The Rising Cost of Health Insurance and the Battle for Profitability

CHALLENGES AND BEST PRACTICES FROM EXPERTS AND OWNERS OF PRIVATELY-HELD BUSINESSES

THINK TANK

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About This Report

This report summarizes key findings from our Think Tank survey, which was distributed to Enterprise Bank & Trust board members, as well as other leaders of privately-held businesses. The survey yielded 236 responses. All statistics cited are based on the number of responses to that question, as not all respondents answered every question. Enterprise Think Tank is an ongoing series in which owners of privately-held businesses are surveyed about key issues facing their businesses. The findings are published in a comprehensive report to provide both the resulting data and key best practices from survey responses.

To explore other Think Tank topics, visit www.enterprisebank.com/insights.

The rising cost of providing health insurance to employees is one of the top financial pressures facing owners of privately-held, small and midsize businesses. This is according to the most recent Enterprise Think Tank survey of more than 230 business owners — 80% of whom have the title Owner, President or CEO. And those costs show no signs of slowing down.

When asked how concerned they are about providing health insurance in relation to overall expenses on a scale of 1-10, 79% of business owners answered 7 or higher. Distributors and, ironically, the health care industry struggle the most with health insurance costs in relation to all costs, while retail and professional and financial services reported the least concern — although still high.

The rising cost of health insurance is well documented. Employers' health care costs started small. In 1950, health benefits amounted to only 0.50% of total compensation, according to the 2018 Willis Towers Watson report, "Health Care USA: A Cancer on the American Dream." Since then, health insurance premiums have risen faster than total compensation every decade. By the first decade of the new millennium, health care costs increased 3.4 times faster than employee compensation.

Beyond actual costs, much of the health insurance cost challenge stems from the fact that smaller businesses don't have the buying power of larger ones — and often little time and resources to spend figuring out this complicated puzzle.

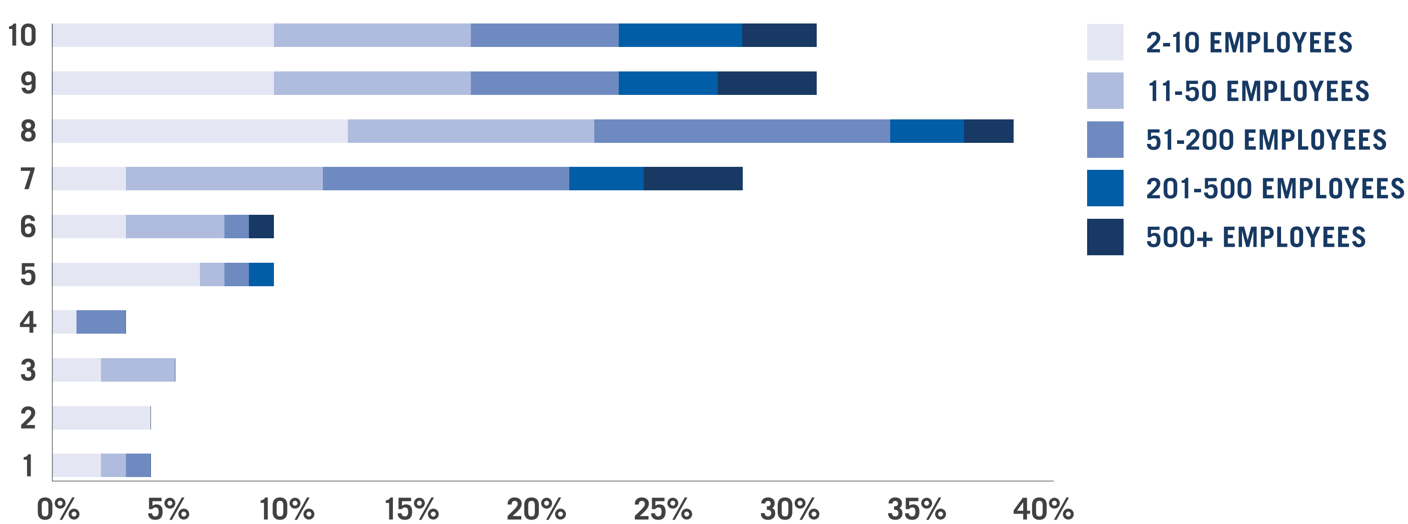
For some business owners, the cost of health insurance has become so steep that they have simply opted out of providing health insurance benefits altogether, leaving employees to fend for themselves. A 2018 study from the Bureau of Labor Statistics found that only 57% of workers at firms with 100 employees or less had access to employer-sponsored health care.

"We are too small to provide coverage," says Brian Finucane, President of Kansas City-based health care startup Talk Points. "But we prefer to use contract workers so we can avoid the complexity and cost of benefits with full-time employees."

Opting out of providing health insurance may explain one surprising finding from the survey — that employers of smaller-size businesses are less concerned with health insurance costs than larger companies.

"For companies with less than 50 full-time employees, opting out of providing health care benefits is allowed under the Affordable Care Act," explains Mike Castellano, CEO of physician group Esse Health. "This may explain why smaller companies reported being less concerned with health care costs — they just no longer provide it."

On a scale of 1-10, how concerned are you about the cost of providing health insurance in relation to your company's overall expenses?

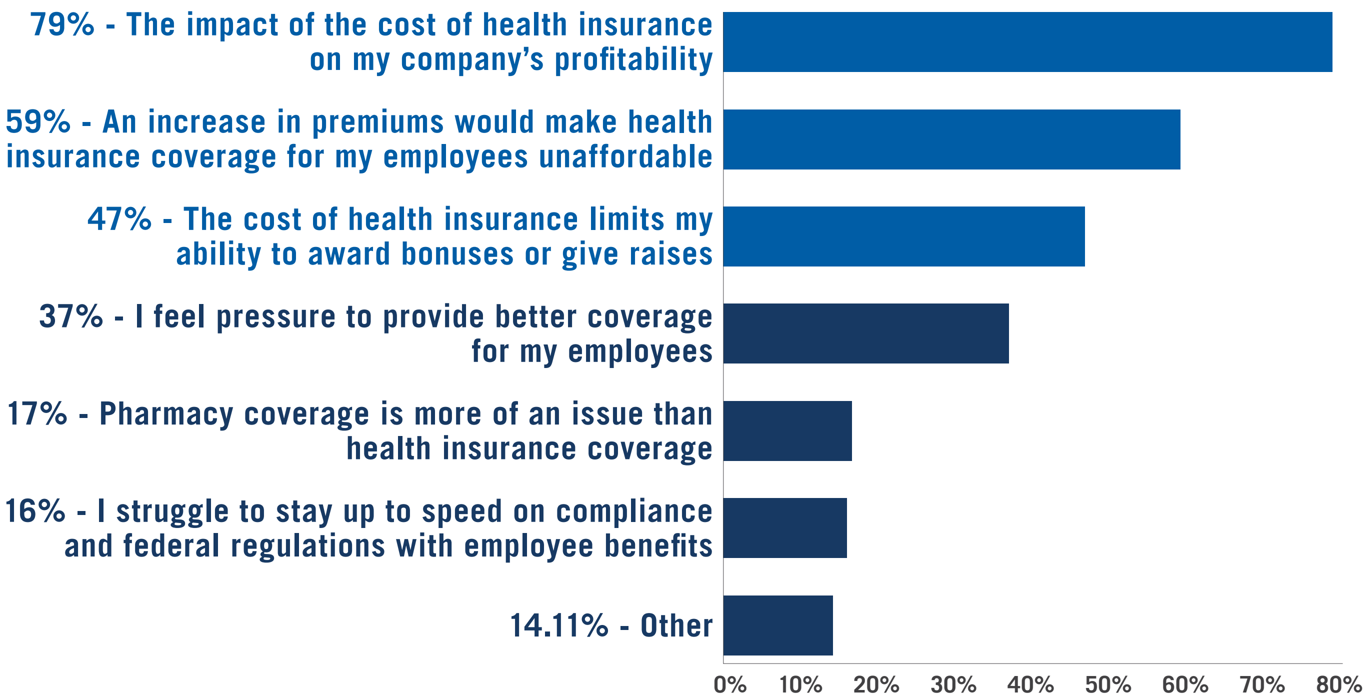


The Small Business Profitability Conundrum

In our survey, the top three business concerns related to the cost of providing health insurance are:

1. The impact of the cost of health insurance on my company's profitability (79%)
2. An increase in premiums would make health insurance coverage for my employees unaffordable (59%)
3. The cost of health insurance limits my ability to award bonuses or give raises (47%)

Please select your top three business concerns related to the cost of providing health insurance.



Companies with 51-100 employees expressed the most concern about the impact of health insurance costs on profitability, while the highest responses to feeling pressure about providing better coverage came from companies with 11-50 employees.

"While it has been entirely frustrating to see health care costs rise significantly, we see health care as just one piece of the benefits puzzle – albeit a very important one," says Swagelok Kansas City President John Pendleton. "We have had to give ground on health care due to rising costs via implementing plans that have higher deductibles, and we have invested in strengthening other benefits such as tuition reimbursement, volunteer paid time off and 401(k) plans."

For most businesses, health insurance is a top two or three line-item expense, next to payroll — and the only expense they generally don't have a lot of control over, says Byron Shultz, Principal at Phoenix-based MJ Insurance. "It can be quite frustrating to see cost increases that are two to three times the rate of inflation and feel like there's not much you can do about it. I think you're seeing that frustration in these survey results."

While health insurance costs generally are rising, health care providers share their perspective on why the cost of providing care continues to increase.

"The fundamental reason the cost of insurance is rising is our increasing use of health care," explains Sandra Van Trease, Group President at BJC HealthCare. "As our employee workforce and their dependents age and develop multiple chronic conditions, people consume more health care — due to, for example, obesity, heart disease and diabetes — and that drives up the cost for the employer."

We're seeing that the use of health care services for St. Louisans in employer-sponsored plans is down, says Louise Probst, Executive Director of the St. Louis Area Business Health Coalition. "Utilization for this population declined by 3.7% between 2014 and 2018, according to data from the Midwest Health Initiative. Nationally, the Health Care Cost Institute has reported similar trends, with both the use and intensity of inpatient and outpatient care declining."

While use of health care is an important factor contributing to overall spending, so are prices. "In private markets, customers drive suppliers toward better value. That hasn't been the way things have worked in health care," Probst says, adding that "physician leaders and researchers generally agree that more care is not always better care, and higher prices do not ensure safer or higher-quality care. Therefore, it is our duty as purchasers of health care to be tough on price."

A critical part of participating in the dialogue is understanding how things like utilization, price and services are defined. And, like so many other issues vying for the attention of business owners and senior leaders, investing time in understanding and managing health care costs often gets pushed to the back burner.

Susan Wilson, Executive Director of the New Mexico Coalition for Healthcare Value, says small-business owners are increasingly relying on insurance brokers to help them get the best combination of benefits and pricing. "Many small businesses have few options other than to be fully commercially insured, or not be insured at all," Wilson says.

Typically, small and midsize businesses have less negotiating power due to their size. And because they are smaller, a few high-cost cases among their employee base can drive costs sky high.

"The truth is, there are not a lot of good options for businesses with less than 50 employees," MJ Insurance's Shultz says. "The negotiating power just isn't there."

"Many small businesses have few options other than to be fully commercially insured, or not be insured at all."

— SUSAN WILSON
Executive Director of the New Mexico Coalition for Healthcare Value

What Employees Want: A Generational Shift

While it is generally true that younger employees worry less about health care benefits because they are healthier and use insurance less often, there appears to be a generational shift in how health insurance benefits are viewed by employees.

In our survey, only 6% of businesses plan to increase health insurance benefits for their employees in the coming year. Sixty-five percent plan to maintain their existing benefits, and 29% plan to explore ways to cut costs by reducing or re-bidding contracts.

"The narrative around insurance and health care is changing in front of our eyes," says Thomas McAuliffe, Director of Health Policy at the Missouri Foundation for Health. "Younger workers are not demanding as much regarding insurance, and they are coming into their employment with college and credit card debt, so a rich insurance package is not a big part of their narrative. Throwing more insurance at them is not a motivator for them to come work for you."

While insurance may be less of a motivator than it once was, a 2017 study by Anthem, Inc. showed that 35% of millennials have turned down a job offer either fully or partially due to the fact that they were dissatisfied with insurance offerings.

"In my experience, younger people don't care as much about benefits. They would rather have more money or vacation time," says Jerry Hickey, Owner of Kansas City-based Express Employment Professionals.

McAuliffe notes another cultural shift he's seeing where the perception of what it means to have a healthy life is changing. "Younger employees are thinking about things like work-life balance, overall quality of life and access to entertainment. They are not necessarily prioritizing insurance benefits."

There was a time when health insurance benefits were a key driver of a potential employee's decision-making on whether to accept a job offer. While that is more often the case for workers as they age — and with certain populations like those with existing health issues — our survey shows that health insurance benefits are not a primary benefit to attract and retain talent for small and midsize businesses.

When asked if they use health insurance as a primary benefit to attract and retain talent, 63% of survey respondents said no, while 37% said yes. But there is a marked difference in responses based on the number of employees. For companies with 2-10 employees, only 22% reported using insurance benefits to attract and retain talent, while nearly the inverse is true for companies with 500 or more employees, where 69% reported using insurance to attract and retain talent. This is likely based on larger companies' ability to afford a more attractive employee health insurance package.

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We also asked whether employers had changed their health care insurance programs to make them more attractive to candidates, and 71% said no. But similar to the question about health insurance as a primary benefit, larger companies were more likely to boost their insurance programs to make them more attractive to candidates. Eighty-four percent of businesses with less than $1 million in annual revenue reported not changing their programs to attract candidates.

John Wennemann, Vice President of Human Resources at St. Louis-based Duke Manufacturing, says his company has taken steps to make his insurance program more attractive to employees and candidates. "One of the steps we've taken is to offer a narrow network option, with lower premiums, to make it more affordable."

Reducing Costs: Three Big Levers

With health care costs rising and no end in sight, what are business leaders doing to minimize cost? And what new ideas are emerging that might help impact profitability?

Business owners looking to reduce their health insurance spend should explore three key areas, says Susan Lang, CEO and Founder of HooPayz, which offers services to employers to help manage health care costs.

"Reducing costs should be explored during **benefits design**, through wellness and **preventative care** programs, and evaluating access and actual **costs**," Lang says.

1. BENEFITS PLAN DESIGN

The first opportunity to manage and potentially reduce health insurance cost is at the time a company's benefits plan is being developed.

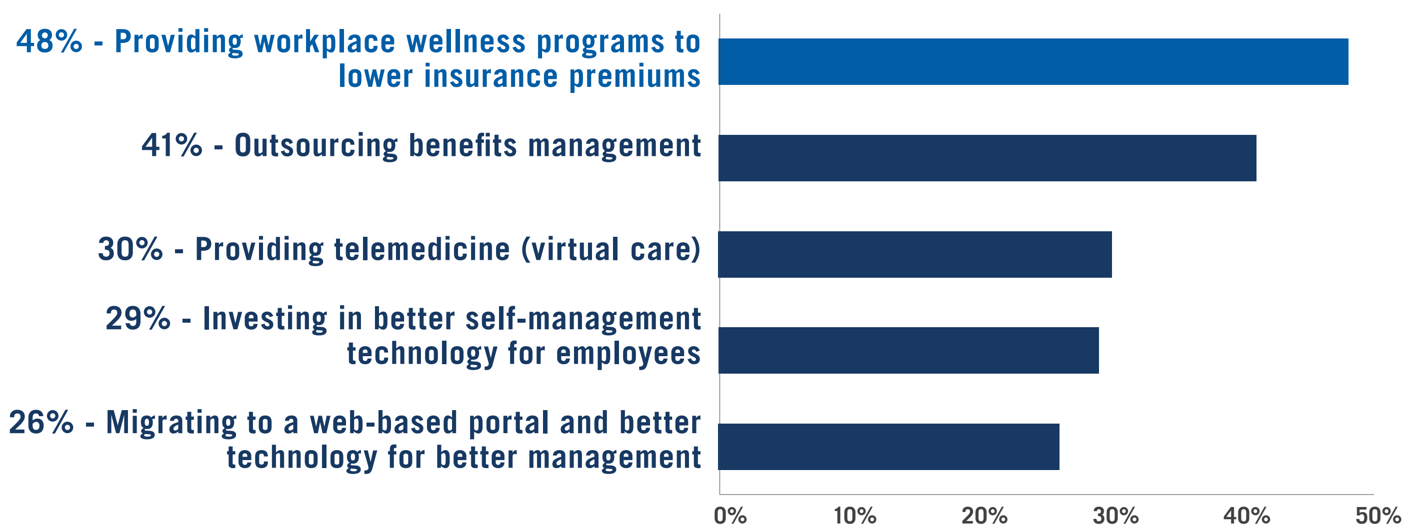
Reducing premiums is where many organizations spend the most time, and there are several ways to do that. The first is to choose self-funded insurance, which provides health benefits using a company's funds rather than a fully insured plan where the company contracts with an insurance provider for coverage. In this scenario, the employer pays for health claims out of pocket rather than a fixed premium to an insurer.

Self-funded insurance can lower premiums for employees and potentially save companies money through reduced operational costs. But it also comes with the possibility of facing huge bills if something catastrophic happens to an employee, so it must be weighed carefully by smaller companies who may be less likely to be able to absorb this cost.

"We self-insure and maintain a stop-loss policy at $200,000 for a single event. We shop the plan biannually and have not found a third party who can beat our cost," says Mike Waters, CEO of Kansas City-based engineering firm SOR Inc.

Shultz at MJ Insurance says there are creative options for mid-market companies (51-400 employees). The key, he says, is to align a risk-financing funding platform that allows companies to mitigate severe high claims yet still capitalize when overall claims are favorable. "This is the only way for these types of companies to change their five-year health care expense trend," he says.

What strategies are you developing to enhance your health care benefits package and reduce costs? Select all that apply.



Another option is to choose a "narrow network" insurance plan — an option that offers lower out-of-pocket costs and monthly premiums in exchange for a smaller provider network. This can mean that employees may not be able to see a doctor they've gone to for many years, and not all doctors accept these types of plans.

An increasingly popular choice to reduce premiums is to move to a High Deductible Health Plan (HDHP), which lowers premiums by increasing deductibles over a traditional plan. HDHPs are popular with organizations who tend to have more young and single employees since they are more likely to be in better health and do not seek coverage for spouses and families.

HDHPs put more responsibility on employees to make smart health care decisions to avoid expenses associated with care, so some companies that use HDHPs offer education to employees about making healthy choices.

"A high-deductible plan makes insurance more affordable for the employee and the company, but those who have never had health insurance before often don't understand the amount of out-of-pocket costs associated with this type of plan when they go to use their insurance," says Seniors Home Care CEO Ryan Whittington.

Being covered by an HDHP is required in order to offer employees another increasingly popular option

Comparison: Alternative Health Insurance Options for Employers

Self-Funded	Narrow Network	High Deductible Health Plan (HDHP)	Health Savings Account (HSA)
Employer pays for employees' health claims out of the company's funds rather than a fixed premium to an insurer	Offers lower out-of-pocket costs and monthly premiums in exchange for a smaller provider network	Lowers premiums by increasing deductibles over a traditional plan	Medical savings account that employees can use to pay for qualified medical expenses without federal tax liability
Comes with the possibility of facing huge bills if something catastrophic happens to an employee	Employees may not be able to see a doctor they've gone to for many years, and not all doctors accept these types of plans	Puts more responsibility on employees to make smart health care decisions to avoid expenses associated with care	Being covered by an HDHP is required in order to offer to employees

— a Health Savings Account (HSA). HSAs are medical savings accounts whereby the money put into the account is not subject to federal income tax. An employee's HSA can be used to pay for qualified medical expenses without federal tax liability. HSAs are the only triple-tax protected vehicle under Internal Revenue Service code. Money is deposited tax-free, grows tax-free and can be used tax-free as long as the funds are used for qualified medical expenses.

Esse Health's Castellano says that high-deductible plans coupled with HSAs can be an effective tool to keep employer costs in check and turn employees into more cost-conscious consumers. "The higher deductible should save premium dollars. If the employer uses some of the premium savings to make an annual contribution to the employee HSA, it offsets the employee's higher deductible."

Despite the benefits, only 42% of survey respondents offer employees an HSA. While HSAs were most common among companies with more than 50 employees, organizations with between $1 million to $50 million in revenue accounted for more than 50% of those saying yes.

Nancy McCullough is the Founder and CEO at Kansas City-based entrepreneur to Enterprise (e2E), which provides financial, human resources, and marketing services to growing businesses. In the course of helping clients manage finances, HSAs come up frequently. Her firm began offering HSAs to her 20-person staff in 2018, and the response was positive.

"Our clients tend to have less than 50 employees. The cost of health insurance is a big pain point for them, and there aren't many creative choices," McCullough says. "It often comes down to either simply selecting an HSA paired with a high-deductible health plan or a more traditional plan with lower deductibles and individually rated premiums."

"It can be quite frustrating to see cost increases that are two to three times the rate of inflation and feel like there's not much you can do about it."

— BYRON SHULTZ
Principal at Phoenix-based MJ Insurance

2. PREVENTATIVE CARE INCENTIVES

Programs focusing on employee wellness and preventative care first emerged in the 1980s as a way to create a better work environment and reduce health care costs by minimizing health care utilization and providing negotiating leverage for better benefits.

The appetite for these programs has grown tremendously since that time, with several studies showing over 50% of American businesses offering some form of a wellness program.

According to a study by the National Small Business Association and Humana, 93% of small-business owners say that employee well-being is critical to their bottom line. Yet despite their popularity among larger companies, the study revealed that only 22% of small businesses have a wellness program in place.

These programs include things like getting checkups and biometric screenings, providing smoking-cessation programs and offering health education training programs — to name a few.

While they are often popular with employees and represent another option for businesses to reduce the cost burden, there are mixed reviews when it comes to the effectiveness of those programs.

"There is a body of work that suggests that offering a benefit like a gym membership is great for engagement and morale, but it may not affect the cost curve," says BJC's Van Trease. "And there is also evidence that employees who are most likely to take advantage of these programs are those that are already exhibiting healthy behaviors. It's important for companies to evaluate their programs for efficacy."

Van Trease says there is an emerging discipline — health coaching — that is having an impact on the reduction of health care costs, according to data specifically from the Medicare population. Since 20-25% of individuals in the Medicare population drive 60-70% of medical costs, keeping them out of emergency rooms, avoiding hospital stays and facilitating appropriate care at the right time in the appropriate setting are things a professional clinical health coach can help with, which truly lower the cost of care.

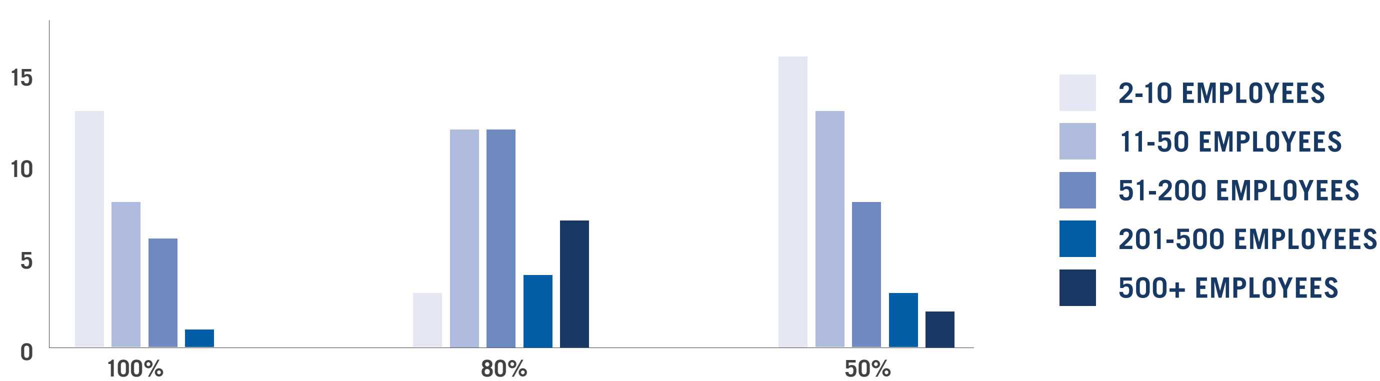
Although 93% of small-business owners say that employee well-being is critical to their bottom line, only 22% have a wellness program in place.

"We are all likely going to experience a wellness issue at some point in our lives. When this happens, healthy habits can help to 'stack the deck' in our favor for lowering our risks and aiding recovery," says Michelle H. Schmidt, Owner of PACE Nutrition Coaching LLC. "Employers have the ability, through a comprehensive health and wellness program, to contribute notably to their employees' well-being.

Both Schmidt and Van Trease also point out that there are some simple choices employers can make that have a real impact on employee health – and are often overlooked. One of the biggest? The food and drink choices made available to employees while at work.

"Many businesses dedicate a material portion of their expense budgets to employee health care and wellness programs. However, how many are as thoughtful about the food and beverages they provide at client events, meetings and in their workplaces?" Schmidt says. "Providing more nutritious options clearly supports health objectives, can lead to additional cost savings and sends an important message that the business is truly committed to health and wellness."

What percentage of the cost of the insurance premium do you cover?



“It’s important for companies to evaluate their wellness programs for efficacy.”

— **SANDRA VAN TREASE**
Group President at BJC HealthCare

3. COST

Understanding what drives the cost of what your company pays for medical care is the third big opportunity to lower overall costs.

There are certainly barriers that are slowing adoption of this cost-savings lever. Challenges include a lack of data provided by plans and disparate data sources, as well as the additional financial and administrative burdens associated with uncovering these insights.

Research shows that one of the biggest drivers of health care expenses is the cost of prescription drugs. Millions of Americans rely on the drug industry, particularly for the treatment of chronic, long-term conditions. And data suggests that Americans are taking medicines for heart disease and other preventable conditions earlier in their lives.

“As an employer, the earlier and longer usage of pharmaceuticals has implications not only on employee productivity, but also on cost. What does it cost to pay for a 20-year employee’s pharmaceutical needs, times 10 or 20 employees?” says McAuliffe of the Missouri Foundation for Health. “On the supply side, prices are going to continue to rise as more drugs are developed with greater healing potential, but at significant cost.”

Yet, in our survey, the response “pharmacy coverage is more of an issue than health care coverage” ranked fourth in our list of top business concerns related to health insurance costs — with only 16% of respondents ranking it in the top three concerns.

“Business leaders have taken their eye off the ball a bit on pharmaceuticals, but it is understandable,” McAuliffe says. “There is a feeling of not being able to impact drug costs, which is why you’re seeing more companies incentivize health and wellness programs.”

The federal government recently announced that it is considering making it easier to import cheaper drugs from other countries, specifically Canada. The proposal is intended to encourage pilot programs by pharmacies, drug distributors and states who want to safely import drugs from Canada.

One opportunity that many smaller businesses don’t often take advantage of is determining if their employee is eligible for a Patient Assistance Program (PAP). Drug manufacturers were forced to set up foundations to help people pay for drugs, and if employees are eligible, they can be moved over to a PAP — meaning the employer no longer pays for that drug for that employee.

Only 16% of respondents selected “pharmacy coverage is more of an issue than health care coverage” as one of their top three business concerns related to health insurance costs.

“We have about a 50% success rate in getting employees into PAP programs,” HooPayz founder Lang says. “Particularly for small businesses, removing this one expense alone for an employee with a chronic, long-term condition can make a big difference.”

"Many entrepreneurs make tough decisions based on what they can afford, and the lack of health care plans is one of the primary reasons entrepreneurs are not able to make key hires early on."

— DONALD HAWKINS
Executive Director of The Founder Collective

Lang says another place to look for savings is on the medical bills themselves. "We see billing errors all the time, and sometimes they are substantial — not only catching errors, but finding opportunities to renegotiate discounts," she says. "Everyone needs access to quality care, but it should be at a reasonable price."

A third consideration, Lang says, is to better understand the cost of care — and the choices available – before care begins. For example, a woman seeking OB-GYN services may not realize that the cost of care can differ depending on which hospital she uses — even within the same health care network. The difference, Lang says, can be thousands of dollars.

To help address the ever-present challenge faced by owners of small and midsize businesses — lack of time to focus on health insurance and costs — there is an emergence of buying groups where small businesses band together to increase their purchasing power.

Donald Hawkins is Executive Director of Kansas City-based The Founder Collective — an organization for startups that work collectively to leverage their networks. The organization is about to launch a product called SpringLean, which includes access to medical, dental, vision and life insurance plans for members.

"Many entrepreneurs make tough decisions based on what they can afford, and the lack of health care plans is one of the primary reasons entrepreneurs are not able to make key hires early on," Hawkins says. "By removing one of the primary deterrents for startup ventures, more founders are able to work full time and thrive."

McAuliffe, of the Missouri Foundation for Health, says purchasing networks are a big opportunity that is not being fully realized. "It bedevils me why more employers don't work together to increase their purchasing power with insurers. Companies and trade associations find ways to work together in other areas like supply chain management, but not in health insurance."

"Health care really is a team sport," Esse Health's Castellano says. "Employers and employees who work together on wellness, combined with wise and judicial use of health care resources, could actually see lower annual increases and keep costs affordable for the whole team. Everybody wins."

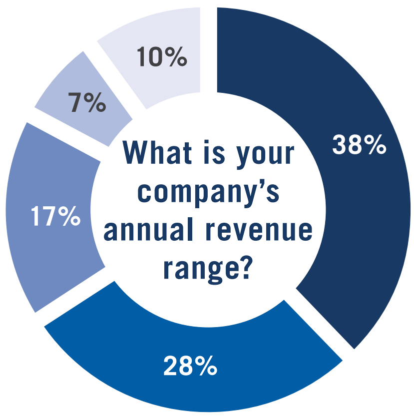
12 Things YOU CAN do to CONTROL COSTS

Leadership plays an important role in prioritizing cost savings without sacrificing the quality of health care. Although every company has different needs and is at a different point in the evolution of their employee health insurance program, there are universal ways you can identify opportunities for smarter management of spend. Here are 12 worthwhile options to consider to help you control your cost of providing health insurance.

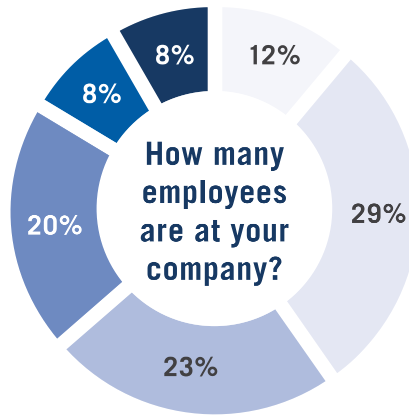
- **Ask employees to take a more active role in the financial responsibility of their benefits. This can be done through cost sharing, such as adjusting copayment amounts or considering a high-deductible health plan.**
- **Lower employer costs and increase employee savings by offering a Health Savings Account (HSA).**
- **Offer — or increase — wellness and preventative care programs. A huge part of the success of these programs is communication. Evaluate what works.**
- **Switch to a self-funded insurance plan — but be aware of the risks.**
- **Offer less access for a lower premium by choosing a plan with a narrow network of providers.**
- **Outsource your plan design and management to a broker.**
- **Pay more attention to your actual cost of use, including pharmacy benefits.**
- **Find out if any high-cost employees are eligible for a Patient Assistance Program offered by pharmaceutical manufacturers.**
- **Boost your buying power by joining a buying group or purchasing network.**
- **Opt out of providing insurance directly, but boost other benefits.**
- **Consider partnering with a third-party provider to identify ways to save money during plan design and after care.**
- **Be as tough as possible on price during review and final negotiations.**

Respondent Profiles

- LOCAL
- REGIONAL
- NATIONAL
- INTERNATIONAL



- LESS THAN $1 MILLION
- $1-10 MILLION
- $10-50 MILLION
- $50-100 MILLION
- OVER $100 MILLION



- 1 EMPLOYEE (12%)
- 2-10 EMPLOYEES (29%)
- 11-50 EMPLOYEES (23%)
- 51-200 EMPLOYEES (20%)
- 201-500 EMPLOYEES (8%)
- 500+ EMPLOYEES (8%)

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