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‘Completely unsustainable’: Small employers brace for giant health insurance price hikes

- By Bob Herman April 14, 2022 Reprints

ADOBE

Many small companies are expected to face double-digit hikes to their health insurance premiums next year — increases that would add to the broader strain on the take-home pay and budgets of millions of American workers, families, and small business owners.

Health insurance brokers, consultants, and benefits advisers told STAT that health care premiums for a lot of smaller employers likely will rise by at least 10% to 15% for 2023. The pandemic is contributing to that, creating headaches for insurance actuaries who are trying to estimate how much care people will get while a deadly virus keeps circulating.

But Jenny Chumbley Hogue, who runs her own health insurance brokerage in Texas, said double-digit increases are now "what small employers should always expect on an annual basis."

In some cases, the financial pain could be even more severe. Carl Schuessler Jr., a health benefits adviser with Mitigate Partners, has a client in Georgia with fewer than 25 workers. The insurer raised the company's premiums by 50% this past February. Another employer in Florida with fewer than 60 workers and dependents ate a 47% increase, effective April 1.

"They've been very high, and I see no reason why (large insurance companies) are going to change that," Schuessler said.

The expected 2023 increases are quite a jump from the normal annual increase. Since 2015, increases for family coverage in small employers hovered around 5% to 8% annually, according to the Kaiser Family Foundation.

Small companies are the chassis of the American economy, and an important source of coverage within the health care system. Even though just 28% of the entire workforce is employed by companies with fewer than 50 employees, 88% of businesses have fewer than 50 employees. But with premiums soaring at a rate well above inflation, now at a 40-year high, a lot of firms are being forced to evaluate whether they will drop coverage or shovel even more of workers' pay toward health care.

The Affordable Care Act requires businesses with 50 or more employees to offer health insurance, or else pay a penalty. Firms with fewer than 50 employees don't have to offer insurance, but a lot still do because they want to attract and retain people, or they believe it's the right thing to do. Somewhere between 31% and 56% of companies with fewer than 50 workers offer health insurance, compared with 92% of companies that have 50 or more workers, according to KFF.

Most small businesses choose "fully-insured" plans, which means they pay insurance companies a fixed amount of money — the premium — to take on all the risk and work of covering their employees' care. Fully-insured premiums are predictable for the entire year, but are more expensive.

Conversely, just 21% of companies with fewer than 200 employees were "self-funded" last year, according to KFF. Self-funded businesses act as the insurance company by paying all employees' medical claims from their own bank account. These companies buy stop-loss insurance to protect themselves from really expensive claims, and then outsource other administrative services to actual insurers — all of which is generally cheaper than a fully-insured option, but requires more day-to-day oversight from the employer.

Most small companies are sticking with fully-insured plans and have kept benefits stable throughout the pandemic, according to researchers and benefits experts. Many firms also stick with the "BUCAHs," an industry shorthand for the biggest insurers: Blue Cross Blue Shield, UnitedHealthcare, Cigna, Aetna, and Humana.

The pandemic has dictated a lot of the movement in premiums over the past few years. Nationwide shutdowns in 2020 led to people delaying care, which was a massive windfall for insurers since they continued to collect premiums but paid out fewer medical claims. Consequently, many employers got breaks on their premiums for 2021.

However, as people returned to doctors' offices and hospitals in 2021, with some developing more serious conditions, insurance claims soared and led to insurers making large price increases for 2022.

People in the hospital and insurance industry expect patient volumes will be closer to pre-pandemic norms this year. That indicates insurers will bump up prices again to offset the uncertainty of Covid and people getting more care. But benefits experts also say Covid has provided cover for big insurers to raise premiums, considering their profits exceed what they earned before the pandemic.

"They're all jacking it up and say, 'Covid,' yet when you look at their financials, the insurance companies made more money than they've ever made in their history during Covid," Schuessler said. "It's just an excuse to pass it off."

Adam Beck, who oversees employer health policy at America's Health Insurance Plans, the primary lobbying group for insurers, said it's still too early to know exactly where premiums for small employers will settle since insurers do a lot of that work in May and June.

"We're not hearing anything that gives us any indication that 2023 rates are going to be exponentially larger than what we saw in 2022 or 2021," Beck said.

Beck also said insurers can't raise prices of fully-insured plans to whatever they want because those plans have to go through state rate-review processes where they justify increases. He added the rising prices imposed by providers and drug companies are the root cause of employers' pain.

"We know that medical inflation has been out of control for years, and what drives that? Hospital charges, physician fees, prescription drug costs, the costs of out-of-network surprise billing," Beck said. "As long as those continue to increase, you're by nature going to have to see premiums keep up with that."

Some insurers have been defraying new premium hikes by offering cash rebates. These rebates have been targeted at companies that have fewer than 200 employees, said Brian Uhlig, a benefits consultant at Alera Group. For example, an insurer might raise the premium for a small employer by 12% but offer cash to make the increase feel more like 7%.

The tactic is a bit of a gimmick, Uhlig said, because the cash only provides short-term relief for employers and no tangible relief for workers. "The carriers get to keep their premiums higher, and that sets a different [higher] bar for the next year," Uhlig said.

Small companies that are sick of fully-insured plans but don't want to take on the risk of being self-funded also are gravitating toward a separate complex insurance design called "level-funding." Employers in a level-funded plan pay premiums as if they were fully-insured, but if medical costs come in lower than what they paid in premiums, employers get to keep part of that surplus — often between half and two-thirds.

This option has appealed to more small employers. Roughly 42% of small firms had a level-funded plan in 2021, "a much higher percentage than the previous two years," KFF experts wrote in their most recent employer benefits report.

Small employers ultimately have to work within the parameters of their states, which all have different insurance regulations and market characteristics. And some small business owners have gotten more creative to get plans they want.

Take Texas: Since 2016, none of the health plans on the ACA's individual marketplace in Texas offer preferred provider organization, or PPO, plans. Texans who want a PPO plan — which has a wide network of doctors and hospitals, but is pricier — have shifted to the employer market through clever maneuvering and paperwork.

Some insurers have allowed, for example, a husband and wife to create a limited liability company. They then count as an employer and employees, and can enroll in a small-group PPO plan. Kelly Fristoe, a broker who is licensed in Texas, has helped with some of these arrangements and calls them "micro-groups."

However, Fristoe said some of those micro-group enrollees have moved into narrow network HMOs because the PPO premiums have gotten too expensive. Ever-higher prices from hospitals and poor negotiation from insurers, he said, are feeding into premium hikes that have become "completely unsustainable."

"Something has to change for these fully-insured small employers," Fristoe added. "And it's probably not going to change at the health insurance company."

Bob Herman
Business of Health Care Reporter
Pronouns: he/him
Twitter: @bobjherman