Up and Up it rises

Hiked up inflation has affected all industries, but how is it affecting the employee benefits world? Generali's Damian Ross interviews MMB Multinational's Barry Perkins and Willis Towers Watson's Mark Cook to find out more

Damian Ross: “How is inflation affecting the employee benefits world?”

Mark Cook: Before we talk specifically about employee benefits (EB), let’s start with wider inflation. Inflation affects the organisations we work with, the employers, and the employees.

On top of this, there’s the macroeconomic aspects to consider. On the macroeconomic side, there’s a number of pushes: the interest rate impact, the state of economies, the currency aspect and the actual value of the currency. For us in our day jobs it’s more about how all these pushes impact the employer and the employee.

For employers, costs are obviously going up, in terms of supply chain, inputs and raw materials; all costs associated with what organisations produce and service are increasing. Subsequently, this cascades down to “the person on the street”; affecting the cost of what people buy – because of the inflation price.

So, in our world, you’ll see the use of artificial intelligence (AI) automation increasing and being used to supplement business processes. This will put a huge squeeze on people and jobs.

If we look at the employee side, on top of job insecurity mentioned above, net pay is going down while the cost of essentials such as food and utilities is going up.

Barry Perkins: For EB managers there’s been a lot of concern and uncertainty about how this is going to impact them, including how that will flow through to employees.

Many of these EB managers have probably never experienced the high levels of inflation we’re currently experiencing. It’s a new challenge for a lot of people.

However, employers are still very keen to protect employees, particularly vulnerable groups of employees such as lower paid workers. In addition to this, especially with regards to access to healthcare, we’re seeing employers doing what they can to ensure those vulnerable groups can continue to afford healthcare and have access to it. But they obviously need to balance that with the economics of their business and keep benefits sustainable.

Cook: We’ve noticed that lots of clients, particularly those headquartered in the US, have paid an allowance, or one-off payment to employees in the last pay cycle, particularly to lower paid workers. It’s become a bit of a theme for this year.

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> **Barry Perkins, MMB Multinational**

Ross: From what I've seen, the rate of inflation is expected to drop down to around 2.5 per cent globally by 2025. Is it a 'wait and see' type of situation? Would temporary measures, such as one-off pay allowances, as opposed to making changes to benefits, suggest so?

Cook: Companies are doing things that they think will help their people and they want people to see that they are — it's become a brand communication push. For multinational companies it's important to be doing something, but it's equally important to be seen to be doing something.

Companies also need to be more agile in their responses because talent retention is a big problem for organisations currently. So, one-off pay allowances are an example of companies responding quickly to something that is happening macro-economic wise.

Perkins: Yes, no one wants to make knee-jerk reactions. During the height of the pandemic we saw a lot of companies expanding medical coverage to lower paid employees. They don't want to renege on those commitments now. However, most of the companies we work with are commercial enterprises, so they need to work to short-term targets.

This means they'll look at different levers they can pull to manage costs.

Concerning medical benefits, you've got the design of benefits, the delivery of benefits and financing. Nobody really wants to play around with the design of benefits because that's the aspect that would impact employees the most. It feels like companies are trying to ring-fence and protect that piece.

That leaves you with financing and that's where captives come in, as well as delivery mechanisms. We're still seeing employers focusing on how they can deliver the same level of benefits, but increase efficiency of networks, claims management and condition management. I think that's where you're going to see companies doing something to mitigate costs in the short term, without rolling back on benefit promises too much.

Cook: I agree that companies are primarily looking at delivery and financing. I also see pressure on the design though. Even with a preferred provider model and captives, I do still see stresses on local businesses with regard to budgets and an associated need to tinker with designs; especially on medical, because of medical inflation. Medical aspects limits on different treatments, overall plan limits, eligibility and co-sharing costs.

Perkins: Is it fair to say that employers want to protect their benefits more than we've seen in previous economic crises? Post-pandemic, benefits are higher up the agenda for both leaders and employees. Employees want and expect better benefits. Due in part to talent shortages, there may be more reluctance to mess around with benefits than there was in the past.

Ross: Considering the stress that inflation is having on employees – the fear of redundancy and not being able to pay the bills – what can employers do to assist?

Cook: Five years ago, wellbeing really wasn't visible in the marketplace. But there's been lots of investment since particularly in workplace mental health. The difficulty faced by multinational companies is having a global programme for this. I see local and regional vendors, but not global vendors to monitor and record everything. As you are already aware, a lot of it is app-based.

Perkins: We need more commitment from employers to move to a minimum living wage, fair pay, and equitable pay. Start with the basics. That's what's going to really move the dial for employees. In some markets, where premium levels for medical are going up due to inflation, and you have cost sharing with employees, there's a significant impact where benefits are concerned. When employees are paying 50 per cent of the premium and the premium is going up by 50 per cent, that's going to have a direct impact. It could possibly result in people not enrolling in healthcare plans and no longer having access to such benefits. So, again, more focus is needed on lower paid groups and perhaps insulating them from those cost share increases — the employer takes more of the burden, putting money back in the employee's pocket.

Cook: We've recently had a number of clients changing their pricing philosophy on their captive, for the reasons Barry has just mentioned. They're trying to use some of the retained earnings in the captive over the longer term to quell the increases that the employees are getting on their premiums, in particular medical in some countries. They're looking at more portfolio pricing rather than individual line pricing.

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Perkins: Captives have a role to play, especially if there's a surplus there and a willingness to keep premiums at a lower level, at least for the short term. You're essentially playing around with the margin that would otherwise be in the premium if you were to use an insurance company.

Using a captive doesn't allow employers to avoid the impact of inflation; most of the elements of inflation are just structural. So, unless captives start playing around with the end delivery of healthcare – negotiations with doctors and hospitals and other similar activities, which generally doesn't happen outside of the US – then you can't avoid inflation. But there are ways to mitigate the impact of it, which is partly what Mark addressed when discussing profit margins.

There's going to be more focus on fronting providers and making sure you've got the best fronting partner in markets to help you mitigate cost impact. Going back to the point around network management or the delivery mechanism of healthcare, it's about making sure you have a partner who's very capable at negotiating deals with hospitals and doctors. Providers that have a larger scale will have advantages in that area. It's also about focusing on the balance between the cost of healthcare and the quality of healthcare — potentially stripping out high-cost hospitals and other vendors that maybe don't deliver better quality. This is a way to create efficiencies in healthcare programmes and, in turn, mitigate some of the inflationary pressures. None of this is unique to captives. Employers will do that anyway, but it's a key topic for clients that use a captive.

Ross: Inflation is clearly affecting the medical side, but not to the extent that we initially thought. A lot of companies will have two- to three-year deals already built in. Therefore, there's likely to be a delayed reaction on medical, which will be interesting to see.

Ross: The impact it may have on the captive insurance industry. Do you think the current environment we're in could represent a wake-up call for captives that have access to the data but aren't really digging in to it?

Cook: This has been a topic for a number of years, but I've only seen increased interest fuelled by the pandemic. The infrastructure isn't there to do anything in an efficient, automated way. Collecting data from local insurers and looking at utilisation remains difficult. However, there has been an increased interest from the industry, underpinned by what's happening in the economy around us.

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Don't just look at utilisation numbers on medical and disability and categorise that, look at other pieces as well: employee assistance benefits, absence data, occupational health and disability cases, as well as other data sources. This will provide a more balanced and holistic view of a person's absence or health risk, putting the employee in the middle. That's what companies and people should be doing, but these practices are not far-reaching at the moment.

Perkins: All companies want to find out what's driving the medical claims and how to avoid some of those medical conditions. All this should be data-driven. Circling back to understanding inefficiencies in the way healthcare is delivered, has got to be data-driven and it comes from the claims experience as well.

Companies looking at utilisation of some of the health and wellbeing add-ons are realising they are being well received by employees, and they will continue to invest in these.

However, some of them are not being used and employees don't always care about them, opportunities must be taken to trim things out of insurance coverage. This is about moving away from a scattergun approach and focusing on what makes sense and what adds value. ■

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