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Employee Retention

Are Employer-Sponsored Health Plans on Their Way Out?

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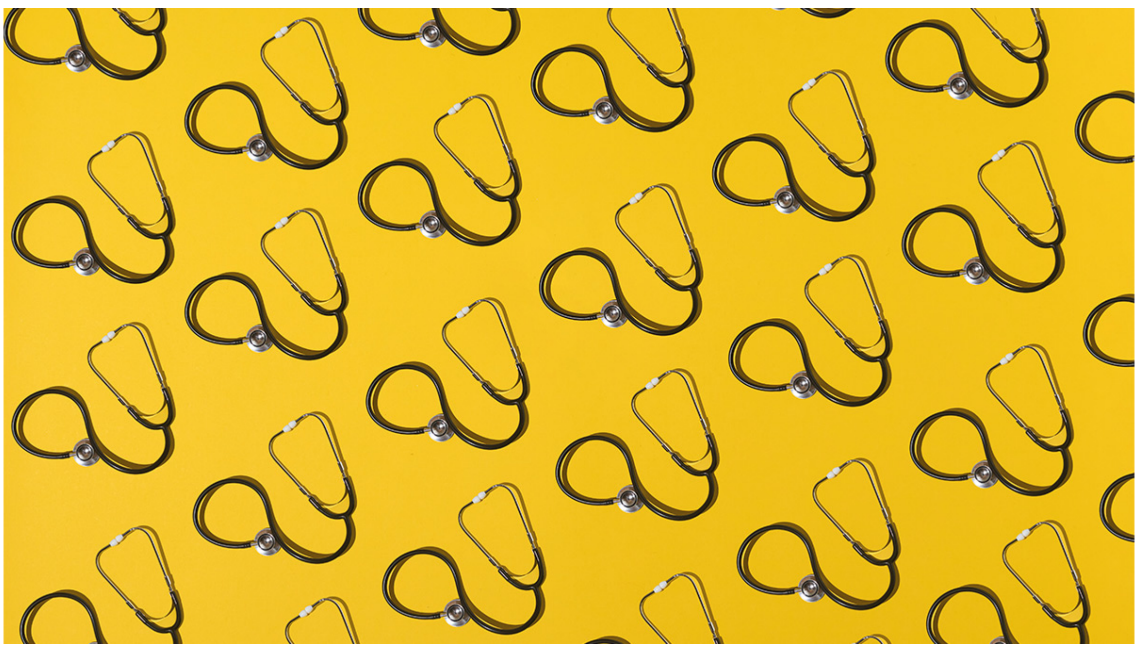

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A lot has changed in the lives of American workers in recent years. But one thing that has remained consistent over the past 80 years is how employees obtain health coverage — more than 156 million Americans are covered through employer-sponsored programs. But will that always be the case? Maybe not. Here's why.

The history of why we get our benefits from employers dates back to WWII, when companies began using healthcare as a means to attract talent, particularly women. To combat inflation, the 1942 Stabilization Act was passed to limit an employer's ability to raise wages to attract workers when the labor pool was scarce. But the actual outcome of the law saw employers turning to alternate incentives, such as health insurance. Since health benefits could be considered part of compensation, but did not count as income, workers didn't have to pay income tax or payroll taxes on those benefits.

While employer-sponsored health insurance has been the norm ever since, it is clear that consumers' needs may have shifted. One-size-fits-many coverage may no longer cut it for Americans with heightened expectations and diverse health concerns. Going forward, we may see employer-sponsored health insurance going the way of pension plans. Here are five reasons why:

1. Today's workforce is highly mobile

Employees often move from job to job, changing employers after only a couple of years, rather than staying at the same company for decades. Younger workers are statistically twice as likely to leave their jobs in search of better offers, according to data from Visier. They make these changes for a variety of reasons — advancement, compensation, cultural fit, and more. Health insurance considerations may not always be top of mind when navigating job changes, however their effects on employees are more than trivial.

When employees switch jobs mid-year, even if they've already met their health insurance deductible on their previous employer's plan, they must effectively start over under their new employer's plan.

There are other downstream effects too, like potential changes to in-network providers and coverage. These factors may create increased, unanticipated out-of-pocket responsibilities, and sometimes may impact people's ability to access the care that they need.

In this respect, decoupling insurance from employment may make a lot of sense, so that job changes do not disrupt healthcare consumption or create unexpected (sometimes major) expenses for consumers — particularly these younger and highly mobile demographics.

2. Consumer expectations have evolved

We no longer accept "one-size-fits-all" solutions in other areas of our lives, so why should healthcare be any different? Consumer needs and perspectives on health insurance coverage vary widely across many dimensions, including generational differences.

As a father of four, including a son who has newly entered the workforce, I have seen first-hand how differently younger generations think about their insurance plan options and experiences.

Younger generations have only lived a digital age — and therefore have high expectations for flexibility, convenience, and personalization. They are generally in good health, so they are far less likely to be dealing with chronic conditions, specialized physicians and treatments, or high-cost prescriptions. Many are single and have not yet started families, which simplifies their considerations when choosing coverage. Younger generations are great adopters and proficient users of technology, and are therefore likely to be more receptive to change, and are at the forefront of adopting new technologies and experiences.

It's inevitable that demands for more personalization in healthcare will reach a tipping point— and employer plans will either have to evolve to deliver these experiences, or consumers may take matters into their own hands, re-evaluating where they get their healthcare coverage.

3. Technology advancements make it easier to customize plans to an individual's unique needs

Technology has unlimited potential to bridge the gap between supply and demand in new and creative ways. It's happening everywhere. Netflix has changed the way we think about TV and movies. Amazon has changed the way we think about shopping. The list goes on and on, with new names being added every day.

Healthcare will be no exception — traditional healthcare experiences will also face disruption. There are consumer pain points everywhere you look in healthcare. And where there are pain points, there is demand for new solutions. Technology has great potential to help improve healthcare experiences, build fluency, and guide consumers through healthcare decisions, delivering personalized recommendations to help consumers save money on coverage and care.

But we have only scratched the surface of what is possible.

4. Employers, particularly those with younger leaders, don't see the logic in providing healthcare

Unless you grew up in this system, it doesn't make a lot of sense. Health insurance is important and impacts people's ability to access the care that they need for their specific family and health situations. Why should something so personal and important be tied to where you happen to work?

When employers make decisions about health insurance plan designs, they are balancing the needs and wants of a diverse employee population — with a few, limited, one-size-fits-all options.

Each year, employees must go through the often-confusing process of open enrollment. As the overall costs of healthcare have risen, so too has the employee's share of costs. As employees enroll in benefits, they are often left feeling that they are spending more of their income on insurance that doesn't provide as much value as it used to. That can have a negative impact on employee job satisfaction ratings.

Providing health insurance to employees places a financial burden on employers, as well. Cost-sharing falls primarily on employers, with a Kaiser Family Foundation report finding that in 2019, the average employer paid $7,188 per employee for single coverage and $20,576 per employee for family coverage.

5. Regulatory changes have opened up new possibilities

We've already seen the need for more flexibility in health benefits with the introduction of the Individual Coverage Health Reimbursement Arrangement (ICHRA). ICHRAs are designed to allow employers of all sizes to give employees pre-tax dollars to use to buy the insurance coverage that best fits their needs on an individual basis, instead of offering group coverage under the Affordable Care Act (ACA). By making a defined contribution toward coverage, employers can control rising healthcare costs and get out from under the administrative burden of administering health benefit programs — while still giving employees greater flexibility, by allowing them to choose their coverage from a much wider array of options. This is very similar to the shift we saw in retirement benefits, from pension funds to 401ks.

The factors above have all led to increased discussion around the shift away from employer-sponsored health insurance. And consumers are showing they're ready for the change, with data revealing that 41% of consumers say they think health insurance should be decoupled from employment. As business leaders look ahead to the next couple of years, with their employees as their guide, we have an opportunity to meet the moment and reimagine what health insurance looks like.

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