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**Mike Deschaine**, president of **Cross Employee Benefits**, says the partnership with the private benefits exchange pioneer **Liazon** will help businesses and their employees buy benefits through an online benefits store.



PHOTO / TIM GREENWAY

## Private exchange

Cross Employee Benefits launches new health benefits tool for Maine employers

BY JAMES MCCARTHY

**C**ross Employee Benefits, a subsidiary of Bangor-based Cross Insurance Financial Corp., one of the largest insurance providers in New England, is launching a private health insurance exchange to help its business clients and their employees keep pace with a rapidly changing employee benefits landscape.

Essentially an online benefits store offering health insurance and other related products such as dental and vision benefits, Cross's initiative involves a partnership with Liazon Corp., a Buffalo-based pioneer of private benefits exchanges. Founded in 2007, Liazon's Bright Choices Exchange platform supports more than 2,400 businesses

nationwide through a distribution network of 500 brokers, including nine out of the top 12 broker firms in the United States.

For three years in a row the Bright Choices platform has been recognized as a Web Health Award winner by the Health Information Resource Center.

Liazon's rapid growth gained a significant boost when Towers Watson (NASDAQ: TW), a global professional services company, acquired the company for \$215 million in November 2013.

"The blueprint is for us to be a full-service organization by utilizing our private exchange to deliver all the insurance products that are available," says Cross Employee Benefits

President Mike Deschaine, who joined Cross in 1996 following a 14-year career with Blue Cross Blue Shield of Maine and a five-year stint running his own employee benefits company. "Our industry is very much in a transitional state. We're embracing it. We recognize it has to change. We want to position ourselves for what the future is bringing."

The future is now, according to Accenture, a global professional services company reporting in April that enrollment in private exchanges doubled from 3 million to 6 million from 2014 to 2015. It forecasts enrollment of employees under 65 and dependents will grow to 12 million in 2016, to 22 million in 2017, and remain on track to reach

40 million enrollees by 2018. The mid-size employer segment of 100 to 2,500 employees is driving that explosive growth, Accenture reports, noting that businesses' general reluctance to be early adopters is waning with the maturing of the software platforms and successes by initial users being publicized in insurance and employee benefit journals.

"It was driven by what's occurring in the health care industry," Deschaine says of Cross's decision to create a private health insurance exchange. "The feedback has been tremendously positive from our customers. The carriers view this as cutting edge. We're trying to achieve 100% participation with the [health insurance] carriers in Maine and we'll be forming strategic partnerships with ancillary carriers, so if someone wants to buy vision, home and auto insurance, our exchange will have those options available as well."

Deschaine says a soft rollout already is under way with a few business clients, with Cross planning to concentrate on the Maine and New Hampshire insurance markets first. The private exchange, which has been in development for a year and a half but doesn't have an official name yet, will have its own website and will utilize technology that makes it easy for employers and their employees to evaluate the cost and coverage options of different health insurance plans.

"It's a storefront built to allow employees to go in and choose the benefit that best meets their needs," he says, adding that it also enables employers to transition from the traditional "one-size-fits-all" defined benefit strategy to a "defined contribution approach" that gives each covered employee a set amount of money to purchase benefits but allows them to "right-size" their coverage to their situation and finances.

## A shift to 'defined contribution'

The emergence of private exchanges coincides with an accelerating shift in thinking by employers about how to provide health insurance benefits to their employees.

Deschaine likens that transition to the shift that occurred when companies moved from providing pensions for eligible employees to creating 401(k) retirement plans in which employees contribute a portion of their salary (with the employer often contributing an additional amount), select the types of investments that meet their needs and on which taxes are deferred until earnings are withdrawn.

With health benefits, the equivalent shift is from a "defined benefits" model, in which the employers offers a standard set of health

benefits and shoulders most of the financial burden and risk of health care costs, to a "defined contribution" model, in which employers specify how much they will contribute toward each employee's health costs but allow employees to select the policy that best meets their needs in terms of cost, coverage and particular benefits.

It also eliminates the yearly frustration of deciding how to deal with rising premium costs from health insurance providers, with the typical unappealing options being: 1) passing those costs on to employees; 2) providing a package with fewer benefits; 3) trying to find a better deal with a different carrier; 4) paying the increases and hoping for strong revenues coming in to cover them.

Deschaine sees benefits for employees, too: Those with greater medical needs have the opportunity to choose the right plan based on those needs, while others who are younger, healthier or more financially secure can select plans with less coverage but much lower premium costs.

Although the defined contribution approach has been around for a while, Deschaine says what's causing employers to look at it more closely are the pain points of continuing rising costs of providing health insurance, the increasing complexity of health care rules and regulations stemming in part from the Affordable Care Act and the sometimes confusing array of health benefit options that include an alphabet soup of acronyms: Health Savings Accounts (HSA), Health Reimbursement Arrangements (HRA), Flexible Spending Accounts (FSA), the Health Insurance Portability and Accountability Act (HIPAA) and the Consolidated Omnibus Budget Reconciliation Act (COBRA).

In its simplest terms, private exchanges take employers that want to provide health benefits out of the role of being a gatekeeper and puts those choices in the hands of employees.

## How it works

"I don't think 'one size fits all' works very well," says Michael Karp, Liazon's chief revenue officer. "You need to give people an array of choices."

But Karp quickly adds Liazon's Bright Choices Exchange platform goes well beyond a simple listing of health insurance plan options.

Its proprietary software, he says, uses algorithms that help guide the users' decision-making process based on the responses they give to questions about health care needs, personality and financial considerations. Under "health,"

users respond to questions about "expected utilization," "health status" and "network preferences." Under "personality," they identify their "risk tolerance," "health and financial concerns" and "health care consumerism." And under "wealth," they respond to questions about "income" and "savings."

The algorithm crunches those replies to create a recommendation spelling out types of plans that match the respondent's needs and wants, a cost that balances premiums with expected out-of-pocket expenses and a match to physician network preferences and overall objectives and concerns.

As Karp puts it, "The technology asks the right intelligent questions and then makes the recommendation that fits that person's need."

"The technology is only one piece of what we do," he adds, pointing out that the Bright Choices Exchange platform includes educational materials to help users make better-informed judgments about the health benefit that best meets their needs. "You've got an entire infrastructure that works with our broker partners in support of our technology."

Deschaine says the private exchange and the support it provides for employers considering a shift toward a defined contribution approach to their employee health benefits offers greater stability for both businesses and their employees: Businesses can decide and budget what they feel they can afford as their yearly contribution, while employees, once they've selected the policy that best meets their needs, no longer have to fear that the next year they'll be asked to change to a different carrier or level of coverage. They can stick with their choice as long as the policy continues to meet their needs.

"The proof will be in the final product," Deschaine acknowledges..

Noting that the Cross division's footprint extends from Rhode Island to Maine, with Maine, New Hampshire and Massachusetts being the core of its customer base, Deschaine says for most clients in that territory, the question isn't so much "if" health care benefits will be offered, but rather "how" those benefits can be provided in an affordable and sustainable way. He believes the private exchange offers promise as a solution.

"The businesses we work with are faced with a need to recruit and retain employees," he says. "Most companies need a strong benefits package as part of their compensation strategy."

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