In this Employee Benefits Outlook, we will offer timely insights and evaluate some key trends for employers to focus on for 2018.

Rising healthcare costs remain a source of frustration for employers and consumers alike; however, as the market continues to evolve, several trends and innovations are coming forward that will help companies manage these costs and improve worker productivity.

Benefit plans are a critical part of an employer's overall rewards package, especially as the need to attract and retain qualified talent remains high. Ensuring that benefits are competitive and consistent with an employer's culture while simultaneously balancing costs is a challenge, and many employers will be focusing on these goals for the next few years:

TOP THREE EMPLOER GOALS

Short-Term (Next 12-18 months)	Long-Term (next 5 years)
Managing the overall cost of healthcare benefits	Managing the overall cost of healthcare benefits
Maintaining productivity of employees	Continuing to monitor/adjust to regulations
Continue to monitor/adjust to regulations	Maintaining productivity of employees

The Affordable Care Act (ACA) was under constant attack this past year with numerous attempts by Republicans to repeal and replace the law. None of those attempts were successful, so the ACA will be entering its eighth year and remains the law of the land. The last major outstanding item is the excise, or "Cadillac" tax, which is now set to take effect in 2022. This tax remains unpopular and is on the radar of multiple interest groups. While it appeared there was prior momentum to repeal or significantly modify the tax before it takes effect, it is now unclear if that will occur. Employers need to continue to plan accordingly.

There is always the possibility that Congress will try to repeal and replace the ACA in 2018. Even if that were to occur, the changes would need time to take effect and would impact the individual health market much more significantly than the employer group market. If the ACA remains in place, there is hope that the Trump administration will simplify or eliminate the employer reporting requirements, encourage improved use of wellness plans, and address the individual and employer mandates. Employers should closely monitor all developments. According to the chart above from the USI Insurance Employee Benefits Strategies, Actions, and Behavior Study 2017, companies are clearly making this a priority.

The current environment is encouraging new entrants and solutions to the market. Technology is continuing to evolve rapidly, eliminating many administrative challenges, and helping to bring insurance and the delivery of care into the mainstream digital world.

RATE AND PRICING ENVIRONMENT

Driven by rising healthcare costs and an aging, unhealthy population, health insurance premiums have increased 224% since 1999 and continue to rise at an unsustainable rate for both employers and consumers. Further complicating matters, premiums and employee contributions are increasing at a much faster rate than worker earnings.

A greater emphasis on outcomes, health improvement, and provider risk-sharing is being accelerated by insurers and employers (moving from fee for service to fee for value).

Significant factors driving healthcare costs include:

Paying providers based on volume: The current reimbursement system offers an incentive for most providers to perform more tests and procedures, rather than provide efficient, high-quality care. A greater emphasis on outcomes, health improvement, and provider risk-sharing is being accelerated by insurers and employers (moving from a fee-for-service model to a fee-for-value model). Medicare is impacting the way hospitals and providers are reimbursed for services, as Medicare reimbursements are quickly transitioning to bundled episodic payments rather than reimbursing providers on a fee-for-service basis. Medicare payment reform mandates that hospitals and healthcare providers integrate their delivery of care, giving rise to more Accountable Care Organizations (ACO) and patient- centered medical homes (PCMH).

This shift is also beginning to affect the commercial market, as methodologies such as primary care incentives, bundled payments, shared risk, and global capitation are introduced. As the public payment model changes, the private payment model will follow wherever possible. Twenty-three percent of employers said they plan to embrace the shift in provider reimbursement from volume to value in the next five years.

Consolidation of healthcare delivery systems: Healthcare providers are gaining market share and reducing competition through increased mergers and acquisitions. This enables them to better control costs, manage more medical services, and improve outcomes, but also to demand higher prices. In the next few years, it’s possible that we will see some markets with no independent healthcare practitioners.

Aging populations: According to US Census Bureau projections, the population of people age 65 and older is expected to more than double between 2012 and 2060. While millennials (Generation Y) comprise more of the workforce, baby boomers and Generation X still account for the majority of employers’ healthcare spend with an annual expenditure rate 6.3 times greater than for younger generations. As the population ages and longevity increases, the healthcare system will be challenged to continue treating patients while controlling costs.

Rise of chronic illness: Nearly 50% of the US population has one or more chronic health conditions, such as asthma, heart disease, obesity, cancer, or diabetes. Moreover, 34% of Americans are affected by metabolic syndrome, which is a combination of elevated blood pressure and blood glucose, abnormal lipids, and high levels of body fat around the waist. Metabolic syndrome compounds the risk of heart disease, stroke, and diabetes. Chronic disease accounts for more than 75% of annual US healthcare spending.

Medical technology: New technologies and treatments are generally more expensive than their predecessors, and are in high demand. While these technologies may shorten hospital stays or patient recovery time, they certainly add to rising costs.

Lack of information: Today's consumers do not have accurate information readily available to them about the cost of various healthcare services, or which providers are most effective and efficient in delivering those services.

System inefficiencies: The healthcare system is still fairly antiquated. There remain too many instances of procedure duplications, preventable mistakes, and unnecessary treatments. Consumers need to receive care in the right setting, without errors.

COST SHIFTING IS BACK AT THE FOREFRONT

Part of the controversy around the Affordable Care Act and whether or not it would implode, was the sharp rise in deductibles available on the public exchanges. While those plans only affected a small portion of the total population, cost-shifting is also impacting consumers covered under employer-sponsored plans. Employers continue to transfer costs to employees, by raising deductibles and out-of-pocket maximums, increasing payroll contribution sharing, and adopting high deductible health plans. This transfer has occurred in part because of the ACA's excise tax provision and also because plan design is still an easy lever for employers to pull to achieve budget thresholds. Employers that offer plans with an actuarial value of 85% or higher have a lot of room to adjust in the plan design area.

BENCHMARKS FOR NATIONAL NETWORK PLAN

MEDIAN AMOUNTS	2016	2017
Individual deductible	$ 750	$1,000
Family deductible	$2,000	$2,000
Individual OOP	$3,500	$4,000
Family OOP	$7,000	$8,000
Network coinsurance	80%	80%

While some employees will gladly take more of the cost-sharing responsibility to gain greater control over their healthcare decisions, others will feel intimidated by the accountability placed on their shoulders. Employers must remember that higher deductibles and consumer-driven plans require a greater level of support and guidance.

Programs To Consider:

Health advocacy: It can be confusing for employees to navigate the healthcare system. This resource can assist consumers with finding the correct medical provider, negotiating insurance coverage, and improving health and wellbeing.

Telemedicine: With all the time constraints on employees, finding time to go and sit in a doctor's office is challenging. This type of technology allows the employee to receive care virtually, which improves productivity and the consumer experience. These visits are sometimes half the cost of a primary care visit.

On-site/near-site clinics: Much like telemedicine, an on-site or near-site clinic can address many of the care needs of a primary office visit, and can do so at a lower price point. Employees will find value in the convenience and personalized healthcare experience and can stretch their healthcare dollar.

Decision support tools: As many employers offer multiple medical plan choices to meet a changing workforce, employees can find it difficult to decide between the options presented to them. This tool can take basic information and help employees choose the plan that best suits their needs.

Second opinion and treatment support tools: Patients are finding it increasingly difficult to navigate the healthcare system and with more responsibility on their shoulders, they will become inclined to seek more information for their decisions. Providing these resources will allow employees to make sound decisions and have better outcomes.

Alternative funding strategies: One strategy that continues to provide meaningful savings opportunities is an alternative funding strategy. For risk averse companies that are not yet ready to self-insure medical costs, there are options available—such as level-funding—that allow the employer to take on risk while still limiting cash flow volatility.

Employers that have exhausted their options to shift costs from employer to employee through plan design changes should be vigilant in observing utilization patterns of their population. As medical prices rise and utilization ticks up, plan sponsors may see an acceleration in total plan costs.

The amount of information available to employees has never been greater—but their ability to review and comprehend is still limited. Anything that an employer can do to help employees feel more comfortable in making decisions will help both the employee and the company rest easier.

Plan of Action:

Understand your balance between cost effectiveness and benefit competitiveness. Use benchmark data but go beyond traditional plan design features to better visualize the full cost picture.

Ensure that you are truly providing plan choice.

Evaluate whether you are providing the necessary tools and resources to assist your population in becoming good healthcare consumers. Select the correct partners to assist in providing those resources.

Consider plan design incentives to reward employees that use high-performing providers or centers of excellence.

Consider low-cost benefit products (e.g., accident or critical illness plans) to help employees fill coverage gaps.

While some employees will gladly take more of the cost-sharing responsibility to gain greater control over their healthcare decisions, others will feel intimidated by the accountability placed on their shoulders.

The cost of employee benefits plans account for a significant portion of a company’s expenses, and costs continue to put pressure on holding the expense line. As their workforce transforms, diversifies and fragments, employers should understand their benefits offering will have to evolve as well.

As costs are expected to increase in 2018 for many companies, it’s critical for employers to explore any and all solutions to determine how these can impact their cost trajectory, while still attracting the key talent needed to be successful.

USI can help employers navigate the complex world of employee benefits by developing strategic programs that provide the best value for your business in 2018 and beyond. For more information please contact Robbin Shefski, Vice President, Employee Benefits at USI 703-205- 8721, Robbin.Shefski@usi.com.

Additional resources:

2017 Strategies, Actions, and Behaviors Study: Perspectives from the C-Suite and HR/Benefits Managers

USI Benefit Analytics and Benchmarking Study 2016-2017

USI Employee Benefits Strategies, Actions, and Behaviors Study 2017

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