

Private Exchanges and Defined Contribution Plans

As employers begin to understand the full impact of the Affordable Care Act, many are beginning to explore new ways to provide and finance their employee's health and welfare benefits program.

One method is the so-called "Defined Contribution" approach where an employer designates a certain level of contributions for each employee. Employees choose their level of benefit coverage among a menu of options; usually provided through a **Private Exchange**.

Typically, employers assign different levels of defined contribution for employees based on the following factors:

1. Eligibility status
2. Tax status
3. Family status
4. Health coverage election
5. Employee classification, collective bargained status, etc.

The following defined contribution formula represents an average distribution of employer contributions among a typical menu of health and welfare benefits.

Defined Contribution Formula							
e.g., per \$100 of Employer Contribution							
Health	Dental	Vision	Group Life	AD&D	Disability	Critical Illness	Accident
\$62	\$10	\$5	\$5	\$2	\$8	\$5	\$3
<i>Typical distribution of contributions</i>							

Health Coverage

Defined contribution programs typically allow employees to purchase different health insurance plan options that vary by deductibles, provider networks, etc., on a pre-tax basis through payroll deduction. For the employees to qualify for the higher contributions needed to pay for health insurance, most employers require enrollment in at least the lowest cost health plan option offered. Defined contribution health plans may be fully or self-insured.

Private Exchanges

Many employers transitioning to defined contribution plans are using private exchanges to help facilitate their employees' choices of benefits. The more advanced private exchanges offer a wide selection of not only medical plans but other "excepted benefits" such as dental, vision, disability, etc. The private exchanges also allow employees to profile themselves in order to receive the best recommendations for the coverage that best meets the needs of their families.

For an example of a private exchange and how it works, go to: www.nexgenexchange.com