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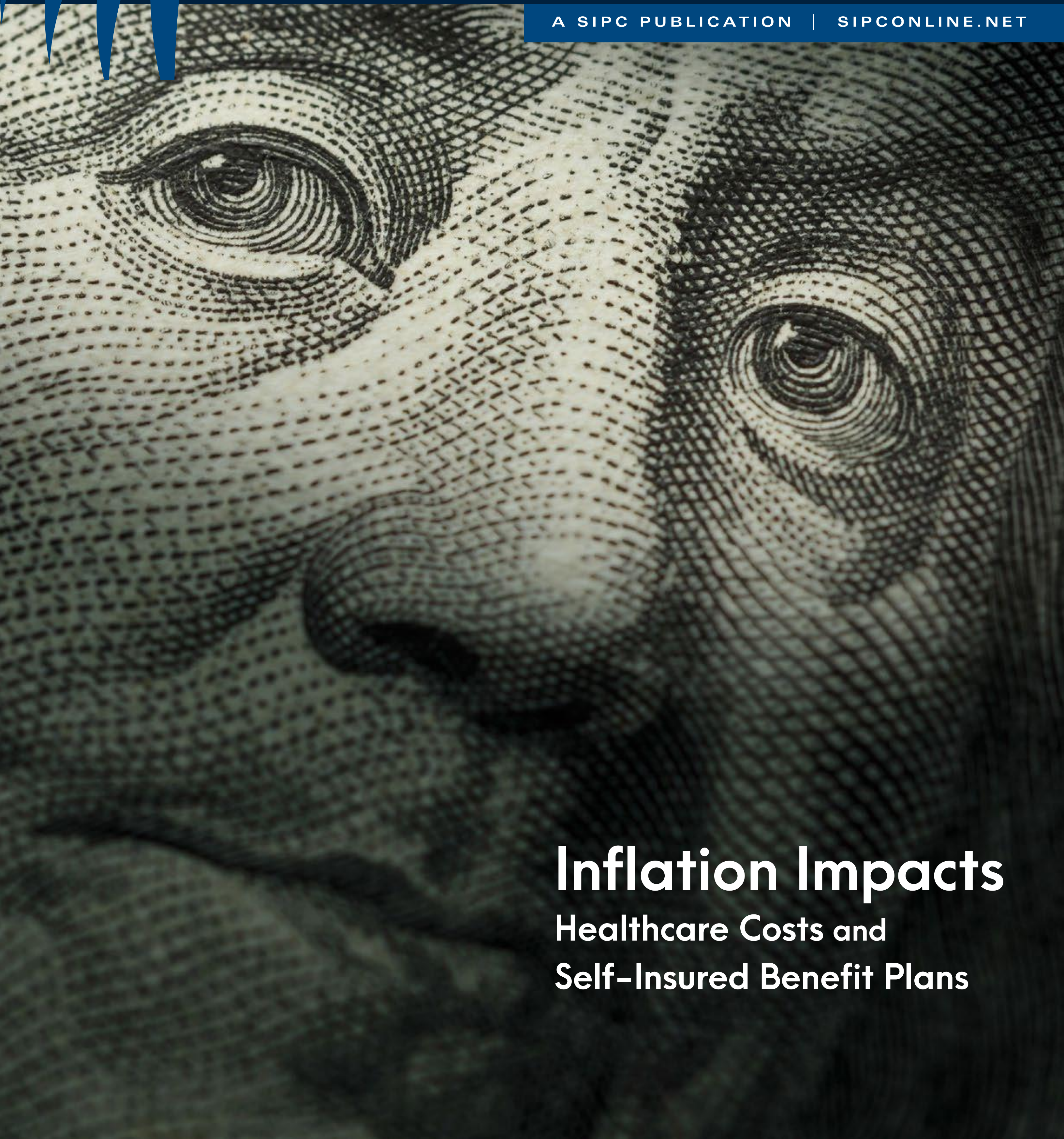

Inflation Impacts

Healthcare Costs and Self-Insured Benefit Plans

FEATURE

Inflation
Impacts Healthcare Costs and Self-Insured Benefit Plans

Written By Laura Carabello

Pointing a finger at inflation as the culprit for escalating healthcare costs, some analysts assert that while health care prices have been largely unaffected by record-high U.S. inflation, prices are likely to accelerate more rapidly in the year ahead. This will probably lead to higher insurance premiums and more costly services for both consumers and employers in 2023.

Notably, in September 2022, the Federal Reserve central bank raised rates by 0.75 percentage points for the third time this year and released new economic projections showing a significant slowdown in the economy later in 2022 and 2023.

Emotions are running high, particularly in the mid-term election year, as people express their frustration and suffering from high inflation and may be in for more difficulties if the government reneges on its commitment to pulling prices back down. Healthcare is caught in the cross-hairs of these conditions.

McKinsey insists that the impact of inflation on the broader economy has driven up input costs in healthcare significantly. They project that the likelihood of continued labor shortages in healthcare—even as demand for services continues to rise—means that higher inflation could persist.

The relatively high rate of inflation seen in overall economy, with a loss of purchasing power for everyday goods and services such as food, furniture, apparel, and transportation, may translate into higher prices for medical care. This could lead to steeper premium increases and the direct cost of care.


Mark Lawrence

Mark Lawrence, president, HM Insurance Group, shares this perspective, “In a high inflation environment, all costs will rise, some more apparent than others. Inflation impacts many areas, including labor, fuel, insurance, specialty medications, medical technology and so on. In my opinion, it’s very difficult to mitigate these effects. Personally, I haven't found a way to be successful in avoiding inflation at the gas pump or in the grocery store.”

Amid this environment, there is consensus that health care costs are on the rise, with projections resulting from an Aon survey indicating that the average costs for U.S. employers that pay for their employees' healthcare will increase 6.5% -- from $13,020 per employee in 2022 to more than $13,800 per employee in 2023. They say this is largely due to economic inflation pressures, with escalating costs more than double the 3% increase to healthcare budgets that employers experienced from 2021 to 2022.

However, this is significantly below the 9.1% inflation figure reported through the Consumer Price Index, largely because medical claims were suppressed for most employers during the first year of the COVID-19 pandemic when a large slice of care, elective surgeries and preventive screening or diagnostics were postponed or skipped during quarantines.

While inflation tends to affect healthcare later than other industries, employers may have seen the medical claims experience return to more typical levels of growth but should brace for anticipated inflationary cost pressures in the coming year.


Jakki Lynch

Jakki Lynch RN, CCM, CMAS, CCFA, director, Cost Containment Sequoia Reinsurance Services, provides this perspective:

“The impact of inflation on the broader economy will likely lead to rising healthcare claim costs in an already inflated high price market. With the increasing cost of hospital inpatient services, emerging therapies and chronic illnesses treated with specialty pharmacy medications, plan sponsors are in search of affordability solutions to manage expenses, reduce waste and maintain access to care.”

She points to two key interventions for Plan Sponsors to reduce the inpatient facility exposure: insightful contracting and claim payment integrity reviews which ensure correct reimbursement and accurate payment of plan benefits.

"While reference-based pricing strategies can provide a benchmark in contract negotiations, understanding the provider cost analytics, billing and coding patterns as well as quality of care performance are critical to negotiating the most ideal economic results for a plan," says Lynch. "With the combination of a strategic claim payment integrity program, Plan Sponsors can gain a window into the provider's billing practices for a knowledge-based, targeted negotiation while also allowing for the right to review the claims."

She explains that a technical high dollar claim and medical record review determines if the charges are coded accurately, appropriately documented and are free from impropriety.

"Analyzing high dollar claims requires specialized expertise and resources, but health plan sponsors may not have the staff, time or experience to identify and construct the clinical, network and coding nuances inherent to complex claims," she continues.

"With the right program, Plan Sponsors can experience savings yields of 10% to 30% of payable charges on top of the contracted rate and supported by settlement with providers. Specialty pharmacy risk mitigation can be challenging."

Joe Dore

Joe Dore, president, USBenefits Insurance Services, LLC, shares this guidance: "Inflation does not discriminate – it impacts all industries and segments within. HR challenges -- wages, retention, training as well as manufacturing costs, supply chain issues, rising interest rates and other considerations -- will adversely affect everyone, from employers to consumers. Make no mistake that the member/patient ultimately will need to make tough financials decisions, such as eating vs buying medications."

Generally, Dore says the onus to mitigate falls upon the employer to address economic disturbances via their plan document and front-end negotiations with networks, vendors and others.

"This is the tipping point for all parties," he advises, "and is inclusive of the stop-loss carrier, to be simultaneously invited to the table to align objectives and strategies in an effort to produce the best possible outcomes – not just financially, but medically as well."