FEATURE

# Inflation

## Impacts Healthcare Costs and Self-Insured Benefit Plans

Written By Laura Carabello

Pointing a finger at inflation as the culprit for escalating healthcare costs, some analysts assert that while health care prices have been largely unaffected by record-high U.S. inflation, prices are likely to accelerate more rapidly in the year ahead. This will probably lead to higher insurance premiums and more costly services for both consumers and employers in 2023.

Notably, in September 2022, the Federal Reserve central bank raised rates by 0.75 percentage points for the third time this year and released new economic projections showing a significant slowdown in the economy later in 2022 and 2023.

Emotions are running high, particularly in the mid-term election year, as people express their frustration and suffering from high inflation and may be in for more difficulties if the government reneges on its commitment to pulling prices back down. Healthcare is caught in the cross-hairs of these conditions.

McKinsey insists that the impact of inflation on the broader economy has driven up input costs in healthcare significantly. They project that the likelihood of continued labor shortages in healthcare—even as demand for services continues to rise—means that higher inflation could persist.

The relatively high rate of inflation seen in overall economy, with a loss of purchasing power for everyday goods and services such as food, furniture, apparel, and transportation, may translate into higher prices for medical care. This could lead to steeper premium increases and the direct cost of care.

Mark Lawrence

Mark Lawrence, president, HM Insurance Group, shares this perspective, "In a high inflation environment, all costs will rise, some more apparent than others. Inflation impacts many areas, including labor, fuel, insurance, specialty medications, medical technology and so on. In my opinion, it's very difficult to mitigate these effects. Personally, I haven't found a way to be successful in avoiding inflation at the gas pump or in the grocery store."

Amid this environment, there is consensus that health care costs are on the rise, with projections resulting from an Aon survey indicating that the average costs for U.S. employers that pay for their employees' healthcare will increase 6.5% -- from $13,020 per employee in 2022 to more than $13,800 per employee in 2023. They say this is largely due to economic inflation pressures, with escalating costs more than double the 3% increase to healthcare budgets that employers experienced from 2021 to 2022.

However, this is significantly below the 9.1% inflation figure reported through the Consumer Price Index, largely because medical claims were suppressed for most employers during the first year of the COVID-19 pandemic when a large slice of care, elective surgeries and preventive screening or diagnostics were postponed or skipped during quarantines.

While inflation tends to affect healthcare later than other industries, employers may have seen the medical claims experience return to more typical levels of growth but should brace for anticipated inflationary cost pressures in the coming year.

Jakki Lynch

Jakki Lynch RN, CCM, CMAS, CCFA, director, Cost Containment Sequoia Reinsurance Services, provides this perspective:

"The impact of inflation on the broader economy will likely lead to rising healthcare claim costs in an already inflated high price market. With the increasing cost of hospital inpatient services, emerging therapies and chronic illnesses treated with specialty pharmacy medications, plan sponsors are in search of affordability solutions to manage expenses, reduce waste and maintain access to care."

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She points to two key interventions for Plan Sponsors to reduce the inpatient facility exposure: insightful contracting and claim payment integrity reviews which ensure correct reimbursement and accurate payment of plan benefits.

"While reference-based pricing strategies can provide a benchmark in contract negotiations, understanding the provider cost analytics, billing and coding patterns as well as quality of care performance are critical to negotiating the most ideal economic results for a plan," says Lynch. "With the combination of a strategic claim payment integrity program, Plan Sponsors can gain a window into the provider's billing practices for a knowledge-based, targeted negotiation while also allowing for the right to review the claims."

She explains that a technical high dollar claim and medical record review determines if the charges are coded accurately, appropriately documented and are free from impropriety.

"Analyzing high dollar claims requires specialized expertise and resources, but health plan sponsors may not have the staff, time or experience to identify and construct the clinical, network and coding nuances inherent to complex claims," she continues.

"With the right program, Plan Sponsors can experience savings yields of 10% to 30% of payable charges on top of the contracted rate and supported by settlement with providers. Specialty pharmacy risk mitigation can be challenging."

Joe Dore

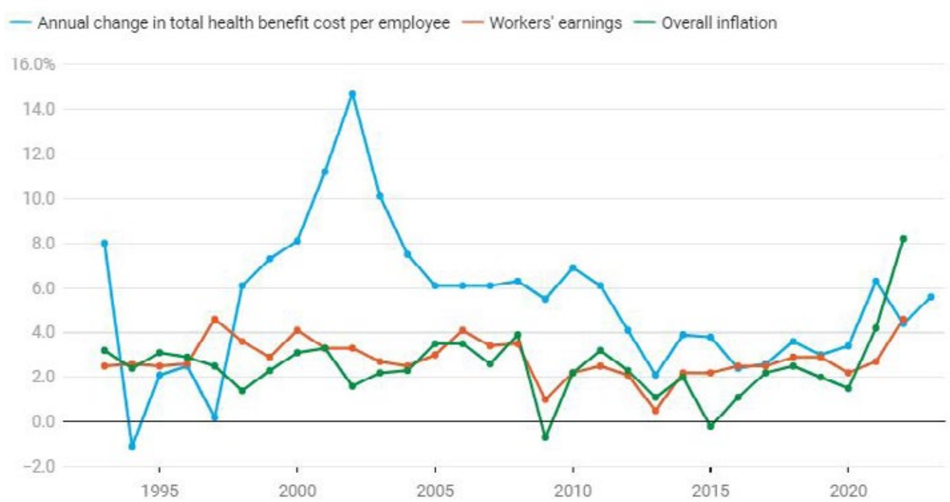
Joe Dore, president, USBenefits Insurance Services, LLC, shares this guidance: "Inflation does not discriminate – it impacts all industries and segments within. HR challenges -- wages, retention, training as well as manufacturing costs, supply chain issues, rising interest rates and other considerations -- will adversely affect everyone, from employers to consumers. Make no mistake that the member/patient ultimately will need to make tough financials decisions, such as eating vs buying medications."

Generally, Dore says the onus to mitigate falls upon the employer to address economic disturbances via their plan document and front-end negotiations with networks, vendors and others.

"This is the tipping point for all parties," he advises, "and is inclusive of the stop-loss carrier, to be simultaneously invited to the table to align objectives and strategies in an effort to produce the best possible outcomes – not just financially, but medically as well."

**Change in Health Benefit Cost per Employee**

Change in total health benefit cost per employee compared to the consumer price index and workers' average earnings. **Hover over the line to see the percent change each year.**




*Note: Health benefit cost data for 2022 and 2023 is projected.*

Source: *2022 National Survey of Employer Sponsored Health Plans* (Mercer) and U.S. Bureau of Labor Statistics. • Created with Datawrapper

## IS IT REALLY INFLATION?

Before attributing price increases to economic inflation, employers must remember that escalations are typically slow to appear in medical trends due to the multiyear nature of the typical provider contract.

It is also important to factor in the other contributing aspects of care that add pressure, including but not limited to emerging technologies, labor/non-labor costs, impact of catastrophic claims, high-price specialty drugs as well as new ultra-expensive gene and cell therapies with multi-million dollar price tags.

Furthermore, the Bureau of Labor Statistics data by the Kaiser Family Foundation shows that since 2000, health care costs, including medical services, insurance, medication and medical equipment, have typically increased more quickly than other costs in the overall economy.

This year, however, health care costs are increasing at a lower rate than overall inflation: 4.8% in July compared to the same time last year, while overall prices increased by 8.5%.

**Increase to U.S. Health Care Plan Costs from 2021 to 2022**

| Plan Cost | 2021 | 2022 | Change from 2021 to 2022 |
|---|---|---|---|
| Employer Cost | $10,123 | $10,500 | +3.7 % |
| Employee Premiums from Paychecks | $2,504 | $2,520 | +0.6 % |
| **Total Plan Cost** | **$12,627** | **$13,020** | **+3.1 %** |

**Source**: Aon. https://aon.mediaroom.com/2022-08-18-Aon-U-S-Employer-Health-Care-Costs-Projected-to-Increase-6-5-Percent-Next-Year#:~:text=In%20terms%20of%202022%20health,according%20to%20the%20firm's%20analysis

Typically, health care costs see a relatively stable 1% to 5% increase in costs every year, but looking ahead, high inflation rates may lead to higher medical prices and insurance premiums. According to a survey of around 2,500 Medicare beneficiaries from eHealth, 95% said they are worried about how inflation will impact health care costs, and almost 50% said their health care costs have already increased because of inflation.

Aon analysts caution that while most large, self-insured employers have a good sense of their 2023 premium costs at this time, many smaller, fully insured employers have not yet received renewal rates from their health plans which may come in higher.

Affordability is the byword in this economy, even with the prevailing high levels of insurance coverage. According to a survey released by the Commonwealth Fund, a greater number of Americans are finding it difficult to afford healthcare. Results show that insurance coverage doesn't always provide enough financial protection against rising costs, and certain marginalized groups were chronically uninsured.

The survey also documented that more than one-quarter (29%) of continuously insured people with employer coverage and 44% of those with coverage purchased in the individual market or marketplaces are underinsured because of high out-of-pocket costs and deductibles, relative to their income.

In many cases, surprise or unexpected bills caught families off-guard and unprepared to meet financial obligations for healthcare services.

As employers absorb most of the health care cost increases in an effort to remain competitive in this tight job market, it will be important for decision makers to look carefully at costs associated with chronic and complex conditions that usually persist over time as well as indirect costs of absenteeism, productivity, disability and workers' compensation.

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In a survey conducted earlier this year by Mercer, 11 percent of large employer respondents -- those with 500 or more employees -- indicated that they will offer employees free coverage in at least one medical plan in 2023; another 11 percent are still considering it.

As inflation continues to stress household budgets, it appears that employers will step up to the plate and help workers keep more money from their paychecks and remove cost barriers when they require care.  Attractive health benefits packages may well be the 'carrot' to attract workers.

## SKYROCKETING PAST INFLATION

### *Prescription Drugs*

From July 2021 to July 2022, 1,216 prescription drugs saw price increases that soared past the inflation rate of 8.5% for that time period, according to a report from the U.S. Department of Health & Human Resources, published recently.

These drug prices rose by an average of 31.6%: In January, price increases from the year prior were about $150 per drug on average, a 10% increase. In July, increases were about $250 per drug on average, a 7.8% increase.

As expected, specialty drugs topped the list for high spending, contributing to 50% of total spending in 2021, and equaling $301 billion. The drugs with the highest price change in dollar amounts were Tecartus (for B-cell acute lymphoblastic leukemia and mantle cell lymphoma) and Yescarta (for lymphomas), which both increased from $399,000 to $424,000, a 6.3% increase.

The report was released shortly before a new requirement was enacted October 1 as part of the Inflation Reduction Act, making drug manufacturers pay rebates to Medicare if they increase prices for drugs in Medicare Part D past the rate of inflation.

### *Inpatient and Outpatient Care*

#### *Clinical / Nonclinical Labor*

Witnessing the worsening clinical labor shortage is painful for everyone and McKinsey advises that this will contribute to projected increases in healthcare costs over the next five years. These shortages fuel industry estimates that healthcare labor cost growth will outpace inflation.

Nonclinical labor, such as personal care aides which work in provider settings, may be impacted – especially where there are not enough RNs or clinicians to carry the workload. Analysts say that from a cost perspective, increased inflation in the overall economy will primarily account for incremental wage growth in the nonclinical workforce.

#### *Nonlabor Costs*

Supplies, Personal Protective Equipment, medical technologies and other items used in healthcare delivery have experienced supply chain difficulties that have spiked costs across the healthcare ecosystem. These issues are likely to persist, pushing nonlabor costs above projections.

#### *Physicians' Services*

Many physician groups saw early Indications that their financial performance may be stabilizing as patient volumes and revenues improved by Q2. But the Medical Group Management Association says rising costs associated with inflation have added financial pressures for virtually all medical group practices despite the ongoing recovery from the COVID-19 pandemic.

# The right solution

## Self-funded health plan administration

The speed of change in the health care industry is expanding the definition of health care and redefining roles for traditional players. New and emerging technologies led by single point solution vendors, rising health care costs, regulation, and non-traditional market entrants have many payers and health systems evaluating their options.

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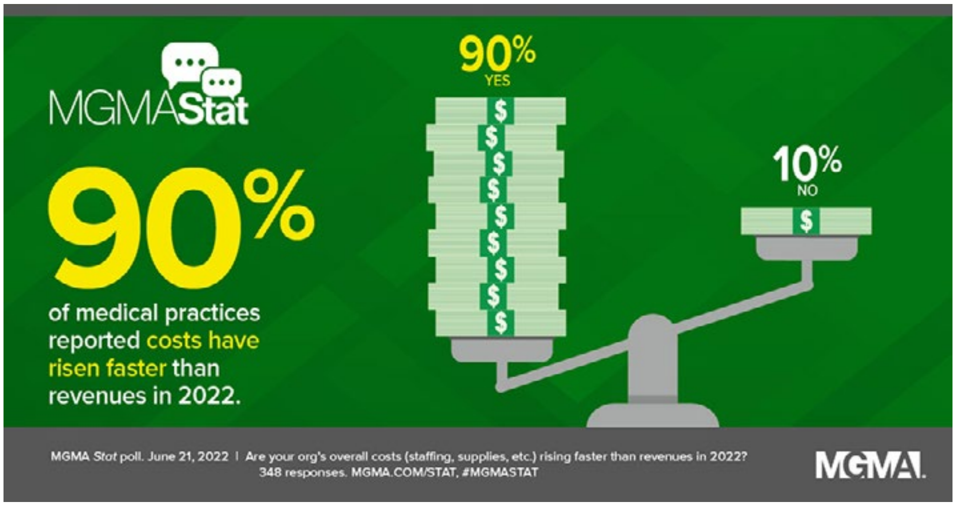



Inflation in certain areas is driving higher costs:

- Reimbursement cuts, especially as Medicare reimbursement fails to keep pace with the cost to deliver care
- Significant increases in lab supply and drug costs
- Increases in utility costs
- Sluggish patient visit rates inhibiting productivity and revenue
- Rising malpractice premium rates

### *Nursing Homes and Adult Day Services*

Rising inflation and increased labor costs are multiplying the risk of closure for skilled nursing facilities across the country, according to an analysis by CliftonLarsenAllen and the American Health Care Association.

General inflation for nursing home goods and services increased 8.5% between March 2021 and March 2022 and leaped 1.3% just between February and March earlier this year. Contributing to the problem were food costs which rose 8.8% between March 2021 and March 2022.

### Strategies to Reduce Inflated Healthcare Costs

Here's some sound advice from Mark Lawrence: "Brokers can help employers by focusing on options where health care services are provided at the lowest cost and highest quality, and combine those efforts with buying good, quality stop loss protection. And honestly, that's a smart strategy, regardless of the economic environment."

Mary Ann Carlisle, chief revenue officer & COO, ELMCRx Solutions, says that Plan Sponsors have become acutely aware of the cost impact that specialty high-cost medications have on their plan spend.

She forecasts that specialty medications will continue as the cost driver of pharmacy benefit inflation based on three variables: (1) AWP increases for existing medications, (2) new higher cost drugs for both currently covered therapies, and (3) new drugs for diseases for which there are currently no medications available.

MaryAnn Carlisle

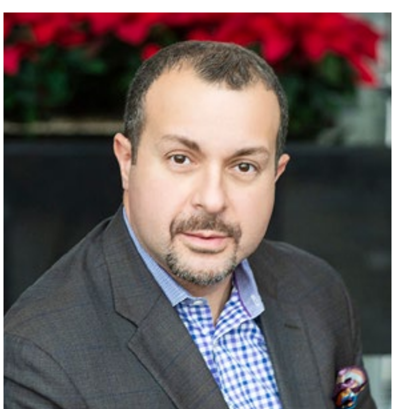
Carlisle advises that there are two primary opportunities for cost containment:

1) *Utilization Management*

"The first step is to control the cost at the point of care by taking charge of Prior Authorizations in real time rather than retrospectively," she says. "It is difficult at best to get a prescribing physician to change any aspect of a medication once a patient is taking it. Plans should incorporate strong dispensing quantity limits into the program. The convenience of mail order and auto-fills has created serious waste and cost issues."

2) *Cost Offloading Programs*

"There are numerous programs that will 'offload' a portion or all of the cost of Specialty and other high-cost medications," she continues. "Some PBMs have adopted (or allow) the full suite of programs, while others only allow Member Co-pay Assistance, which offers the lowest percent of savings at less than 25% of the annual cost. Other targeted program savings solutions range from 25% to 70% of the annual medication cost net of the fees being charged by the program. These fees are typically either a percent of the savings or a per capita or per claim fee. Plan sponsors are implementing these programs at a rapid pace."



Dea Belazi

Carving out prescription medical and/or pharmacy benefits and contracting is the sage advice of Dea Belazi, CEO and president, AscellaHealth, who says, "Increasingly, self-funded employers, Plan Sponsors and other payers will carve out prescription drugs and pharmacy benefits from their medical plan by contracting directly with a Specialty Pharmaceutical (SP) provider. As costs for specialty medications continue to rise, rethinking contractual partners enables these payers to gain better controls over SP costs and greater transparency into their benefit claims, with enhanced negotiating power to get better deals and ensure that clinical and financial programs performed as promised."

Belazi says this approach has the potential to achieve an average savings of 5-30% through plan language and benefit design. "SP service providers will also help payers implement unique Financial Assistance programs for the numerous high-cost gene/cell therapies and other expensive specialty medications that are being launched to treat rare and orphan diseases and complex conditions."

He emphasizes that progressive SP vendors are pioneering innovative technology-based suites of unique financial solutions, including loan-based programs for cell/gene therapies, to help offset the high cost of curative medications.

"They are also introducing copay advisory services to monitor and track manufacturer copay funds," adds Belazi. "This also includes alternative funding programs which means access to philanthropic organizations, grants or other foundational programs that support access to high-cost therapies and shift the cost away from the patient and payer."

## WHAT'S AHEAD IN 2023 AND BEYOND?

McKinsey analysis estimates that the annual US national health expenditure is likely to be $370 billion higher by 2027 due to the impact of inflation compared with pre-pandemic projections.

## *Inflation*

It appears that the IRS has already anticipated inflationary pressures around healthcare costs and significantly raised contribution limits for 2023 on Health Savings Accounts (HSAs).

| Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans | | | |
|---|---|---|---|
| | **2023** | **2022** | **Change** |
| **HSA contribution limit** (employer + employee) | Self-only: **$3,850** Family: **$7,750** | Self-only: $3,650 Family: $7,300 | Self-only: +$200 Family: +$450 |
| **HSA catch-up contributions** (age 55 or older) | **$1,000** | $1,000 | No change (set by statute) |
| **HDHP minimum deductibles** | Self-only: **$1,500** Family: **$3,000** | Self-only: $1,400 Family: $2,800 | Self-only: +$100 Family: +$200 |
| **HDHP maximum out-of-pocket amounts** (deductibles, co-payments and other amounts, but not premiums) | Self-only: **$7,500** Family: **$15,000** | Self-only: $7,050 Family: $14,100 | Self-only: +$450 Family: +$900 |
| Source: IRS, Revenue Procedure 2022-24. | | | |

While stop-loss insurance will continue to play an important role in controlling costs, additional cost-containment strategies are needed.

In a new survey conducted by consultancy WTW of 445 U.S. employers employing 8.2 million workers, over half of respondents expect their costs will be over budget this year, emphasizing that the need to manage health care costs and address employee affordability has never been greater. To mitigate higher health care costs, 52 percent will implement new programs or switch to vendors that will reduce their total costs, while 1 in 4 will shift costs to employees through higher premium contributions.

Among the actions survey respondents are using to manage costs and enhance employee affordability are the following:

- **Health plan budget boosts.** Two in 10 employers (20 percent) added dollars to their health care plan without reallocating funds from other benefits or pay. Another 30 percent expect to do so in the next two years.
- **Defined contributions.** Four in 10 employers (41 percent) reported using a defined contribution strategy with a fixed dollar amount provided to all employees that differs by employee tier. Another 11 percent are planning or considering doing so in the next two years.
- **Evaluations of employee contributions by income.** The number of employers that examine employee health payroll contributions as a percent of total compensation or income as the basis for benefits design decisions is expected to more than double from 13 percent this year to 32 percent in the next two years.
- **Contribution banding.** More than a quarter (28 percent) structured payroll contributions to reduce costs for targeted groups, such as low-wage employees, or by job class. Another 13 percent are planning or considering doing so in the next two years.
- **Low-deductible plan.** Three out of 10 (32 percent) offered a plan with low member cost sharing (e.g., no more than a $500 deductible for a single preferred provider organization plan) this year; another 7 percent are planning or considering doing so in the next two years.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- **Fraud, waste and abuse programs.** A quarter of respondents (27 percent) used programs to combat fraud, waste and abuse. Another 22 percent expect to do so by 2024.

- **Out-of-pocket costs.** Nearly a quarter (23 percent) implemented higher out-of-pocket costs for use of less efficient services or site of service, such as the use of nonpreferred labs or high-cost facilities for imaging, or respondents mandated the use of high-quality, cost-effective centers of excellence for medical care. Another 19 percent are planning or considering doing so by 2024.

- **Concierge navigation.** Two in 10 (21 percent) offered concierge navigation even if it requires movement from a full-service health plan to a third-party administrator. Another 25 percent are planning or considering doing so by 2024.

- **Voluntary benefits.** Over a third of respondents (35 percent) added or enhanced voluntary benefits such as supplemental health insurance (e.g., additional hospital coverage, cancer coverage, disability income replacement) in case of a catastrophic event. Another 27 percent are planning or considering doing so by 2024.

Laura Carabello holds a degree in Journalism from the Newhouse School of Communications at Syracuse University, is a recognized expert in medical travel, and is a widely published writer on healthcare issues. She is a Principal at CPR Strategic Marketing Communications. www.cpronline.com

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