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New Research from EBRI:

Interest in Private Health Insurance Exchanges, “Defined Contribution” Health Plans Likely to Gain Ground Post-PPACA

WASHINGTON—Federal health care reform legislation and the desire of employers to limit their health insurance costs are likely to fuel interest in so-called “defined contribution” health benefits and private health insurance exchanges, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

The EBRI report says the combination of insurance market reforms, especially the health exchange structure in the Patient Protection and Affordable Care Act of 2010 (PPACA), as well as rising health costs, have brought a renewed focus on limiting employer’s health care cost exposure.

Paul Fronstin, director of EBRI’s Health Research and Education Program and author of the report, said the vehicle that some employers are interested in using for providing coverage is a private health insurance exchange. Through these exchanges, in tandem with a defined contribution (DC) funding approach, employers can accelerate the drive toward a more mass- consumer-driven insurance market and gain more control over their health care contribution costs, capping their contributions, and shifting to workers the authority to control the terms (and to some extent, the costs) of their own health insurance.

“Ultimately, whether and how the movement to private health insurance exchanges and DC health plans will occur is still subject to various influences and remains highly uncertain,” Fronstin said. “But the enactment of PPACA and employers’ interest in reducing the risk of their health benefit costs indicate this is a field that is likely to grow.”

EBRI notes that employers have long been interested in the concept of DC health benefits, but never moved in that direction for a number of reasons, both because they were hesitant to drop group coverage in favor of individual policies, and because they were concerned that many employees would not be able to secure coverage in the individual market.

Recently, however, the combination of insurance market reforms and the embodiment of the exchange structure in PPACA has brought a renewed focus on an approach that limits employers’ health care cost exposure by providing fixed-dollar contributions that workers could use to purchase individual policies.

The EBRI report notes there are a number of potential advantages to both employers and workers in this structure. Employers could benefit from a higher degree of cost certainty, certainly if they were able to fix their costs at the level of their contributions. Workers could benefit from competition among insurance carriers, greater choice of health plans, and portability.

((more))

The EBRI report examines issues related to private health insurance exchanges, possible structures of an exchange, the funding of this approach, as well as the pros, cons, and uncertainties to employers of adopting them. It also reviews recent surveys on employer attitudes and some changes that employers have made to other benefits that might serve as historical precedents for a move to some type of defined contribution health benefits approach.

The full report is published in the July *EBRI Issue Brief*, “Private Health Insurance Exchanges and Defined Contribution Health Plans: Is It Déjà Vu All Over Again?” online at www.ebri.org

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