Medical Xpress

Working to decrease health insurance costs could increase companies' profits, research shows

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Negotiating lower health insurance premiums could help Fortune 500 companies increase profits while maintaining high-quality coverage for their workers, according to a new research paper from Rice University's Baker Institute for Public Policy.

Employers are the largest source of health insurance coverage in the United States, accounting for 50.3% of the total population, according to the Kaiser Family Foundation. Employers' health insurance premiums have risen faster than both wages and inflation for decades, according to the paper.

"Any factors that alter the affordability of employer-sponsored insurance can have significant consequences for the many workers who depend on it," the authors wrote. "With this unique position of control over employees' plans and negotiating power with insurance companies, employers could be growing their businesses by identifying opportunities to reign in the costs of health insurance coverage while maintaining or improving the quality of these benefits."

The research team, combining data from multiple sources, estimated that decreasing employer-sponsored insurance (ESI) spending by $1,373 per employee per year could provide Fortune 500 companies an average annual increase in profit of 31.77%.

All industries would stand to benefit from lowering ESI costs, but labor-intensive industries could profit more than capital-intensive industries, according to Marah Short, a scholar in health economics at the Baker Institute and a co-lead researcher on the study.

She said capital-intensive companies spend more of their total compensation on health insurance, possibly because they have higher proportions of high-skill, high-wage workers who expect better insurance and other benefits. It's also possible that high equipment costs and other such expenditures simply overshadow labor costs in capital-intensive industries, therefore lowering the perceived benefits of decreasing ESI spending, according to the report.

"Labor-intensive industries such as hospitality and food service could see the highest potential profit increase, but these companies often quickly cycle through employees who vary in age, economic circumstances and number of dependents," Short said. "Value-based plan designs could lower health care costs for these employees."

"Estimating the Potential Profit Gains to Lowering Employee Health Care Costs for America's Largest Companies" was co-authored by Short along with Vivian Ho, the chair in health economics at the Baker Institute, professor of economics at Rice and professor at Baylor College of Medicine, and Alan Beltran Lara and Cindy Nguyen, interns at the Baker Institute.

More information: Estimating the Potential Profit Gains to Lowering Employee Health Care Costs for America's Largest Companies

Provided by Rice University

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