# Investigating the high costs in employer-sponsored insurance

## A closer look at three players

Healthcare spend in employer-sponsored insurance continues to increase year-over-year, and the strategies used to reduce spend have not evolved significantly in the past several decades. There are three major players in employer-sponsored insurance — employers, brokers and consultants, and health plans — and yet no one is taking the lead to drive down spend. This infographic delves into the strong incentives and barriers that make each of these stakeholders accept the status quo for medium to large, self-funded employers.


**Employers are often the ultimate purchasers of employer-sponsored insurance. When their insurance is self-funded, employers are on the hook for healthcare spend for their employee populations.**

### What they're known as in the industry:

The industry sees employers as **distracted decision-makers** because although they are the ultimate purchaser in ESI, they are juggling other business priorities and aren't explicitly focused on healthcare.

### What they're incentivized by:

Keeping their costs down; retaining and attracting employees

### Why they aren't spearheading change:

1. **Change is inherently disruptive, and disruption is what employers are looking to avoid for their employees.** They can't afford to try initiatives just to drive down spend; they must always keep employee preferences in mind. An initiative that drives down healthcare spend could increase overall employer spend if it means employees leave the company and the company must hire and train new employees.
2. **They're focused on all employee benefits and well-being, not just healthcare.** HR and benefits leaders oversee many responsibilities and are often working with a small team. Healthcare is complex and often too niche for benefits leaders to devote outsized time and energy to learning the nuances. Because of this, many trust their brokers and follow their brokers' guidance.
3. **The benefits or HR leader who oversees healthcare benefits may not be measured on the same KPIs as their chief financial officer counterpart.** Benefits and HR leaders keep employee retention and engagement as their top priority, which may drive this leader to be less strict about reducing spend.
4. **Change could increase the administrative burden for the employer benefits leader.** For example, employers often want to offer the same benefits to all employees. If a service is only available in one state and not another, they may choose not to offer that service to avoid complaints and additional administrative burden.

### One thing they wish others knew:

Other stakeholders might think employers aren't knowledgeable about healthcare and that they're making the wrong decisions — but that's not true. **Yes, they're worried about costs but also about employee preferences and increased administrative burden.** Further, their purview extends beyond healthcare into a host of other issues that define well-being for employees.

### What they could do to lower healthcare spend:

☑ Employers could be even more discriminating in how they choose partners. For example, given the new fiduciary responsibilities employers have under the Consolidated Appropriations Act, they should ask their brokers for compensation details and how brokers are choosing benefits to recommend.


**Brokers and consultants are trusted advisors for employers. They bring benefits, health plans, vendors, and more to employers for them to choose from.**

### What they're known as in the industry:

Health plans see brokers and consultants as a **necessary partner** with whom they must work. Employers see them as trusted friends (but friends who might put their priorities ahead of yours.).

### What they're incentivized by:

Maintaining their position as the employer's broker of choice; commissions from plans, PBMs, vendors

### Why they aren't spearheading change:

1. **If they recommend a service or product and it doesn't work, that hurts more than not making a new recommendation at all.** If employers aren't complaining that something is broken, there's no need to search for fixes.
2. **Some brokers have biased payment structures in place.** For example, some brokers may be biased based on their payment structure if they are being paid by the plan or vendor. Often this is not at the broker level but at the brokerage firm level. Also, sometimes brokers and consultants receive commission off the total package amount — so a more expensive package means a higher commission.
3. **Employers focus on discount rates when choosing a carrier, so brokers do too.** Brokers often share the discount rate on unit costs with employers when sharing benefits options rather than the total cost of care, quality, etc. because this data is more easily accessible and what employers tend to ask for.
4. **The "best" carrier or benefit is not always the least expensive.** Recommending the benefit, carrier, or vendor that is the cheapest — or even the one that will drive down the most spend — is not always the right answer. For example, if a vendor drives down spend but is a nightmare to work with, brokers are unlikely to recommend that vendor to their employer clients.

### One thing they wish others knew:

Brokers and consultants are not all suspiciously compensated. **Many of them don't get paid by the plan, but rather by the employer they're serving.**

### What they could do to lower healthcare spend:

☑ Proactively disclose their compensation to employer clients up front. Furthermore, operate on a fee/RFP compensation structure paid by the employer to eliminate potential conflicts of interest.


**Health plans are sometimes on the hook for healthcare spend (for fully funded employers) but are usually supporting self-funded employers with administrative services only.**

### What they're known as in the industry:

The industry sees health plans as a **stagnant administer** who manages the claims but is not looking for innovative changes.

### What they're incentivized by:

Fees from processing claims; maintaining their position as the employer's plan of choice

### Why they aren't spearheading change:

1. **They are making money off the status quo.** If they get paid to process claims, their compensation goes up when the number of claims go up.
2. **Health plans don't want to risk frustrating their provider networks with cost-containment strategies (such as new payment models) that could change provider workflows and increase administrative burden.** A plan's provider network is critical to winning an employer's business. As such, plans don't want to jeopardize those relationships through frustrating or antagonizing behaviors.
3. **Plans lack the level of face-to-face time and trust that brokers/consultants have with employers.** Therefore, it is harder for health plans to recommend changes to employers because they often must make recommendations through the broker/consultant.
4. **Employers are the purchasers, so health plans are driven by what employers want and will purchase.** Offering products with lots of savings potential but low palatability doesn't make sense if employers won't buy it.

### One thing they wish others knew:

Others might think that health plans only care about saving money in their fully funded business because that's where they're on the hook financially. **But at many plans, executives' bonus structure is based on the bottom line of both their fully and self-funded business.**

### What they could do to lower healthcare spend:

☑ Administrative Services Only (ASO) plans often receive the halo effect from strategies the plan is adopting in the full funded space, so they should continue to wrap these innovative offerings into their ASO business.

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