and less expensive. It's effectively shrink-wrapped, meaning they don't have to go negotiate all their benefits independently. Make sure it really is. Whether you're looking at vendors to manage your exchange, or exchanges to recommend to clients, look beyond the employee experience to all of the back-end pieces that will ultimately dictate whether or not the exchange is successful.

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