Mercer

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The CFO perspective on health

Survey results

2024

Introduction

As we enter the second quarter of 2024, top of mind concerns around health programs are affordability for both employees and employers, the potential impact of GLP-1s on cost trends, and the increased volatility in claims. For self-insured sponsors, claims volatility makes it difficult to predict cost within a year; for fully insured sponsors, year to year. Healthcare trends have been impacted by broader economic inflationary pressures with a lag, and the environment will remain challenging for some time to come.

While we expect medical cost trends to be similar to last year's, we see growing cost pressure from prescription drugs, which account for approximately one-third of total health plan costs.

If you're like many CFOs, you've been paying more attention to your organization's healthcare expenses and cost mitigation strategies than in the past — or wondering if you should be. We designed this survey to discover CFO perspectives on a range of issues related to healthcare budgets:

- Sustainable cost increases
- Margin levels and risk tolerance
- Evaluating cost-management initiatives
- When a move to self-funding makes sense

We hope you'll find these results to be as interesting as we did.

About the survey

The survey was fielded from February 21 to March 20, 2024 and 80 organizations participated. Most surveys were completed by either the CFO or someone in finance /accounting with health budget oversight. For convenience, in this report we refer to all survey respondents as "CFOs".

Organization size

Fewer than 500 employees	**10%**
500-4,999 employees	**48%**
5,000 or more employees	**43%**

Type of funding

All or most employees are in a self-funded plan	**74%**
All or most employees are in a fully insured plan	**13%**
Employees are evenly divided between self-funded and insured plan	**14%**

Results in this report are based on employers with 500 or more employees unless otherwise indicated.

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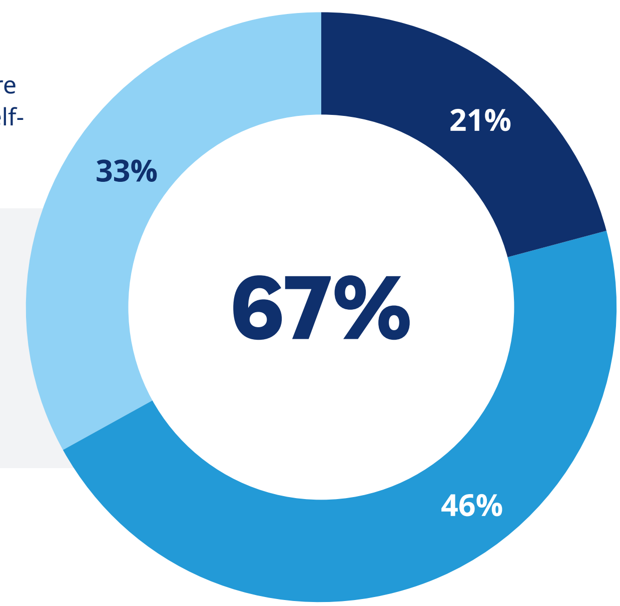
Health benefit expense

Given that health benefit cost growth is once again exceeding general inflation — after an anomalous period during the COVID-19 pandemic in which deferred and cancelled care resulted in lower trend rates — and that annual average health benefit cost per employee is approaching $16,000, it's not surprising that 67% of respondents with 500 or more employees indicated healthcare costs to be a significant or very significant concern. In addition, while inflation for other goods and services has subsided over the last year, the same is not true for healthcare, which may draw even more attention from finance and other stakeholders. Fully insured and self-insured employers were equally concerned with healthcare cost.

Over two-thirds of CFOs view health benefit cost as a significant or very significant concern compared to other operating expenses

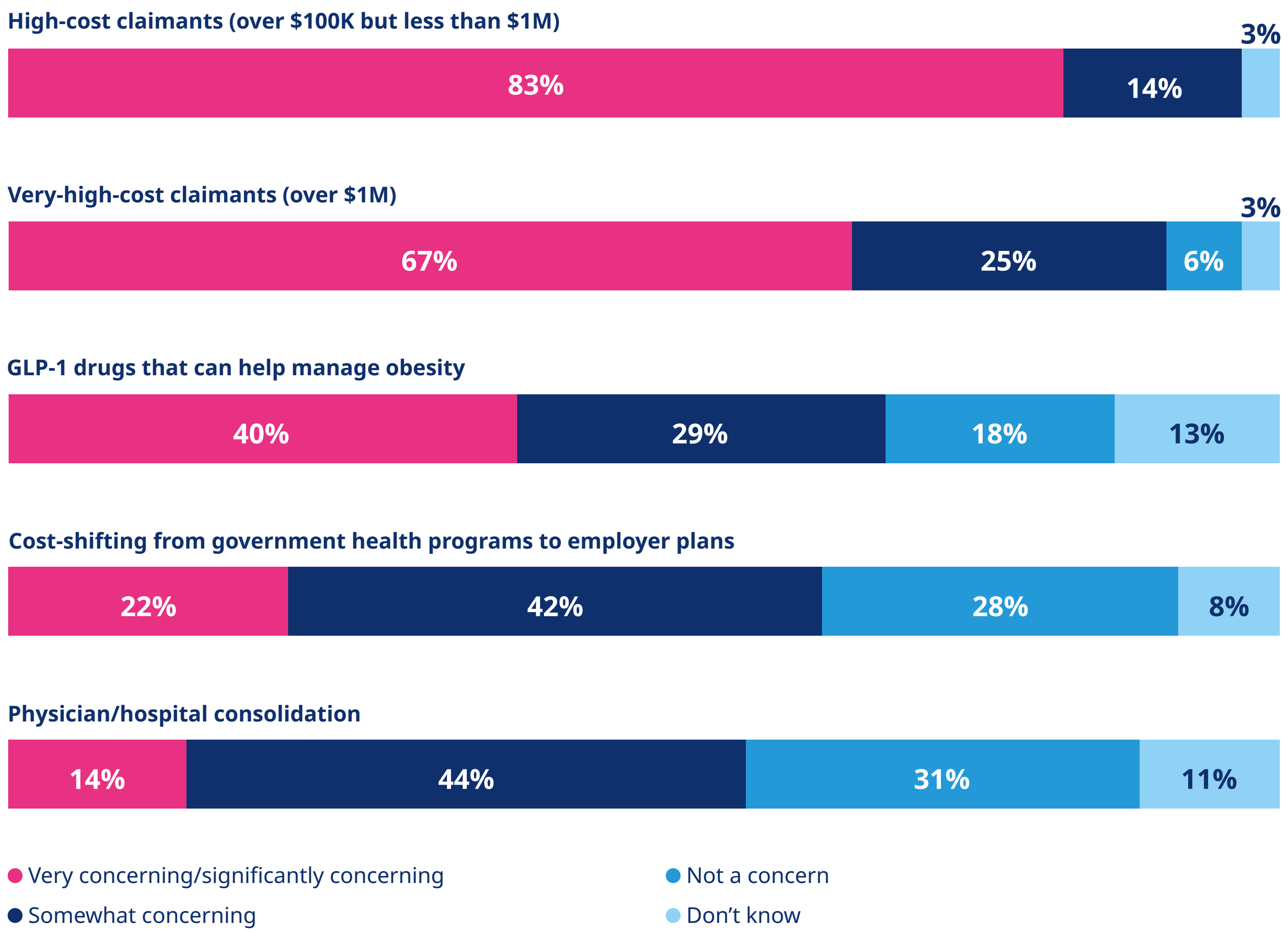


- Very significant concern
- Significant concern
- Somewhat of a concern

CFO opinion: How concerning is each of these specific drivers of healthcare costs over the next three years?

When asked about specific drivers of healthcare cost, survey respondents are most concerned about high-cost claimants — those generating claims of more than $100,000 but less than $1 million. This is for good reason, as claims of this size have become more common in recent years and contribute most to high trends and cost volatility. Very-high-cost claimants are a growing concern as well. While claims of over $1 million are still relatively rare, the pace of pharmaceutical innovation and advances in medical technology is accelerating. Two-fifths of respondents find GLP-1 drugs to be very or significantly concerning. Here, benefit expense can be limited by coverage decisions and there may be offsetting benefits (lower morbidity for other diseases) from managing obesity.

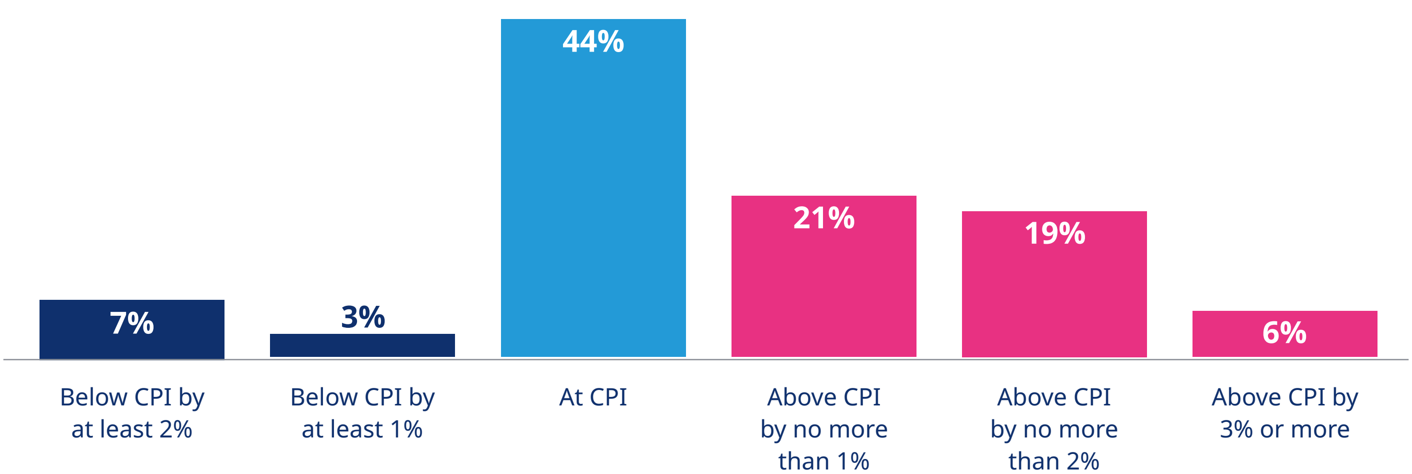
Fewer respondents cited high levels of concern about the impact of cost-shifting from government programs or of the consolidation of physician groups and hospitals. Both of these drivers have had meaningful impact on cost trends and are expected to continue doing so, as government budgets come under increasing pressure, and physician/hospital consolidation shows no signs of slowing down. Collective employer advocacy is needed to address these two issues — always a more difficult endeavor than implementing strategies to address cost drivers in an organization's own health program.



CFO opinion: What would be a sustainable annual increase in health care cost for your organization over the next 3-5 years?

About half of survey respondents believe that their organization's healthcare cost needs to rise at no more than the rate of general inflation, or CPI, to be sustainable over the next three to five years. Although inflation has been elevated recently, the Federal Reserve is working toward the goal of keeping inflation to just 2%. With this as a baseline assumption for inflation going forward, achieving what many of the CFOs surveyed consider to be sustainable levels of increases will require significant action.

For the past two decades, average annual health benefit cost increases have typically run 1% to 2% above CPI, but even to maintain that level of cost growth will be difficult. Given that many interventions in healthcare take time to implement and impact outcomes, it's important for employers to plan over a multi-year time horizon, anticipating that aggressive strategies may need to be implemented today to achieve financial goals within three to five years.



The majority of CFOs are either not confident or don't have the information to state that long-term cost management strategies are saving money. This is an important issue for HR and benefit managers, especially if investment decisions are scrutinized more closely as budgets get tighter. It is important to have metrics in place to measure performance, ideally at three levels:

1. **Program level**
   how health benefit cost is trending overall

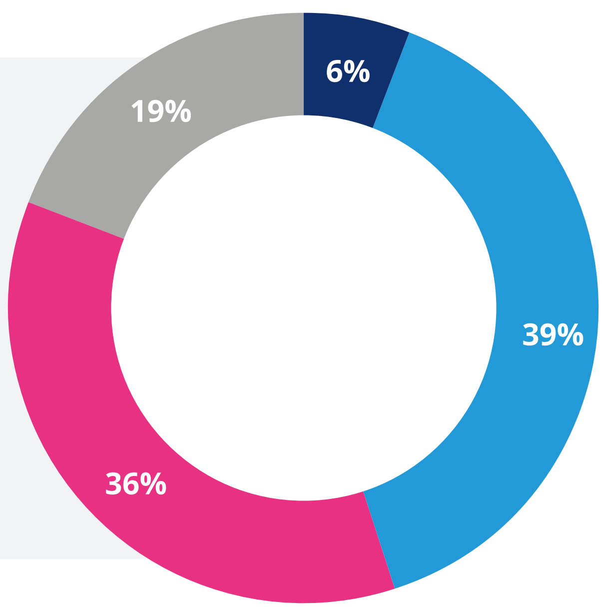
2. **Segmented level**
   how cost for individuals with chronic conditions is trending

3. **Solution level**
   what value is provided by specific health solutions (e.g. a diabetic management program) that have been implemented

The information needed for independent ROI analyses can come from a data warehouse that aggregates medical plan claims as well as from the point solution vendors in which investments have been made. These analytics are invaluable when evaluating the current and future portfolio of healthcare investments.

Over a third of CFOs are not confident that long-term health benefit cost management strategies that require investment are saving money — and 19% don't have enough information to say

These would include well-being initiatives, clinical management programs, and specialized provider networks

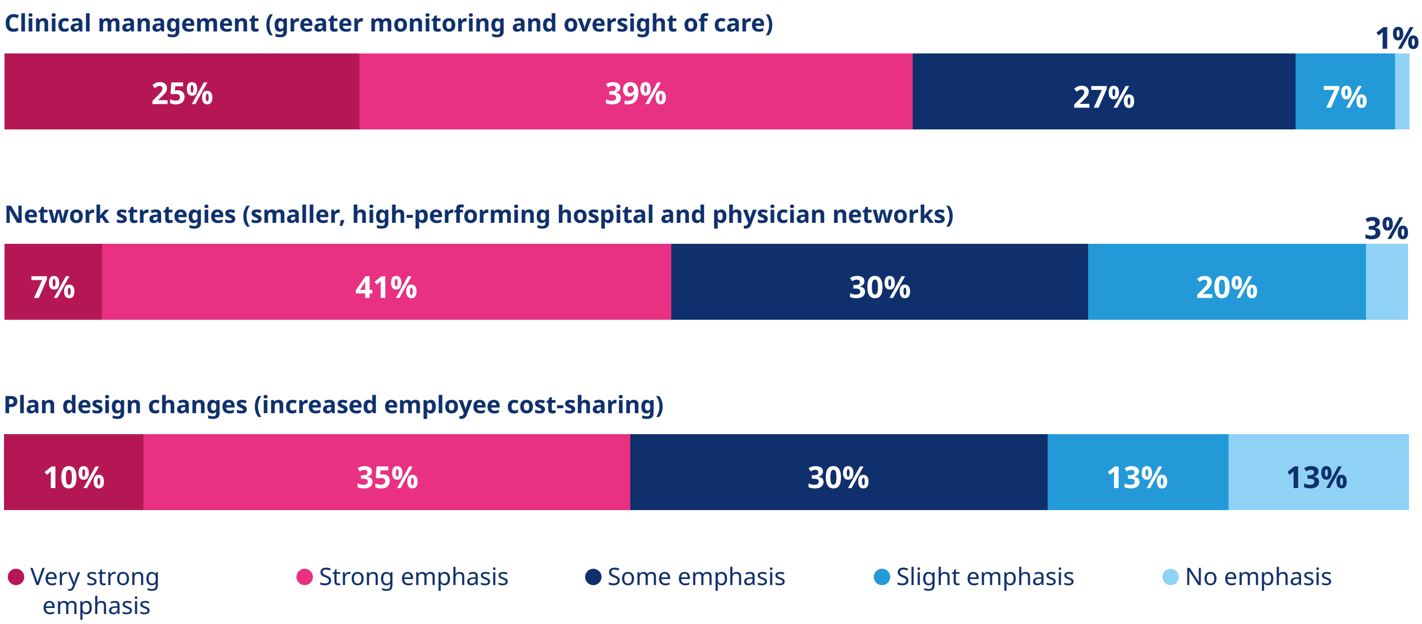


- Very confident strategies are generating savings
- Reasonably confident
- Not confident
- Don't have enough information to say

CFO opinion: How much emphasis should be placed on each of the following cost management strategies over the next three years?

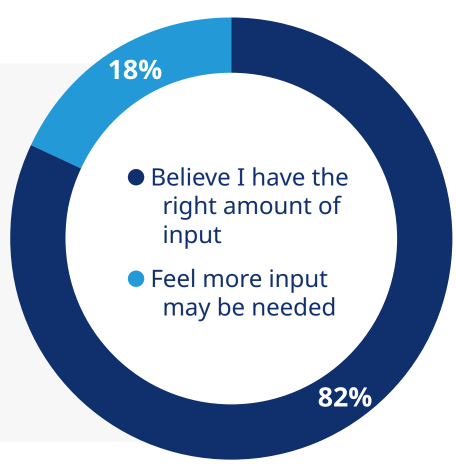
Overall, interest in cost management strategies is high, with the greatest interest in clinical management, followed by network strategies, and plan design changes. Clinical management typically involves few trade-offs for employees and thus is the least disruptive, offering benefits for both the employer and employees.

Interestingly, network strategies, which can cause member disruption (but don't necessarily need to), also garnered a high level of interest. Strategies that maintain broad networks but use plan design or other mechanisms to steer members to higher-value providers are gaining traction, offering an option that preserves choice while encouraging the use of lower-cost, higher-quality providers. Somewhat fewer respondents favor plan design change that results in cost-shifting to employees. Depending on the current level of cost-sharing and on employee demographics, there may or may not be "room" to increase employees' share of healthcare cost before it becomes an impediment to seeking necessary care.



Most CFOs believe they have the right amount of input on benefits decisions

While most CFOs indicate satisfaction with the level of input they have on benefit decisions, nearly a fifth do not. It is important for those in HR and benefits to check in with their CFO and finance department colleagues to create and take advantage of collaboration opportunities. This is especially valuable given today's environment of rapid cost growth and change in the healthcare market.

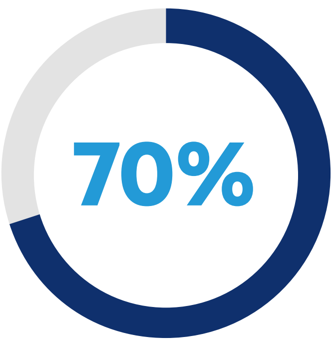


Self-funded plans

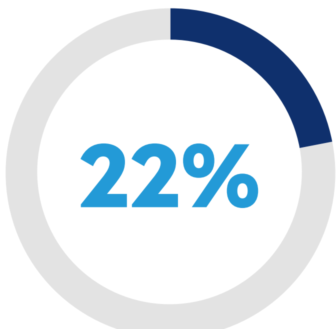
Most CFOs believe the finance department receives the information needed to monitor health program costs effectively

While 70% of CFOs with self-funded plans believe they are receiving the necessary information to monitor health program costs effectively, 30% don't believe they are receiving it or are unsure. In an inflationary environment and with health care costs expected to become more volatile, regular communication with stakeholders (including finance), becomes increasingly important.

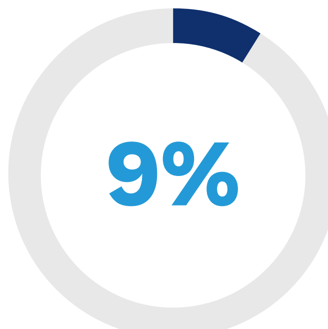
Also, finance and other stakeholders may feel they are receiving sufficient information until such time as they see adverse claims experience relative to budgets. That can be an inflection point resulting in a scramble to improve reporting and analytics. Periodically evaluating the level of information being shared, and with whom, may prevent being caught off guard and lead to more productive collaboration.



Believe necessary information is being received



Don't believe necessary information is being received

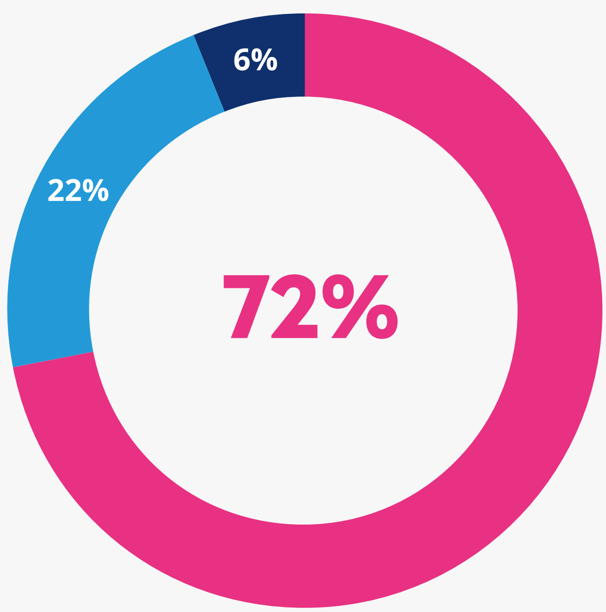


Not sure

Department that calculates the actual budget that is booked

Nearly three-fourths of survey respondents with self-funded plans indicate that the finance and benefits departments work together when setting budgets that are booked. This is likely a function of organizational processes, corporate culture and other dynamics. For the organizations that don't collaborate, it's important to note that not doing so can lead to miscommunication, unrealistic expectations, and finger-pointing if things don't go as planned.

- Both finance and benefits working together
- Benefits
- Finance



Margin used in setting rates to reduce the risk that actual health claims experience will be greater than budgeted

The decision of whether to use a margin, and what level to use, is very tailored to an organization's tolerance for risk. More than two-fifths of the self-funded respondents use a margin (and the actual number may be higher given that 23% don't know).

Margins have traditionally been used by smaller organizations, but the survey found that even among respondents with 5,000 or more employees, 45% use a margin. Given that claims volatility is increasing — and that finance departments value predictability in the context of staying as close to budgets as possible — highlighting outcomes under various margin assumptions can yield insights that aid in decision making.

33%
Don't use margins

20%
Use 1%–2% margin

19%
Use 3%–5% margin

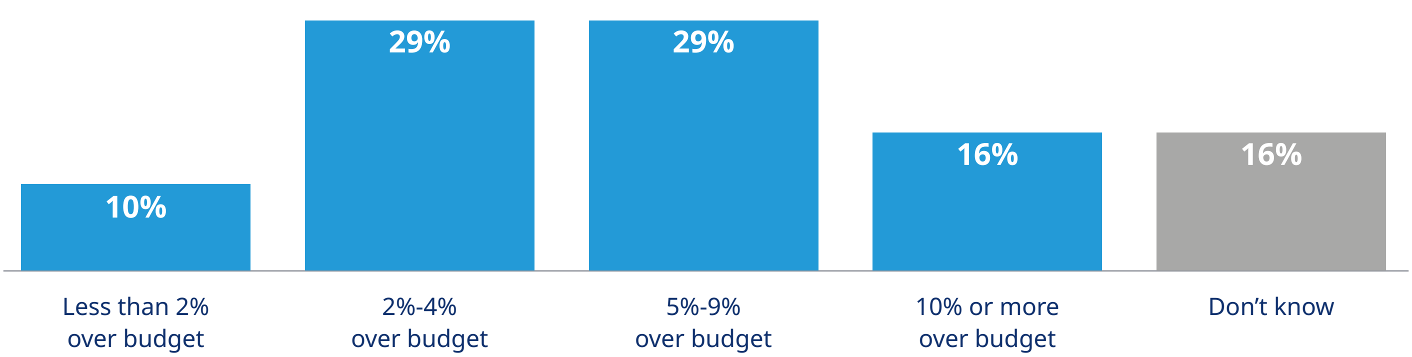
3%
Use margin of 6% or higher

1%
Use a negative margin (i.e., accept a higher risk that budgets aren't met)

23%
Don't know

Nearly two-fifths of CFOs say business results would be materially impacted if actual experience is over budget by 4% or less

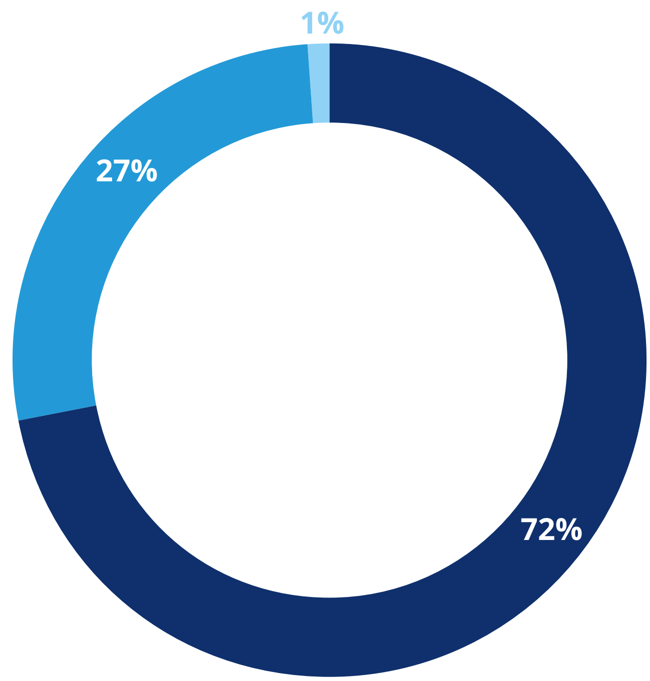
Business results would be materially impacted negatively if actual experience (on a per employee basis) deviates from the beginning-of-the-year budget by:



More than a fourth (29%) of CFOs with self-funded plans say that business results would be materially impacted if actual experience is over budget by 2%-4%; for an additional 10%, that threshold is less than 2% over budget. Given that the probability of claims exceeding those thresholds is relatively high in most organizations, there's a need to provide finance with probabilistic scenarios of projected claims experience rather than single point estimates. A CFO's answer to this question can be very helpful in guiding discussions and making decisions about margin levels, stop-loss attachment points, and other risk-mitigating strategies.

CFO experience: How does healthcare expense generally compare with other expenses in terms of predictability?

The predictability of healthcare expense can be evaluated by looking year over year or throughout a single plan year. Whichever view they take, the majority of CFOs state that healthcare is less predictable than other expenses. The CFOs in organizations with fully insured programs are only slightly more sanguine about health care predictability than those in self-funded organizations; while their expenses may be fixed for a 12-month period, renewals can be quite volatile and result in unexpectedly large increases.

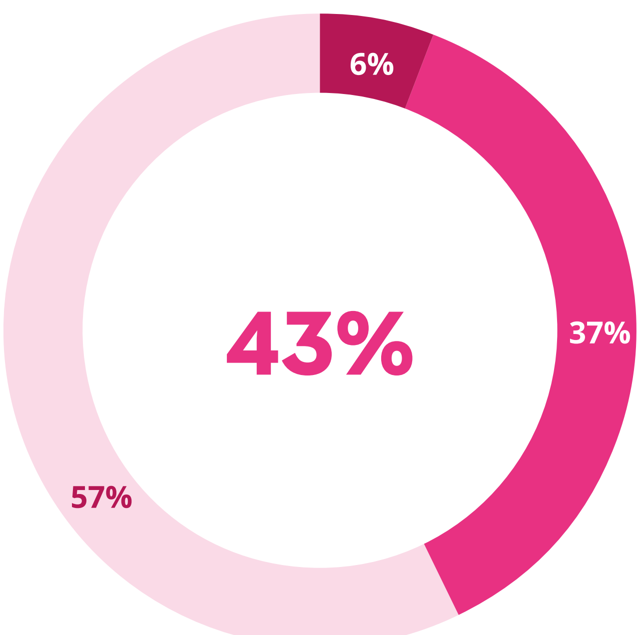


- Healthcare is less predictable than our other expenses
- In line with our other expenses
- Healthcare is more predictable than our other expenses

Over two-fifths of CFOs have been told by the benefits department to expect greater claims volatility in 2024

Over two-fifths of self-funded respondents indicate that their benefits department has told them to expect somewhat more, or even much more, claims volatility than in the past. An analysis of employers' actual year-over-year health benefit cost experience found a growing and significant amount of volatility over the past several years.* This was true even among very large organizations (with 20,000 or more employees). This is likely to be the new normal, as the rising incidence of high-cost episodes of care provides a basis for potential surprises from year to year.

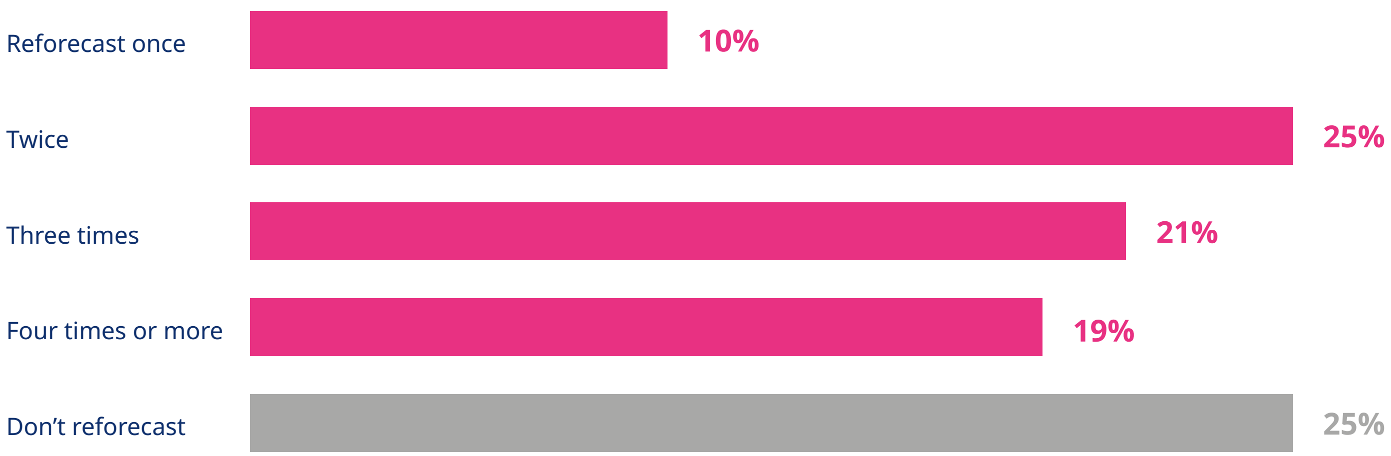
*Source: Mercer's National Survey of Employer-Sponsored Health Plans



- Benefits department is expecting much more volatility
- Benefit department is expecting somewhat more volatility
- Benefits department has not raised the issue of claims volatility

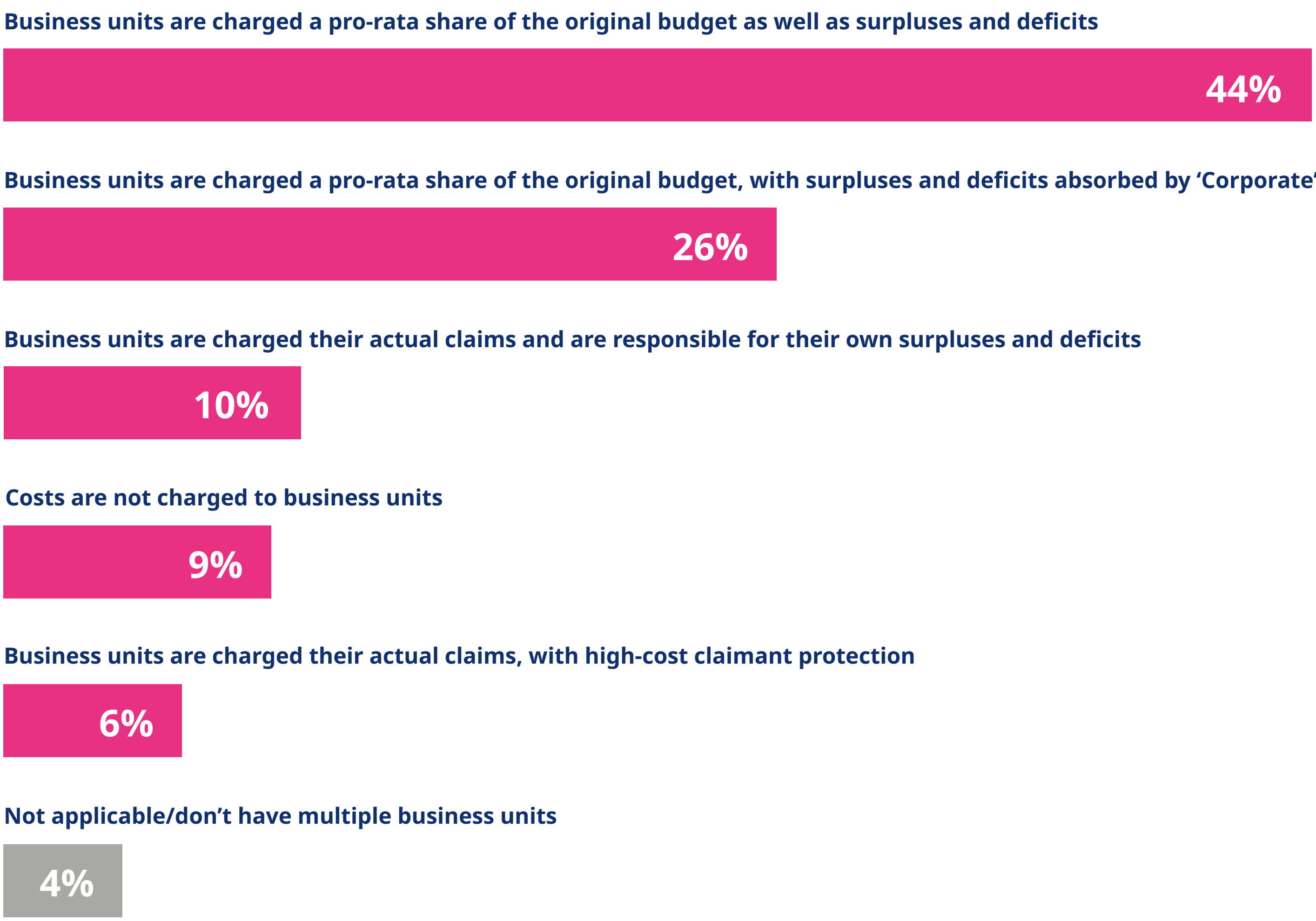
Most respondents reforecast claims experience for the current plan year at least twice

A solid majority of CFOs with self-funded plans reforecast claims at least twice per year. We believe this is important to do, although it is also important to not overreact to a month or two of data given that health claims are seasonal and can be very volatile on a month-to-month basis. Once reforecasts are performed, possible next steps could include updating forecasts, keeping current forecasts, or reflecting some of the new experience while not giving it full credibility.



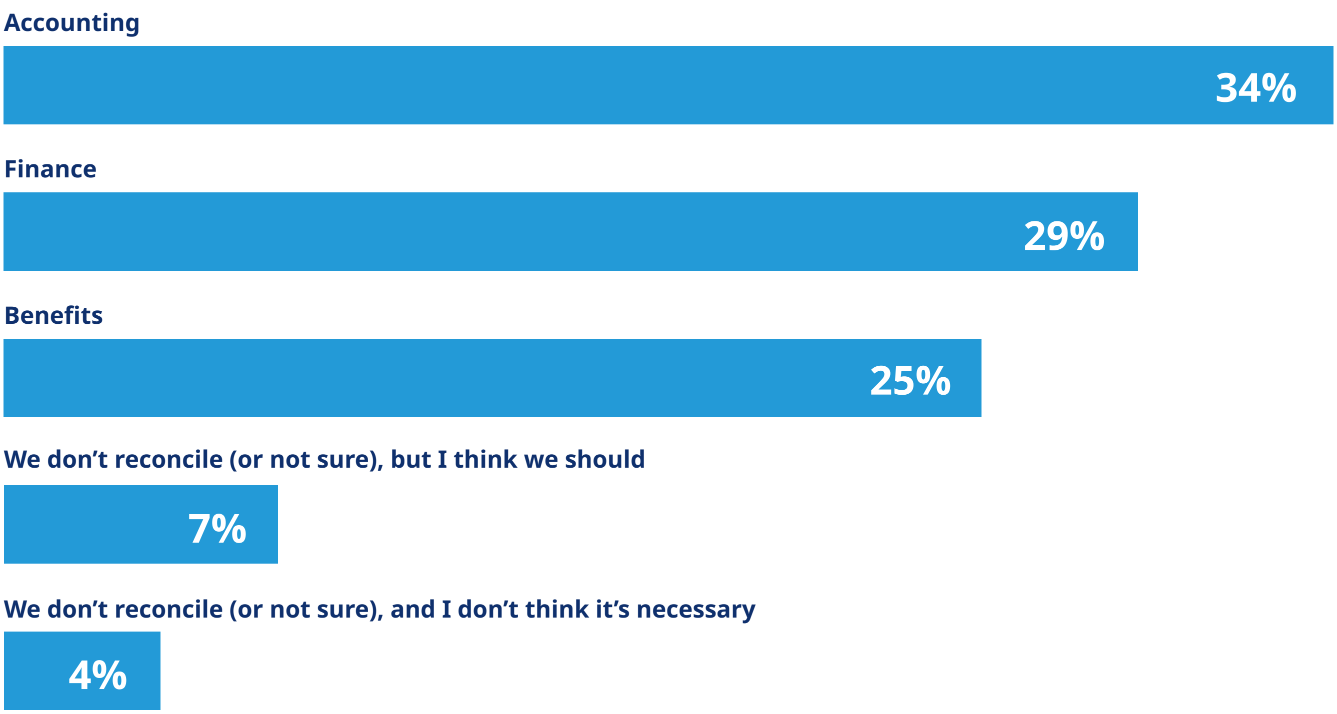
Handling of internal expense allocation for health benefits

The downstream impact of internal expense allocation is significant and should be evaluated periodically in light of the organization's specific dynamics as well as macro economic and market considerations. Decisions around how best to internally allocate expenses should include consideration of factors such as the risk tolerance of each business entity and the credibility of experience given the number of employees in each unit, among other variables.



Department responsible for reconciling carrier claims reports to withdrawals from the bank account (through the claims wire)

Survey respondents were mixed on the department responsible for reconciling carrier claims report to withdrawals from the bank account, with accounting only slightly more common than either finance or benefits. Regardless of which department reconciles, having a common understanding and process for investigating discrepancies is important.



CFO opinion: Improvement is needed in these areas of claims management

Not surprisingly, when asked what aspect of claims management needs improvement, self-funded respondents were most likely to say “predicting healthcare claims.” Predicting claims is inherently difficult given the uncertain nature of illnesses, both in terms of how and when they present, as well as the course they will take. There are efforts underway to leverage AI, machine learning and other advanced analytics to help with prediction. Many organizations have focused attention on improving claims management, largely through enhanced case management of existing high-cost claimants. It was somewhat surprising to see that more than a fourth of respondents cited “monitoring healthcare claims;” this aspect of claim management should be relatively easy to address given the widespread availability of tools and analytics to support this function.

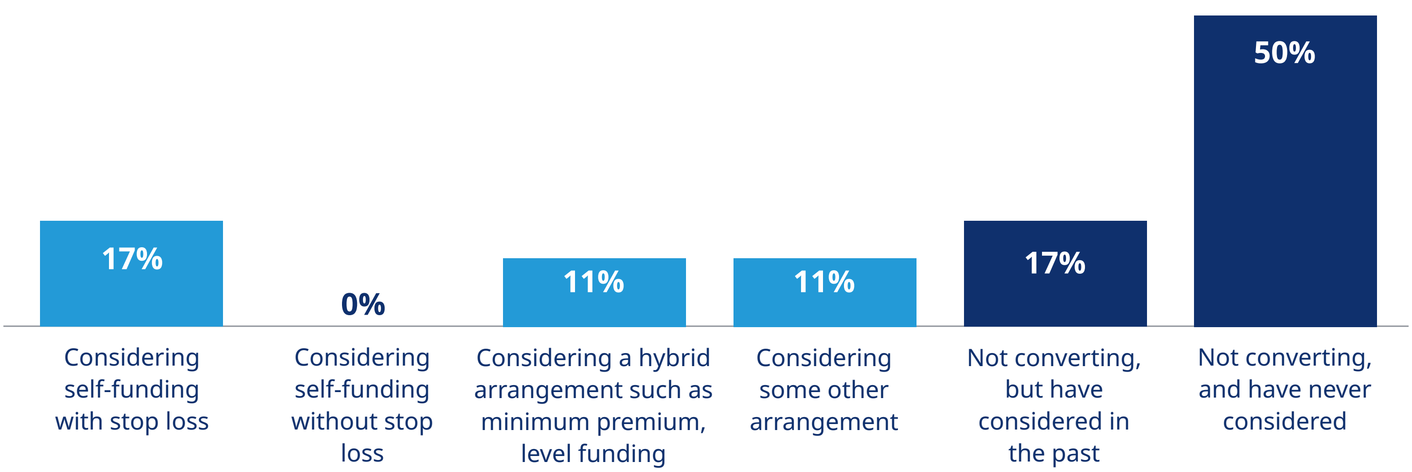
40%	29%	27%	2%	35%
Predicting healthcare claims	Managing healthcare claims	Monitoring healthcare claims	Other claims issue	No pressing need for improvement

Fully insured plans*

One third of respondents with fully insured plans are at least considering converting to a different funding mechanism

Fully insured arrangements tend to be the most expensive funding arrangement. The trade-off is the greatest certainty in terms of annual cost, which is an important consideration for many employers. While 33% of respondents that are fully insured are considering converting to another funding arrangement, the majority are not.

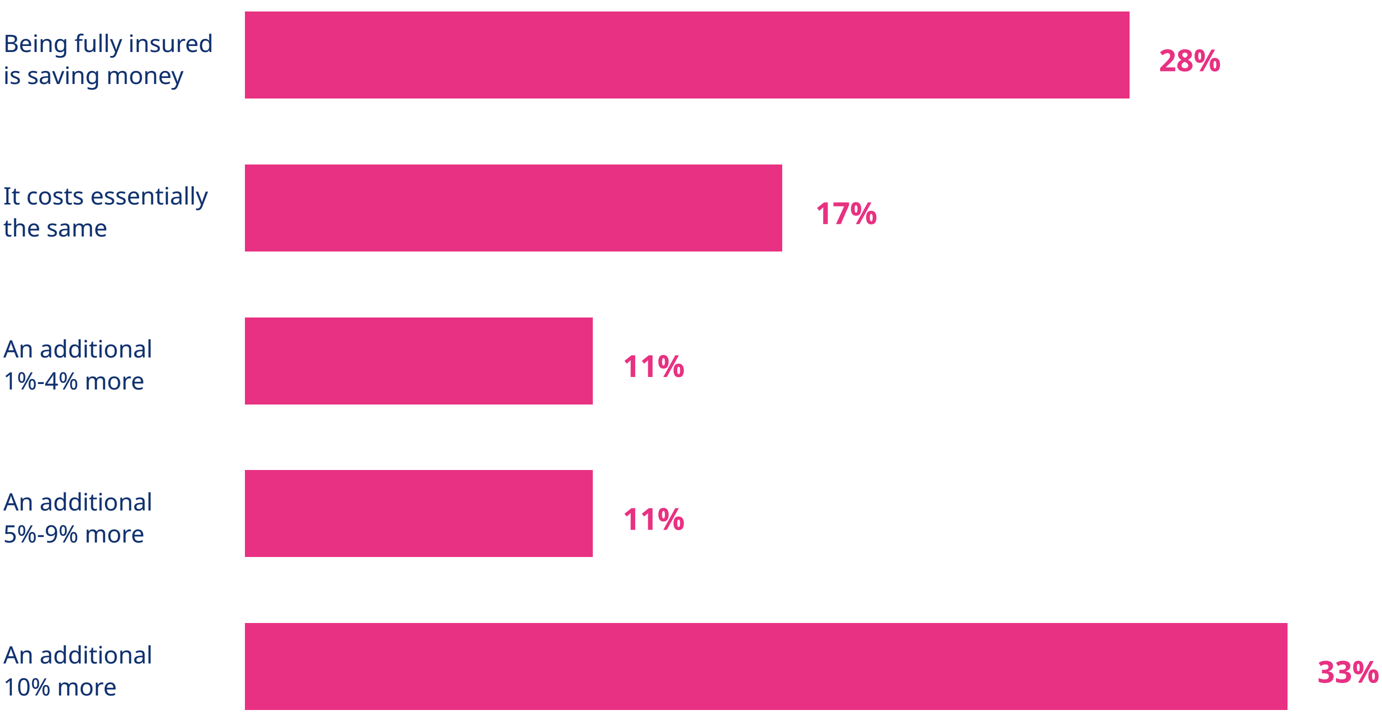
Certainly, cost predictability is a very important benefit that comes along with being fully insured. Employers may also believe they don't have the resources to manage a self-funded plan. However, while a move to self-funding is likely to increase the work load for most employers, the savings from a self-insured arrangement could be used to offset the cost of additional staff to some degree.



*The results discussed in this section are based on all respondents, including those with fewer than 500 employees

CFO opinion: How much more do you believe it costs to be fully insured as opposed to self-insured?

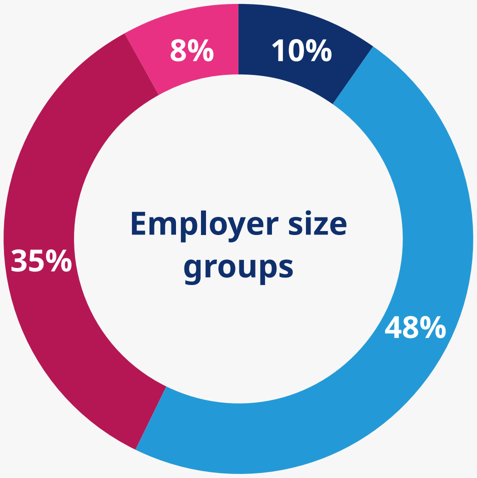
Actuaries typically estimate that the cost to fully insure a health plan is 3%-5% higher than the cost to self-fund, although it could be more or less depending on the employer's situation. Ongoing actions by state governments to mandate certain benefits will put increasing pressure on fully insured costs relative to self-insured costs. It's important for organizations to look at the potential savings over a 3-5 year time horizon. While there may be a given year in which (with the benefit of hindsight) it costs less to be fully insured than self-insured, given the structural cost differences between the two funding options it is difficult to envision the two methods costing the same amount, or essentially the same amount, over the long run.



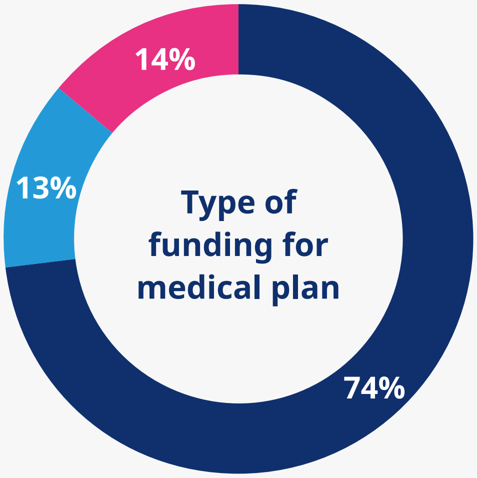
Demographics

Primary industry

	Manufacturing	24%
	Retail/wholesale	14%
	Services	24%
	Transportation/Communications/Utilities	8%
	Healthcare	14%
	Financial services	6%
	Government	1%
	Other	9%



- Fewer than 500 full- and part-time employees
- 500 - 4,999 employees
- 5,000 - 19,999 employees
- 20,000 or more employees



- All/most covered employees are in a self-funded health plan
- All/most covered employees are in a fully insured health plan
- A significant portion of employees are in each type of plan

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