Employee Benefits

2023

BKS PARTNERS

BRP

State of the Market Mid-Year Report

Executive Summary

At this time, the financial stress on employers may never have been greater. In particular, the skyrocketing cost of healthcare is pressuring employers to consider and adopt more effective cost-containment strategies than in recent years.

Insurance Trends & Market Drivers

- **Less willingness for insurance carriers to negotiate rates for fully insured plans** based on current employee health trends and increases in utilization.
- **A growing interest in self-insurance** that can give employers, especially those with 300+ employees, more control over health plan costs than traditional fully insured models.
- **More visibility into healthcare pricing** by using direct-to-employer (DTE) contracts with health systems, better pharmacy benefits negotiations, and value-based (or reference-based) pricing.
- **More integration of healthcare services through telehealth platforms** that provide for a wider range of services, from primary care to mental health to urgent care, with added convenience over traditional in-person delivery methods and at a more affordable cost for both employees and employers.
- **A hyper focus on data** to drive better decisions not only around what benefits to offer, but also about how to manage benefits efficiently and effectively for the best outcomes at a better cost.
- **An earnest embrace of technology,** which is disrupting just about every facet of the workplace and can be leveraged by employers as they move toward more modern, safe, and highly efficient business environments.
- **Greater need for guidance and expertise to navigate diversity issue**s, particularly about how to adapt and adopt policies that build more inclusive workplaces.

The need to balance cost containment with an ever-growing list of employee needs is not just creating challenges for employers. It is also generating opportunities for employers to rethink elements of their entire "work sphere" in order to rein in costs, improve profitability, increase efficiency, drive productivity, enhance competitiveness, and keep employees satisfied.

In this report, you will get a more in-depth look at both emerging and entrenched insurance trends, significant market drivers, the impact on rates, and recommendations for how stakeholders in this marketplace can effectively move forward.

Market Drivers

Against the backdrop of vigilant cost containment trends amid what appear to be inevitable rate increases, employers are also dealing with a number of market factors and sociodemographic trends that are driving a true metamorphosis in employee populations across the U.S.

Among the key market drivers:

Age-Diverse Workforce

Currently, many employers are dealing with an age-diverse workforce. The annual growth rate of employees in the 16–24-year-old age bracket is declining significantly, and the 55 and older age bracket is averaging a growth rate of more than three times the overall labor force. Sitting at nearly 64% of the workforce are the employees in the 25–54-year-old age bracket.[64]

These significant shifts in workforce demographics are causing employers to rethink spend on employee benefits. While older groups are likely to move on to Medicare plans, they may still have needs for retirement plans or other ancillary benefits. And as the younger population in the workforce declines, the need for benefits they would find attractive also declines. So, employers are left to focus on the largest population of 25–54-year-olds and their needs, while still maintaining a balance to help retain the experienced upper tier group and attract young talent.

Percent change in civilian labor force by age, 2000–10, 2010–20, and projected 2020–30

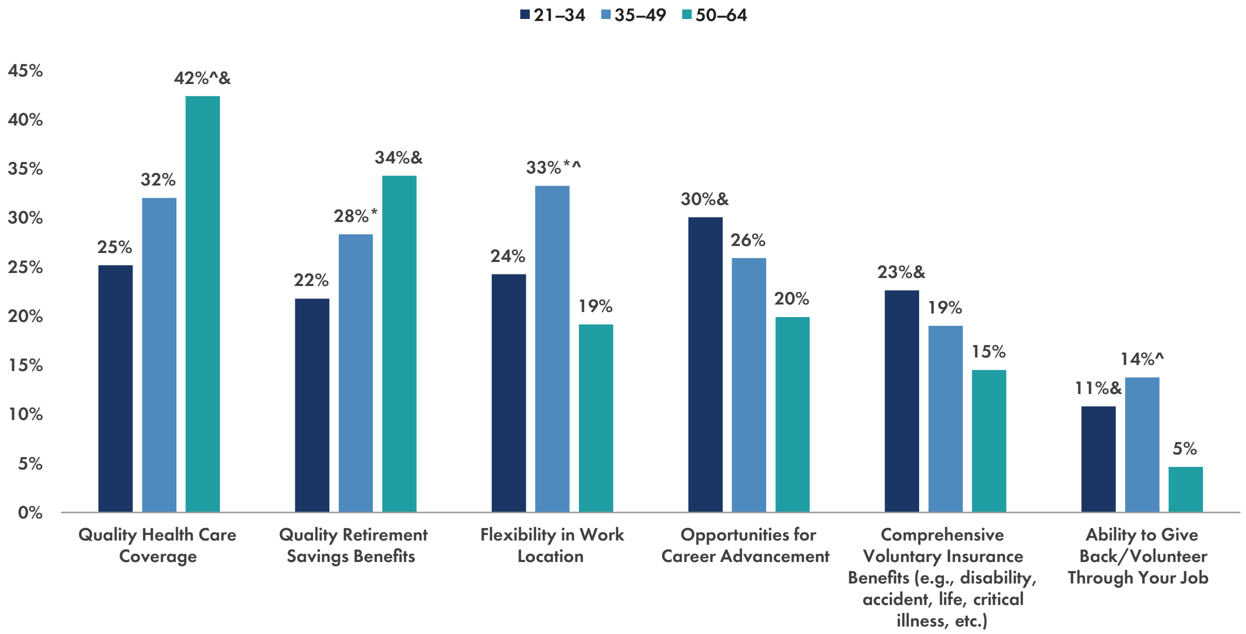
Source: BLS[65]

Benefits Preferences (by age range)

Most concerned with pet insurance available as a benefit.	Most likely to want mandatory paid time off.	Looking for employer-covered healthcare.
More than 30% (aged 18 - 41)	**Nearly 40%** (aged 42 - 57)	**About 80%** (older than 42)

Source: Forbes[66]

Benefits Workers Value Most Beyond Income and Compensation



Source: Employee Benefit Research Institute and Greenwald Research 2022 Workplace Wellness Survey.
* Difference between ages 21 –34 and 35–49 statistically significant at 95% level.
^ Difference between ages 35 –49 and 50–64 statistically significant at 95% level.
& Difference between ages 21 –34 and 50–64 statistically significant at 95% level.

Source: EBRI[67]

Industries with oldest workforces

Industry	Median Age of Workers
Agriculture	48.1
Public Administration	45.6
Financial Services	44.6
Manufacturing	44.3

Source: BLS[68]

Your Beacon of Opportunity

Age-Diverse Workforce

Since health, wellness, and retirement benefits tend to be especially important to older workers, make sure employers in industries that tend to have the oldest median ages (see chart) have a benefits strategy in place that supports this cohort’s needs and preferences. For example, a robust package of voluntary benefits can help employers engage, attract, and retain workers of all ages because they offer a wide range of supplemental benefits that employees value the most and allows them to pick and choose the ones they want and pay for them through payroll deductions at group discounts. Work with your BRP advisor to create a bespoke program that meets the needs of your company and diverse employee population.

Widening Skills Gap

Of course, with an aging workforce comes retirement. In just a few short years, the majority of Baby Boomers will have aged out of the U.S. workforce. But, according to a report by Korn Ferry, Gen X and Millennial workers will not have had the time or training to claim many of the high-skilled jobs left behind.

This is creating a widening skills gap for today's employers. With fewer younger people to come up through the ranks, and fewer lacking the skills needed to interact with new technology, there are likely to be fewer experienced people to take the reins in years to come.

> **"9 out of 10 global executives and leaders say that their organizations face a skills gap or expect to develop additional skills gaps in the next 3 to 5 years."[69]**

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Widening Skills Gap

Employers should seek guidance from your trusted BRP advisor to facilitate the implementation of strategies that will help ensure they have the talent they need to meet future growth goals and objectives. Recent layoffs in the tech sector, for instance, have left experienced professionals with in-demand IT skills without jobs and available for new employment outside traditional technology spaces. In addition, new, automated training and development platforms can not only make it easier to upskill, reskill, and retain existing employees looking for new opportunities to grow with their employers, but also help to establish a continuous culture of learning throughout their organizations to fill skills gaps in the future.

Greater Diversity

Concentrated initiatives to make workplaces more inclusive have spurred business leaders to reevaluate and update employment policies, creating even more representation throughout their organizations. As a result, a greater mix of groups comprises the workforce, all with varying needs, preferences, and lifestyles for employers to recognize and support.

While managing the benefits needs of a diverse workforce along with the company's financial requirements can be challenging, the potential benefits can be valuable to the bottom line in a few ways, such as:

- Innovation and creativity: Individuals with varying backgrounds, experiences, and perspectives can offer novel ideas, approaches, and solutions to help a company stay ahead of its competition.
- Improved customer engagement: A diverse workforce can better connect with a diverse customer base, which can increase customer loyalty and sales.
- Increased employee engagement: A company that values diversity and inclusion can create a more engaged and positive workforce – helping improve employee retention, productivity, and motivation.
- Expanded talent pool: A commitment to diversity can help a company attract and retain top talent from a wider pool of skilled and capable candidates.
- Globalization: As companies expand into new markets around the world, they need employees who can understand and connect with diverse cultures and business practices. A diverse workforce can provide this expertise and help a company successfully navigate global markets.

A more diversified workforce is bringing positive impacts to employers. In a recent analysis, McKinsey & Company found that companies in the top quartile of gender diversity on executive teams were 25% more likely to experience above-average performance.[71]

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Greater Diversity

A comprehensive benefits strategy can help attract and retain employees from all backgrounds. Talk with your BRP advisor about available resources that can help enhance existing recruiting policies, diversity training, compliance with anti-discrimination laws, and mentoring programs that can all be instrumental in solving challenges, breaking down barriers, and creating even more diverse and equitable workplaces that employees can appreciate.

A Greater Emphasis on Lifestyle Benefits

Greater diversity in age, generation, ethnicity, and sexual orientation, for example, is driving the need and preference for different lifestyle benefits across employee populations.

But as more budget spend is allocated to provide health insurance to employees, employers are reevaluating offerings and rethinking how to offer the expanding range of lifestyle benefits their employees also want to keep them engaged.

> **"Employees who are satisfied with their firm's DEI policies are 1.6x more likely to still be with that organization 12 months later."[72]**

Some of the Most Common Lifestyle Benefits Currently in Demand[73]

Physical

Weight loss programs

Gym / health club membership

Fitness apps or classes

Emotional

Counseling services

Meditation classes and apps

Personal development classes

Financial

Student loan reimbursement

Identity theft services

Financial planning services

Pet Insurance Premiums

Although around for a few years, lifestyle spending accounts (LSAs) are currently seeing tremendous growth in popularity. Designed for maximum flexibility, LSAs can help employers continue to balance the need to contain the cost of benefits yet still meet current and ongoing demands from employees.

> **37% of employers plan to update or add LSAs to their benefit offerings.[74]**

And because they are funded with taxable dollars, employees can use them to personalize and pay for the physical, financial, and emotional wellness perks they want – without causing their employers to duplicate benefits already offered, gain extra workload, or incur fees to manage them appropriately.

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Benefits

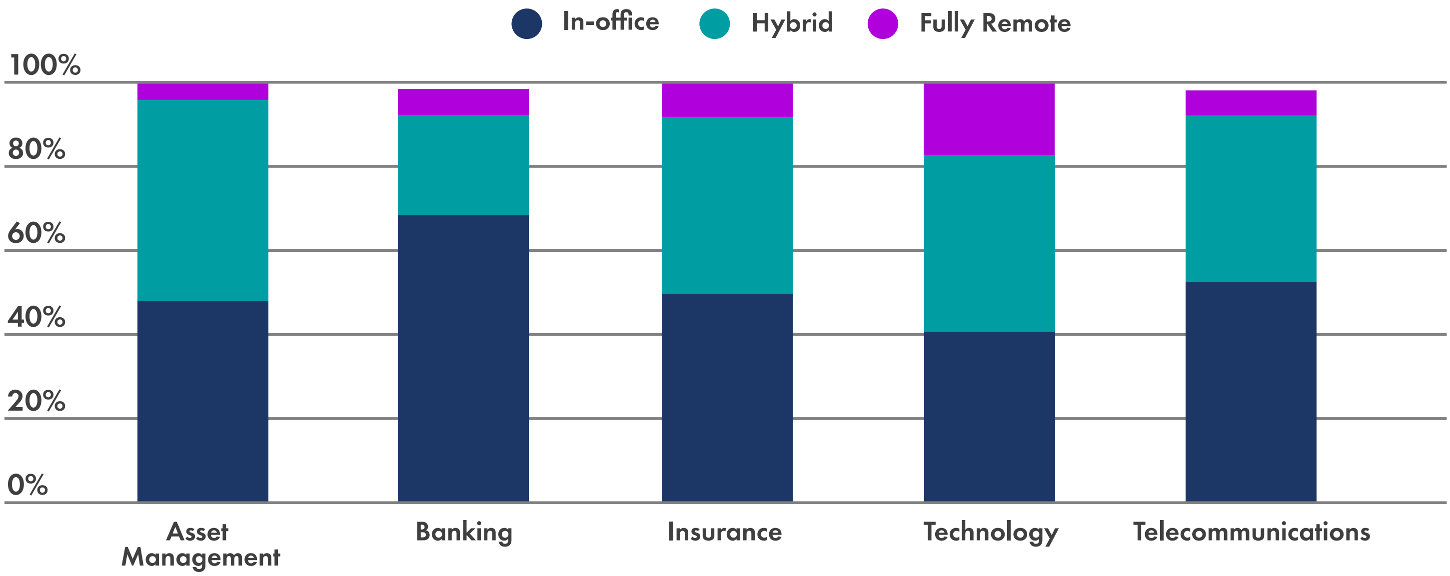
Look for wasteful spend in your benefits budgets and focus on finding alternative ways to offer the increasingly wide range of benefits your employees truly value, appreciate, and utilize. Work with your BRP advisor to evaluate and assess your current employee benefits program, then make updates to address the growing needs of your employees and help increase engagement.

Recalibration of Job Market

Recent layoffs in the tech sector and widely publicized banking failures, along with continued threats of an economic recession, are influencing employees to hang on to the jobs they have and starting to recalibrate the job market back toward employers.

Employers also appear more likely to take steps that allow for regaining a measure of control over hiring and recruiting costs, payroll, culture, and productivity that's been perceived as lost since the pandemic. Almost 70% of bank CEOs, for example, anticipate a full return-to-office work culture for their employees within three years.[76]

> **"Less job hopping and fewer counteroffers are likely as the demand for talent and the supply of candidates evens out."[75]**



Source: American Banker[77]

Wage inflation has also declined slightly over recent months, with fewer organizations planning to give pay increases this year. As many as 15% of employers remain unsure as to whether they will give raises this year.

Your Beacon of Opportunity

Benefits

To balance the current costs of recruitment with the need to fill open positions, you can benefit from increasing communication around the total value of employees' compensation packages—not just salaries and wage increases. In fact, some of the benefits employees value will not cost you additional money to provide, such as flexible work schedules, remote work, and compressed work weeks. But they can go a long way to keeping money in your company's pocket. Your BRP advisor can help you evaluate your current programs and create bespoke solutions to match the needs of your company and employees.

Insurance Trends

Today, employers face the overwhelming challenge of containing ever-increasing health insurance costs. Not only are they demanding greater price transparency from healthcare providers, but in many cases, employers are also making transformational changes in how they fund, manage, and deliver benefits for their employees.

Emerging Trends

Increasing momentum for self-insurance

To counter higher-than-expected premium increases in fully insured health plans, employers that were previously uninterested in self-funded options, with medical stop-loss to guard against catastrophic expenses, now appear more open to the idea.

Not only do Employee Benefits Advisors report an uptick in requests for self-insured feasibility analyses (SIFAs) by employers (particularly with 300+ employees), but industry research also shows an upward trend for these types of plans.

Captives, which have always been popular in the workers' compensation market, appear to be gaining traction as a point-of-entry for some employers to "test" the self-insurance market by pooling their risk with other loss- and safety-minded employers. Specific data from the Insurance Information Institute (III) shows employers can save up to 30% or more on health plan pricing when entering a captive arrangement.[80]

65% of covered workers are in self-funded health plans.[78]

The percentage of covered workers in self-funded plans is higher than it was 10 years ago.[79]

Intensifying Use of Direct-to-Employer Contracts with Hospitals

Higher and harder-to-sustain health insurance costs are forcing employers to seek greater pricing transparency for hospital services. As a result, there is wider appeal for pursuing direct-to-employer (DTE) contracts with health systems. According to a recent survey, 24% of employers are considering contracting directly with integrated healthcare delivery systems.[81]

Although they are complex and require deft coordination, DTEs allow self-insured employers to negotiate prices for medical services directly with hospitals, physician offices, and other healthcare facilities within a certain health system, and eliminate the need to deal with an insurance company. In return for preferred pricing, health systems can gain a large group of potential patients who are less likely to seek medical services at competing providers.

"We expect it [DTE] to become dominant in employer-provided healthcare benefits within the next 10 years."[82]

Leveraging cost-containment tactics for pharmacy benefits
With advances in new medications, specialty drugs, and cellular gene therapies to treat serious medical conditions, cancers, and rare diseases, the cost of prescription drugs has escalated. In fact, it is among the top three drivers of soaring healthcare costs for employers:

16 pharma products experienced price increases during the 12-month period from July 2021 to July 2022, which exceeded the inflation rate of 8.5% for that time period.

The average price increase for these drugs was 31.6%.

Last year, the price tag for some drugs rose by more than $20,000 or 500%.[84]

Projected growth for three drivers of healthcare costs:

Average annual increase through 2030[83]	
Hospital Spending	5.7%
Physician and Clinical Services	5.6%
Retail Prescription Drugs	5.0%

Higher costs associated with use and, unfortunately, abuse are being passed along to patients and employer health plans, further ballooning insurance costs. As a result, 99% of employers are concerned about this rapid and exorbitant rise in prescription drug costs.

To contain costs, employers are leveraging tactics that can help them mitigate future price increases while continuing to provide affordable and adequate insurance coverage for the medications that their employees need. In particular, there has been a step up in:

Currently:
94% of Fortune 100 companies carve out pharmacy benefits.

Employers can reduce their pharmacy spend by more than 25% on average in the first year of unbundling.[85]

- **Separating or unbundling pharmacy benefits from their health plan,** which can often eliminate unnecessary fees and make it easier for employees to get their medications. Although it is sometimes overlooked, this strategy can help self-funded employers gain wider optics into prescription drug utilization and achieve significant savings on the cost of pharmacy benefits in their health plans.
- **Demanding coverage for biosimilars within health plans,** which can be less expensive to their biologic brand-name counterparts and effective for curbing the burden of rising drug costs. On average, biosimilar drugs cost 50% less than the reference brand product.[86]
- **Excluding expensive, nonessential, or "lifestyle" medications** from drug formularies. Express Scripts, for example, reports savings from exclusions saved clients about $14.5 billion in recent years.[87]
- **Avoiding costly network contracts with reference-based pricing**

  The trend for reference-based, or value-based, pricing is growing, with potential to increase even further. Employers can lower overall healthcare expenses by setting pricing with providers for some or all the medical services they cover for employees up front. If services are billed at a higher price, patients, not employers, are responsible to pay the difference. While industry sources peg current utilization at about 4-5%, adoption by employers is expected to grow to about 15-20% of all claims within the next 24 months.[88]

Entrenched Trends

Continued economic uncertainty

Stubborn inflation and the potential threat of a recession that has been present for the past two years most likely keep both employers and employees awake at night. And while wage inflation is a bit lower than about a year ago, employers are still paying higher prices for just about everything else from necessary supplies to outsourced services. Interest rates, for example, have drastically increased, making it more expensive for businesses to borrow money to fund equipment or open more locations.

Ever-expanding virtual health

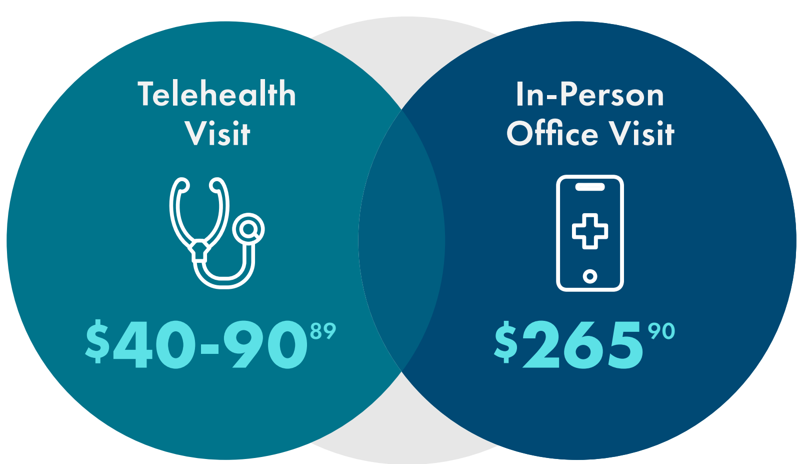
Although telehealth emerged three years ago during the COVID-19 pandemic when in-person doctor visits were not possible, it is now regarded as "here to stay" largely because it offers a number of advantages. Employees gain the convenience of receiving care from the comfort of home or work virtually on-demand and avoiding crowded waiting rooms, while employers gain more control to manage the costs of health visits, greater potential to decrease absenteeism, and increased access to data.

Key Advantages of Virtual Health:

- Offers flat fee for service
- Provides less costly and more convenient access than "in-person" doctor visits
- Usually requires lower wait times and fewer office visits to resolve patient issues
- Avoids expensive visits to emergency rooms and urgent care facilities
- Enhances diagnosis and health plan savings
- Increases productivity and decreases absenteeism for employers

Virtual health platforms are also expanding beyond strictly urgent care to critically important services, like mental health counseling and primary care. For example, the HealthJoy benefits platform recently expanded its partnership with Teladoc Health to launch virtual primary care services for employers.

Other web-based platforms are going even further to deliver healthcare to employees at any stage of their healthcare journey. Cure8, for instance, is a set of curated digital-first health management solutions, financial tools, and partner integrations that provides a continuously innovating subscription designed to improve the member experience, disrupt failing models, return patients to better health, and reduce overall healthcare spend. This service allows them to access their plans, schedule virtual primary care appointments, get referrals, earn rewards, and integrates mobile health applications and prescription services.



69% of employers say they may offer virtual primary care by 2025.[91]

It also integrates robust data around all the conditions for which an employee may be getting treatment or taking medications. That means the platform, and others like it, can give virtual health doctors the ability to see gaps in care, treat an individual holistically, and guide them through the specific care they may need, while giving employers a way to manage the health of their employee populations.

Ongoing legislative changes

While complying with rules and regulations is a normal part of benefits administration, legislative changes introduced over the last couple of years are placing more of a burden on employers to navigate effectively.

New regulations requiring more expertise and resources to manage include:

- **The Secure 2.0 Act of 2022 –** This is designed to expand coverage of employer-sponsored retirement plans by changing features, like automatic enrollments, catch-up contribution amounts, and access to emergency funds. Plus, it makes new provisions for employers to make plan contributions on behalf of employees who are paying off student loans.
- **LTC insurance law –** This requires employers in the state of Washington, and soon to be in California, to collect 0.58% from every employee's paycheck to fund long-term care insurance.
- **Changes to reproductive healthcare laws –** These can impact not only coverage under employer health plans, but also on company policies for leave management and compliance with anti-discrimination rules.

Rates

Impact of inflation and utilization

Despite cost-containment efforts, inflation and increasing utilization pushed up renewal rates for health insurance premiums this year. And as doctor visits and medical treatments continue to rise from lower pandemic levels, higher rates are expected through the 2026 plan year.

Despite projected increases, employers are still reticent to pass along any further increases in the form of higher deductibles or premiums to employees, which could further stress recruiting and retention efforts.

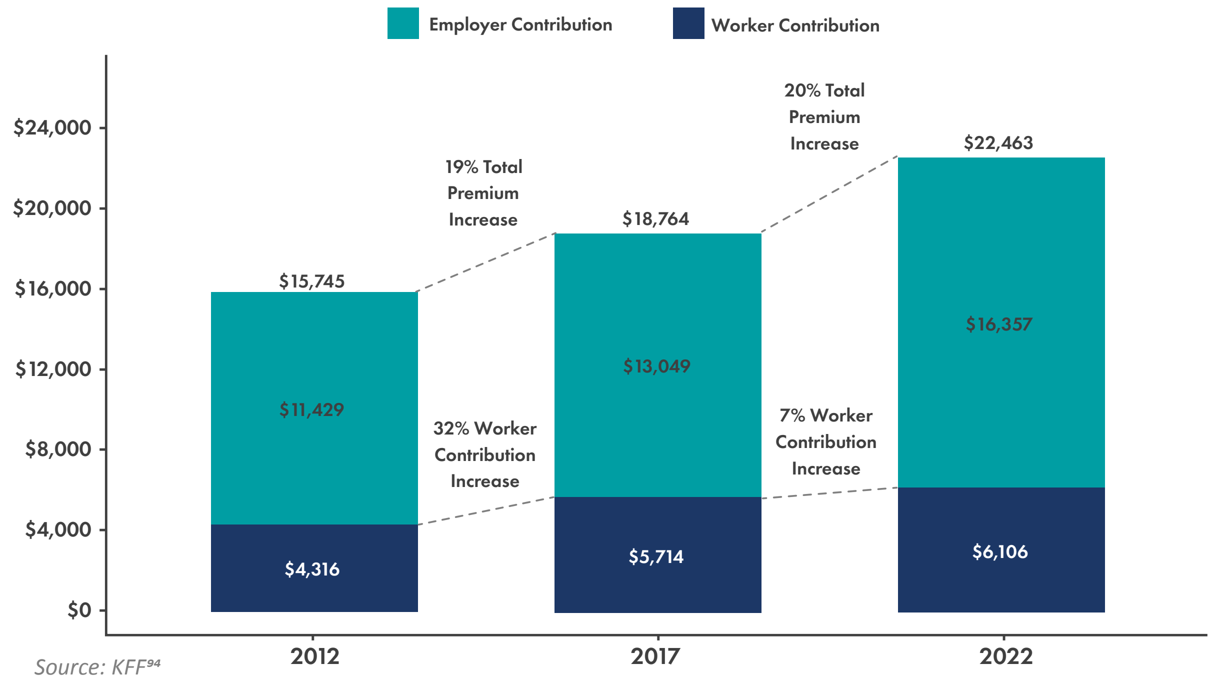
Currently, average annual premiums for employer-sponsored health insurance are $7,911 for single coverage and $22,463 for family coverage, with employers picking up about 73% of the cost.[93]

U.S. Health Expenditures

Expected to reach:

$6.8 trillion

by 2030[92]



Source: KFF[94]

Cancer-driving increases

Current industry data shows that cancer has overtaken musculoskeletal (MSK) conditions as the top cost driver. But this trend may worsen as COVID-delayed diagnoses and treatments continue to surface and bring increased pressure on rates.

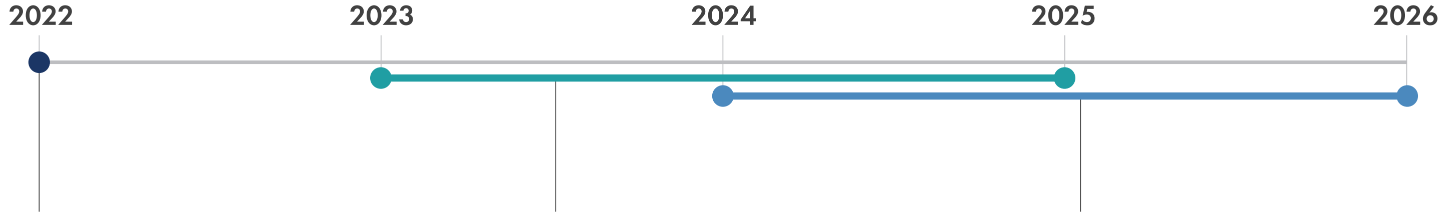
The bottom line is that carriers are not only increasing rates, but they are also becoming more selective and far less likely to negotiate with employers at renewal time. Global management consulting firm McKinsey & Company reports that employers may see healthcare cost increases of 9-10% through 2026.[96] Yet, employers say that rate increases above 4% will be unsustainable.

13% of employers are seeing a higher prevalence of late-stage cancers.

44% anticipate seeing increases in cancer down the road.[95]

Employers could face health cost increases of 9–10% through 2026 because of inflationary pressure passed through from providers.

Inflationary cost pass-through from providers to employers[97]



~$100 billion

Potential incremental annual provider costs from 2022 inflation[1]

~$80 billion in incremental clinical wage costs, and ~$20 billion in incremental non-labor spending driven by heightened inflation environment in 2022

~6%

Incremental unit cost increase passed to non-government payers over 3-year contract renewal cycle

~$70 billion of the $100 billion incremental provider cost passed to non-government payers,[2] equivalent to a 6% increase of non-government payer total medical costs

9–10%

Total rate increase passed on to employers at the next renewal during 2024-26 benefit years

Total annual rate increase to employers is equivalent to the ~6% inflationary unit cost increase on top of 3–4% annual baseline trend

[1] Based on macroeconomic forecasts from McKinsey Global Institute applied to historical provider cost pools.
[2] Based on historical provider revenue base from non-government payers and historical payer cost pools across payer lines of business.

Source: McKinsey & Company[97]

A Partnership That Delivers Results

In this current environment, partnering with a benefits advisory team that has multifaceted experience and access to resources will help employers transform their challenges into opportunities. Employers can be best served by seeking guidance from advisors like our Employee Benefits experts.

Here is how we are equipped to help you with your benefits strategies:

Highly skilled teams

Our Employee Benefits team has specialized knowledge in key areas and can share their knowledge and insight for the benefit of your company and its employees. For example, we have access to trained clinicians who can provide insightful guidance about how to analyze and leverage the right data, which can help effectively manage the health of employee populations and potentially drive future healthcare costs down.

Benchmarking capabilities

Our Employee Benefits experts can help you understand how your benefits stack up to companies with a similar employee population, and within your industry. This helps you determine how you can position your benefits as a recruiting advantage, in addition to seeing where you might be paying above market trends. If your benefits are benchmarked below the market, a strategy to enhance your benefits might be necessary.

Use of data to optimize benefits

We can help you poll your employees to learn which benefits they value most, allowing you to learn which ones are seldom used so you can remove them from your offerings. Our team can also help you analyze your health plan claims data to see which employee trends may inflate overall costs.

The ability to leverage innovative technology

This helps both educate employees and keep benefits enrollment processes fast and efficient.
When prudent, we can recommend artificial intelligence (AI) platforms, or a virtual benefits assistant to answer questions from employees about covered services. This can help reduce the workload on benefits and HR professionals, and also create a more personalized experience when enrolling in benefits every year.

With AI likely to play a bigger role in the benefits ecosystem in the future, we stay abreast of how these developments impact the delivery of benefits for you. Consider this: AI-enabled communication has the potential to create operational efficiencies. When paired with claims data, it can send automated messaging that directs, or redirects, employee behaviors away from using more expensive healthcare delivery sites and toward more cost-efficient ones to ultimately help lower the cost of claims.

An understanding of API connectivity

We can provide resources and recommendations on how to seamlessly connect different IT systems of carriers and vendors, share data, and provide visibility into how benefits are working together in real-time to enhance employee experience.

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Access top vendors

Our connections to top tier vendors connect you to solutions that can help streamline complex processes around benefits administration and other HR functions, potentially lowering overall costs. For example, platforms like Mineral HR combine HR expertise with tech-enabled tools that empower employers to tackle all things HR more efficiently, from ever-changing compliance regulations and legal issues to creating job descriptions and providing valuable insights about HR issues and trends.

Communications strategy

When it comes to implementing a successful employee benefits strategy, how you communicate with your employees will make or break it. Be sure to promote the benefits you offer continuously, throughout the year. Building an ongoing communication strategy will remind your staff of your significant investment in their health and well-being, which can help attract and retain talent.

Leveraging Alternative Funding Options

Although they come with up-front costs, alternative funding options can offer some employers a choice over fully insured models of healthcare (i.e., where employers pay health insurers for coverage) and a way to manage healthcare costs over the long term. These include self-funding, level funding, reference based pricing, and captives.

Contact us to discuss your current situation and get expert guidance about how to navigate today's market challenges and opportunities.