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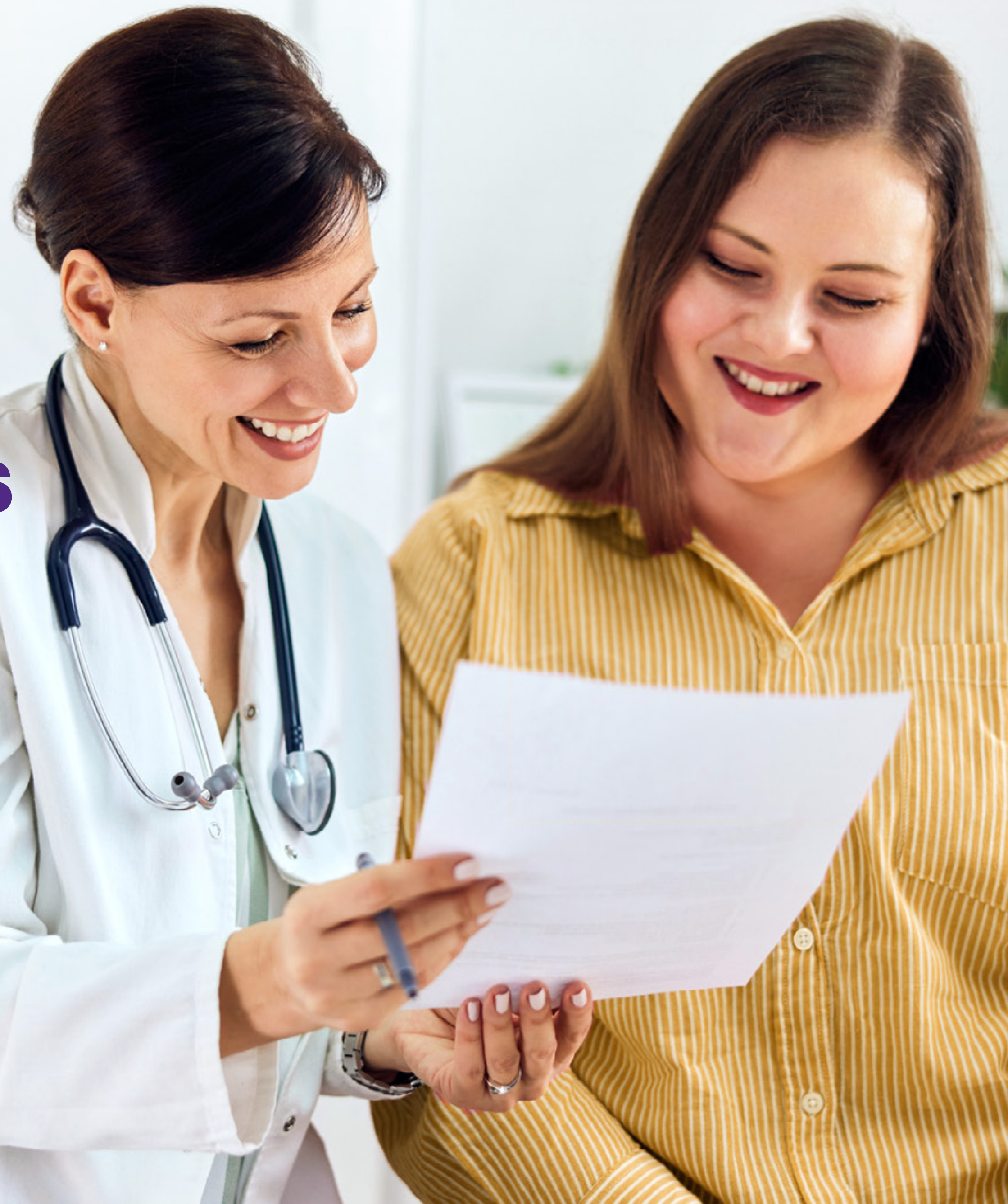
The Business Impact of Rising Healthcare Costs

How employers can save on healthcare and provide flexibility with a health savings account



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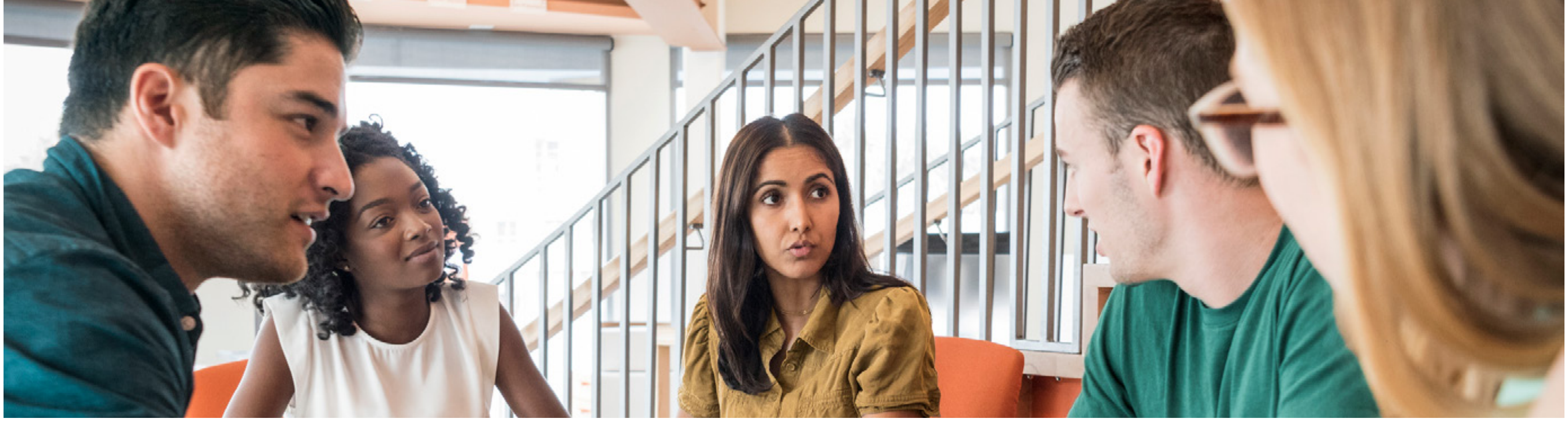


Employers are painfully familiar with climbing healthcare costs.

According to Mercer, health benefit costs are slated to rise 5.8% in 2025, the third-consecutive year that prices will climb more than 5%.[1] In the past five years, employers have witnessed the total annual cost of premiums for family coverage rise a whopping 24%, according to data from Aon.[2]

What have these increases amounted to? Kaiser Family Foundation (KFF) put it this way: Family coverage costs employers the equivalent of an economy car – for every worker, every year.[3]

Rising healthcare costs are not a new problem. “I got into this field 14 years ago, and we’ve been talking about double digit increases since then,” said Todd Hashbarger, HealthEquity’s AVP Relationship Manager of Enterprise clients.

While new and popular treatments like weight-loss drugs and gene therapies are contributing to growing costs as of late, swelling fees are less about specific line items and more about general inflation, according to Tene Raymond, Director of Consumer Engagement at HealthEquity. Healthcare costs and premiums are reassessed yearly, so prices are always growing to catch up with the economy.

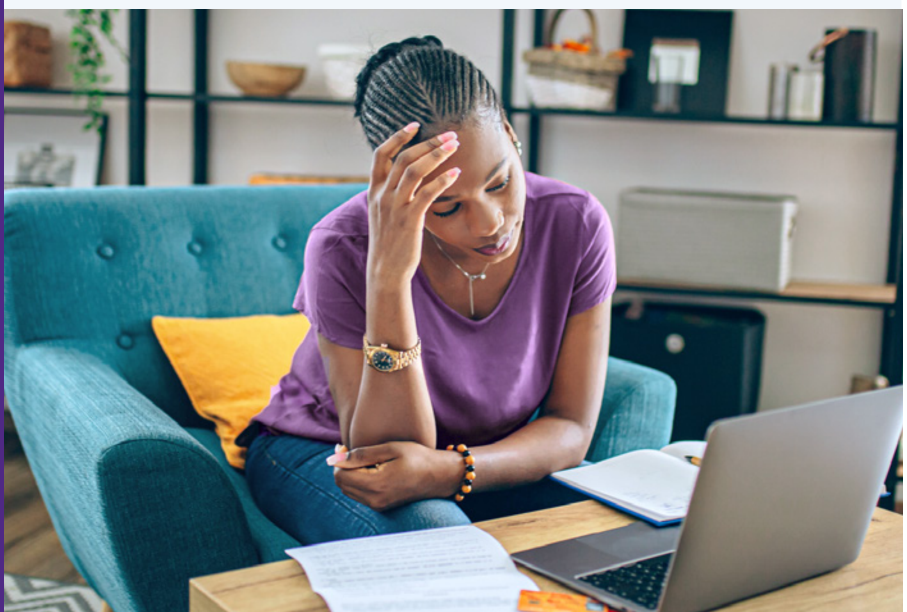
Employers’ quest to contain healthcare costs has only grown more pressing in recent years. For employers, the problem of rising healthcare costs extends beyond the budget. Employers are considering downgrading their benefit offerings or cutting certain programs altogether.

While these decisions might help balance the budget, they come at a different price: scaling back benefits can make it harder for employers to attract and keep top talent.

This tension leaves employers searching for solutions that preserve their benefit offerings and keep their spending in check. One of the few tools to do both? The health savings account (HSA). This guide will explore the impact of rising healthcare costs and illustrate how the HSA can provide both savings and flexibility, for employers and employees alike.

What is the business impact of rising healthcare costs?

The growth of healthcare costs is evident. What is less obvious is the widespread ramifications of skyrocketing prices on business outcomes. In addition to financial frustrations, employers encounter challenges with employee wellbeing and performance, talent acquisition and workforce retention.



Rising costs create stress in the workforce, discourages productivity

Employers aren't the only ones dealing with rising healthcare costs; employees, too, have seen their contributions increase. In the last five years, the amount workers pay for healthcare has risen by about 5%, or about $300 on average, according to data from NYT.[4]

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The high cost of healthcare creates financial and emotional stress for employees. About half of U.S. adults said it's challenging to afford healthcare costs, and a quarter said they've struggled to pay for care.[5] It comes as little surprise, then, that one in four respondents also said they've deferred care due to cost. About 20% said price has made them opt for over-the-counter options when they've been prescribed a medication – decisions that can create negative health outcomes that can lead to performance and attendance issues at work.

As employees encounter these challenges, their performance at work suffers. Research reveals that financially stressed employees miss more work and are less focused. These employees are also more prone to look for new job opportunities. In fact, employees experiencing financial stress are 2.3 times more likely to depart for another role.[6]

The business cost of employees' financial stress

74%

of adults say they are at least somewhat worried about being able to afford unexpected medical bills or the cost of healthcare services.[7]

56%

of financially stressed employees spend at least three working hours per week taking care of their personal finances.[8]

47%

of financially stressed employees experience mental health issues that impact their work.

$250 billion:

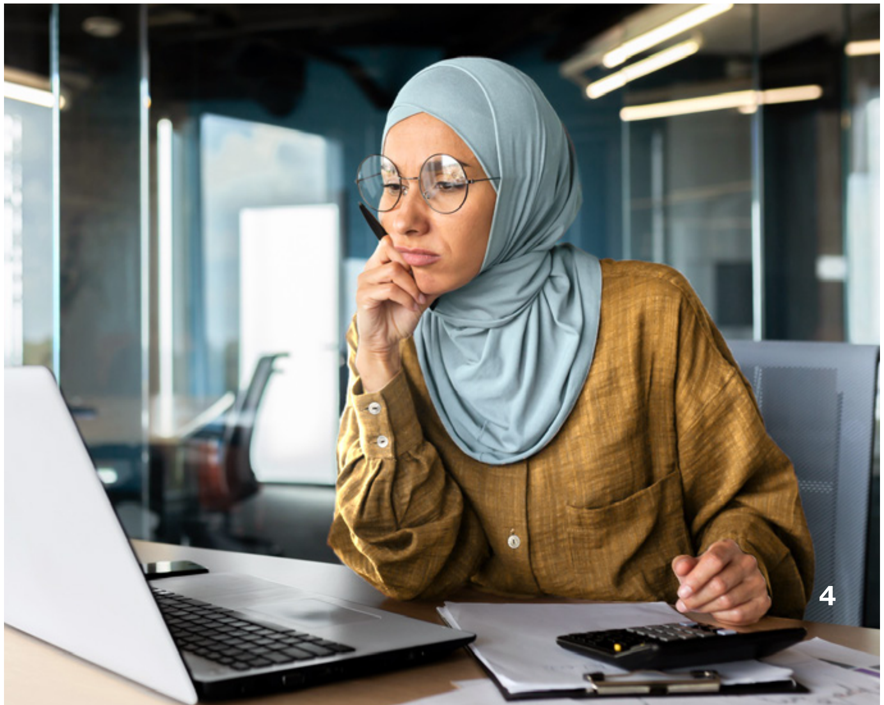
The cost companies incur each year from productivity lost to financial stress.[9]

The increased likelihood of turnover among financially frustrated employees raises an important question: why are financially stressed workers quitting?

Research points to possible answers. A survey by The Harris Poll found that employers attribute turnover chiefly to workers' search for better benefits and compensation at other organizations.[10]

A poll from America's Health Insurance Plans revealed that the opposite is also true: more than half of those surveyed said that healthcare is a reason they would stay with their current employer.[11]

These trends underscore just how important benefits are to talent acquisition and employee retention. Employees are willing to sacrifice pay for better benefits, and they're also willing to stay in a position to keep the coverage they're content with.



Talent: The tension at the heart of rising healthcare costs

For employers, the financial strain of rising healthcare costs is undeniable. Escalating premiums continue to consume a growing share of company budgets year after year.

But this budgetary challenge is far from the only issue employers face. Each year, employers must figure out how to cover costs of benefits they have previously offered. For years, employers shifted costs to members, Hashbarger said. But prices became so burdensome that employers had to find another way.

To protect employees from rising expenses, employers have begun to cut back on benefits, using data to identify the least popular programs. Some organizations have eliminated their wellness benefits, Hashbarger said, because they haven't seen wide adoption among employees.

This strategy highlights the tension at the heart of rising healthcare costs. As costs climb, employers are forced to eliminate certain offerings or downgrade plans. While this strategy helps keep costs down, it threatens organizations' appeal to current and future talent.

"That's what's at stake for employers – how do we curb costs while continuing to offer compelling benefits for employees?" Hashbarger said.

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>
> **Todd Hashbarger**
> AVP Relationship Manager of Enterprise Clients at HealthEquity

How HSAs save money for both employers and employees

For many employers, the answer to rising healthcare costs lies in the HSA. By offering an HSA, employers can continue to provide exceptional benefits without placing a heavy burden on employees.

HSAs allow employees to set aside money that they can use for medical expenses in the near or distant future. **The most powerful advantage an HSA offers employees is its trademark triple tax advantage:**

1. All dollars contributed to the account are tax free.
2. The money in the account grows tax free.
3. The money spent on medical care is tax free.

These advantages offer powerful benefits to both employers and employees, according to Raymond. "An HSA provides cost saving measures to both the employer and the employee, while providing employees more flexibility in how they save and spend healthcare dollars," she said.

HSAs help employees save today—and for tomorrow

In a world of rising inflation and healthcare costs, HSAs give employees the power of choice. They can use the funds to cover immediate healthcare expenses or treat their HSA as a long-term financial planning tool.

"In some ways, HSAs make an even better retirement savings tool than 401(k)s because of the triple tax advantage," Raymond said.

But the financial advantage of HSAs is not limited to the future. Typically, employers offer HSAs in conjunction with a high deductible health plan (HDHP) or another HSA-qualified plan. When the average HDHP premium cost savings are added to HSA tax savings, members see an annual savings of about 16% compared to the average cost of a preferred provider organization (PPO) plan. In 2023, this amounted to over $600.[12]

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> **Tene Raymond**
> Director of Consumer Engagement at HealthEquity

How do HSAs help employers battle rising healthcare costs?

Just as HSAs provide cost savings to employers, they also aid employers in cost containment when it comes to healthcare expenses. According to Hashbarger, HSAs save employers money in two key ways.

1. Lower premiums with HDHPs

Pairing an HSA with a high-deductible health plan (HDHP) significantly reduces premium costs compared to pricier plans like PPOs or HMOs. KFF data shows the average HDHP premium is $11,801, compared to $12,760 for a PPO.[13]

Employers calculating the potential savings associated with an HSA must remember to account for HSA contributions. But these contributions add to the tax savings HSAs provide – as members add to their accounts, they are tax deductible for both the employee and the employer. When employer tax savings are calculated, employers save an average of 3% for every HSA enrollee.[14]

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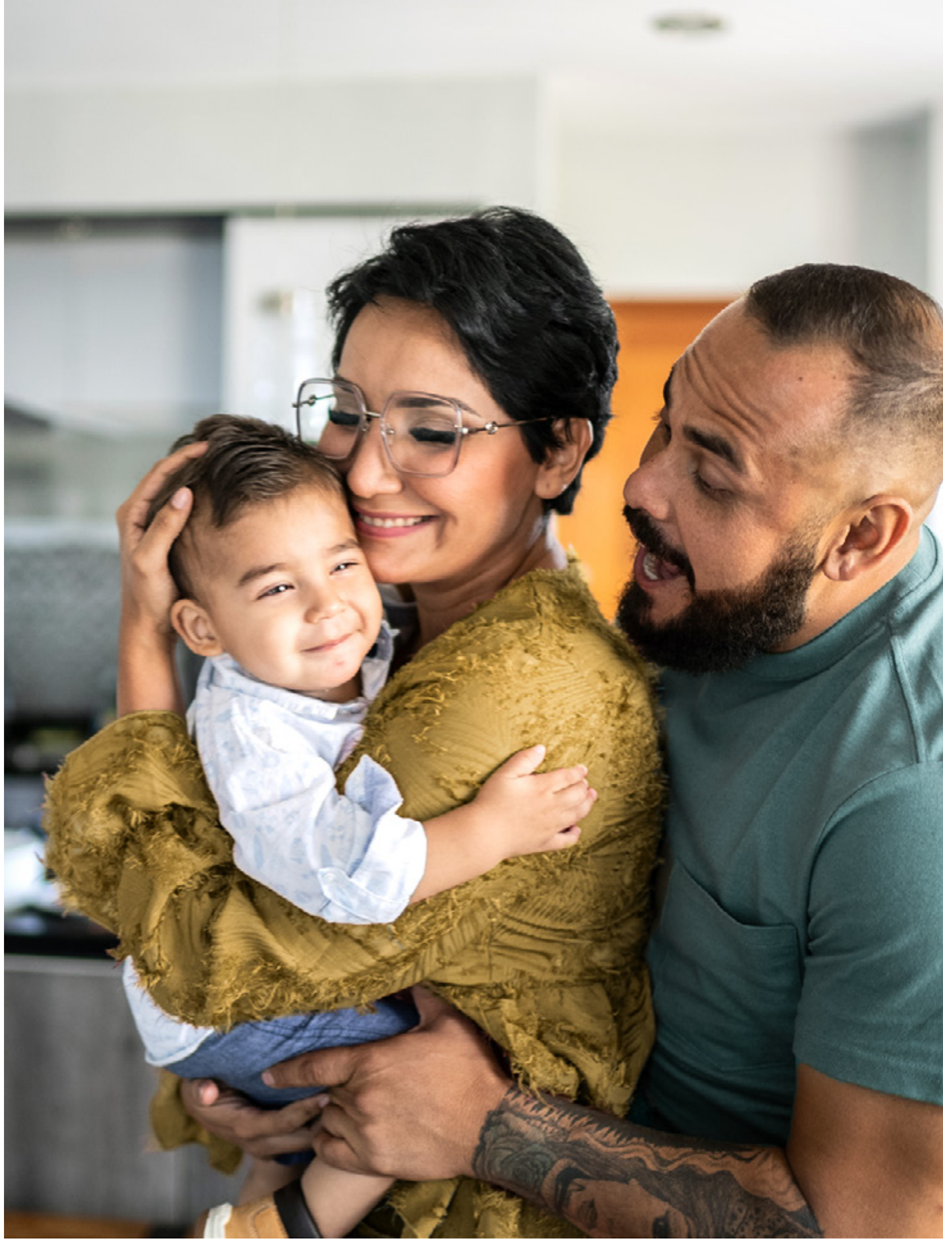

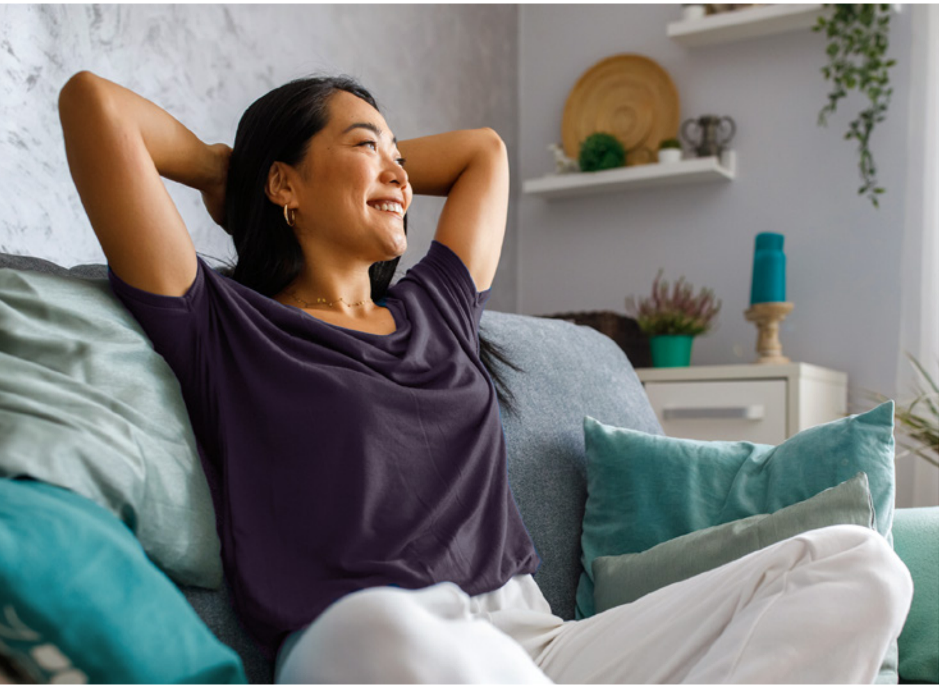

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> **Employers see a reduction in overall rising healthcare costs when employees use an HSA.”**
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> **Todd Hashbarger**
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2. Driving smarter healthcare spending

“The HSA drives better consumerism,” Hashbarger said. “Instead of heading to the emergency room and spending thousands of dollars, employees may try to go to urgent care or see their practitioner first.”

Employees may also consider purchasing generic medications over branded drugs to spend less of their HSA funds. Or they may compare the prices of a procedure from several providers and factor cost into their decision making.

With HSAs, employees are incentivized to spend their healthcare dollars better not only because it’s their own money but also because they know the money they don’t spend can grow over time and serve them in the future.

“Employers see a reduction in overall rising healthcare costs when employees use an HSA,” Hashbarger said. “With a standard PPO or HMO plan, employees just pay their co-pays and don’t have to worry about a deductible they have to pay for out of pocket.”

How to maximize the value of an HSA offering

HSAs offer employers a surprising amount of flexibility. Organizations aren't required to contribute a set amount of funds, for instance. In fact, they could consider the possibility of making no contributions at all. However, there is a risk of limited HSA adoption without offering employer contributions.[15]

To harness the cost-saving benefits HSAs offer, employers need to explore opportunities for customization and create an HSA strategy specific to their workforce.

Opt for migration, not elimination

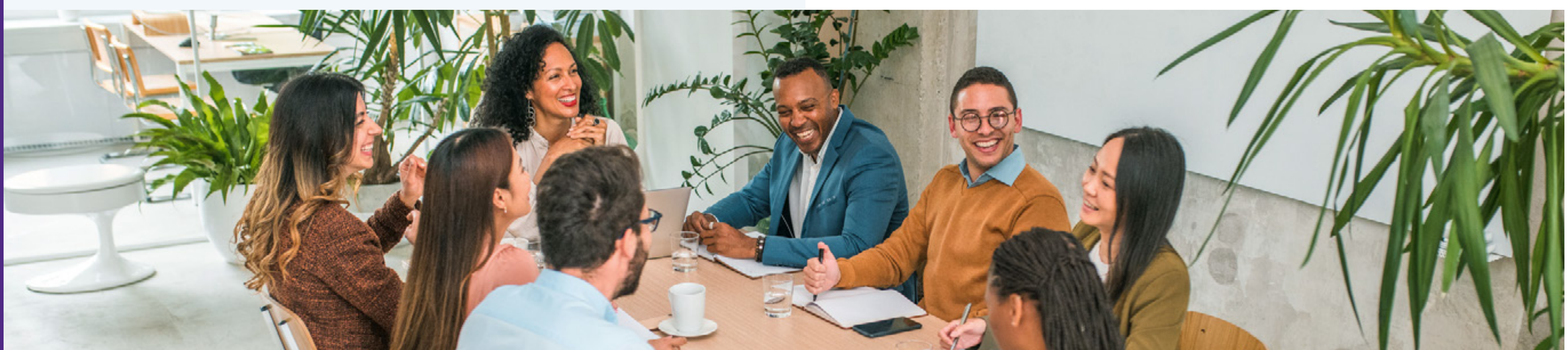
Forward-thinking employers are introducing HSA plans early and providing incentives to encourage adoption.

When employers prioritize plan migration instead of elimination, they begin to save money while preserving employees' ability to choose the plan they prefer, Hashbarger said. While organizations may be eager for their workforce to adopt an HSA, forcing their hand through plan elimination could create expensive talent problems.

Incentivize employee contributions

Employers are rethinking plan design to encourage HSA participation. Traditionally, HSAs operate with a seed plan – an arrangement where employers make set contributions to the entire member base once or twice a year.

Employers are departing from that model to test innovative plan designs and their effect on employee contributions. Some employers are continuing to provide a set contribution, but they're adding a match on top. Others are ditching the seed and offering the match alone.



Try tiered contribution

Employers are also exploring tiered contribution strategies. Employers that take a tiered approach offer larger seed contributions to lower-earning employees and smaller amounts to higher-earning employees.

This strategy is particularly effective in incentivizing sign ups among employees with less familiarity with HSAs. After Pfizer partnered with HealthEquity to introduce an HSA with four income-defined contribution levels, the biopharmaceutical company saw 37% of lower-paid colleagues sign up for the plan.[16]

5 common HSA contribution strategies

Employers can choose from a variety of HSA contribution strategies, ranging from no contributions to a model that couples seed funding and match contributions.

1. **No contributions**
   Employer makes no contributions to employee HSAs.

2. **Annual seed**
   Employers make contributions to the entire employee base once or twice a year.

3. **Distributed seed**
   Employers make contributions to entire employee base at least once a month.

4. **Match**
   Employer contributions are dependent on employees making payroll contributions.

5. **Seed + match**
   Employers make contributions to entire employee base once or twice a year with additional contributions dependent on members making payroll contributions.

Unlock healthcare savings with a custom HSA solution

Employers faced with multiplying healthcare prices are understandably tempted to cut or downgrade benefits their employees have come to expect. But this short-term fix often leads to bigger, costlier problems, like talent retention and recruitment challenges.

HSAs offer a better way forward. When employers introduce an HSA, they can begin saving on healthcare without sacrificing offerings. Proactive employers that create custom HSA plans incentivize adoption and plan migration while preserving morale and strengthening their employer brand.

As employees make the switch from high-cost HMO and PPO plans, employers save on premiums and taxes. Employees, meanwhile, experience less financial stress as they set aside money for current health expenses and build up savings for the future.

To learn how your company can save on healthcare and provide meaningful benefits for employees, book a demo with HealthEquity.

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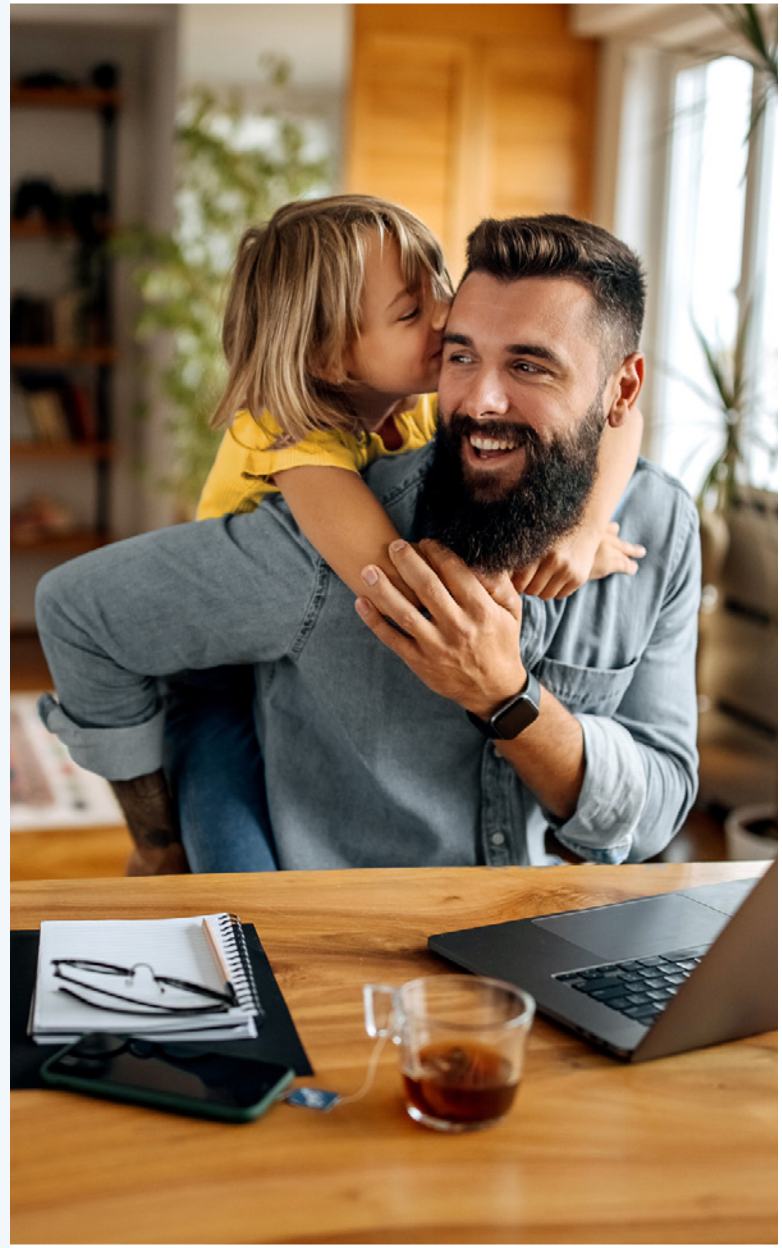

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