

The future of commercial health benefits

Disruptive changes to the 'why,' 'how' and 'what' of employee benefit selection

**2024 EY-Parthenon
Employee Health Benefits Survey**

Why disruption is rising in the employee health benefits system

Radical change. That is what many employers say they expect in their health benefit strategy and design over the next three to five years, according to the 2024 EY-Parthenon Employee Health Benefits Survey of employers.

The unrelenting disruptive pressure across the industry, fueled by high costs and changing demographics, leaves employers with divergent benefit choices as they seek new plan administration approaches and innovative digital solutions to better recruit and retain employees.

Investors, meanwhile, have a profound opportunity to participate in this shifting tide for traditional insurance carriers, as well as third-party and niche “best-in-breed” solution vendors that are using technology in new ways.

With this in mind, EY-Parthenon surveyed key decision-makers, at employers large and small, representing self-funded and fully insured plans across industries and geographies. The results include three key insights we gathered on employer priorities, the solutions outlook and the impact on the employer health benefits industry:

1 Disruption is rampant

Cost increases are accelerating. Employers expect 6.1% annual increases in premiums over the next three to five years, highlighting the need for new cost management strategies. In addition, shifting workforce demographics mean an evolving need for behavioral and other benefits related to underserved health conditions. As technology upends traditional offerings, these economic and competitive realities necessitate an evolution of traditional health benefit models to serve the future needs of employer buyers.

2 Competition is intensifying

With stagnation in the number of full-time employees and growth in the number of self-insured companies, market participants are fiercely battling to win in the middle market: organizations with 750 to 5,000 covered lives. Additionally, new entrants such as digital-first, third-party administrators (TPAs) are rapidly attracting interest. Nontraditional methods for purchasing benefits (e.g., Individual Coverage Health Reimbursement Arrangements (ICHRA) and marketplaces) also are gaining traction.

3 Health insurance carriers need a new playbook

The demand for personalized health care extends to the design and deployment of employee benefits. Benefit providers must be prepared to meet this demand, though they are arguably moving more slowly than their health system, biopharmaceutical and medical device corollaries. Employers are seeking custom solutions with a compelling value story, and benefit providers must be prepared with the right package of traditional cost containment solutions, reference-based pricing, care navigation and advocacy, narrow networks and more, supported by flexible self-, level- and fully funded options.

1

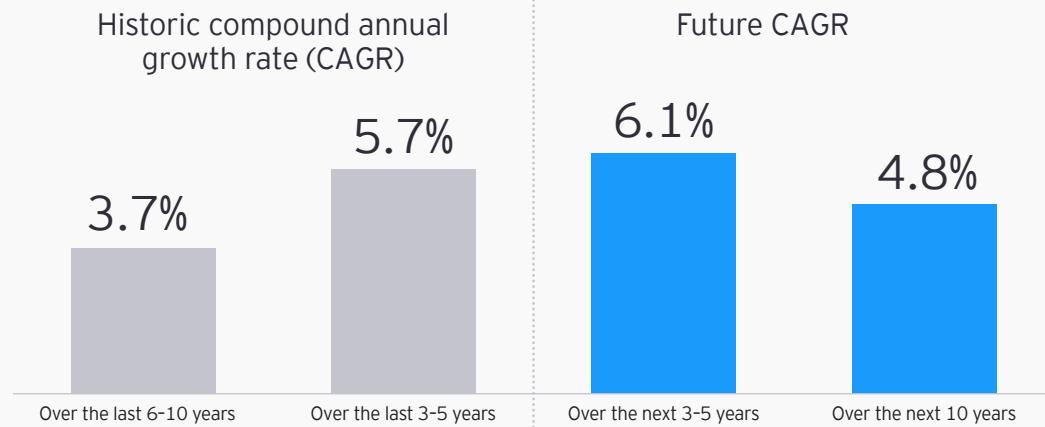
Root causes of disruption

Rising health insurance costs for employers and employees may have reached unsustainable levels, but the EY-Parthenon survey shows employers expect premiums to surge by 6.1% annually in the next three to five years. That compares with premium growth of 3.7% per year on average in recent years (Figure 1.1).

The projected increase is primarily driven by higher labor costs and demand for new and expensive drugs. Hospitals' expenses increased by roughly 17.5% from 2020 to 2022 and systems

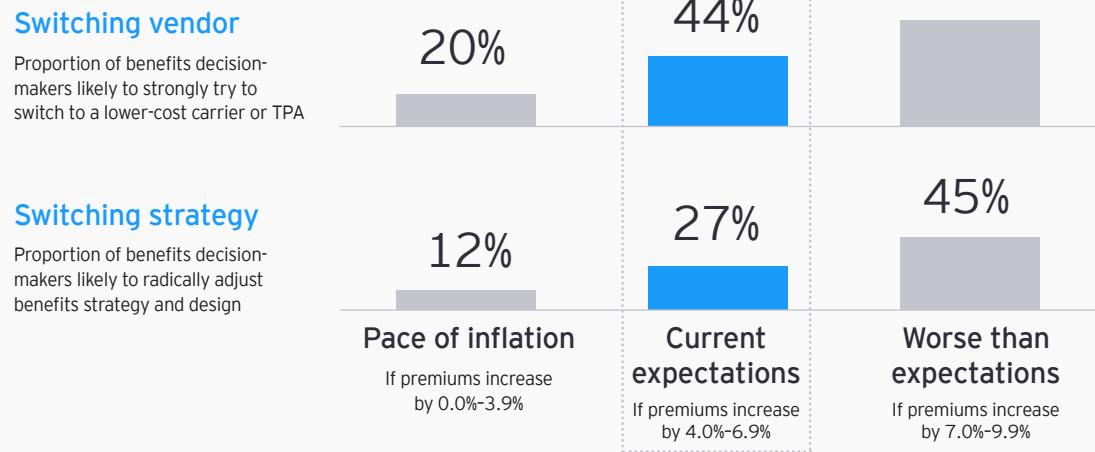
are passing these expenses to carriers and TPAs in 2024. In an uncertain macroeconomic environment, employers are grappling with an unclear end to health cost inflation and have expressed interest in changing vendors and strategies (Figure 1.2). Adding fuel to the fire is a widening divide between what benefits coverage includes and what benefits employees truly want, which only further encourages disruptive change.

Figure 1.1: Employer premium historical vs. future growth



Source: KFF, 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Figure 1.2: Proportion of decision-makers expressing desire to change vendors and strategies based on future growth of premiums



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

In today's tight labor market, many employers can no longer turn to health benefit cost mitigation strategies such as employee cost sharing through high-deductible health plans (HDHPs), adjustments to co-pays or more restrictive benefits. According to the 2024 EY-Parthenon survey, only 38% of employers expressed intention to further shift costs to employees, and only 15% of employers plan to reduce their health benefit package in the next three years.

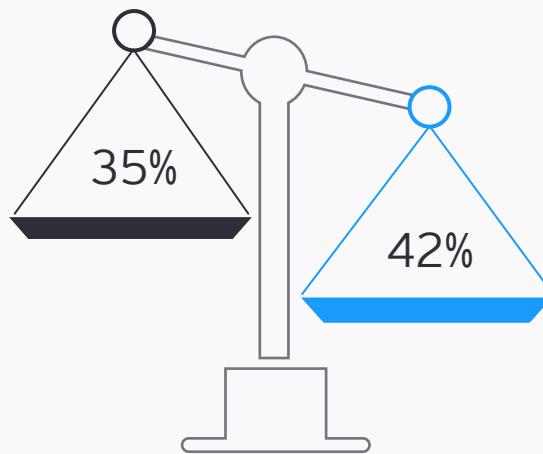
However, employee exposure to benefit costs is at an all-time high due to the cost-shifting strategies deployed over the last decade. In 2022, 88% of workers had a deductible, averaging more than \$1,800 for single coverage, and today roughly a third of employees are in a high-deductible health plan (HDHP). As a result, the value of benefits as a talent recruitment and

retention tool is higher than ever before as workers scrutinize offerings. This is particularly true in highly competitive markets for talent, including technology and professional services. This trend coincides with intensifying recruiting competition among employers after the Great Resignation and post-COVID-19 pandemic boom.

While containing costs, employers feel obligated to expand the benefit package to accommodate shifting employee priorities and to better compete for talent. The survey shows that when selecting a benefit package, employers now place greater weight (42%) on improving employee satisfaction, health and productivity than on reducing employee medical and pharmacy costs (35%) (Figure 1.3).

Figure 1.3: Weighted importance of controlling medical/pharmacy costs vs. improving employee satisfaction, health and productivity when selecting a benefit package

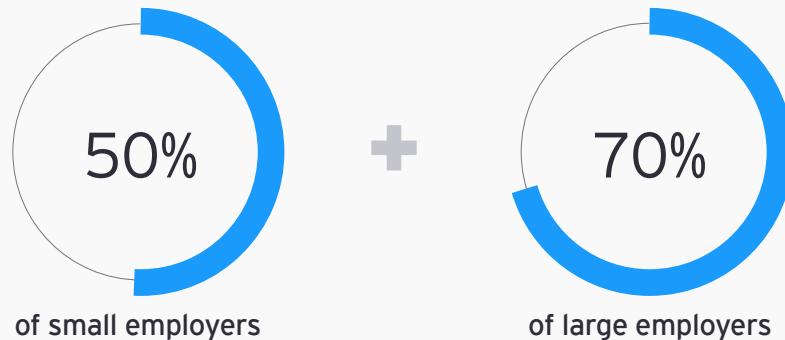
Weighted importance of controlling medical/pharmacy costs when selecting a benefit package



Weighted importance of improving employee satisfaction, health and productivity when selecting a benefit package

Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Figure 1.4: Percentage of small and large employers that expressed interest in benefit expansion



indicated plans to expand benefits, particularly focused on benefits that address:

Behavioral health	Fertility	Childcare	Musculoskeletal health	Obesity/ weight loss	Financial literacy
-------------------	-----------	-----------	------------------------	----------------------	--------------------

Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

When determining which new benefits to offer, employers must carefully consider the volume of Gen Z and millennial people in the US workforce to curate a comprehensive benefit package to ensure participation, satisfaction and efficacy. The benefit needs of this new generation of workers differ from baby boomers and Gen X employees, who constituted a majority of the workforce in the past. Today's workers want robust solutions that go beyond core medical offerings to include mental health, fertility, childcare, musculoskeletal challenges, obesity, financial

literacy and more (Figure 1.4). Based on a given employee population, some insurance solutions may be more relevant and have higher returns. For example, a company operating in a physically strenuous industry might offer robust musculoskeletal prevention, an orthopedic center of excellence and recovery programs to improve employee health and functional mobility. In turn, the employer may experience greater employee morale, improved productivity and higher retention rates.

“

Health care costs have been out of control ... but I finally feel like we are at an important crossroads where we can do something impactful. We are not only looking to control costs, but also looking to change our benefit offerings to drive satisfaction, health and productivity. It's our top priority moving forward because it's a win-win for all of us.

Head of benefits,
Large employer



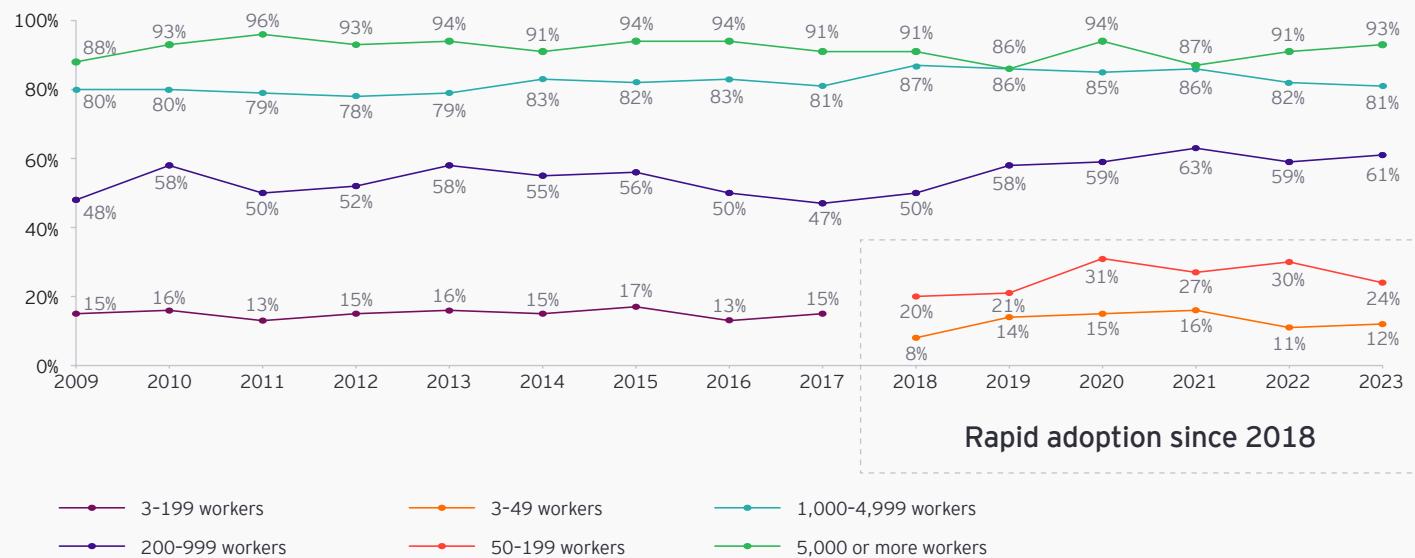
2 Evolution of the competitive landscape

To facilitate benefit customization and cost reduction, employer self-insurance has steadily increased at medium- and large-sized employers since 2018 (Figure 2.1). However, self-funding penetration for large companies (more than 1,000 lives) has plateaued.

The EY-Parthenon survey of employers confirms that small and mid-sized employers will continue to shift toward self-funding as they seek greater autonomy and flexibility in their plan design. The survey finds that 8% of employers which are fully funding today expect to transition to self-funded plans in the next three years, fueled by:

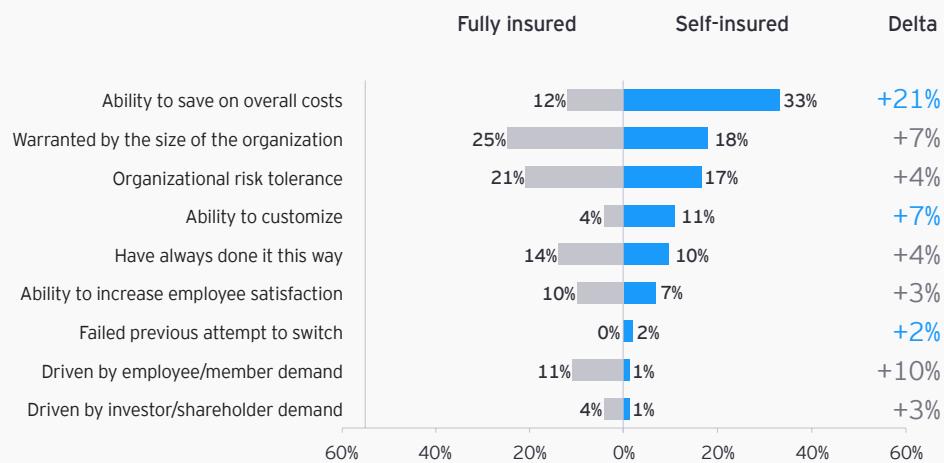
- ▶ Interest in better controlling health care spend
- ▶ Increased market understanding of benefits of self-funding
- ▶ Use of stop-loss and level-funded plans to help mitigate cash flow variability and risk
- ▶ Formation of consortiums and captives to negotiate pricing and reduce claims variance

Figure 2.1: Covered workers enrolled in a self-funded employer plan (2009-23)



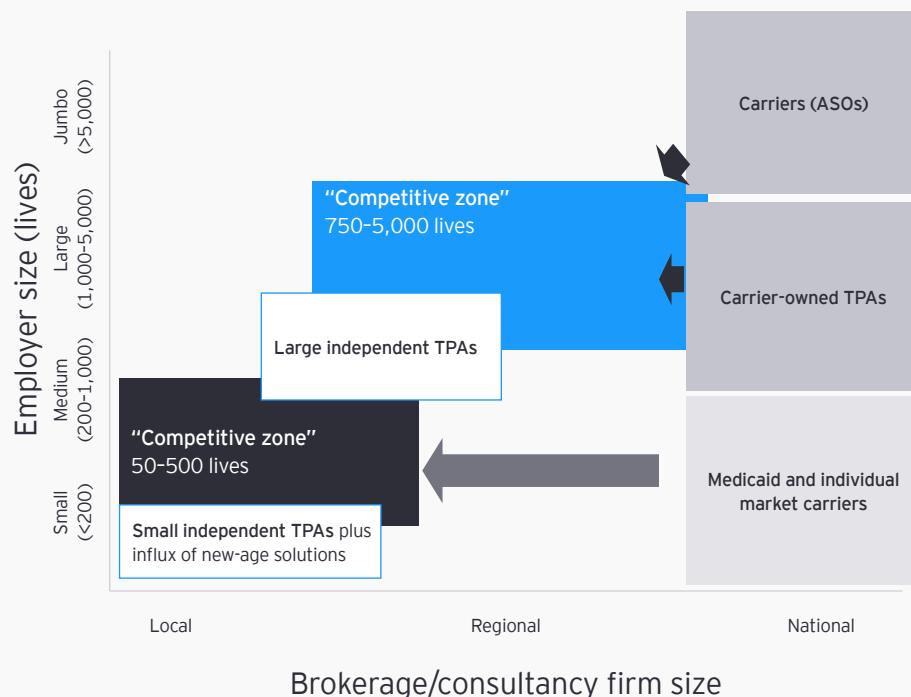
Source: KFF, EY-Parthenon analysis.

Figure 2.2: Top reason for using current funding approach



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Figure 2.3: Competitive ASO landscape, by brokerage/consultancy and employer size



Source: EY-Parthenon analysis.

The survey shows that the shift to self-funding changes purchasing dynamics and allows TPAs to be more directly competitive with carriers. We asked employers why they are choosing to either self- or fully fund: 33% of employers indicated their primary reason for self-funding was to cut costs, while only 12% of employers who fully fund do so to reduce costs. Both carrier administrative service only (ASO) arrangements and TPAs can deliver on reducing costs through self-funded plans. Notably, the second biggest discrepancy between those who self- and fully fund was the ability to customize what they buy. In all, 11% of employers indicate they are self-funding to create a more customized benefit package compared with only 4% of those who fully fund (Figure 2.2).

Shifting buying preferences to self-funding in the middle market, intermingled with carrier ASOs moving down-market to realize growth, is intensifying competition for employers with 750 to 5,000 covered lives. This is the first “competitive zone” (Figure 2.3). TPAs may be better suited to address desire for self-funding and benefit customization in the middle market as compared with carrier ASOs in their current construction. In the EY-Parthenon team’s experience researching and working with companies in the space, employers typically choose carrier-owned TPAs/ASOs if they desire greater network coverage and steeper network discounts, value the brand of national carriers and have previous relationships. On the contrary, employers typically choose independent TPAs if they value customization and the flexibility to pick and choose different elements of the benefit package, desire unique value-added services and partnerships that TPAs offer, and prefer more white glove service associated with smaller businesses.

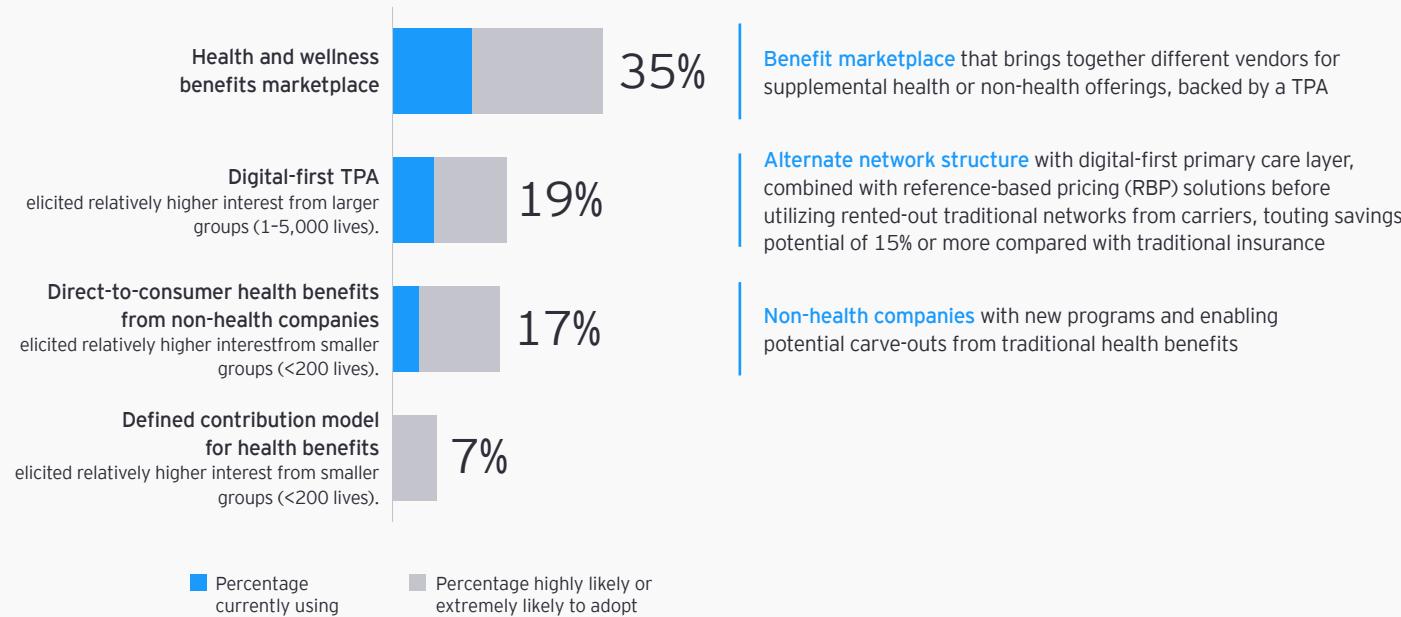
Besides growth of self-funding, employers are considering several novel approaches to health benefits, and the market in which carrier ASOs and TPAs compete today will not look the same in the medium to long term. This is a major contributor to the emergence of a second “competitive zone” in the small group market of fewer than 500 lives. The introduction of individual reimbursement arrangements (ICHRA) as an alternative to traditional group insurance has led Medicaid and other individual market carriers to invest in products serving small employer groups. These traditionally enrolled in fully insured plans administered by small independent TPAs.

The EY-Parthenon survey finds that as many as 35% of employers indicate high interest in adopting a health and

wellness benefits marketplace wherein employees can purchase subsidized supplemental benefit products at their discretion. Additionally, 19% of employers express high interest in switching to a digital-first, new-age TPA. Finally, 17% of employers are closely evaluating nontraditional health companies developing direct-to-consumer health benefit options (Figure 2.4).

Few vendors and benefit products fully meet the demand for new modalities and benefit options today, so these survey results likely overstate true near-term adoption potential in the absence of rapid innovation. However, the employer responses in our survey strongly indicate that employers believe that change is needed in the way benefits are purchased.

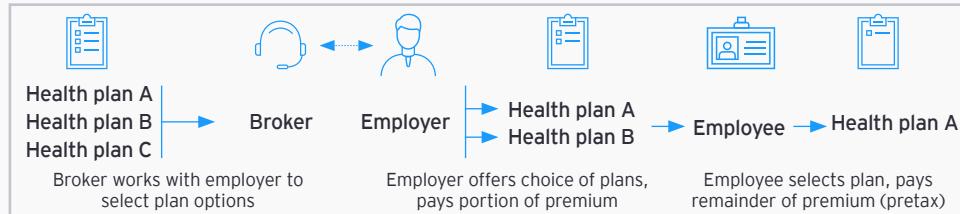
Figure 2.4: Current penetration and likelihood of adoption of nontraditional health benefit options



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Figure 2.5: Current benefits model vs. ICHRA model

Current model:



Individual coverage HRA model:

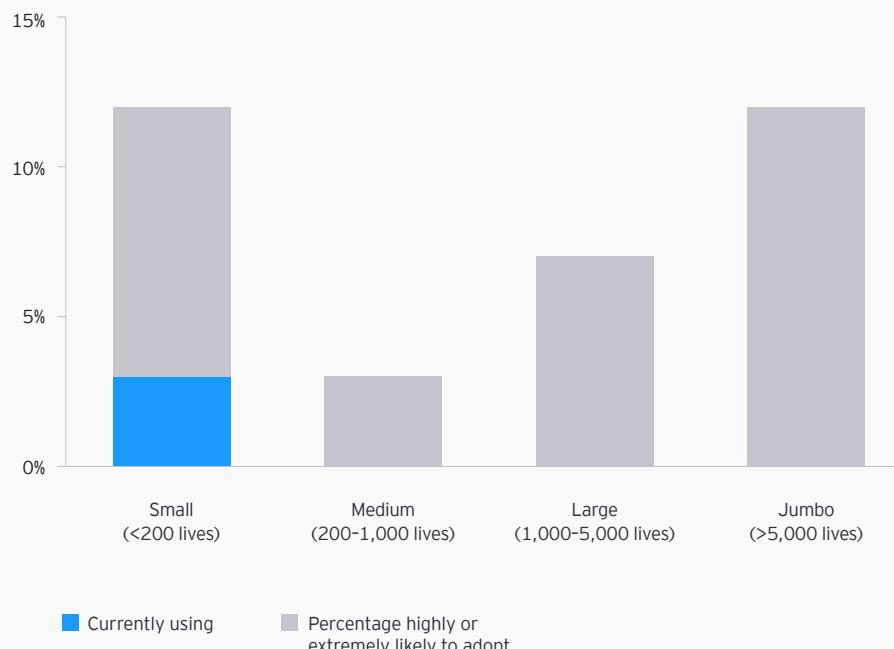


Source: EY-Parthenon analysis.

Additionally, employers have increased adoption and awareness of defined contribution models such as ICHRA. Employers transitioning away from the traditional carrier/TPA-led plan design can offer a fixed amount of money to employees to choose and buy elements of health insurance a la carte (Figure 2.5). Employers are leveraging ICHRAs to allow employees to pay premiums and out-of-pocket costs associated with coverage in the individual health insurance market on a pretax basis. The HRA Council estimated that ICHRA adoption by US employers tripled from 2020 to 2022. There are differing points of view on the current adoption level of ICHRA and related models – total number of lives enrolled in health plans through ICHRA may be anywhere from 300,000 to 3 million lives. However, the EY-Parthenon survey confirms what government and market participants agree on: ICHRA likely will cover at least 11 million lives by 2030.

ICHRA is just one potential defined contribution model, and it is largely applicable to smaller employers with fewer than 200 lives. The EY-Parthenon survey of employers shows defined contribution health benefits could capture roughly 5% to 8% of the commercial insurance market share by the end of the decade as an alternative to group insurance. Interest and adoption are highest among smaller employers that are pursuing ICHRA models, but interestingly, jumbo employers with more than 5,000 lives also expressed high interest in defined contribution models (Figure 2.6). This was at first a surprising finding, but high interest from the largest employer groups is reflective of interest in a comprehensive health and wellness platform, not dissimilar from the benefits marketplace model.

Figure 2.6: Interest in defined contribution models by employer size



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

However, defined contribution models like ICHRA have limitations to overcome, such as ensuring employees have access to education and tools to make appropriate choices and avoiding the significant risk of upsetting employees if the process is confusing. EY-Parthenon believes that growth in defined contribution models can be driven beyond estimates from our survey with the appropriate strategy. As previously discussed, growth in self-funding in the small group market took off as market education matured and products arose that addressed previous barriers to self-funding (e.g., level funding, captives, consortia). With investment in employer and broker education, administration technology and employee experience products, defined contribution models may be able to replicate the rapid penetration of self-funding models. The vendors that can win in this market will have tailored offerings to carefully defined customer segments, established brand permission with their target segments and high organizational risk tolerance necessary to be a market maker.

Interest across these new approaches is particularly high when employers have a high appetite to differentiate themselves from others in the workforce. Nevertheless, adoption of alternative models will likely be phased over a longer time horizon, depending on solution maturity and employer acceptance. In the shorter term, there will still be a strong need for employers to manage costs, which will drive greater demand for cost containment strategies, including care management, virtual care and other point solutions, such as digital care navigation. In addition, employers want to have more autonomy in plan and benefit design and increased awareness regarding new digital-first disruptors that provide AI-powered care networks and benefits solutions.

“

The introduction of a high-deductible plan was one of the largest potential disruptors of how benefits were offered, and then became the new norm. For the future, we will look to predict where the biggest drivers of cost are coming from medications or treatments and look for vendors that offer solutions around eligibility and utilization of those.

Chief human resources officer,
Large aviation company



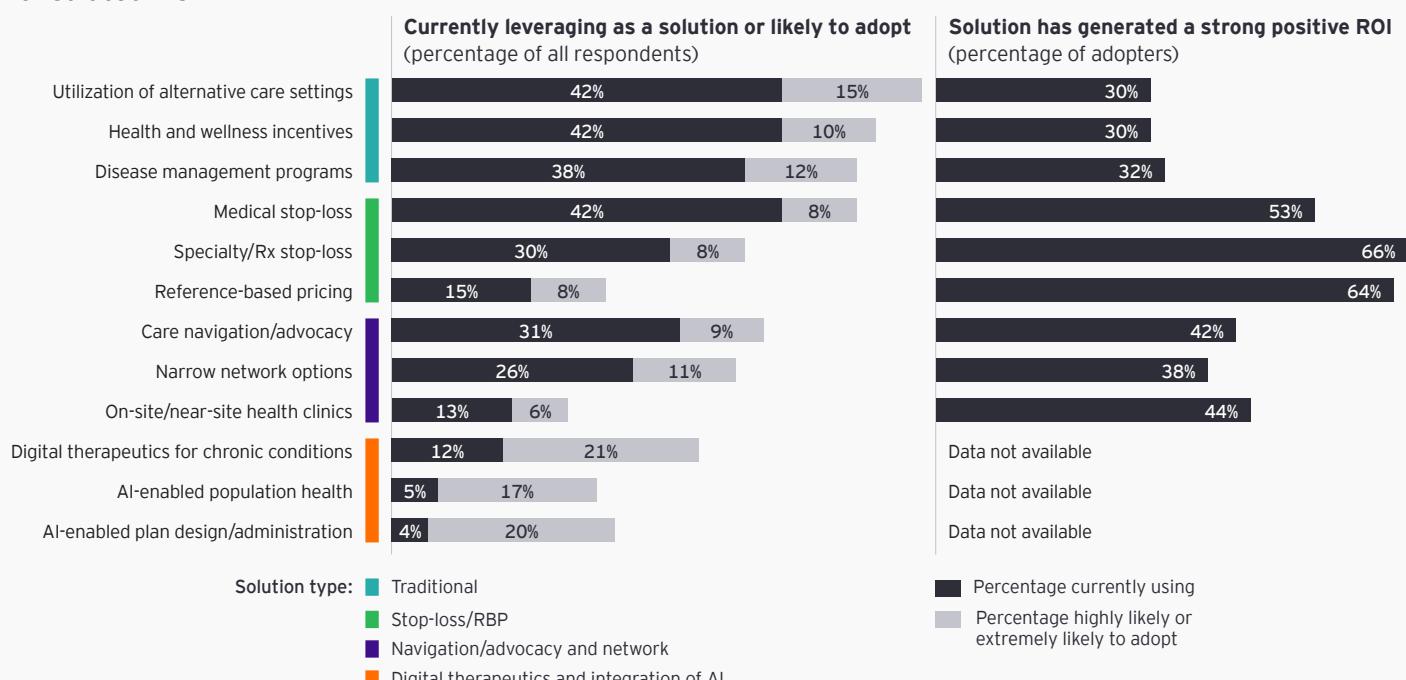
3 Strategize for the future

To prepare for commercial market disruption, there are several “no regret” moves that employee benefit providers should consider making now. One such move is customer segmentation and current state capability evaluation, which are foundational to form a forward-looking strategy. In the near and longer term, insurers must then identify where they can fill gaps in their product portfolio and how

to target specific clients with new and refreshed products and services. Because of ballooning health care costs, most employers are prioritizing cost containment solutions that can affordably meet employee basic coverage needs. In today's market, the EY-Parthenon team has identified four different categories of cost containment solutions (Figure 3.1).

- 1** **Traditional cost-containment solutions** are the most highly adopted, with roughly more than 40% of employers pushing alternative care settings associated with lower costs, comparable outcomes and greater patient satisfaction. In addition, traditional solutions include provision of wellness incentives and delivering disease management programs. However, buyers are unsatisfied with associated returns and impact; the EY-Parthenon survey results indicate that existing capabilities are viewed as ineffective in changing member behavior.
- 2** **Stop-loss and reference-based pricing solutions** are associated with the highest perceived ROI across all available solutions. Buyers highly value caps on total claims exposure as well as individual service charges. Interestingly, despite high ROI, non-users do not express high interest in adoption, which may indicate that either market education is poor or existing solutions are not sufficient or create too much disruption for certain buyers or markets.
- 3** **Care navigation, on-site clinics and narrow network solutions** are less adopted than traditional solutions but are perceived as more effective at forcing member behavior change and, thus, a higher ROI compared with traditional solutions. Depending on the employer's specific benefit strategy and workforce composition, these solutions may represent attractive medium-term promise for benefits providers.
- 4** **Digital therapeutics and the integration of AI solutions** are associated with the highest level of interest in adoption, though adoption remains low because products are not fully developed. Over the long run, the holy grail of employee benefits is robust disease management products that address medical needs using an integrated network of urgent/home/virtual care and whole person approach to physical, behavioral and spiritual health.

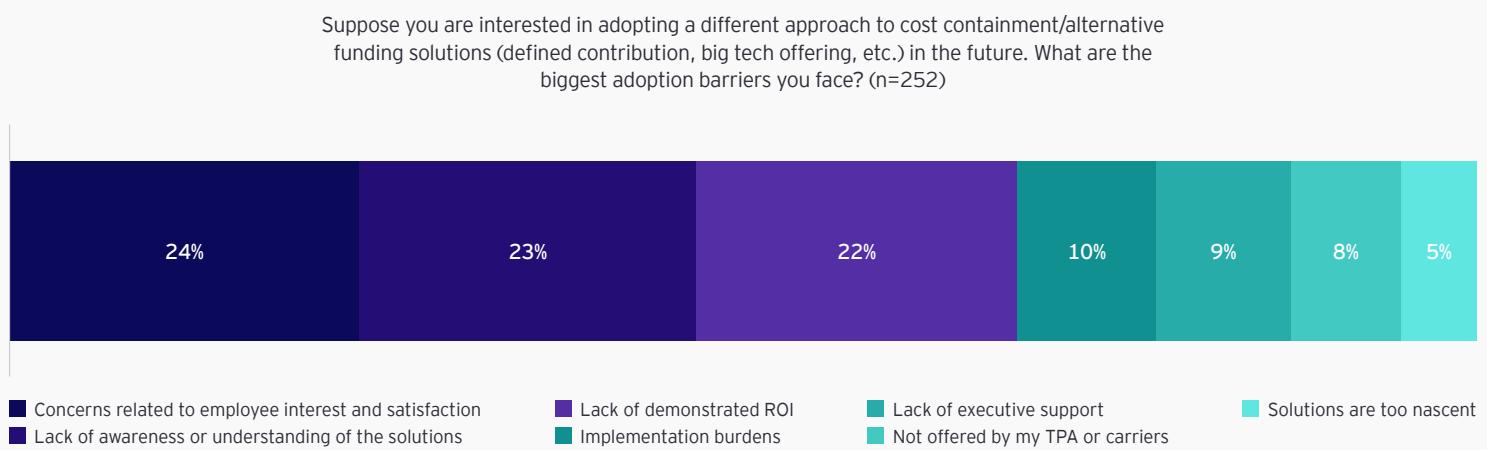
Figure 3.1: Current penetration and likelihood of adoption of innovative solutions on the future and demonstrated ROI



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Carriers should focus on addressing the biggest hurdles that employers face. When asked about the barriers to adopting cost containment/alternative health benefit programs, employers cited that their top reasons include concerns with employee satisfaction (24%), lack of awareness (23%) and lack of demonstrated ROI (22%) (Figure 3.2).

Figure 3.2: Biggest adoption barriers to cost containment/alternative funding solutions



Note: Percentages do not add up to 100 due to rounding.

Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

“

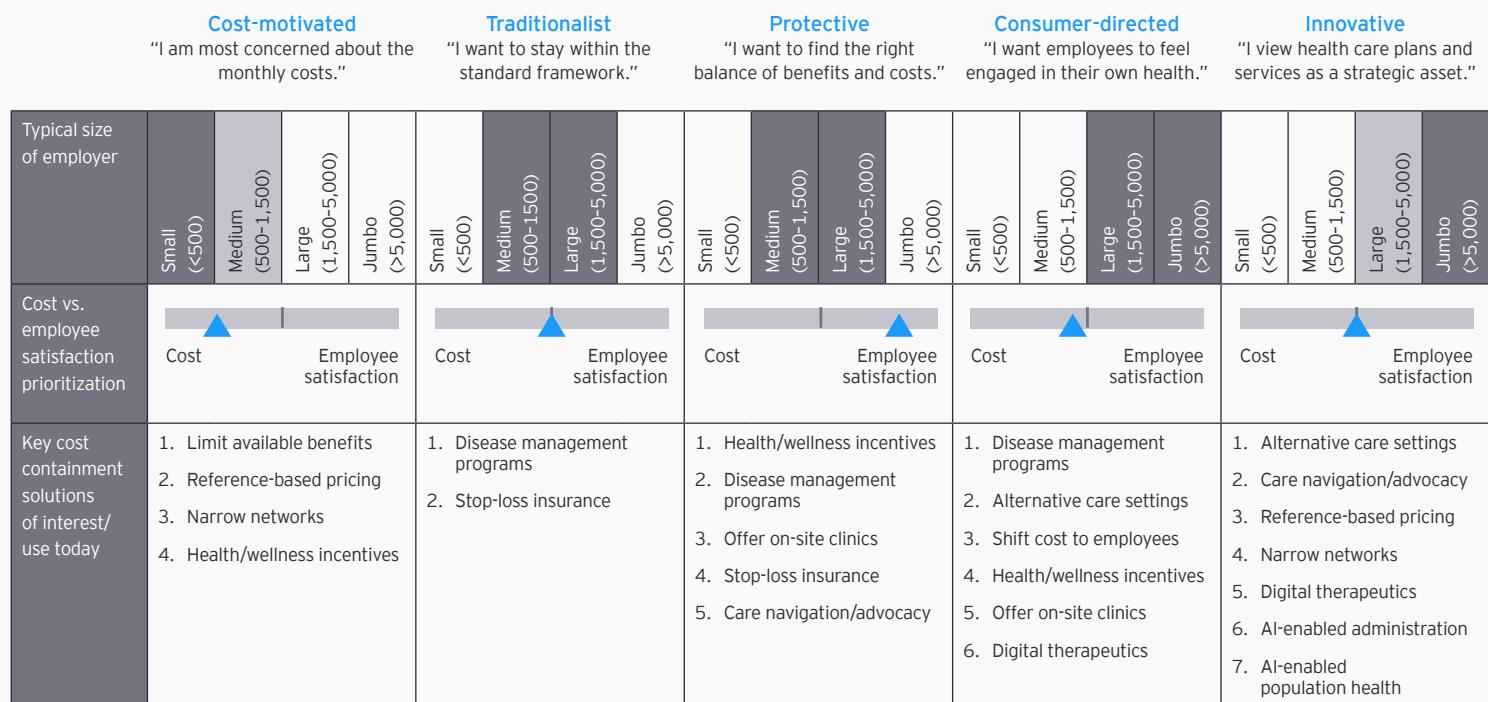
We start with budget expectations and look at programs that reduce costs — both costs for the member and costs of the plan. Then we ask if it simplifies the health care experience for employees. And then lastly, we ask if there is a return on investment.

Senior director of employee health and wellness,
Large life sciences company

Depending on financial goals, member preferences and population health, employers will have different preferences for their health care expenditures and resulting member experiences. Thus, insurers need to truly understand their existing customer base and their unique benefit strategies. Subsequently, go-forward strategy and offerings can be based on customers'

anticipated response to disruptive trends. While each insurer will need ultimately to evaluate its own customer base, the EY-Parthenon team has identified five key customer archetypes in the market that share many similar traits, including employer size, cost vs. employee satisfaction prioritization, industries and appetite for cost containment solutions (Figure 3.3).

Figure 3.3: Five customer archetypes



Source: 2024 EY-Parthenon Employee Health Benefits Survey, EY-Parthenon analysis.

Conclusion

The employer health insurance market is on the brink of a seismic shift driven by rising premiums, evolving responsibility and demographic changes. Cost containment and employee retention are top of mind for employers. Investors and market participants have many opportunities to capitalize on this disruption. These opportunities include:

- ▶ New approaches to purchasing and providing benefits (e.g., benefits marketplaces that enable greater employee choice and customization, digital-first TPAs that route employees through digital primary care before engaging with a narrow specialty network)
- ▶ Cost containment solutions that are more effective at changing member behavior and/or realizing cost savings (e.g., care navigation and advocacy products, reference-based pricing tools)
- ▶ Innovative future products that change existing paradigms for treating illness (e.g., AI-enabled identification of and intervention to prevent outlier high-cost claims risk before it occurs, more robust digital therapeutics and holistic disease management programs)

Employers are seeking new models. Carriers are changing their customer focus. The competitive landscape is evolving with new solutions. The question that remains is not where the employer market is heading, but rather how can we best prepare our organization in the short, medium and long terms for continued success?

If you have found this report useful, please [contact EY-Parthenon](#) to define key investment areas to prioritize and to develop a custom strategy for the needs of your target customers, focused on the trends of today and tomorrow.

Survey demographics and methodology

Demographics

- ▶ The analyses and findings shared in this report are based on 252 clean, complete responses to the survey from relevant respondents. A clean, complete response is one where the respondent has taken the time to go through the survey and provide thoughtful responses. We screen out any response suspected of selecting the same option for each question or those completed significantly under the anticipated time required to complete the survey.
- ▶ The survey includes responses from both self-funded and fully insured employers across industries that include consumer products, financial services, healthcare, technology, professional services, media and entertainment and real estate.
- ▶ Employers were segmented by the number of full-time employees (FTEs) employed by the organization, as follows:
 - ▶ Jumbo: >5,000 FTEs
 - ▶ Large: 1,000 to 5,000 FTEs
 - ▶ Medium: 200 to 999 FTEs
 - ▶ Small: <200 FTEs
- ▶ Respondents included were either the primary decision-maker or played a significant role in employee health benefits decisions at their organization.
 - ▶ Titles of respondents surveyed: C-suite (CEO, CHRO, etc.), president, executive or senior vice president, director

Methodology

- ▶ The survey consisted of 35 questions on a range of topics pertaining to employee health benefits themes and objectives, both historically and within the near term. Respondents were also asked to reflect on their experience purchasing from and evaluating specific carriers of employer-sponsored health plans to explore employee health benefits at a micro level.
- ▶ The target audience was prescreened for relevant experience and involvement in selecting employee health benefits within their organization.
- ▶ The survey was web based and was fielded over the course of two weeks. Responses were then recorded and segmented to pull insights across employer size, industry and insurance model.

Supporting research

- ▶ The EY-Parthenon team conducted outreach phone interviews with five decision-makers from employers of various sizes and industries across the US to further understand the rationale behind employee health benefits decisions and strategies.

EY-Parthenon contacts

Lead authors



Deblina Ghosh
Principal, EY-Parthenon,
Ernst & Young LLP
deblina.ghosh@parthenon.ey.com



Melinda Durr
Principal, EY-Parthenon,
Ernst & Young LLP
melinda.durr@parthenon.ey.com



Eric Hauser
Director, EY-Parthenon,
Ernst & Young LLP
eric.hauser@parthenon.ey.com



Robert Sim
Consultant, EY-Parthenon,
Ernst & Young LLP
robert.sim@parthenon.ey.com

Contributors



Andy Bechtel
Partner, EY-Parthenon,
Ernst & Young LLP
andy.bechtel@parthenon.ey.com



Mallory Caldwell
Principal, EY-Parthenon,
Ernst & Young LLP
mallory.caldwell@parthenon.ey.com



Carleton Young
Director, EY-Parthenon,
Ernst & Young LLP
carleton.young@parthenon.ey.com

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their ecosystems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

© 2024 Ernst & Young LLP.
All Rights Reserved.

SCORE No. 23479-241US_2
CSG No. 2404-4521010
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com