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SPOTLIGHT ON

Employer-Sponsored Health Benefits Vital to Productivity & Growth

CHROs are committed to maintaining employer-sponsored health insurance as an essential benefit for employees, recognizing the value of high-quality, low-cost coverage for working Americans and their families.

By Margaret Faso

About this Series

HR Policy Association (HRPA) represents nearly 400 of the largest companies worldwide. Members employ more than 10 million individuals in the U.S. This report articulates the perspectives of our members regarding the trajectory of work in the U.S. and the need for specific changes in both corporate and public policies to effectively advance the future of the American workforce.

HR Policy Association's "Advancing the American Workforce" series equips policymakers and business leaders with insights from Chief Human Resource Officers (CHROs) of major companies. The profound changes employers and society have experienced over the past five years have transformed the way large employers and their employees think about work, the workforce, and the workplace and how each needs to be structured for long-term success. HR Policy provides the perspective, not only from employers, but from CHROs who bridge the goals of their companies with the talents and needs of its greatest asset: employees.

New technologies, evolving demographics, and shifting political winds demand a strategic approach to HR. Chief Human Resource Officers are at the forefront of navigating these changes, and their perspective provides invaluable insights for policymakers. This multi-part series offers practical experiences and perspectives on the critical trends shaping the future of work, and suggests policy approaches to ensure the American workforce remains at the vanguard of global excellence in the years to come.

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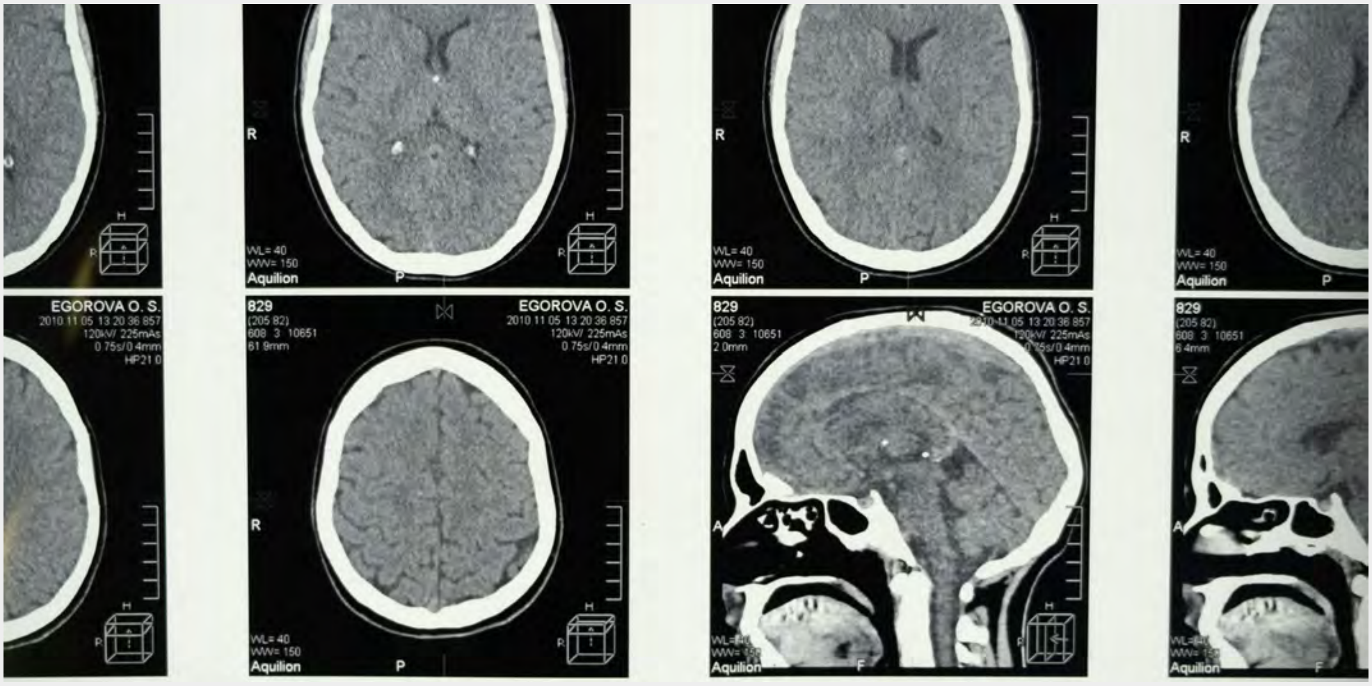

EXECUTIVE SUMMARY

Employer-Sponsored Health Benefits Vital to Productivity & Growth

Chief Human Resources Officers are committed to maintaining employer-sponsored health insurance (ESI) as an essential benefit for employees, recognizing its value to working Americans and their families.

More than half of Americans, 179.8 million people, receive health care coverage via an employer.[1] Employers are in a unique position to provide the best possible benefits to American workers. Unlike others in the health care supply chain, employers seek to both lower health care costs and keep employees and their families healthy. To improve company culture and business growth, it is in the best interest of employers to provide high-quality, low-cost health care benefits so they can have a healthy, productive workforce.

However, employers and employees are facing serious affordability challenges that if not addressed, threaten the viability of the U.S. health care system. The National Health Expenditure report, released by the Centers for Medicare & Medicaid Services, expects national health spending to reach nearly $6.8 trillion by 2030.[2] Further, the annual per-employee cost of employer-sponsored health benefits rose by 5.2% in 2024 after a decade of average annual cost growth of 3%.[3] To sustain the employer-sponsored health care market, federal policy address rising costs through increased health care price and data transparency while eliminating the legislative and regulatory barriers which inhibit employer flexibility and innovation.

Access to Health Coverage Benefits Both Employer & Employee

Health insurance is a driving force in employee retention and vital to securing a robust workforce.

Employers recognize that health coverage not only attracts employees, it keeps them healthy and productive on the job, benefiting both the employer and its employees. The Employee Benefit Research Institute's 2023 Workplace Wellness Survey found that 70% of employees report health insurance as the most important factor in deciding whether to stay with an employer.[4]

To attract and retain talent, employers seek to innovate and build on the competitive benefit packages they offer. As the needs and expectations of employees change, employers adjust their benefits offerings to positively impact the health and wellbeing of employees and their dependents. Employers have long been innovators in the health care space, implementing changes to meet the evolving needs of employees and their families, including changes that support inclusion and diversity. In fact, 75% of Association members stated that their company evaluated health care and wellbeing benefits as part of their strategy to improve the inclusion and diversity of their workforce.[5]

Rise in U.S. health care costs unsustainable

Large employers pay about 78% of premium cost for single coverage and 67% of premium for family coverage

CHROs expect the following health care trends to continue over the next decade:

- Employee focus on workplace mental health and wellbeing programs
- Telehealth expansion
- Personalized or add-on health and wellness programs
- More aggressive negotiations with pharmaceutical companies and PBMs, and investment in pharmaceutical management programs as the use of specialty drugs increases.

The future of employer-sponsored health care and wellbeing benefits will be shaped by several factors—most importantly cost pressures, changes in technology, evolving employee expectations, and the federal policy landscape. As the health care system continues to evolve, employers need a policy and regulatory landscape that allows them to be flexible and innovative in response to the needs of their employee population. In fact, 55% of HR Policy members stated that they can lower health care costs "to some extent, but not enough to make a difference" without federal policy changes."[6] Recognizing the importance of health benefits to employees, employers will continue to offer core benefits but will likely look to supplement health plan offerings with additional wellbeing benefits.

Plan Offerings and Cost

Large employers offer a variety of plan options to their employees, allowing employees to make plan decisions that best suit them. Preferred Provider Organizations or PPOs continue to be the most common plan type, with 47% of workers enrolled in a PPO, 29% in a high-deductible health plan, 13% in Health Maintenance Organizations, and 10% in Point Of Service plans.[7] (See figure 1.)

Health care costs continue to rise at an unsustainable rate in the U.S. The average annual premium for employer-sponsored health coverage was $8,435 for an individual and $23,968 for family coverage, increasing 7% between 2022 and 2023.[8] While large employers pay about 78% of premium cost for single coverage and 67% of premium for family coverage, employees still struggle with financial stability and wellbeing. In fact, over 80% of workers have high or moderate concern for their household's financial wellbeing[9] and one in four workers don't feel they can afford their health care needs without causing financial hardship — increasing to about half of workers among those making $30,000 or less.[10] To address the impact of financial stressors on wellbeing and utilization of services, many employers are taking a more holistic approach to wellbeing. Employers have implemented financial wellbeing programs ranging from financial literacy courses to offering emergency savings accounts.

While employers take many steps to address rising costs, the fundamental affordability problem with the U.S. health care system continues to be prices.[11] One 2019 meta-study that reviewed 43 original studies and 18 reviews covering 341 studies on the effectiveness of cost containment policies, found that cost sharing, managed care competition, reference pricing, generic substitution and tort reform show promise for cost containment.[12] However, there are limits to how much cost can be shifted to plan participants. In addition, cost shifting generally has the unintended consequence of reducing the amount of necessary care that plan participants utilize.

FIGURE 1

Health Maintenance Organization (HMO): Limits coverage to care from providers that contract with the HMO; generally, does not cover out-of-network care except in an emergency. Focus on wellness and preventive care.

Preferred Provider Organization (PPO): The predominate managed care design for employer plans. A group of medical providers contracts with the plan to provide services, offering discounted pricing in exchange for an anticipated volume of business. Providers are typically paid on a fee-for-service basis.

Point of Service Plan (POS): The plan contracts with health care providers or a managed care company to provide services through a PPO arrangement.

High Deductible Health Plan (HDHP): Intended to encourage consumers to be more proactive with their medical care through higher deductibles and lower premiums. Can be utilized with Health Savings Accounts (HSAs) which allow individuals to set aside pre-tax dollars to be used for medical expenses.

Recent Legislative & Regulatory Actions Place Burden on Employers

One of the most significant barriers to employers administering health care plans is the administrative burden caused by legislative and regulatory policy.

While employers understand the need for and appreciate guidance, recent policy decisions have placed significant pressure on employers without spreading the risk across all stakeholders in the health care system.

For example, the proposed mental health parity rules place a significant burden on employers to demonstrate network adequacy for behavioral health providers. While an important step in addressing access gaps with behavioral health services, employers rarely have control over the composition of the networks they contract with or whether providers will choose to join the networks employers are in.

Separately, the Inflation Reduction Act, which allows Medicare to negotiate the price of prescription drugs with pharmaceutical manufacturers, did not include any provisions related the private market. Many employers are concerned that Medicare drug negotiation will result in cost shifting to their plans as pharmaceutical manufacturers seek to make up lost revenue. In this case, policies that address market reform and transparency in the health care system would be more effective at controlling costs than legislation only aimed at one portion of the insurance market.

Current policy poses significant barriers for employers

Policies that address market reform and transparency would be more effective at controlling costs than narrowly-tailored legislation

HR Policy Association Supports the Following Reforms:

1 Preserve and Strengthen ERISA[13]

For employers to be able to continue to provide affordable and accessible high-quality health care coverage, federal health care policy must uphold ERISA. Enacted in 1974, ERISA provides national standards for employee benefits and generally preempts "any and all state laws" regarding employee benefits. Nearly all Association members operate in more than one state and are self-insured. ERISA's preemption provisions enable self-insured businesses to offer uniform, tailored, and valued health benefits to their employees. Without this framework, employers would be subject to a patchwork of state requirements, making it increasingly difficult to design and uniformly administer health, welfare, and retirement benefits for employees and families. Any attempts to weaken the federal restriction through state-by-state regulation of self-insured employers should be rejected.

- An increasing number of states have enacted or are considering laws that regulate pharmacy benefit managers (PBMs) in response to the Supreme Court's 2020 decision in *PCMA v. Rutledge* which found that a PBM law in Arkansas was <u>not</u> preempted by ERISA. As a result, employers are increasingly concerned that without federal PBM legislation, they will have to navigate a patchwork of state laws.

- ERISA's national framework allowed large employers to adapt their benefits in response to the COVID-19 pandemic. While many of these adaptations were in response to changes in health care delivery, they also reflected a focus on employee expectations, with 87% of Association members altering their approach to health and wellbeing benefits to meet those changing expectations.[14] For example, during the pandemic, HR Policy members quickly acted to provide crucial health care services, like telehealth visits, to their benefit design. Without the current federal framework under ERISA, employers would not have been able to implement the additional high-quality benefits employees not only expected but needed.

2 Protect the tax deductibility of employer-sponsored insurance

Proposals to cap the income tax exclusion for employer sponsored health coverage are one example of policy that would further financially squeeze employers and employees. Proponents of these proposals, often part of budget and tax reform proposals, argue the employee tax exclusion prevents competition in the market and locks employees into jobs. However, taxing health insurance as income would increase the tax burden of employees and limit private sector innovation. Rather than addressing the factors causing rising prices in the health care market, these proposals would likely reduce the number of employers offering employer-sponsored insurance.

3 Promote transparency and market innovation

The opaque nature of our health care system is due to the mix of private and public payers, varied coverage plans, and diverse networks of providers, and significantly limits the ability of employers to manage their costs. As plan fiduciaries, employers have a responsibility to make sure they are paying "fair prices" for the health services received by company employees. To get to a "fair price," all stakeholders need to comply with transparency requirements. In terms of drug price transparency, HR Policy Association supports the *Lower Costs, More Transparency Act* and other efforts to increase reporting requirements of Pharmacy Benefits Managers (PBMs) by mandating disclosure of different forms of compensation expected to be received from pharmaceutical manufacturers.

- Reforms should enable employees to be prudent consumers of health care by fostering patient and employer access to appropriate health care price and quality data while protecting individual privacy and security. Our members recognize the importance of increased price transparency for consumers but believe the biggest impact will come from making data available that self-insured employers can use to improve their networks, increase quality, negotiate lower prices on behalf of their plan participants, and better implement value-based plan designs.

- There is some degree of consensus that employees are suboptimal health care consumers and do little shopping or price comparison for their health care. Engaging employees to be health care consumers along all stages of an individual's health care continuum is a challenge facing all employers. Health care quality and price transparency is a crucial piece of educating employees on the value of health care services.

4 Focus reporting requirements on the correct entities

The *2021 Consolidated Appropriations Act*, mental health parity rules, and Transparency in Coverage rules, while all important efforts, place a significantly higher reporting burden on employers than any other entity in the health care system. Future policy solutions should recognize that employer plans often do not have access to the claims data the current rules and statutes require them to report. Policies should require reporting from the actual entities that directly hold the information rather than compel employer plans to obtain the data from third, fourth or fifth parties down the various health care supply chains.

5 Expand telehealth

During the COVID-19 pandemic, Congress and federal agency guidance provided for increased flexibility regarding telehealth benefits. Current *Affordable Care Act* rules do not allow employers to extend telehealth benefits to several classes of employees including part-time and seasonal employees. Amending the excepted benefit and eligibility classifications under federal law will allow telehealth to be treated like any other add-on benefit and enable employers to continue to provide access to telehealth services for all employees.

6 Modernize health savings accounts (HSAs)

Employers have looked to federal policy to modernize HSAs for many years to mitigate out-of-pocket financial costs for employees. Several key improvements to HSAs would allow HDHPs and HSAs to be paired with direct primary care arrangements; allow an individual to have an HSA even if his or her spouse has a flexible spending account (FSA); and allow employers to offer free or lower cost care to employees under HDHPs. These provisions would help control health care costs for both employers and employees as well as incentivize preventive care. To that end, HR Policy supports the *HSA Improvement Act of 2023* (H.R. 5688) and the *HSA Modernization Act of 2023* (H.R. 5687).

7 Increase access and affordability of behavioral health services

Behavioral health conditions are among the most common health conditions in the U.S. and have a significant impact on an individual's productivity and success in the workplace. Nearly 25% of the nation's workers have depression, and these workers miss twice as much work and have five times as much lost productivity as those without depression.[15] To address the significant access and affordability issues associated with behavioral health services, federal policy should:

- Improve access to in-network behavioral health specialists through increased funding to encourage behavioral health providers to practice in Professional Shortage Areas and require more frequent provider notifications to group health plans or issuers on whether they are accepting new patients.
- Expand screening and monitoring through measurement-based care by establishing incentives with carriers and providers to increase the use of screening and measurement tools.
- Expand integrations of behavioral health care into primary care settings by providing grant funding to provide technical assistance and remove the barriers that primary care practices face when trying to implement integrated models, like the Collaborative Care Model.

Endnotes

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