Your Successful 2025 Benefits Renewal Starts Now.

Tips to make the most of your upcoming renewal strategy

In recent years, many companies have focused on employee retention in a tight labor market. Benefits packages have been enriched with competitive offerings such as more comprehensive mental health support and enhanced fertility coverage. The pressure to attract and retain employees is still there, along with a new focus on financial diligence and ensuring the highest ROI from benefit plans and resources.

For companies that haven't spent much time lately considering cost control and value, this year may be a good opportunity to adopt some best practices that could lead to significant savings. Companies can use a wide range of tools and plan options to manage costs while still offering attractive benefits—approaches that have been proven to be effective at reducing costs while maintaining quality.

With that in mind, here are five tips to make the most of your upcoming renewal strategy:

1. Communicate with leadership early and often.

Have a conversation with your senior management well in advance of your 2025 benefits renewal. By starting conversations early in the second quarter, company leaders will have time to come to terms with any changes to healthcare costs, evaluate options, and make decisions soon enough to implement them smoothly. You don't want to be sitting around a table in September rushing to finalize decisions right before open enrollment. If you are going to make changes, you'll want to carefully prepare how you explain the changes to employees.

2. Gather detailed data on cost trends.

To make smart decisions, you need to have a clear picture of what you're spending now on healthcare and how it's changing. That means going deeper than top-line cost figures. Look at the prevalence of different health conditions in your membership base and the types of treatments they're receiving. Compare the costs of different geographies and plan options. And check on any additional programs you've added to your benefits package: Are employees using them, sticking with them, and getting the health benefits promised from them?

Many employers have been modifying their benefits in the last year. Are you using current benchmarking data to assess whether you're leading or lagging? Make certain you have the most relevant information to guide your strategy.

You can get help from a consultant or broker with expertise in analyzing employee health data. Some also have predictive models that can help project next year's usage and cost. By early summer, you should be able to supplement your internal numbers with information from your insurance carriers if you have fully insured plans or stop-loss coverage. For self-funded plans, your consulting actuaries and advisors will have updated cost data.

3. Know what is driving plan costs.

Start by using the data you collected to highlight your company's unique circumstances. You can supplement this information with factors driving costs for everyone nationwide.

If you have to answer the question, "Why are costs going up this year?" The answer is that costs paid by employer plans often lag behind changes in underlying healthcare prices by several years. Insurance companies and administrators typically negotiate multi-year contracts with health systems. As those deals renew, prices are jumping to compensate for cost increases throughout the system.

As for what's driving the underlying healthcare costs, many factors are simultaneously putting pressure on costs:

- **Rising wages.** The pay of healthcare workers started going up in the pandemic and has continued amid the labor shortages and nationwide inflation that followed. Adding to the wage pressure is a growing shortage of workers in many healthcare specialties. More professionals and skilled workers are choosing to retire than are being trained to replace them.
- **Provider consolidation.** As hospital systems merge and acquire other providers, they have increased bargaining power to raise prices.
- **Explosion of high-cost cases.** Claims of $1 million or more per one million employees covered rose by 45% from 2018 to 2021, according to Sun Life. In part, this is being driven by the growing incidence of cancer among younger people.
- **GLP-1 weight loss drugs.** Wegovy, Zepbound, et al. have shown early signs of effectiveness. They are also very popular and very expensive. After pharmacy rebates, they typically cost employers $10,000 per year. The potential expense is enormous. Not only does America have an obesity epidemic, but these drugs are also being approved for other conditions, such as heart disease.
- **Genetic and cell therapies.** This emerging class of treatments is typically much pricier than breakthrough drugs of yore. One example: Roctavian, a genetic treatment for hemophilia, costs $2.9 million a dose. In theory, one treatment can replace years of weekly infusions that can cost as much as $800,000 annually. But the initial sticker shock is considerable.

4. Provide options.

Help company leaders understand they needn't view the new reality as a simple choice between paying higher costs and slashing benefits. There are many ways to be smarter about procuring benefits and structuring plans to deliver better care more efficiently.

Start by using your internal data to develop options that reflect the needs and usage patterns of your employees. Then, work with an experienced broker or advisor to develop the potential impact of various scenarios. Here are some options to consider:

- **Get smarter about negotiating with your suppliers.** Contracts with insurance companies and benefits administrators are mind-numbingly complex. An experienced advisor can help avoid land mines hidden in the fine print. On the surface, for example, it might appear that the objective in negotiating with a pharmacy benefit manager is to get the highest level of discounts and rebates, but in fact, there are other fees and obscure contract terms that have more impact on what the company will ultimately pay.
- **Explore funding alternatives**. If your company has traditional insurance, this might be the year to consider a self-insured plan or using a captive insurance company. Self-insurance offers the most flexibility and control, but there can be more year-to-year volatility in the expense. Captives allow groups of like-minded, smaller employers to pool together a portion of their risk and band together for buying power, creating leverage in the marketplace. They typically offer more stability and predictability than traditional self-insurance while providing coverage that is tailored to meet the needs of their owners.

- **Rethink ancillary services.** Verify that all the separate services you've added to your plan in recent years are delivering the promised effect. In our experience, some do help improve care for chronic conditions while reducing costs, but others go unused and can be eliminated with minimal disruption.
- **Sharpen the plan design.** There are many provisions in health plans that can be adjusted to help control costs without slashing benefits. Requiring prior authorization for certain procedures or medications, for example, can reduce unnecessary care. This year, one of your biggest choices will be how to handle GLP-1 drugs for weight loss. Excluding these drugs could avoid a spike in pharmacy bills, but such a move could deny employees treatments that are popular and may be effective. Of course, employers can cut costs even more by increasing employee contributions, copays, and deductibles.
- **Consider a narrower provider network**. Studies show that the quality of healthcare is not related to its cost. Limiting your network to lower-cost, higher-quality providers can offer significant savings. Of course, asking people to change doctors can be disruptive. One approach is to offer a narrow network as an option that is supported by lower employee costs and robust education. Or, rather than narrowing the network, you may consider steering to more efficient care via telehealth or care navigation.

5. Tell the story with empathy as well as data.

Your top management wants to hear your presentation on cost curves, vendor management, and plan design. Still, their minds will wander to how the changes you're discussing will affect the care available to them, their families, and their friends at the company. Make sure you discuss the impact of any option on the actual and perceived well-being of plan participants.

Final Thoughts

Even if your 2025 renewal is challenging, you and your company can come out better for it. Treat potential cost increases as an opportunity to dive deeply into your employees' healthcare needs and refine your benefits programs so they have the greatest impact on the conditions that affect them most. Doing that will increase your capacity to provide benefits that attract employees and address their needs.

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