



Rising Health Costs: How SMBs are Bending the Healthcare Premium Curve

Here are the relevant facts. Since 2000, U.S. health premiums have outpaced the U.S. economy’s rate of growth.¹ In the current environment, characterized by enormous uncertainty about both the COVID-19 pandemic itself, as well as its effect on other health conditions, PwC’s Health Research Institute projects that for 2021, medical cost trend increases could range anywhere from 4 to 10%.² Additionally, according to the Centers for Medicare and Medicaid Services, “National health spending is projected to grow at an average annual rate of 5.4% for 2019-28 and to reach \$6.2 trillion by 2028.”³ SMBs should not lose sight of the fact that all of these projections include Medicare and Medicaid spending—and that the numbers are higher for employer-based insurance.⁴

A COMPLEX LIST OF FACTORS

Beyond general inflation, the escalating costs are attributable to an extremely complex mix of factors. No healthcare stakeholder is blameless. Among the most prominent drivers:

- **Pharmaceutical and technology companies generate a steady stream of new drugs,** diagnostics and therapeutics that are major factors in improved health and increased average life span. This, unfortunately, also drive higher costs.
- **Individuals’ uneven engagement in maintaining their own health,** especially poor adherence with health and wellness regimens, contributes to the costs of treating many avoidable and more complicated versions of chronic illness. The COVID-19 pandemic has made this problem worse because many have delayed preventive care or early treatment, which could lead to an explosion in more urgent—and more expensive—care.
- **Provider efforts to improve patient engagement** are too often less effective than they might be because they don’t consider of the social determinants of health.
- **Lack of transparency into very complicated cost structures** for both insurance and health care delivery makes it difficult for individuals and businesses to make fully informed purchasing decisions.
- **Provider consolidation** has given health systems unprecedented bargaining power.
- **Wasteful, unnecessary administrative costs** continue on both the payer and provider sides. So do fraud and abuse; violations of federal regulations such as the Stark Law, anti-kickback statute, and HIPAA run into the millions of dollars each year.
- **Most states do not set limits on malpractice claims.**
- **Mistaken diagnoses or poorly executed interventions,** often due to avoidable practice variation, have cost implications that include hospital readmissions, reimbursement denials from insurers and even fines or lawsuits. Such problems are exacerbated by fragmented, uncoordinated care across a continuum that runs from hospital through primary and specialty care, nursing homes, rehab facilities, the workplace, and individuals and families.

According to a 2019 Commonwealth Fund survey, the cost of providing health coverage to employees is small businesses’ biggest concern.⁵ That’s no surprise. Steadily rising premiums can and often do restrain innovation and growth for small and medium-size businesses (SMBs).⁶

¹“How has U.S. spending on healthcare changed over time?” Health System Tracker, accessed December 15, 2020.

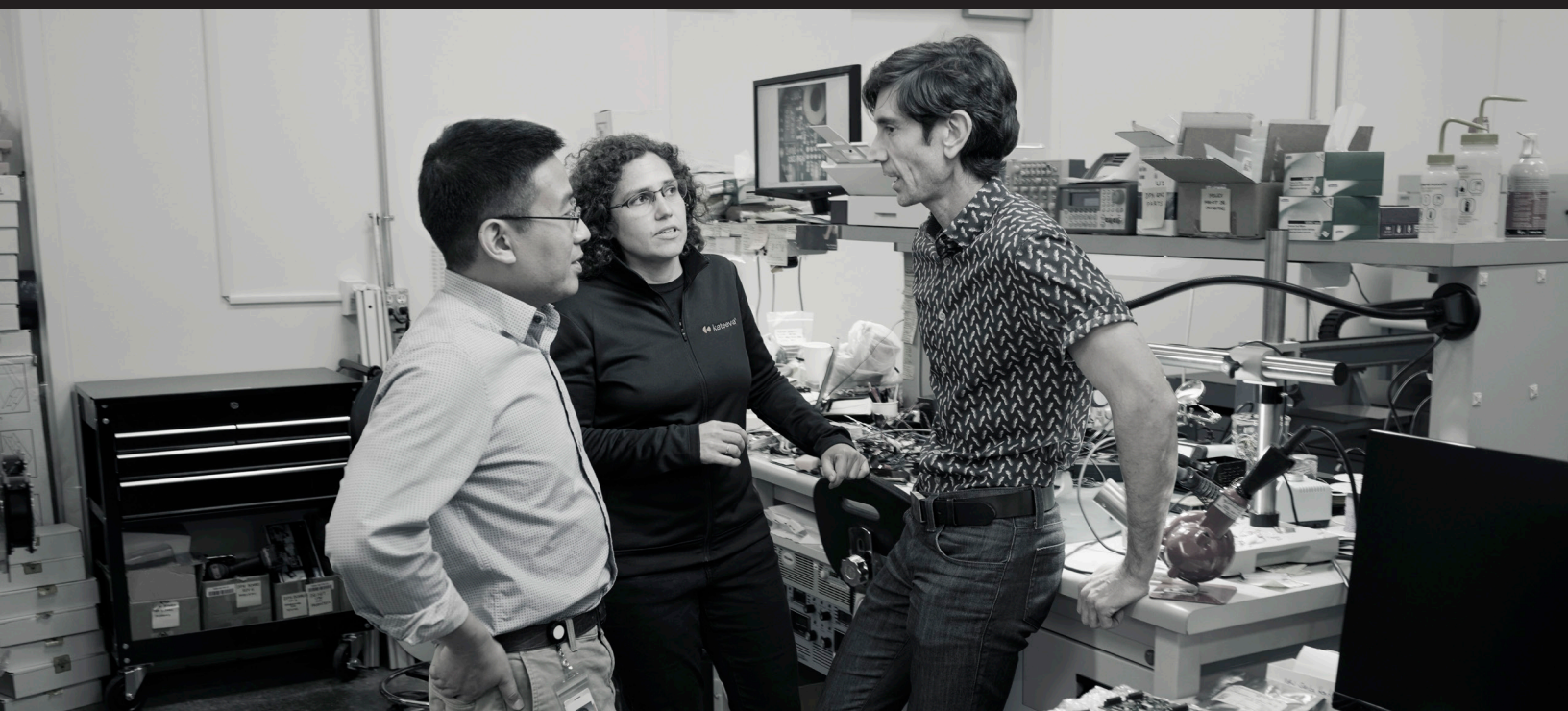
²“Medical Cost Trend: Behind the numbers 2021,” PwC, accessed December 15, 2020.

³“How has U.S. spending on healthcare changed over time?” Health System Tracker, accessed December 15, 2020.

⁴Ibid

⁵“Small-Business Owners’ Views on Health Coverage and Costs,” Common Wealth Fund, accessed December 15, 2020.

⁶Ibid



This list is not exhaustive and can seem overwhelming, but efforts to contain the costs continue to gather steam and sophistication. SMBs can make a significant contribution to that effort—one that would bolster their bottom lines, while creating a more engaged and loyal workforce.⁷

Where SMBs Are Today—and Where They Can Be Tomorrow

All businesses have borne a heavy burden as healthcare costs have soared. In a recent TriNet webinar, Richard Migliori, MD, executive vice president and chief medical officer, UnitedHealth Group noted that in 1999, the cost of healthcare per average employee was about 7% of each employee's salary.⁸ By 2019, that share had risen to 22%.⁹

But those numbers are just an average, spread across all businesses. Individual SMBs often wrestle with factors such as unique workforce demographics, which can impact healthcare utilization and drive up premiums, especially if the SMB does not make fully informed decisions about its health benefit offerings. Similarly, the absence of in-house expertise can leave some SMBs vulnerable to “leveraged trend,” a phenomenon where employers don't raise their copays, deductibles and cost sharing proportionally to rising premiums.¹⁰

Yet as any SMB knows, the competition for talent may compromise their ability to increase employee cost-sharing. On average, covered workers today contribute about 17% for single coverage and 27% for family coverage—more for family coverage at small firms.¹¹ Based on the benefit funding strategies our clients choose, these contribution percentages have not changed dramatically over the last 10 years, but it also means that out-of-pocket spending has more than doubled the increase in employee wages over the last 10 years. In industries where competition for talent is fierce, potential employees become more discerning about benefits. SMBs know all too well that high quality health insurance, with choices and reasonable cost sharing, have become table stakes in talent acquisition.

⁷ “[Outlook on Healthcare Costs](#),” TriNet, accessed on December 15, 2020.

⁸ Ibid

⁹ “[Outlook on Healthcare Costs](#),” TriNet, accessed on December 15, 2020.

¹⁰ Ibid

¹¹ “[2020 Employer Health Benefits Survey](#),” KFF, accessed December 15, 2020.

BE PART OF THE SOLUTION

To continue to offer such benefits without breaking the bank, it's important that SMBs recognize that just as everyone is part of problem, everyone is part of the solution.

Payers and providers are transitioning from fee-for-service to value-based payments characterized by financial incentives for prevention and evidence-based care that improves outcomes. They are using advances in data and technology, including sophisticated analytics, to deliver clinical insights to the point of care. Technology advances also support transitions to telehealth, which for many conditions and situations is more efficient and less expensive than in-person

visits. It can also increase access for traditionally underserved individuals and communities suffering from health disparities. Additionally, improved technology can enable more efficient healthcare transactions, thereby eliminating some of the systemic waste. And as wearable technologies and algorithms become more sophisticated—perhaps even incorporating the social determinants of health into the way they engage individuals in their own health—experts expect healthcare consumers to assume a more assertive role in maintaining their own health.

“TriNet has helped us not only keep our costs down and the costs we pass on to our employees, but also being able to provide them with a real choice on a dozen different plans that they can choose from.”

Tori Lyon
CEO, Jericho Project

SMBs are now in a position to support and take advantage of many of these healthcare trends. One such trend—a renewed focus on individuals as healthcare consumers—creates new opportunities to educate employees on how to make more cost-effective healthcare choices.

ENCOURAGE EMPLOYEES TO HELP BRING DOWN COSTS

SMBs also have a variety of options for incenting their entire workforce to join them in the effort to bring down costs. A recent MetLife report, based on its 18th Annual U.S. Employee Benefit Trends Study 2020, found that the COVID-19 pandemic has increased employees' desire to work with their SMB employers to improve health and well-being.¹² Pre-pandemic, 68% of small business employees believed their employers had a responsibility for their well-being. After the start of the COVID crisis, the number increased to 76%.¹³ So what can SMBs do? For one, they can move away from fixed-dollar copayments toward a coinsurance model, increased employee cost-sharing for non-network providers, raise out-of-network deductibles and lower the percentage paid by the policy to encourage more cost-effective care. They can also encourage or incent the use of lower-cost settings where appropriate, such as outpatient surgical and diagnostic centers. When health plans make online cost comparison tools available for local providers, SMBs can make those tools available to employees. And especially in the context of the pandemic, SMBs can and should encourage the use of telehealth for a variety of care, where appropriate.

Education about how to stay well is also something SMBs can do. They can work with the insurance carrier to implement programs and tools that help employees remember to take prescribed medications, use generic medications when appropriate, get pre-natal care and other preventative health screenings, and, generally, maintain a healthy lifestyle.

¹² “[Navigating Together: Supporting Employee Well-Being in Uncertain Times](#),” MetLife, accessed December 15, 2020.

¹³ Ibid

All of these measures do more than control healthcare costs. Improving employees' mental, physical, financial and social health can lead to increased productivity, engagement and loyalty. The MetLife report found that improved employee health across those four dimensions garnered increases of 9% in productivity, 12% in employee engagement and 10% in loyalty.¹⁴

How A PEO Can Help

The challenge for SMBs as they try to contribute to lowering healthcare costs is that far too many lack the in-house expertise and/or bandwidth to make these cost-saving measures a reality. This is where a PEO can be especially valuable.

First and foremost, PEOs offer access to large company benefits that can offer a leg up as SMBs compete for talent. A September 2019 report by the National Association of Professional Employer Organizations asserted that, on average, PEOs deliver a 27.2% return-on-investment to their clients, nearly a third of which is derived from saving on health benefits.¹⁵ * Equally important, the MetLife report found that 91% of PEO clients believe their employees are satisfied with their current benefits offering, which is significantly higher than the 64% among all other employers. Perhaps this is because, for example, PEOs like TriNet, with its nationwide breadth, are well-positioned to tailor benefits for some industries and offer multiple high-quality options.¹⁶

¹⁴ "[Navigating Together: Supporting Employee Well-Being in Uncertain Times](#)," MetLife, accessed December 15, 2020.

¹⁵ "[How PEO Clients Fared in the First Months of the COVID-19 Pandemic: A Comparative Analysis](#)," NAPEO, accessed December 15, 2020.

¹⁶ Ibid

*Individual business results may vary, and this ROI percentage may not reflect your experience with any particular PEO, including TriNet.



PEOs also play an important consulting role for their clients clarifying the complexities so SMBs can make the best decisions for their employees. At TriNet, for example, HR specialists' understanding of specific industries and geographies enable us to offer highly relevant insights about what benefit funding strategies might work best for your particular workforce.

Benchmarking data from the 18,000 companies (as of 12/31/19) TriNet works with across the U.S. supports these insights. It provides a competitive snapshot of what companies select in terms of benefits and how they choose to share costs with employees, so you have a clear understanding of what you need to do to compete.

A third area of support that PEOs offer is that they help handle communications about healthcare benefits, which can be quite complicated. There are compliance concerns, as well as the need to effectively encourage employees to more actively engage in health and wellness programs. Both demand expertise, experience and resources that few SMBs have. TriNet provides access to targeted communications that, for example, encourage employees to utilize mail order prescription services or help them understand when urgent care or telemedicine services may be more appropriate than an emergency room visit.

SAVINGS THROUGH PREVENTION

TriNet also uses this type of experience and expertise to, if appropriate, help SMBs implement high quality prevention programs and access plans that cover primary care, which can also generate considerable savings. Consider the way TriNet worked with one of their clients recently to do just that.

The client, a large nationwide financial services company, has always offered a very strong benefit package for its employees. Over the last few years, however, continuous increases in its health care premiums had raised concerns. TriNet provided the data that enabled the company to identify a steady increase in emergency department visits, a drop in screening levels and some non-compliance with medication regimens. Believing this dictated the need for a wellness plan, and recognizing it did not have in-house expertise, the company engaged with TriNet to begin the process. Together, TriNet and the client shared the relevant data with the client's employees to explain how the trends impacted the cost of benefits and then, together, we crafted a plan that included:

- **Ongoing two-way communications** between their employees and senior management
- **Onsite health visits for preventive care** that included mammography and flu shots
- **A smoking cessation program**
- **A diabetic awareness program**
- **Mental health services**, including outreach during the current pandemic
- **Communications that encouraged the use of telemedicine** and kept their employees abreast of their nearest walk-in clinic by ZIP code
- **Messaging boards in all break rooms** and refrigerator stickers for their employees at home¹⁷

¹⁷ "Outlook on Healthcare Costs," TriNet, accessed on December 15, 2020.

The payoff came in year one and includes savings of 5%, thanks in part to reductions in emergency department visits by 70%, along with better use of urgent care, primary care and telemedicine. After sharing and celebrating this success with their employees, the client believes longer term ROI will follow. Says the client's CEO, "Our founders have a very simple philosophy. We regard our employees as assets. So why don't we take care of our assets?"

Playing Your Part Delivers Tangible Rewards

As detailed herein, there is little doubt that healthcare premiums will continue to rise for the foreseeable future. Reining in those costs will not be easy, given the arcane complexity of the U.S. healthcare system.

Yet there is also a concerted push to get control of costs with many forces and many players offering hope. SMBs cannot and should not be passive in these efforts. There are things you can do. And the rewards for doing so are considerable. Helping to control healthcare costs can be accompanied by a healthier, happier and more productive workforce. That is an ROI well worth pursuing.



About TriNet

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.

Go to **TriNet.com** to get started or speak with a TriNet representative at **888.874.6388**.

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