PARKER SMITH & FEEK
An IMA Company

COMMERCIAL INSURANCE
EMPLOYEE BENEFITS
PERSONAL INSURANCE
RISK MANAGEMENT
SURETY

HR Solutions for Rising Employer Healthcare Costs

These tumultuous times have left U.S. employers struggling with skyrocketing healthcare costs and an increasingly unsustainable burden on their employees. Inflation has driven up premiums, forcing workers to shoulder more of the cost-sharing burden, resulting in some becoming underinsured. This has left employers with limited options: they must either find cost-effective carriers and plans or risk drastically reducing their benefits, or worse, completely exiting the healthcare market.

In 2022, health insurance saw its highest rate of increase since 2015 at 7.4%. This trend is expected to continue, with some analysts forecasting trend rates exceeding 10% in 2024 and 2025.

Unfortunately, many group insurance plans exacerbate the difficulty of managing healthcare costs, as these plans fail to consider the individual needs of employees. Navigating this challenge is particularly daunting for employers.

Many workers rely on their employer-sponsored medical plans to provide health insurance for themselves and their families, leaving businesses and HR leaders in a difficult position of providing plan options that keep paychecks manageable. What does this mean? Employers have difficult decisions to make regarding their offerings.

Thankfully, there are strategies employers can consider to reduce the burden of soaring inflation and ballooning medical expenses on their benefits programs. Before exploring the solutions available for employers looking for relief, let's first review the tactics employers would be well-advised to avoid.

WHAT EMPLOYERS SHOULD AVOID DOING

Slash Benefits to Only Lower Costs

Although it may be tempting to reduce benefits to save money, employees rely heavily on employer-provided medical plans. Employees highly prioritize medical benefits, so cutting either levels of coverage or eliminating employer contributions could result in the loss of your entire workforce.

While employers have experienced inflation's impact on all fronts, rising premiums also financially strain employees. To remain competitive in the job market, employers must find ways to reduce costs without letting go of staff or diminishing employee benefits.

continued >

Stop Offering Employer-Sponsored Benefits

IMA People Analytics found that health insurance is the second most desired benefit among employees in 2023, coming in just after wages. This is a critical factor for businesses to consider, as a whopping 80% of employees place great value on medical benefits, and not offering them could lead to a costly employee exodus in the long run.

Failing to Review Your Current Plan

Before the next open enrollment period, review your plan and benefits with your broker to ensure there are no unnecessary benefits, coverage that is rarely used, or over-coverage of your employees.

By examining alternative financial solutions and eliminating duplicate coverage, organizations can create cost-saving opportunities and optimize their benefits budget. Failing to take advantage of these options may cause you to miss out on potential cost-saving benefits.

SOLUTIONS FOR EMPLOYERS

As costs for prescription drugs, hospital visits, and insurance premiums continue to skyrocket, employers must find ways to manage the increasing expenses associated with inflation (the annual inflation rate for the United States is 6.4% at the time of writing). Now is the perfect opportunity for companies to explore alternative solutions for their employees.

Prioritize Offered Benefits and Trim the Fat

Before drastically slashing or eliminating benefits, consider using data-driven strategies to find the most cost-effective and beneficial healthcare plans for your organization. IMA People Analytics helps employers leverage their data to drive new strategies for improving their organization's specific healthcare plans.

Based on IMA People Analytics, health insurance (80%) and 401(k) (71%) are the most highly valued benefits among employees, with dental (69%), vision (64%), and flexible work schedule (60%) also receiving considerable appreciation.

If you discover that your current benefits plan contains many benefits that are going unused, consider streamlining your offering to ensure comprehensive benefits your employees value while also reducing your healthcare costs.

Consider a "Defined Contribution Strategy"

An Individual Coverage Health Reimbursement Arrangement (ICHRA) is becoming an increasingly popular alternative healthcare solution for employers. This arrangement functions much like a student loan repayment program, providing employees with a monthly stipend of tax-free funds that can be used to purchase benefits tailored to their individual needs.

Let's say you have an employee who works full-time and needs a family health insurance plan. With an ICHRA, you could offer that employee a monthly allowance to help cover the cost of their insurance premiums. The employee would then use the allowance to purchase a health insurance plan on the open market that meets their needs and budget.

A defined contribution strategy allows businesses to provide their employees with the flexibility to choose their healthcare plan with a pre-set spending allowance. Employers will set a maximum amount for the allowance, giving employees the freedom to select a plan that best meets their needs. Additionally, businesses can use the saved resources to offer other benefits, such as paid family leave or other employee experience perks.

Consider a Self-funding or Captive Approach

Self-funding can be a more cost-effective option compared to traditional fully-insured plans. With a self-funded health plan, employers pay the medical claims of their employees as they arise, rather than paying a fixed monthly premium to an insurance company. This allows employers to take advantage of savings when medical services are not used, and avoid some additional costs like premium taxes and profit and risk loads typically charged on fully-insured plans.

This can lead to a significant drop in healthcare expenditures, particularly during times of reduced demand, such as during the Covid-19 pandemic when there was a significant reduction in non-Covid healthcare services and expenses.

Furthermore, employers often find that the years with lower claims outweigh those with high claims, resulting in an overall lower healthcare cost for the employer.

Group captives enable businesses of similar size to combine forces, resulting in a more manageable risk and cost of healthcare. They provide the same coverage that a traditional insurance company would, but at a lower rate. This allows employers to save money by pooling their risk, reducing their premiums, and accessing additional coverage options. Group captives are also known for providing a better claims-handling process and more customized coverage solutions.

That said, self-funding isn't for everyone. A self-funding program inherently includes taking on risk for high claim years, and variability in month-to-month costs. Additionally, there is an increased administrative burden on HR teams when offering a self-funded plan. Many groups benefit from risk protections like large claims pooling and manual rating in the fully-insured market, and would see higher costs going self-funded where they are fully responsible for their claims.

Ride It Out

Sometimes there's nothing to do except wait for the rising waters to subside. Alternative risk-financing options, such as captives, offer several potential financial benefits, including pricing stability, better control of cash flow, and significant tax advantages. However, these approaches aren't always suitable for your business. The solution may be to do nothing.

Price Shop

One reaction to high renewal increases that might accompany high underlying trend rates might be to comparison shop across carriers to search for a lower price. While this has the potential to be effective in lowering costs, this might be a situation to exercise caution. If underlying medical cost trends do persist, carriers are likely to maintain high pricing trends, leaving little incentive to reduce rates in the near future. There is also value in maintaining a relationship with a carrier, as it might result in long-term value, often in the form of allowances in years where you might uniquely have poor claims experience, rather than general market conditions dictating renewal outcomes.

That said, market changes may present an opportunity to reassess your partner relationships and right-size your benefits for your employee's needs. While premiums may be the same, the benefits you're paying for might offer greater value.

Ultimately, there is a heightened need to rebuild a strong workforce post-pandemic, and this burden often falls on employers. Helping employees tackle increased living costs regularly demands matching salaries with inflation and paying the increased price of employees' health care. But by implementing these strategies to reduce inflation's impact on employer healthcare costs, you can continue providing this valuable benefit to your employees and potentially save money.

AUTHOR

Jordan Paulus
VP, Director, People Analytics
jordan.paulus@imacorp.com