Employer’s Balancing Act: Part 1

Finding Your Equilibrium Managing Costs While Offering In-Demand Benefits

Our new “Employer’s Balancing Act” series was created to keep employers well-informed about the latest factors and trends that are driving up costs in the healthcare benefits space and how to achieve optimal results for your company and its employees. Throughout the series, we will share facts, stats, and practical tips about how you can better balance employees’ ever-changing benefits needs and preferences while still effectively managing your budgets.

The series provides curated insights, research, and data collected in our exhaustive ***2023 Employee Benefits Mid-Year State of the Market.***

Today’s benefits market presents a delicate balancing act for employers. The crux of the matter centers around how can they continue to offer more essential benefits and better coverage to attract and retain employees even as costs surge in the face of what some consider unprecedented market headwinds.

Finding the right equilibrium isn’t easy, especially as several factors continue to impact the market.

Key Factors Driving Up Healthcare Costs for Employers

Increased utilization

Delayed doctor visits and medical treatments continue to rise from lower pandemic levels. In response, health plan renewal rates for employers are also rising from this increase.

Additionally, because patients were not able to get preventative healthcare screenings, such as x-rays and blood tests, during the COVID-19 shutdowns, the delay in care contributed to the worsening of many conditions. Diagnoses for serious health conditions and diseases have been spiking and now require more expensive care to treat.

> **Inflationary pressure could usher in 9-10% increases in health plan spend for employers through 2026.[2]**

Ongoing challenges, such as decreased inpatient volumes, emergency room visits, and discharges, continue to erode hospital finances and contribute to increased healthcare costs.[1]

Persistent inflation

Inflation remains a factor in many areas. Employers are still paying higher prices for just about everything, from raw materials and supplies to overhead expenses and outsourced services.

Inflationary pressure could usher in 9-10% increases in health plan spend for employers through 2026.[2]

On the provider side, a shortage of skilled healthcare workers is also wreaking financial havoc and leaving some of the nation’s major health systems in the red.

Limited supplies

According to the American Hospital Association, scores of healthcare essentials, from medical devices to personal protective equipment and essential medications, are currently in short supply. Limited sources of raw materials, (e.g., resins, metals, and gasses), recent COVID-19 outbreaks in China, closed pharmaceutical plants, and reduced production for some drugs are all to blame for the lower levels of supplies. This not only drives higher costs for health plans, but also forces up premiums for employers.

Growing incidences of cancer

Industry data shows that cancer has overtaken musculoskeletal (MSK) conditions as the top cost driver of healthcare.[4] As more COVID-delayed diagnoses and treatments emerge, pressure on rates may intensify. In turn, health insurers are growing more selective in their appetite (and pricing) for risk, and less likely to negotiate rates with employers at renewal time, effectively driving up costs.

Cumulative effect of chronic conditions

An overwhelming 85% of U.S. healthcare costs are attributed to care that's necessary to treat chronic health conditions, like asthma, heart disease, high blood pressure, and diabetes. As health issues for the U.S. population increase, so does the risk of insuring average Americans and the cost of healthcare.

Nearly 40% of U.S. adults over the age of 20 are either overweight or obese, which can lead to chronic diseases and inflated healthcare spending.[3]

High cost of prescription drugs

Advances in new medications, specialty drugs, and cellular gene therapies to treat chronic health conditions, cancers, and rare diseases have escalated the price of prescription drugs.

Projected growth for three drivers of healthcare costs:

Average annual increase through 2030[5]	
Hospital Spending	5.7%
Physician and Clinical Services	5.6%
Retail Prescription Drugs	5.0%

Nearly 40% of U.S. adults over the age of 20 are either overweight or obese, which can lead to chronic diseases and inflated healthcare spending.[3]

The cost of greater use, and in some cases, abuse, of new drugs is being passed along to both employer health plans and employees who are covered under them, further ballooning rates. Higher usage of the drug Ozempic beyond treatment for Type 2 Diabetes, for instance, is pressuring claim trends and spend.

Separately, pharma companies are raising the prices they charge health plans (and ultimately, employers) to account for the lower prices and rebates they will have to provide to Medicare as part of the new measures in the Inflation Reduction Act.

Trends Driving a Shift in Employee Populations

Along with increasing healthcare costs, employers face the impact of numerous socio-demographic trends that can also challenge efforts to provide in-demand, cost-effective benefits to employees.

Increasing diversity

A greater push for more inclusive workforces has resulted in greater diversity in age, generation, ethnicity, and sexual orientation in employee populations.

As a result, the need and preference for different lifestyle benefits are surging. This change is forcing employers to rethink benefits programs to address the expanding range of offerings their employees need – even as more budget spend is required to provide the one benefit all seem to want: affordable health insurance.[6]

Some of the Most Common Lifestyle Benefits Currently in Demand[6]

Physical

Weight loss programs

Gym/health club memberships

Fitness apps or classes

Emotional

Counseling services

Meditation classes and apps

Personal development classes

Financial

Student loan reimbursements

Identity theft services

Financial planning services

Aging workforces

There's no doubt about it. American workforces are growing older. Data from the Bureau of Labor Statistics shows that the 55-and-older segment is averaging a growth rate of more than three times the overall labor force. Among people aged 75 and older, the labor force is expected to grow by 96.5 percent over the next decade. In contrast, the annual growth rate of employees in the 16-24-year-old age bracket is declining.[7]

The impact of aging workforces on employers? Older employees are more likely to:

- Have chronic conditions, such as diabetes, arthritis, and heart disease. Although those over age 65 would likely move to Medicare plans, that would still leave about 73 million people increasing their use of hospitals, doctors, physical therapists, health clinics and prescription drugs, effectively leading to higher health plan premiums for employers (and employees).

- Need retirement savings plans or other benefits. According to AARP, job stability, competitive pay, full-time work, pension benefits, paid leaves, and the option to phase into retirement are all important to this group and can spur employers to rethink what benefits they offer in the future.[8]

Widening skills gap

Of course, an aging workforce also means more retirements. In just a few short years, the majority of Baby Boomers will have aged out of the U.S. workforce. But, according to a Korn Ferry report, Gen X and Millennial workers will not have had the time or training to fill many of the highly skilled jobs vacated, which can create a skills gap for employers.[9]

With fewer younger people to come up through the ranks, and even fewer possessing the skills needed to assume highly skilled vacancies, employers will have to look for ways to upskill, reskill, and retain existing employees looking for growth opportunities within their organizations.

By 2030, more than 85 million jobs could go unfilled because there aren't enough skilled people to take them.[9]

Changing job market

Tech layoffs, banking failures, and continued threats of an economic recession are influencing employees to hang on to the jobs they have and starting to swing the job market back toward employers.

Moving ahead, employers appear more likely to take steps that allow for regaining a measure of control over hiring and recruiting costs, payroll, culture, and productivity. And, in the process, find potential savings that can help fund increasing expenses in other areas.

> **By 2030, more than 85 million jobs could go unfilled because there aren't enough skilled people to take them.[9]**

Combined Effect of Cost Driving Factors and Shape-shifting Trends

In the past, employers have responded to higher premiums by asking employees to pick up a larger portion of the cost. Shifting more employees over to high deductible health plans (HDHP), for example, has forced employees to pay less premium upfront, but pay more as they use their benefits in terms of copays, deductibles, and coinsurance.

However, they may not be able to bear much more.

- Medical bills cause more than 66% of bankruptcies and are now the leading cause for personal bankruptcy.[10]
- 40% of Americans fear they won't be able to afford health care in the upcoming year.[10]

So, although higher health plan rates are projected over the next few years, employers seem more likely to absorb the increases (to the extent they can) to avoid alienating employees and further stressing already challenged recruiting and retention efforts and labor shortages.

Next in Our Series

What strategies can employers use to lower the inevitable cost increases associated with offering healthcare benefits? What process can they follow to help ease the financial stress both on their bottom line and their employees' wallets? We will discuss these topics and more in Part Two of "Employer's Balancing Act."

In the meantime dive deeper into the trends and data about today's challenging Employee Benefits market in our **2023 Employee Benefits Mid-Year State of the Market.**

1 Medical Economics, "January 2023 a mixed bag as new year starts for hospitals," February 28, 2023, Richard Payerchin

2 McKinsey & Company, "The gathering storm: The threat to employee healthcare benefits," October 2022

3 National Library of Medicine, "The Relation of the Chronic Disease Epidemic to the Health Care Crisis," July 8, 2022

4 Business Group on Health, "2023 Large Employers' Health Care Strategy and Plan Design Survey," August 23, 2022

5 CMS.gov, "National Health Expenditure Projections 2021-2030," 2023

6 Workest, "Lifestyle Spending Accounts: Everything You Need to Know"

7 Bureau of Labor and Statistics, Bureau of Labor and Statistics, "Labor force projections to 2024: the labor force is growing, but slowly," December 2015

8 AARP. "High on Priority List for Older Workers: Meaningful Employment and Flexibility," January 18, 2023, Lona Choi-Allum

9 Korn Ferry, "The $8.5 Trillion Talent Shortage," Michael Franzino, Alan Guarino, Yannick Binvel, Jean-Marc Laouchez

10 Retire Guide, "49+ US Medical Bankruptcy Statistics for 2023," August 30, 2022, Lamia Chowdhury

AHT INSURANCE
A BALDWIN RISK PARTNER