Manufacturers Seek Flexible Health Care Options to Reduce Costs

Health care spending continues to be one of the top concerns for manufacturers, and recent increases in health insurance premiums for most firms have deepened the frustration.

- In the most recent National Association of Manufacturers (NAM) Manufacturers’ Outlook Survey, 74.1 percent of respondents mentioned health insurance expenses as their top business challenge.
- Those respondents anticipated premiums to increase by 7.9 percent on average over the next 12 months, but nearly one-third reported gains of at least 10 percent. Small and medium-sized manufacturers reported an average increase of 8.5 percent.
- Health insurance premiums have increased steadily over the past 15 years from $6,549 in 2000 to $16,538 in 2014 for a family policy in the manufacturing sector (Figure 1). If survey respondents are correct, manufacturers’ premiums will likely increase to $17,845 per family under their plan in 2015—an increase of $1,307 per policy in one year.

Figure 1: Average Annual Cost of a Family Health Insurance Plan in the Manufacturing Sector, 2000–2014

Source: Kaiser Family Foundation
Much has been made of the recent slowing of health care inflation in the larger economy, with some suggesting that the United States has begun to “bend the cost curve.” Yet, it might be too early to claim victory. Slower health care inflation could be a temporary phenomenon, with costs expected to rise in the coming years.

- Total national health expenditures accounted for 17.2 percent of GDP in 2013, up from 12.1 percent in 1990 and 13.4 percent in 2000. With data forthcoming for 2014, this share is predicted to rise to 17.6 percent, with continued gains pushing health spending to 19.3 percent of GDP by 2023. National health expenditures should increase from $2.9 trillion in 2013 to $5.2 trillion in 2023, a 78.2 percent increase.
- In 2023, the 40 percent employee benefits tax will affect 82 percent of businesses.
- The effective tax rate for medical device manufacturers is 27.6 percent compared to their OECD [Organisation for Economic Co-operation and Development] average of 16.5 percent.
- Medical liability costs exceed $55.6 billion annually.

The Affordable Care Act changes to the health coverage landscape highlight some issues to watch across the next several years.

- First, the Congressional Budget Office (CBO) anticipates that the number of uninsured nonelderly individuals will drop from an estimated 42 million in 2014 to 29 million in 2019. This would reflect an increase in the percentage of insured from 84 percent to 90 percent over that time frame.¹
- The CBO predicts that 10 million Americans could lose their offer of employer-based coverage by 2021. The percentage of Americans younger than 65 years old with employer-provided health insurance dropped from 59.2 percent in 2009 to 57.1 percent in 2013—a trend that many, including the CBO, expect to accelerate in the years ahead.²

**Figure 2: Actual and Forecasted Health Insurance Costs for Manufacturing, 2005–2025**

![Figure 2: Actual and Forecasted Health Insurance Costs for Manufacturing, 2005–2025](image)

- **Average Annual Cost of a Family Health Insurance Plan in Manufacturing**
- **Excise Tax Threshold (Starting at $27,500 for a Family in 2018)**

**Source:** Bureau of Labor Statistics

¹ CBO (2015a), Table B-2, p. 119.
² Flavelle (2015).
Another health issue prompting anxieties is the impending employee benefits tax, also known as the “Cadillac” tax, which goes into effect in 2018. Employers will have to pay a 40 percent surcharge on benefits that exceed $27,500 for a family or $10,200 for an individual.

In 2014, the average annual cost of a health insurance plan for manufacturing employees was $16,538. The recent NAM Manufacturers’ Outlook Survey shows an average increase of 7.9 percent in 2015, which increases the average plan cost to $17,845.

The employee benefits tax threshold begins at $27,500 in 2018. If it increases by an annual inflation rate of 2 percent, it rises to $32,221 in 2025.

If plan costs increase by the historical average of 6.9 percent per year, the average health insurance plan for a manufacturing employee would be subject to the employee benefits tax by 2024. Left in place, the tax would affect nearly every employee benefits package in the manufacturing sector within the next decade.

Manufacturers have three objectives when contemplating health care policy.

**Controlling Costs**
Employers are interested in controlling or lowering the cost of coverage, and there are many factors that contribute to the ever-increasing burden insurance premiums pose for employers and employees. Fees, taxes, administrative processes, reporting requirements, benefit mandates and other policies make employer-sponsored coverage more expensive for both employers and employees.

**Expanding Coverage Options**
Employers continually look for more effective and efficient ways to deliver services and products to the markets they serve. Health care coverage should be no different, and employers will actively seek out ways to ensure the coverage they provide is competitive and centered on delivering health care in the most cost-effective way possible. Manufacturers have invested a significant amount of resources in trying to maintain a healthy workforce, and NAM members offer health insurance coverage at a much higher rate than other industries.

In the short term, the NAM believes Congress and the Obama Administration should take steps to provide more flexibility and increase the options available to employers that would like to continue providing coverage or assisting their employees in paying for health coverage. For example, allowing and easing access to defined-contribution models and hybrid ownership of plans are approaches that would encourage employers to contribute to the cost of insuring their employees at an amount that is sustainable for the employer and predictable for the employee.

**Accessing Better Information**
Access to better and clearer information will also assist employers and employees in seeking out the best value in health care rather than the volume of services provided. The NAM supports commonsense approaches to increasing transparency and availability of information in health care to assist all parties in making the best decisions about when, how and where they will access the health care system in the United States.