

► PRIVATE EXCHANGES— AN EMPLOYER VIEW



A RESEARCH REPORT FROM PRUDENTIAL GROUP INSURANCE

Most industry analysts agree that the adoption of private exchanges is growing—even if they differ on the rate of that growth. To gauge how private exchanges are viewed in the benefits marketplace, Prudential Group Insurance surveyed over 800 benefits decision makers who have some level of familiarity with exchanges.

The study examined public perceptions of exchanges, both positive and negative, by those in human resources or benefit decision-making roles. It also explores employer expectations from carriers and benefit brokers and consultants for migrating current benefit models to private exchanges. The goal was to better understand how benefits decision makers are thinking about the emergence of private exchanges—not estimate the rate of adoption among employers.



Through this research, the following key points emerged:

1. Cost continues to drive decision-making in all aspects of employee benefits.
2. Private exchanges are a hot topic for employers, but raise more questions than answers at this time.
3. Controlling costs and expanding employee choice motivate likely adopters.
4. Employee perception and employer lack of knowledge are the biggest barriers to private exchange adoption for those not likely to adopt.
5. Likely adopters want long-term cost containment and easy-to-use, secure platforms.
6. Employee-related criteria are important considerations for evaluating the use of private exchanges.
7. Employers will rely heavily on their advisors to evaluate private exchange options and provide support through all stages of decision-making, implementation, and deployment.

This report explores these seven key findings in more detail.

The survey methodology details are at the end of this report.

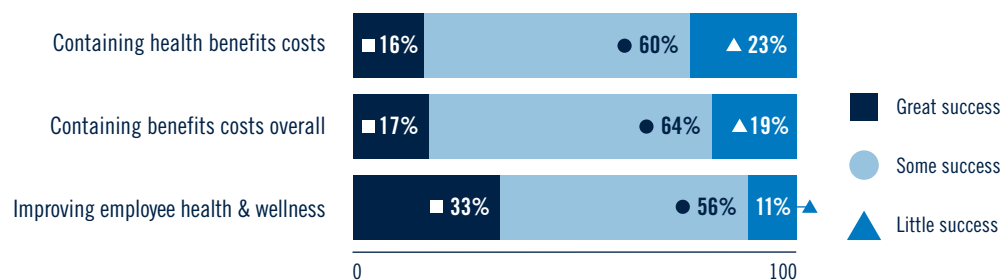
1. Cost continues to drive decision-making in all aspects of employee benefits.

Most of the employers surveyed offer their full-time employees health insurance (95%), ancillary benefits such as life and disability insurance (78%), and retirement plans (69%). To a lesser extent, these benefits are also offered to part-time employees and pre-age 65 retirees. These benefits costs are likely to be shared by both the employer and employee: Health Insurance 69%, Ancillary Benefits 52%, Retirement Plans 64%.

A majority of respondents report that benefits costs are increasing and few say they are decreasing. When comparing 2014 to 2013, 68% of employers say that benefits costs have increased; 25% say they have stayed the same, and only 7% say they have decreased.

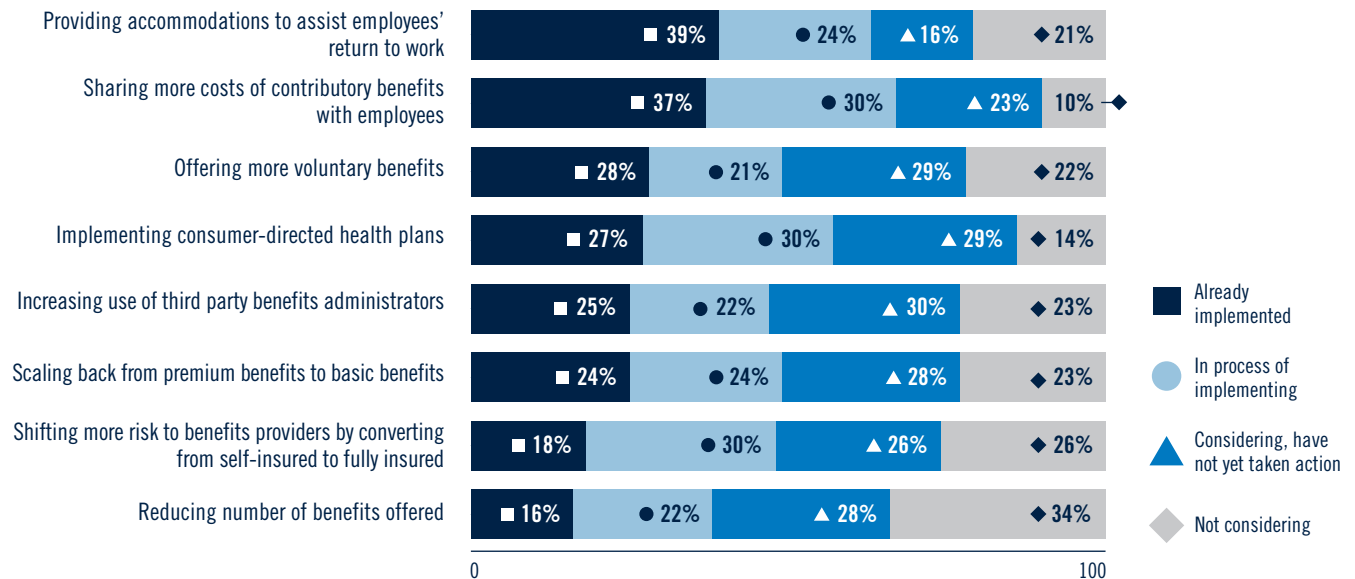
When looking at employer goals for employee benefits, it's no surprise that "containing health benefits costs" (53%) and "containing benefits costs overall" (52%) top the list. Improving employee health and wellness rounds out the top three at 46%. But only a small percentage of employers are saying they are having a "great success," indicating that improvements could be made.

Success in Achieving Goals Over the Past Two Years



To manage rising costs, a range of approaches is being implemented. While most employers say they have or are considering reducing the number of benefits offered, this is the approach least likely to be taken.

How Employers are Managing Employee Benefit Costs



Employers are trying to find the right balance of administration resources, cost containment, and a valued, competitive benefits program. This is evident in the top challenges they face in the areas of administration, plan design, and corporate reputation and talent retention.

Benefit Plan Administration

- ▶ Growing administration complexity with fewer resources: **39%**
- ▶ Adjusting benefit strategy for part-time workers to meet ACA requirements: **27%**
- ▶ Technology & platform integration: **14%**

Benefit Plan Design

- ▶ Containing overall benefits costs: **44%**
- ▶ Containing medical benefits costs: **19%**
- ▶ Participation rates: **16%**

Corporate Reputation & Talent Retention

- ▶ Increasing employee satisfaction with overall benefits package value: **32%**
- ▶ Keeping benefits competitive with other companies: **27%**
- ▶ Educating employees on the total compensation package, including value of benefits: **23%**

2. Private exchanges are a hot topic for employers, but raise more questions than answers at this time.

According to our survey, 52% of employers are “very familiar” with exchanges, 33% are “familiar,” and 15% are “somewhat familiar.” In addition, we learned that:

- ▶ 43% are likely to adopt an exchange for at least one employee segment
- ▶ 38% are not likely to adopt an exchange for any employee segments

The survey highlighted a need for continued education on private exchanges as a higher proportion of employers reported private exchange adoption than has been documented in industry-wide reporting. Two-thirds of this group report providing ancillary benefits through a private exchange and 50% of the group report using a private exchange through a carrier.

This research strengthens the assumption that some employers do not have enough education around private exchanges. Industry data and activity paint a more realistic picture of private exchange utilization. According to one analysis from Accenture, only about 160,000 employees are currently covered by a private exchange.

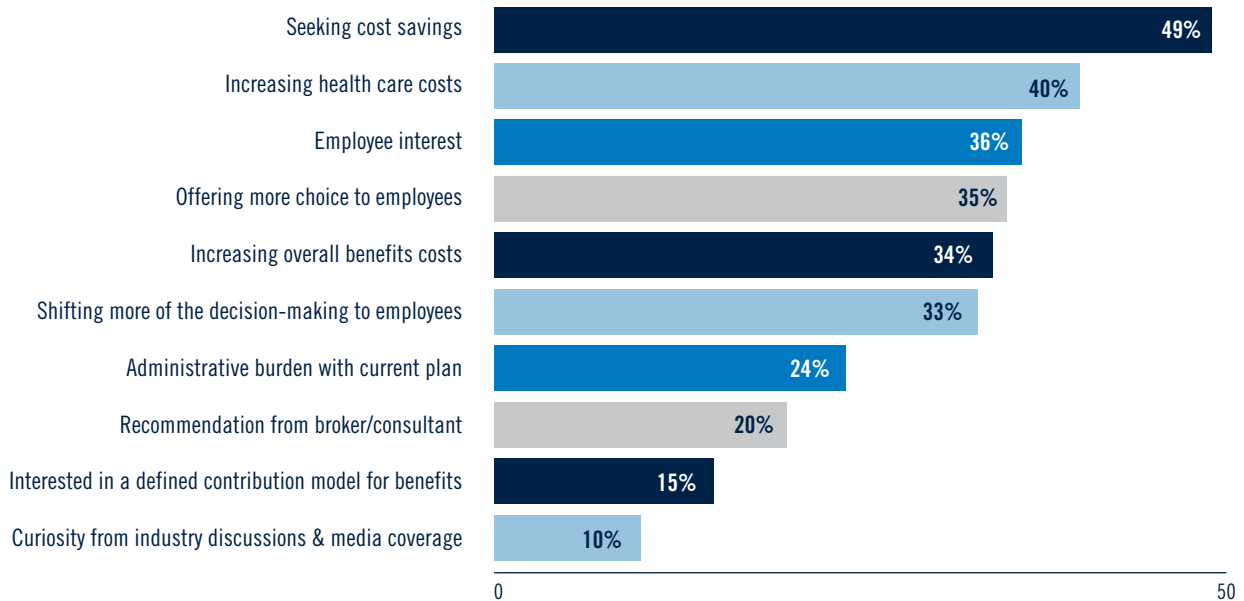
In looking more closely at what the 43% of likely adopters and the 38% of likely non-adopters are saying about key drivers, a clear picture of each group of respondents emerges. We see that there are noticeable variations between those who are likely to adopt a private exchange and those who said they are not likely to adopt.

	Likely Adopters	Likely Non-Adopters
Familiarity with private exchanges	Majority (62%) are “very familiar”	Less than one-third (28%) are “very familiar”
Viewpoint if organization adopts a private exchange	Two-thirds think it would be positive for their organization	Half are “not sure” if it would be positive or negative for their organization
Funding method for health benefits	Currently self-fund medical benefits for company with no plan to change or considering a move to self-funding in the next two years	Those planning to fully fund their medical benefits in the next two years
Cost containment challenges	Most have already implemented a number of cost containment strategies and are seeing results	More challenged by overall benefits costs and a lot more likely to say that “containing overall benefits costs” is an important goal
Employee perception of exchanges	See fewer challenges with their employees with a potential migration	More concern about managing employee perceptions and employee education
Roles within the organization	More executive and non-HR functions	More HR and benefits staff functions
HR/Benefits challenges	Slightly more challenged by meeting the Affordable Care Act requirements	More likely to be challenged by administrative complexity

3. Controlling costs and expanding employee choice motivate likely adopters.

For employers considering adopting private exchanges cost containment ranked high. Employee interest in using an exchange was also a key motivator. In fact, it was the number one consideration for companies with 100-5,000 employees. For companies more than 5,000 employees, “increasing overall benefits costs” was the most likely motivator.

Factors Driving Consideration of Adopting Private Exchanges



Two-thirds of employers have either not heard about or given much thought to the defined contribution benefit model extending beyond retirement plans. Only 6% say their organization has implemented a DC model beyond qualified retirement plans, with another 28% considering the move. Forty-two percent have not given it much thought, and 24% say they haven't even heard about it.

Reaction is mixed regarding the type of DC plan that will be used in the organization in the next two years:

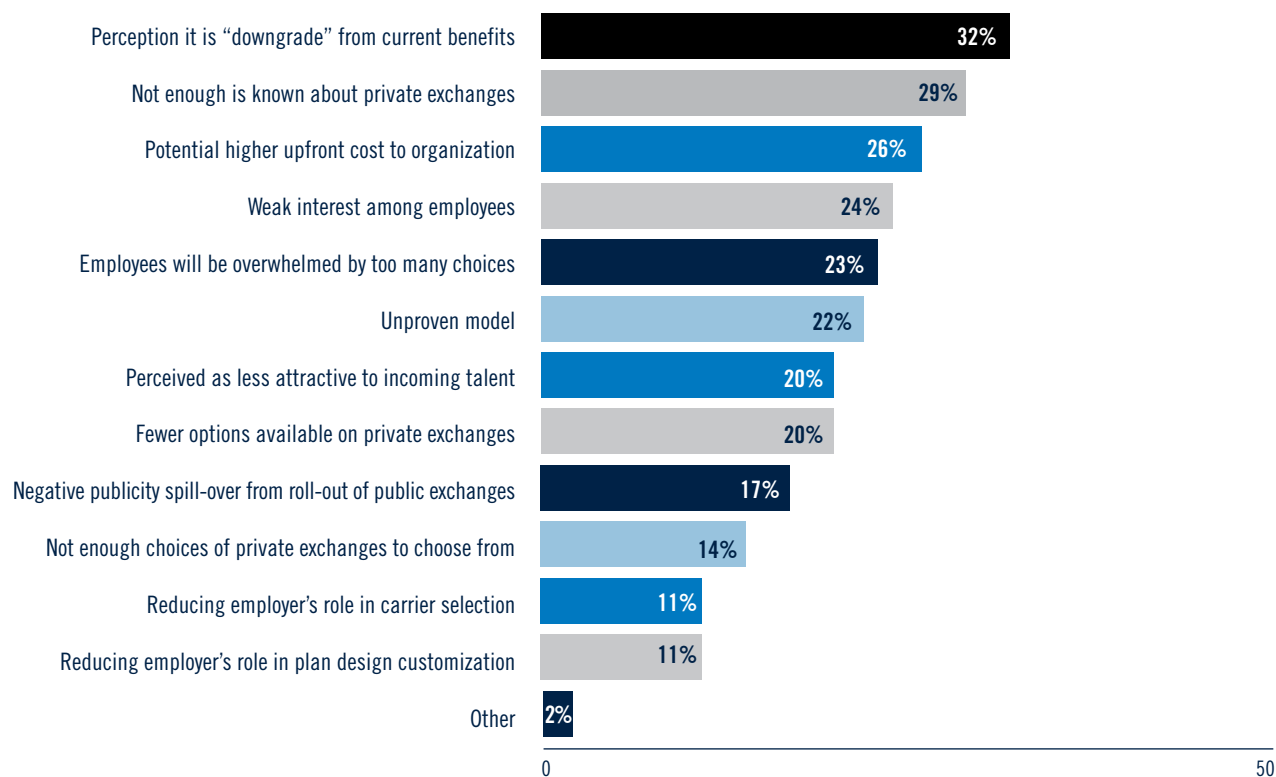
- ▶ 36% for retirement only
- ▶ 23% for all benefits
- ▶ 21% for retirement and medical only

4. Employee perception and employer lack of knowledge are the biggest barriers to private exchange adoption for those not likely to adopt.

According to our survey, 12% of employers unlikely to adopt an exchange haven't given much thought to adopting a private exchange, or are not sure. Of the 88% who selected one or more barriers to adoption, the leading concern was the perception that going to a private exchange would be a downgrade from the company's current benefits program.

Employers also believe the biggest barriers to adopting private exchanges relate to a lack of knowledge of exchanges and the potential upfront costs to implement. Other barriers include lack of employee interest among existing employees and new talent, as well as the potential to overwhelm employees with too many choices.

Deterrents to Considering or Adopting Private Exchanges



5. Likely adopters want long-term cost containment and easy-to-use, secure platforms.

Overall, employers are more likely to feel that using a private exchange in the next two years would result in a positive rather than negative outcome (44%). That said, a sizeable minority (40%) is still not sure. The biggest advantages of moving employees to a private exchange are thought to be greater employee choice (21%), improved predictability of future costs (21%), and administrative simplification (14%).

For those employers who say they are likely to adopt a private exchange, long-term cost containment was the factor most viewed as “extremely important” (52%). This was followed closely by ease of use for employers (47%) and security of the platform (45%).

Other factors viewed “extremely important” were as follows:

- ▶ Cost savings in the near term: **44%**
- ▶ Administrative features (e.g., billing): **42%**
- ▶ Tools to educate employees: **42%**

Employers perceive upfront costs and employee reaction to be the greatest challenges facing a migration to a private exchange.

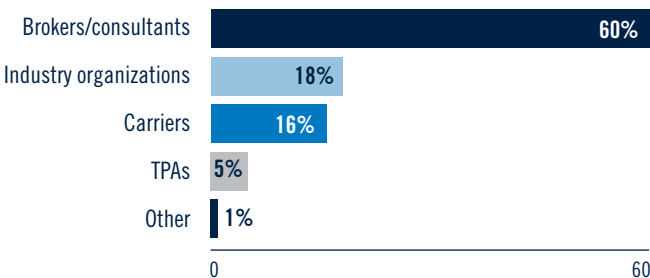
	Ranked First	Ranked in Top Three
Increased upfront cost for organization	20%	42%
Employees feeling overwhelmed by too many choices	16%	37%
Ensuring employees understand differences between the private & public exchanges	14%	42%
Managing employee perception of change in benefits	11%	43%
Lack of control over platform	11%	31%

6. Employee-related criteria are important considerations for evaluating the use of private exchanges.

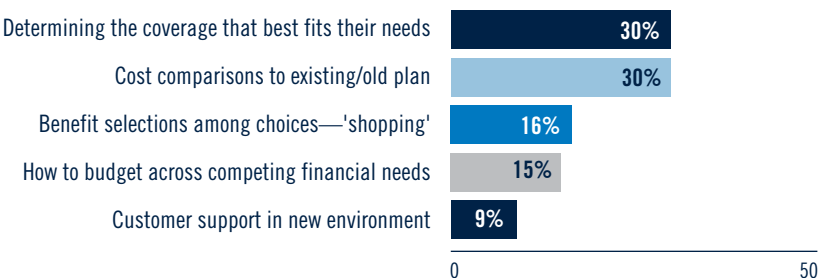
Employers overwhelmingly view brokers/consultants (60%) as the most valuable source to educate employees and help transition employee benefits to private exchanges. Industry organizations, carriers and TPAs follow distantly (18%, 16%, and 5%, respectively). Larger employers are more likely to consider industry organization and carriers as their most important source of advice (26% and 24%, respectively).

When considering a migration to a private exchange, employers recognize that there is likely to be a shift in benefits decision making to employees. They anticipate the two biggest learning curves for employees will be “determining the coverage that best fits their needs” and “cost comparisons of the old /existing plan.”

Most Valuable Source of Advice



Biggest Employee Learning Curves



Once their benefits programs are on an exchange, employers want to help ensure their employees are making the right benefit choices for their circumstances. When asked about the level of value of different employee education support resources, employers placed more value on face-to-face interaction.

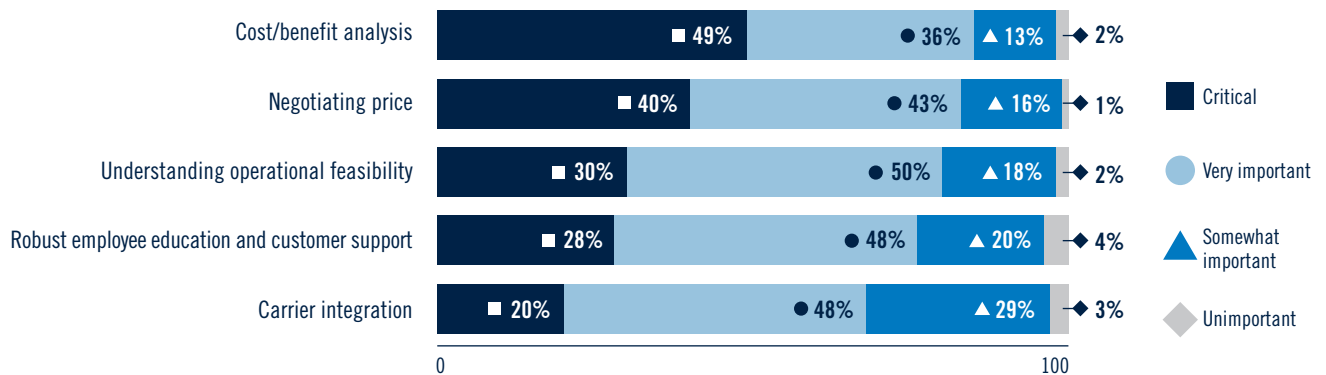
Licensed advisors who could also provide advice and guidance on traditionally individual retail products were viewed just as valuable as onsite training—54% reporting “very valuable” for each.

- ▶ Over a third view a financial wellness portal “very valuable” as do nearly a third for benefit coaches over the phone—36% and 32%, respectively.
- ▶ Larger companies (5,000+ employees) were more likely to see greater value in a financial wellness portal and benefit coaches available by phone than smaller companies.

7. Employers will rely heavily on their advisors to evaluate private exchange options and provide support through all stages of decision-making, implementation, and deployment.

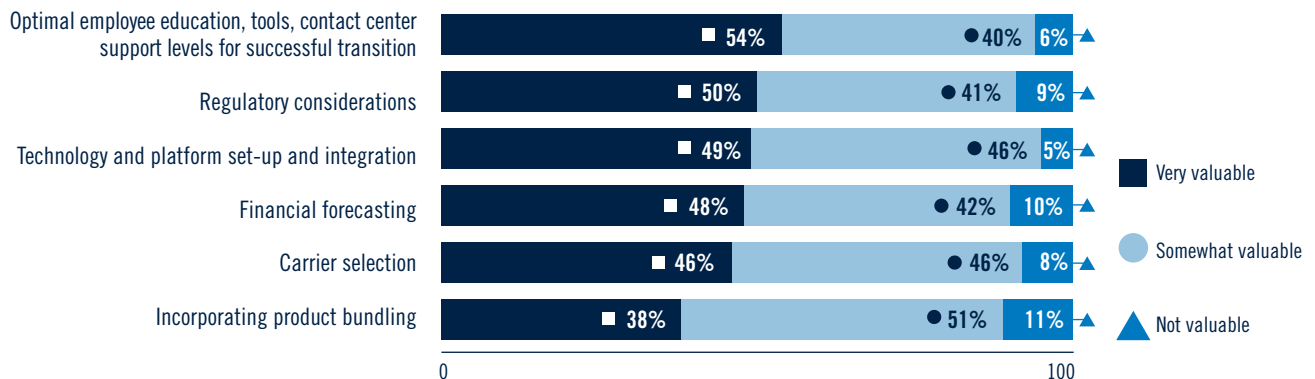
We asked respondents to rate the importance of a broker's guidance in five key areas when evaluating a private exchange. Issues related to cost ranked high. Nearly half (49%) of employers say that cost/benefit analysis was critical. Negotiating price was the next most critical at 40%.

Importance of broker guidance for five key aspects of exchange evaluation



We also asked respondents to rate the importance of a broker's guidance in key areas if the decision was made to migrate to a private exchange. Employee education and support is thought to be slightly more valuable than other types of guidance and incorporating product bundling is slightly less valuable. All other factors are judged to be "very valuable" or "somewhat valuable" by most employers.

Broker Guidance When Moving to An Exchange



Four key themes emerged through open-ended comments by respondents on what guidance they are looking for from their broker/consultant when evaluating a private exchange:

- ▶ Provide consultative information that shows the full scope of options available for employers.
- ▶ Utilize benchmarking information and pricing models to make recommendations.
- ▶ Present options which balance cost effective solutions with a benefits package that is accepted and valued by employees.
- ▶ Discuss the education plan for employees in moving to an exchange and why it is good for them.

Survey Methodology

A national survey of 839 benefits decision makers was fielded via the Internet from September 29 to October 8, 2014. MRops, an independent market research firm in Pennsylvania, conducted this research on behalf of Prudential. Survey respondents were selected based on their familiarity with public and private exchanges and had been in their current role for at least a year.

The survey sample covers all industries, including government, and is nationally representative of all U.S. businesses with at least 100 full-time, benefits-eligible employees. Data are weighted to reflect the actual proportion of U.S. businesses by company size, industry, and region based on data from the U.S. Census Bureau. The margin of error is +/- 3.4% at the 95% confidence level. Weighted data is shown. Base sizes are unweighted.

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