2023

Employee Benefits Market Outlook

THE USI ONE ADVANTAGE®

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Executive Summary

Even as most COVID-19 restrictions have been lifted and much of the U.S. has returned to business as usual, employers are still dealing with challenges the pandemic set into motion.

Employers are spending more on compensation and benefits to keep workers on the payroll. Wages increased 15.7% on average for employees who changed jobs in 2022 and 7.5% for employees that stayed. Wage growth was starting to slow in 2022, but remained well elevated compared to pre-pandemic levels.[1] Employees also consider more benefits to be "must haves" when accepting a new position compared to 2019, including a greater emphasis on health and wellness programs, and flexibility.[2]

Benefits spending continues to be impacted by increasing healthcare costs. Employee burnout and staffing shortages in the healthcare sector resulted in higher wage growth than the rest of the private sector, while higher costs in general drove up the price of medical commodities by 5.5% in 2022.[3] Healthcare spending is also being impacted by emerging cell and gene therapies, ranging from $250,000 to $3.5 million per claimant — and the market for these treatments is set to expand significantly within the next few years.[4]

U.S. businesses also spent much of 2022 battling high inflation, rising interest rates and growing recession concerns. Unemployment is forecasted to increase to 4.4% in 2023 as employers work to balance budgets and remain profitable in the year ahead.[5]

To grow and thrive, businesses will have tough choices to make, and more than ever will need expert guidance to navigate these challenges. USI Insurance Services' **2023 Employee Benefits Market Outlook** provides insight and actionable solutions employers can use to reduce the impact of cost-driving issues.

Arthur Hall

Employee Benefits National Practice Leader

[1] ADP Pay Insights, November 2022
[2] MetLife, *20th Annual U.S. Employee Benefit Trends Study 2022*
[3] U.S. Bureau of Labor Statistics, *Consumer Price Index Summary*, November 10, 2022
[4] Associated Press, *$3.5M Gene Therapy for Hemophilia Gets FDA Approval*, November 22, 2022
[5] U.S. Federal Reserve, *Summary of Economic Projections*, September 21, 2022

Strategies to Reduce the Impact of Rising Healthcare Costs

High inflation, a surge in demand for health services delayed by the pandemic, and ongoing staffing challenges continue to drive up the cost of healthcare. As a result, many businesses have experienced their worst renewal in 2022 as compared to the past five years.

As the cost of claims continues to increase, insurance companies stand to make a profit — and not just from your premium going up. Renewals are structured to include additional profit streams for the insurance companies, such as higher-forecasted medical trend, inflated claims reserves and claims-based fees. With little incentive for insurance companies to control the cost of healthcare, employers will need to find other ways to mitigate the impact on their health plans.

Manage Fixed and Variable Costs

Understanding the various components that impact the cost of your renewal can give your organization a better starting point for negotiating pricing with the insurance company. USI has found this can help lower the initial proposed renewal 5% to 7%.

Reducing the cost of claims also helps reduce insurance company profits. An analysis of claims data showed that for many employers, 5% of plan members incur 60% of claims, largely due to undiagnosed conditions or mismanaged chronic disease care. Routine preventative care and chronic disease management helps improve employee health, which can lower the overall cost of claims. Utilization and claims data can help you understand what's driving top claims costs and which solutions to implement.

Transfer Costs Through Plan Design Changes

Changing how a fully insured health plan is funded can help reduce premium costs. For example, switching from a rich PPO plan design to a high-deductible health plan can reduce premium by as much as 30%. Making additional changes, like funding a health reimbursement arrangement (HRA), can help reduce your overall costs while maintaining benefits for employees.

Self-funded plans can eliminate certain state-mandated coverages from their plan design for additional savings.

- Difficulty filling open positions has led to 21.1% wage growth for healthcare workers since 2020, compared to 13.6% for other private-sector employees.[1]
- The cost of medical care commodities, including medical equipment and supplies, as well as prescription and over-the-counter medications, rose 5.5% over the past year.[2]
- The price of over 1,200 different medications increased faster than inflation between July 2021 and July 2022.[3]
- Emerging cell and gene therapies will also continue to affect the cost of healthcare; the most expensive treatment approved for use in 2022 costs $3.5 million per claimant.

Consider Alternative Funding

Some organizations may be better suited to an alternatively funded plan, such as level- or self-funded. These types of plans provide savings opportunities by only paying for claims incurred, eliminating carrier profit and premium taxes, allowing for flexible plan design and providing claims data transparency, which allows employers to implement targeted disease-management solutions. USI has found switching from fully insured to level-funded can save an estimated 5% to 10% on premium.

For employers that already have a level-funded plan, unbundling and marketing plan components individually can result in a more customized plan and greater savings.

How USI Can Help

Contact your USI representative to learn more about our services and solutions designed to help you manage the cost of your employee benefits and improve plan member satisfaction.

[1] Fitch Ratings, *Labor Strife to Continue for U.S. NFP Hospitals Despite Reprieve*, 2022
[2] U.S. Bureau of Labor Statistics, *Consumer Price Index Summary*, November 10, 2022
[3] U.S. Department of Health and Human Services, *Price Increases for Prescription Drugs, 2016-2022*, September 30, 2022

Why Is Leave Management So Challenging?

One thing every employer has in common is employees who will need to take leave — and it's on the employer to ensure compliance with the various leave laws that may (or may not) apply. Administrative challenges can make compliance tricky, especially when combining multiple federal, state and local leave requirements with an employer's own leave policies.

Most employers, in some form or fashion, are managing:

- Voluntary leave policies offered as a benefit for working with the employer
- Federal, state and local laws that require leave and/or wage protections in various instances
- Protections for wage continuation or replacement

There are countless scenarios in which employer policies, state and/or federal requirements coordinate, overlap or extend. For example, while an employer may have a policy in place that provides time off for the birth of a baby, the employer needs to understand the implications for other laws, such as the Family and Medical Leave Act (FMLA), and/or state or local leave laws.

Leave management is further complicated by wage replacement. For example, under workers' compensation, employees have a legal right to benefits such as to wage replacement and medical coverage but not a right to leave. However, in the event the illness or injury is a serious health condition, FMLA protections may be available. Similarly, short-term disability policies provide wage replacement benefits, but employers should be aware that related absences may also be covered by federal, state or local leave laws.

Employers can also get into trouble when leave programs are not administered consistently. The average cost to defend an FMLA-related lawsuit is $80,000, and average settlements range from $87,500 to $450,000.[1] In cases of other violations, such as the Americans with Disabilities Act (ADA) or Title VII , the Equal Employment Opportunity Commission (EEOC) may bring fines and lawsuits.

Given the complexity of various leave laws, there is a growing interest in outsourcing absence management to ensure compliance and reduce liability when administering leave.

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Absence Management Solutions

There are several absence management solutions in the marketplace. Figuring out which option is best can be a challenge.

Some employers choose to partner with their current disability insurance company to provide absence management for the ease of billing and administration, and integration with existing short-term disability and long-term disability plans. Once established, however, transferring absence management to a different insurance company can be costly and time-consuming. Further, not all carriers will be able to accommodate leave requirements that are not connected to disability.

Third-party absence management vendors are not tied to a specific insurance company, providing employers with more flexibility, and often a more robust platform. The vendor handles billing and administration, but unlike the insurance-based option, integration with existing disability is not as seamless.

Another consideration for selecting an absence management solution is the takeover arrangement and FMLA history. Depending on the agreement with the solution provider, employers may have additional work, costs and complications associated with the initial transition. Successful vendor selection and implementation will require careful review and planning.

How USI Can Help

With leave management, there is no silver bullet. While outsourcing can be well worth the price, finding the right solution is paramount. Some employers will do perfectly well with a carrier-based solution, while others may benefit from a standalone third party.

USI works with many disability insurance companies and other vendors, and can help our clients understand where absence management resources may be available to them. Contact your USI representative to learn more.

[1] ESIS, *The Cost of Noncompliance When Managing Employee Absence*, 2020

Voluntary Benefits May Be Worth a Second Look

Half of U.S. workers have high anxiety about healthcare costs beyond what their insurance covers.[1] In a recent financial wellness survey, 76% of stressed workers said financial worries disrupted their productivity, while 55% of employees that said they were distracted by finances at work, and spent more than three work hours each week focused on personal finances .[2]

Recognizing the impact on job performance, employers have turned to benefits to help reduce employees' financial stress. In addition to financial wellness resources, employers have been offering voluntary benefits, such as accident, critical illness and hospital indemnity, to supplement the existing health plan and provide employees with a financial buffer when faced with unexpected medical costs.

While voluntary benefits can provide tremendous value, employees either don't understand how the benefits work, find the claims process is tedious and confusing, or simply forget they enrolled. This has resulted in few claims being submitted and lower enrollment over time. Seeing an opportunity to improve the process, some insurance companies have become more proactive in identifying which medical claims may also be covered by a voluntary plan.

Where technology advancements and claims integration has improved, insurance companies are able to look at claims data and either notify a plan member of potential eligibility or pay the claim outright where eligibility is clear cut (i.e., cancer treatment covered by critical illness).

Organizations looking to reduce costs while maintaining competitive benefits and supporting employee financial well-being should give voluntary benefits a second look.

Round Out Health Benefits

While health insurance can provide a significant financial benefit to employees, it is not designed to cover all expenses related to medical care. Employers can round out their health plan by offering voluntary benefits at little to no cost to the organization.

Educating employees about the financial impact of these coverages can help encourage enrollment. One-third of employees believe voluntary benefits are more important due to the pandemic, and about half are willing to pay for the protection they provide (49% at small businesses and 55% at midsize organizations).[3]

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How Employees Feel About Having a Wide Range of Benefit Offerings

73% say it would make them **stay at their employer longer**

75% say it would help **reduce stress and improve financial wellness**

Source: MetLife, 20th Annual U.S. Employee Benefit Trends Study 2022

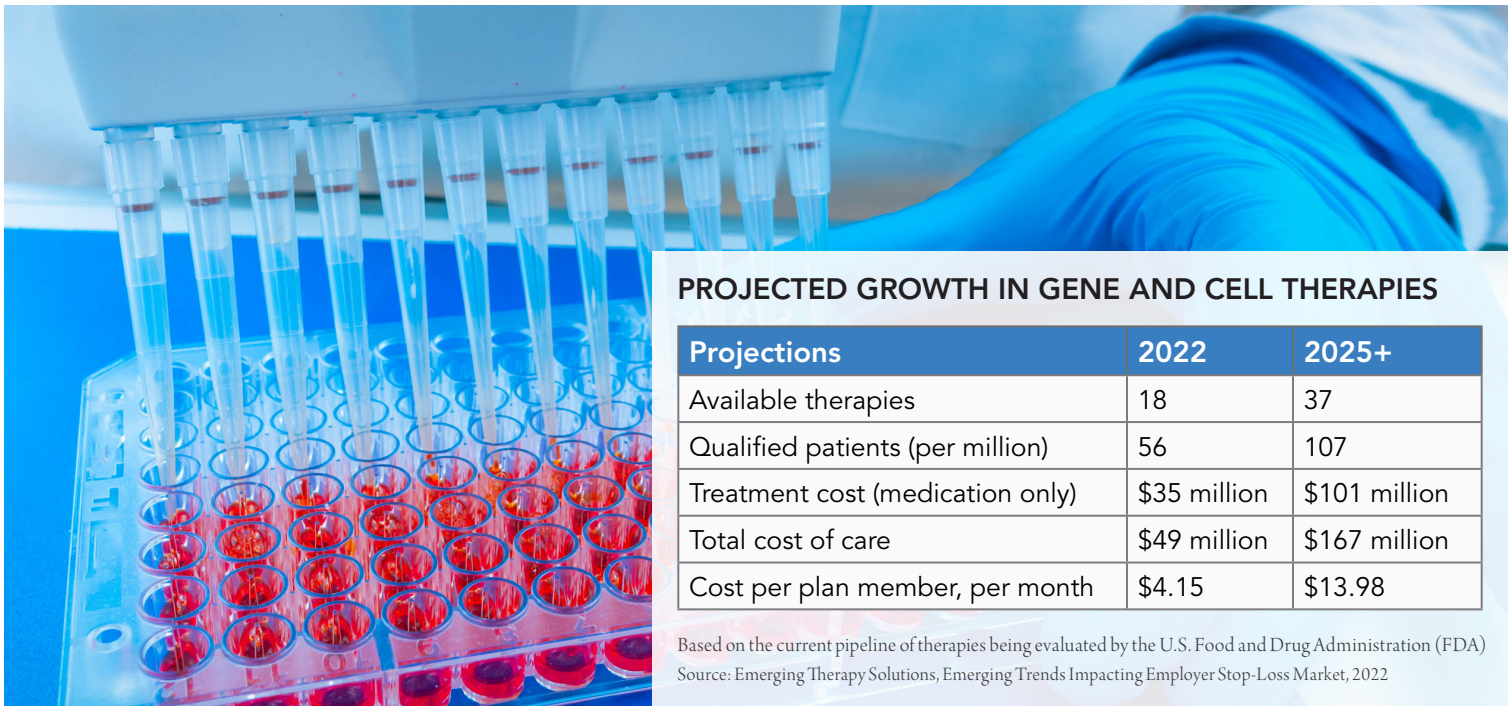
Providing a wider range of benefits may also improve employee satisfaction and engagement. Seventy-three percent of employees said this would make them continue working for their employer for longer, while 75% believe this would help reduce stress and improve financial wellness, according to MetLife's 2022 employee benefits trend study.

How USI Can Help

USI works with employers to develop strategies that reduce employee financial exposure and enhance benefit plan offerings. Our specialists work with you to evaluate and identify employee needs on the basis of plan design, demographics and claims analysis. USI then helps you place coverage with existing carriers or find a better fit for your organization's needs. We can also provide education and training to help employees understand the value of the benefits available to them, as well as assist you with implementation and enrollment.

Contact your USI representative to learn more about these and other solutions designed to improve employee financial well-being and engagement.

[1,3] Aflac, Workplace Benefits Trends, 2021-2022
[2] PwC, 2022 PwC Employee Financial Wellness Survey



PROJECTED GROWTH IN GENE AND CELL THERAPIES

Projections	2022	2025+
Available therapies	18	37
Qualified patients (per million)	56	107
Treatment cost (medication only)	$35 million	$101 million
Total cost of care	$49 million	$167 million
Cost per plan member, per month	$4.15	$13.98

Based on the current pipeline of therapies being evaluated by the U.S. Food and Drug Administration (FDA)
Source: Emerging Therapy Solutions, Emerging Trends Impacting Employer Stop-Loss Market, 2022

Emerging Genetic Therapies Create New Cost Challenges for Employers

Specialty drugs continue to be a high-cost dilemma for employers, and will continue as more costly treatments become available for a wider range of conditions.

Mainstream specialty drugs, originally developed to treat complex or rare chronic diseases, have expanded from a handful in the early 1990s to more than 300 specialty medications today that treat a variety of conditions including rheumatoid arthritis, asthma and blood disorders. The expansion of specialty drugs has made pharmacy the fastest-growing expense for most employers' health plans. The average annual cost of this class of drugs now **exceeds $38,000 per medication**.[1]

A new class of drugs, referred to as "genetic therapies," may cause even greater concern for employers. Genetic (or gene) therapy is a technique that modifies a patient's genetic code to treat or cure a specific disease, either through gene modification or replacement of a disease-causing gene, or by introducing a new or modified gene to help treat the disease. Treatments tend to be an injection or infusion, typically in a specialty setting, **ranging in cost from $250,000 to $3.5 million per claimant**.[2] Costs are much higher due to longer inpatient stays and more complicated administration, the use of specialty pharmacies for distribution, and the life-altering nature of these therapies.

Currently used to treat a narrow scope of orphan and ultra-rare conditions, gene therapy usage is set to expand significantly within the next couple of years.

While the odds of experiencing one case for a 1,000-member health plan is only 2%, the impact is $100 per member per month (PMPM). For a 10,000-member plan, the odds of experiencing one case is higher (16%), but the impact is $10 PMPM. As more genetic therapies become available, the likelihood of experiencing a case goes up — as does the impact on employer health plans.[3]

As these treatments can be life-saving for the recipient, employers will need to weigh the costs of covering these medications and therapies for one to two members against the need to manage costs for all plan members.

What Can Employers Do to Manage Specialty Drug Costs?

Managing specialty drug costs may include a combination of strategies that vary from one employer to the next. Here are just a few examples of strategies that can be considered:

Foundation programs. USI has seen an increase in the use of foundation programs and other manufacturer assistance programs (MAPs) provided by the pharmaceutical industry to help health plan members cover the costs of expensive medications. Use of foundational funds and other MAPs may be increasing as more pharmacy benefits managers (PBMs) have begun to allow this practice. Check with your PBM and understand that though savings could be significant, not all members will qualify.

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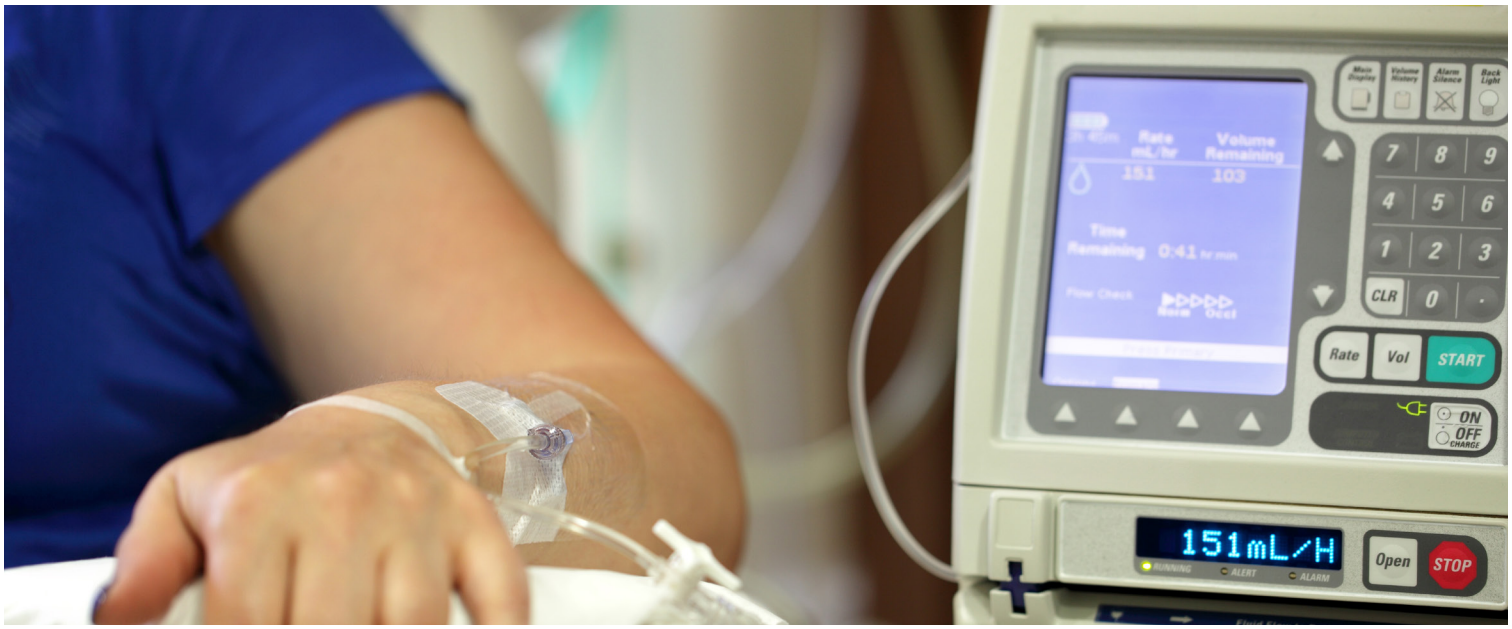

Gene therapy pools. Some employers have begun paying into specialty gene therapy pools (typically a PMPM or PEPM charge) to help cover the high cost of medications for certain conditions. While the fund can help cover the cost of the medication itself, it would not cover the additional costs associated with administration and hospitalization, which can range from $300,000 to $700,000.[4]

Managing specialty drug access. PBMs use prior authorization (PA) to mitigate high-cost medications, a process by which specialty drugs go through another layer of approval prior to being dispensed to a plan member. Since PBMs are incentivized by rebate dollars to approve these medications, claims are rarely rejected, producing little savings for employers. To combat this conflict of interest and reduce the impact of rebates on PA rates, some employers have begun to carve out the PA process to an independent third party.

Exclusions. Some employers have taken an aggressive position that limits or excludes plan coverage of certain specialty drugs altogether. However, exclusions remain a gray area in terms of compliance, and employers should take this into account when exploring this measure.

Before implementing these or other cost mitigation strategies, it's important to understand your company's specific pharmacy utilization that may determine which solutions are best for your organization.

How USI Can Help

USI leverages our integrated local network of resources to help you manage your organization's specialty drug costs and regularly evaluate new strategies to manage this expense.

- Population health management consultants provide the pharmacy team with insights into potential clinical challenges your organization may face.
- The pharmacy team develops strategies and solutions designed to address your organization's specific challenges.
- Compliance reviews pharmacy strategies and solutions to ensure adherence to health and welfare rules and regulations.

Contact your USI representative to learn more about these and other strategies to help control the cost of specialty drugs for your medical and pharmacy plans.

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[1] Evernorth, *What Is Drug Trend and How to Manage It*, 2022
[2] Associated Press, *$3.5M Gene Therapy for Hemophilia Gets FDA Approval*, November 22, 2022
[3,4] Emerging Therapy Solutions, ETS Overview for USI

Improve Health Outcomes and Reduce Costs Associated With Type 1 Diabetes

In the U.S., 37 million people have diabetes.[1] Blood glucose monitoring is an important component of diabetes management, especially for individuals with Type 1 diabetes. Using a blood glucose meter has been the standard of care for more than 50 years.

Diabetes in the U.S.: Facts, Figures & Impacts

	Type 1	Type 2
WHO?	1.9 million to 3.7 million individuals[1]	33.3 million to 35.2 million individuals[1]
COSTS	An individual costs $9,300 annually, on average[2] ▪ 1 in 3 individuals costs more than $20,000 annually[3]	An individual costs $3,900 annually, on average[2]
	Renal failure due to poorly managed diabetes is one of the top 10 reasons for catastrophic claims over $50,000[4]	

A person with Type 1 diabetes uses blood glucose levels (also known as blood sugar levels) to adjust their insulin, typically 4 to 6 times per day. However, glucose meters only provide a snapshot of an individual's blood sugar level at the time of testing. Blood glucose levels change constantly throughout the day, and individuals with diabetes may occasionally encounter dangerously low or high levels, which can lead to serious complications.

Poorly managed Type 1 diabetes may lead to a life-threatening condition called diabetic ketoacidosis, or DKA. Left untreated, DKA may result in a coma or even death. USI estimates one episode of DKA can result in a $20,000 hospitalization.

A Modern Approach

Newer devices make it easier for individuals with Type 1 diabetes to monitor their blood sugar continually throughout the day:

- **Continuous glucose monitors** (CGMs) use a small device inserted into the back of the arm or abdomen to transmit readings on demand, usually to the patient's smartphone. The individual then uses an insulin pen or pump to deliver insulin as needed.
- Even more advanced than CGMs, **closed loop systems** use a **CGM working in tandem with a continuous infusion insulin pump**. Blood sugar readings are continuously transmitted by the CGM to the insulin pump, which then automatically adjusts the delivery of insulin throughout the day.

Ensuring your organization's plan design aligns with current standards of care for diabetes management can help improve plan member health status and reduce overall costs of care. Providing plan members who have Type 1 diabetes the option to obtain newer glucose monitoring devices may also reduce the likelihood these individuals develop DKA and potentially life-threating and costly diabetes-related hospitalizations.

How USI Can Help

USI educates clients on how to evaluate whether their current plan provides optimal support for members with diabetes. We help clients evaluate diabetes-related monitoring options and review how group plan design supports the current standards of care for diabetes management. Contact your USI representative to learn more about how we can assist your organization.

[1] CDC.org
[2,3] USI 3D claims data
[4] Sun Life, *10th Annual Research Report High-Cost Claims and Injectable Drug Trends Analysis*, 2022

How Can We Help?

To help clients navigate complex business challenges, USI shares expert insights and key solutions through our Executive Series. Our cross-functional teams work to provide timely information on new and evolving topics in risk management, employee benefits, personal insurance and retirement. We then share tailored solutions to help you guide your organization successfully, enhance insurance coverage, and control costs. For additional information and resources, please visit our Executive Insights page: usi.com/executive-insights.