

A medical form with a stethoscope and a pen resting on it. The form contains various sections like 'MEDICAL HISTORY', 'FAMILY HISTORY', and 'PHYSICAL EXAMINATION'. The text 'COMPETING TO WIN' is overlaid in large white letters, and 'HEALTH CARE IN FOCUS' is overlaid in smaller white letters below it.

COMPETING TO WIN

HEALTH CARE IN FOCUS

HEALTH CARE IN FOCUS

Adapting Health Care Policies for a 21st-Century Workforce

Introduction

Americans have continued to rate health care as a top public-policy concern—followed by the economy and jobs—because of the impact it is having on pocketbooks and on daily lives. Rising health care costs continue to be a top business challenge for manufacturers and small businesses. In spite of a two-year suspension of the employee benefits tax and the anticompetitive tax on medical devices, the Affordable Care Act (ACA) continues to impact manufacturers by adding costs and making critical health care services and treatments even more expensive for employees. Recent increases in health care premiums have deepened the frustration, particularly for small and medium-sized entities. Despite ongoing concerns with pressures associated with rising health care costs, manufacturers see the long-term benefits of offering health care options to employees. Ninety-eight percent of manufacturers offer health insurance to their workforce.

In a 2014 survey from the Kaiser Family Foundation, 92 percent of employees in the manufacturing sector were eligible to participate in their company's health benefit plan, the highest of any industry sector.¹ Of those individuals who were eligible, the participation rate was 83 percent. Employer-sponsored health coverage remains a bulwark benefit that 178 million Americans rely on. Half of the nation's population receives health insurance from an employer-sponsored plan.

Manufacturing businesses recognize that providing health care coverage is a necessity to remain competitive in attracting talent and maintaining a healthy, stable workforce, as well as doing what is right for employees. For example, when asked about how they might react to increasing costs for offering health care in a National Association of Manufacturers (NAM) survey of members, only 1.6 percent planned to stop providing coverage. To control costs, manufacturers in some cases have opted to switch plans and/or increase copays and deductibles, as well as raise the share of premiums paid by employees. Others are experimenting and bringing medical care, pharmacy services and wellness programs onsite or near-site through third-party entities. Chronic conditions, such as diabetes, heart disease, obesity and asthma, add cost pressures, and manufacturers are seeking innovative ways to reduce the impacts of these and other diseases.

In spite of the current set of challenges associated with rising premiums and frustrations with ACA mandates, Americans feel strongly that health care quality and medical discovery are critical. We are a nation that prides itself on first-class, best-in-the-world medical care. Our institutions, public and private, continue to lead the world on patient care, lifesaving treatments and medical research. We must continue to uphold those successes and seek to control or lower the cost of coverage through reasonable approaches.

Manufacturers urge policymakers to focus efforts on solutions that will successfully eliminate the costliest and most problematic aspects of the ACA. The challenges ahead, such as increased health care expenditures, the burdensome 40 percent employee benefits tax, other mandated taxes, onerous administrative requirements and upward pressure associated with medical liability costs must be addressed with careful and thoughtful action.

Three Big Trends Challenging the Health Care Landscape

Trend 1: The Rising Cost of Health Care

In the most recent NAM Manufacturers' Outlook Survey, 74.8 percent of respondents mentioned health insurance expenses as a top business challenge. Since being added to the survey two years ago, it has been listed as a primary concern each quarter. Respondents anticipated premiums to increase 7.9 percent on average over the next 12 months. Just more than 74 percent of manufacturers noted increases of 5 percent or more, with one-third reporting gains of at least 10 percent. As expected, this varied widely by firm size. The average premium increase for large manufacturers was 6.8 percent, which was lower than the 8.5 percent average growth rate anticipated for small and medium-sized manufacturing businesses.

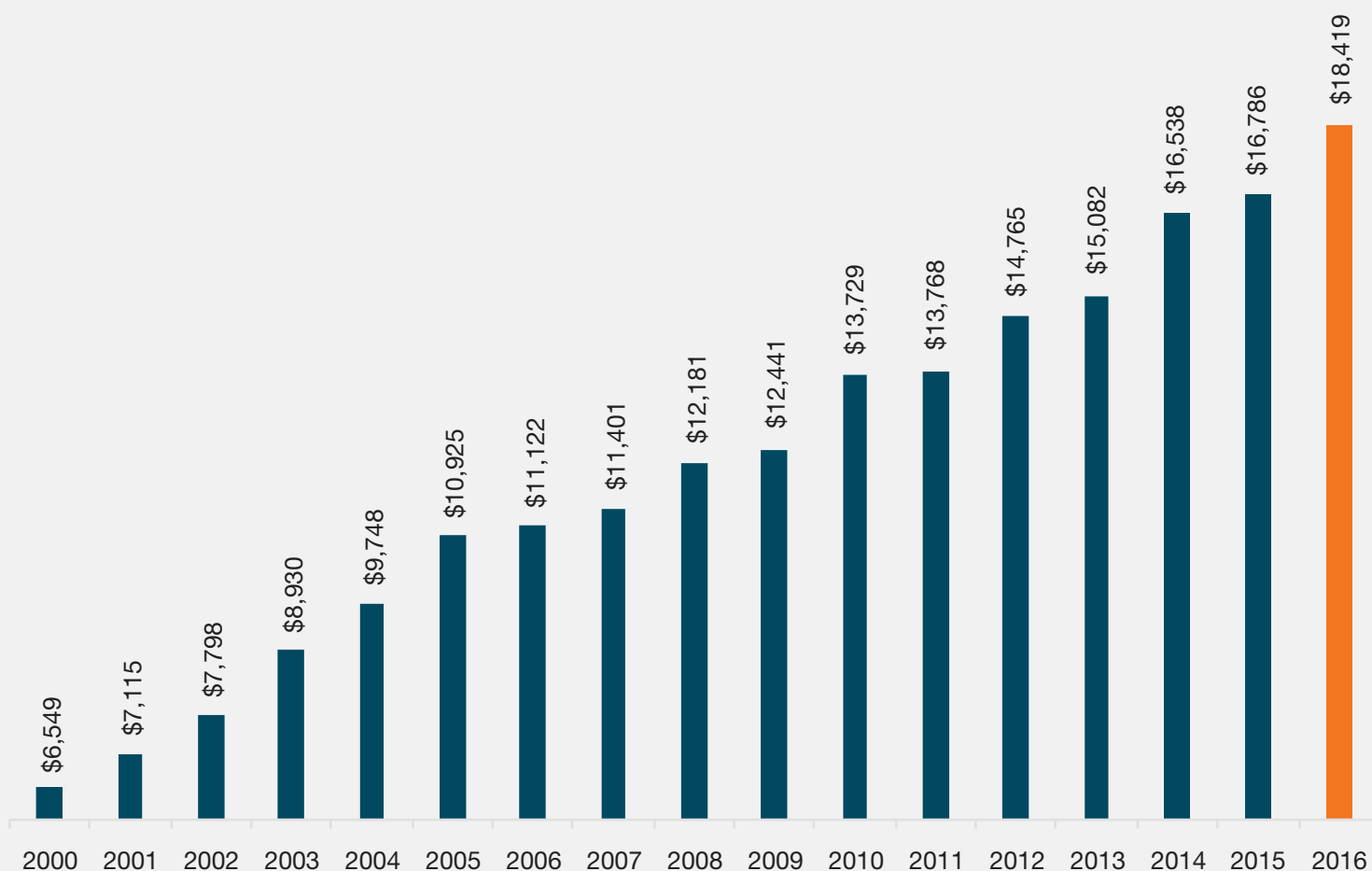
Health insurance premiums have increased steadily for more than a decade. According to the Kaiser Family Foundation, the average annual cost for a family plan in the manufacturing sector in 2000 was \$6,549. That figure was \$10,925 by 2005, and in 2014, it had risen another 51.4 percent to \$16,538.² Today, annual family premiums for employer-sponsored health insurance in the manufacturing sector have risen to \$18,419 according to the latest Kaiser Family Foundation analysis (Figure 1).

¹ Kaiser Family Foundation (2014), Exhibit 3.2, p. 59.

² Kaiser Family Foundation (2014), Exhibit 1.4, p. 26. Data for previous years were taken from each year's annual report. While year-to-year comparisons are not perfect, the underlying direction is clear.

More broadly, health care spending continues to grow nationwide and will total more than \$3 trillion in 2016, and by 2025, health care expenditures are expected to rise to \$5.6 trillion, representing one-fifth of the U.S. economy. Individual households are spending a larger share of basic expenses on health care, crowding out other needs, such as food, clothing, transportation and housing. This unsustainable trajectory calls for solutions and policies that address inefficiencies, improve affordability and outcomes and allow flexibility to leverage new health care innovations.

Figure 1: Average Annual Cost of a Family Health Insurance Plan in the Manufacturing Sector, 2000–2016, from NAM Shaping Up Study



Source: Kaiser Family Foundation

Trend 2: Implementation and Consequences of the ACA

The ACA changes to the health coverage landscape highlight some issues to watch over 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. Of note, Medicare is growing in both enrollment and spending. Today, Medicare covers 56 million seniors and is expected to rapidly grow to cover 76 million by 2026.

A secondary concern is how a continuation of the ACA in its present form, an altered version or a full repeal will impact employer-based coverage. Under a scenario of a continuation of the ACA, the CBO predicts that 10 million Americans could lose their offer of employer-based coverage by 2021, with many forced to purchase insurance on an exchange or through a replacement program. 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, believe could accelerate in the years ahead.

Trend 3: The Health Care Ecosystem Operates Under a Continuum of Constraints

Ranging from ongoing primary care provider and nursing shortages to the need for a modernized approval process for medical devices, pharmaceuticals and biologics, the health care ecosystem is operating under a series of constraints that challenge access to affordable and quality health care. As an example, the development of a new drug is a risky and expensive process, taking approximately 14 years and costing \$2 billion on average. Failure rates are even higher with more than 95 percent of drugs failing during the development phase. It is imperative to maintain our nation's leadership in biomedical innovation, accelerating the discovery, development and delivery of new medicines as well as safeguarding intellectual property.

Regulatory barriers to leveraging and exchanging standardized data hamper the health care system's ability to drive continuous improvements and innovations in medical research and care delivery. Targeted investments are needed to accelerate medical research, emphasize prevention and leverage the power of data.

Manufacturers measure everything, because if you cannot measure it, there will be no improvement or efficiency gained. It is often too difficult to gain access to the information needed to improve the delivery and cost of health care. Such constraints—many self-imposed by federal regulators and Congress—are deterrents to innovation that can help solve some of the most pressing medical and fiscal challenges.



America's Challenge: Reforming a Health Care System That Supports Affordability and Encourages Flexibility While Maintaining High Levels of Innovation and Quality

We must decrease costs—fees, taxes, administrative paperwork, reporting requirements, benefit mandates and other policies—that stifle innovation and make it more expensive than necessary for employers to provide health insurance to employees.

The Challenge

Manufacturers are extremely attuned and sensitive to cost inputs. The cost of health care coverage has historically been difficult to predict with any real certainty. These realities cause manufacturers to consistently cite controlling health care costs as their highest priority when discussing objectives in health care policy. While the overall spend on health care services and products may have slowed in recent years, the primary sensitivity employers have in relation to the health care market has been the cost of insurance coverage, which has continued to increase at rates much higher than general inflation, even when the growth rate of health care spending slows.

The causes of upward pressure in health insurance premiums can vary significantly from plan to plan. Primary causes of insurance premium increases can be tied to the following: utilization; payment rates for providers; adoption of new technology, services and products; structural coverage and benefit changes either initiated by the employer or the result of regulatory or statutory changes required by the state and/or federal government; and additional taxes, fees and administrative burdens placed on employers and health plans.

The ACA made significant changes to both the individual and group health insurance markets. While much of the focus recently has been on health care exchanges and the individual market, the employer-sponsored market has absorbed most of the new requirements in coverage and benefits required by the law, with few very notable and potentially costly exceptions.

The Stakes

The employee benefits tax, medical device tax, reinsurance fees, Patient-Centered Outcomes Research Institute fees and additional reporting and administrative requirements all add to the current cost of insurance coverage and will place upward pressure on insurance coverage rates well into the future. None of these additional costs will result in a patient seeing a doctor, filling a prescription or any actual health care at all—it is simply additional costs on the system that employers and employees will have to pay. In fact, the NAM has estimated that the additional fees, taxes and administrative burdens on manufacturers alone will cost \$22.2 billion over the next three years. In addition, policy proposals that seek to limit the tax exclusion for health care will severely erode the ability of employers to continue to provide coverage.

The Solutions

In an effort to address the actual cost of providing coverage, Congress and the next administration must do the following:

- Permanently repeal the ACA's 40 percent excise tax on high-value, employer-sponsored health plans, which will increasingly capture plans with average levels of benefits.
- Permanently repeal the anticompulsive excise tax on medical devices.
- Repeal the ACA's health insurance tax to avoid higher premiums for employers and consumers.
- Reduce ACA-mandated reporting requirements, which have added costly administrative burdens.
- Support the current tax treatment of employer-sponsored health insurance.

These simple actions by Congress could lower the cost of employer-based coverage by billions of dollars in the next 5–10 years alone.

We must encourage flexibility—expand coverage options and enable innovative models of care so that manufacturers can work to maintain a healthy workforce and provide competitive benefits.

The Challenge

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. Many manufacturers also provide access to onsite clinics for primary care as well as onsite pharmacies that will deliver medications directly to employees. Such arrangements have demonstrated some results in short- and long-term savings for employers and employees.

The Stakes

The health care coverage that employers offer has evolved over the years, and it is reasonable to assume it will continue to do so in the future. However, there is some added uncertainty about the impact the ACA will have on employer-sponsored coverage. Some estimate the ACA will not affect the employer market at all, and still others believe there will be a near total collapse of the employer-based coverage system as a result of mounting cost pressures. It is difficult to predict exactly what will occur, but the NAM believes there is likely to be a decline in the number of employers providing coverage over time, and most of the decline will occur in the small-group market. Eventually, there could be some erosion in the number of medium to large employer markets, but that will be in the 10- to 20-year time frame.

The Solutions

Employers are seeking ways to increase the prevalence and effectiveness of wellness programs, which have the potential to address utilization rates over the long term by keeping individuals healthier longer and later in life. Restrictions or conflicting messages from regulators and policymakers make wellness programs less useful as a tool to incentivize healthful living and lower the potential cost savings for employees and employers. The NAM supports efforts to strengthen and improve the proper incentives to create and innovate in the delivery of wellness programs.

Congress and the administration should take steps to provide more flexibility and increase the options available to employers who would like to continue providing coverage or assisting their employees in paying for health coverage. Such measures should include the following:

- Raise federal-determined contribution limits for health savings accounts to further incentivize savings for both health-related events and expenses.
- Provide more flexibility to employers to design and implement incentives and wellness programs with the goals of maintaining a health workforce and lowering health care costs.

We must take on the challenge of reforming our medical liability system.

The Challenge

The cost of providing health coverage to employees is one of the most significant challenges facing manufacturers today, with health insurance expenses representing the fastest-growing cost component for employers. Medical liability costs play a role in those coverage rates, with the costs of the American legal system being the highest in the world, and medical malpractice alone costing in excess of \$55.6 billion annually.

The Stakes

Those costs can be considerably higher if you examine indirect costs, particularly “defensive medicine,” or the increased use of tests and procedures by providers to protect against future lawsuits, which researchers at Harvard University found not only contribute to inefficiencies in the health care system, but also fail to prevent medical errors and avoidable patient injuries.³

The Solutions

The costs of defensive medicine are estimated to be higher than both direct costs and medical malpractice insurance premiums combined. Rising health insurance costs hinder manufacturers’ ability to compete globally, drain resources that could be invested in new technologies and facilities, inhibit the creation of new jobs and undermine economic growth across the nation. Previous legislative proposals have estimated savings of both direct and indirect medical liability costs of up to \$20 billion through 2023. Legal reform must be pursued at the state and federal level to rein in these growing health care costs, restore balance to the system and discourage frivolous claims. To be effective, medical liability reform must achieve the following:

- Include caps on noneconomic damage awards.
- Protect patients from excessive contingency fees charged by lawyers.
- Look to successes in states where frivolous lawsuits and the practice of defensive medicine have been reduced and replicate such efforts on a broader scale.

³ <http://content.healthaffairs.org/content/29/9/1569.abstract>

COMPETING TO WIN

THE UNITED STATES WINS WHEN WE LEAD

Conclusion

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. Increases in premiums stand in contrast to a general slowdown in health expenditures in the years since the recession of 2007–2008. While much has been made about the slowing of overall expenditures, it is not a unique situation as expenditures have historically declined during, and for some time after, an economic downturn. While the bulk of the recent deceleration in spending can be attributed to economic conditions, research has found that attempts to control costs have had some positive impacts, particularly with changes in the delivery of care and increased cost sharing. Despite the recent slowdown in spending, the longer-term trends suggest expenditures will begin to pick up steam soon and push health spending to 19.3 percent of GDP by 2023.

Manufacturers have four primary objectives when thinking about health care policy: 1) the health and safety of the manufacturing workforce; 2) controlling costs; 3) expanding flexibility; and 4) addressing medical liability reform. Policies such as eliminating the employee benefits tax, medical device tax, reinsurance fees, health insurance tax and other fees would all alleviate some of the upward pressure manufacturers see in health premiums every year. Just as manufacturers continually seek to improve their processes and products, health policies should encourage flexibility and data sharing and allow for new innovations in coverage options rather than lock in one model. Federal law should not hinder the creation and adoption of new methods of delivering the products and services that meet the needs of the market. Controlling costs and providing flexibility also require better information to make better choices. Manufacturers support commonsense approaches to increasing both the quantity and quality of information available to consumers and payers to make the best decisions possible about the coverage and services they purchase.

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