SUNDAY: May 10, 2015

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Manager sees health exchanges' rise as boost to Towers Watson

By Kathleen Gallagher

A major change in the way big companies deliver health insurance to employees will create opportunities for investors, according to a Menasha money manager.

The Affordable Care Act has resulted in millions of people buying their health plans online through insurance exchanges. Such exchanges are growing in popularity in corporate America, said David W. Risgaard, president of North Star Asset Management Inc.

In fact, management consultant Accenture plc's research predicts that private exchange participation will approach public exchange enrollment levels as soon as 2017.

The private exchanges are similar to the public ones. Employees receive a set dollar amount from their employer to spend on the exchange. They choose from a range of plans offered by various providers on the exchange.

"It's a defined cost for the employer and it brings more competition," Risgaard said. Consequently, participants' premiums are often lower, he said.

Risgaard compared the shift to exchanges to pension plans' transition to 401(k) plans, which require employees to define the amount they will contribute, from so-called defined benefit plans that paid out a certain amount to pensioners.

"It's really bringing the health care market into the current century," Risgaard said.

Retirees now represent much of the private health exchange market, but the number of active employees moving into these plans is rising quickly, Risgaard said.

About 6 million members enrolled for their benefits on a private health insurance exchange for the 2015 plan year, Accenture estimated in a report published this year. The number of people enrolling on private exchanges has grown by more than 100% a year since 2013, the consultant said.

Enrollment of employees under 65 years old and dependents will grow to 12 million in 2016, 22 million in 2017, and 40 million by 2018, Accenture projected.

Towers Watson & Co. (TW, $130.62), Arlington, Va., provides human resources and financial consulting services worldwide. It was formed in 2010 from the merger of two leading professional services firms: Towers, Perrin, Forster & Crosby Inc. and Watson Wyatt Worldwide Inc.

"The key is their strong relationships with human resources departments," Risgaard said. "They've leveraged that into developing one of the strongest private health care exchange businesses."

Towers Watson is targeting large employers that are looking to start exchanges that offer more — dental, vision and life insurance, for example — than the "plain vanilla" government plans, Risgaard said.

Private health care exchange consulting was 5% of Towers Watson's revenue in 2014, Risgaard said. The company projects it will be 10% of revenue this year, and climb to as much as 50% within five to 10 years, he said.

Higher taxes for "Cadillac" health plans will take effect in 2018 under what's commonly called Obamacare, which became law in 2010. Currently, 60% of Fortune 1000 companies are offering health care benefit packages that are above the "Cadillac" tax level, Risgaard said.

Companies will likely partner with Towers Watson to handle calculations related to the tax change, and it may well be a catalyst for them to switch to the private exchanges, he said. If they do switch, Towers Watson would be a strong contender for managing the benefit selection process, he added.

The biggest risk here is the possibility that there might be legislative changes that alter how companies pay for health care, Risgaard said.

These shares have a 52-week range of $98.10 to $135.50. They could go as high as $160 in the next 12 months, Risgaard said.