Surprising turn: Worker wages rising faster than the cost of job-based health insurance

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Enjoy it while it lasts: Workers' pay has been growing faster than the cost of job-based health insurance.

This year, average pay rose 6.7% while the average increase in premiums for family coverage ticked up 1%, according to the Kaiser Family Foundation 2022 Employer Health Benefits Survey. That follows a 5.1% pay gain in 2021 and a 4% increase in family premiums.

Those trends represent a major reversal for employer-sponsored insurance, which covers nearly 159 million Americans.

For at least two decades, the rising cost of family premiums regularly surpassed pay gains, and often by a big margin. From 2002 to 2012, annual increases in premiums—along with worker contributions toward those premiums—rose two to three times faster than earnings.

Along with higher deductibles and copays, these rising costs have steadily chipped away at family budgets.

Kaiser cited two factors for the slowdown in premium growth: There was a temporary decline in health services during the pandemic, and many insurance rates were set in the summer and fall of 2021—before surging inflation became so evident.

That means the reprieve may end soon.

"This could be the calm before the storm, as recent inflation suggests that larger increases are imminent," Kaiser CEO Drew Altman said when the survey was released recently.

Price pressures are already coming home in Plano, Texas, where city employees must contribute 15% more for health care coverage in 2023.

Plano workers had not faced an increase in premiums since 2015. But the city had some catastrophic claims in '21 and '22, and could not simply tap reserves to keep premiums flat—as it did this year, said

Andrea Cockrell, Plano's administrative services manager.

"For the most part, people have been understanding about it," Cockrell said of the double-digit increase. "But it's hard for them. They see it as their net pay going down."

Plano's benefits are still generous with the city covering 90% of premiums for single coverage; that compares with employers nationwide paying an average of 83% of employee-only premiums in the Kaiser survey.

Plano workers will pay $485 a month for family coverage, an additional $63, while the city contributes $1,825 a month. Plano's annual premiums for family coverage are about 5% lower than the nationwide average, and that's after the 2023 rate increase.

"We feel like we have competitive benefits," Cockrell said. "What's challenging is that we have more constraints on our revenues than the private sector."

Consider AECOM, a large global infrastructure company that moved its Los Angeles headquarters to Dallas last year. It had $13.3 billion in revenue in fiscal 2021, and it's investing heavily in health benefits so it can slash employees' contributions by half or more.

For 2023, AECOM said it's cutting health premiums for family coverage by 40% to 70% and by slightly more for singles, depending on which health plan is selected.

An employee with a family can choose a plan with low deductibles and low copays for $100 a month per person, a company spokesman said. A single employee can get a high-deductible plan for less than $25 a month.

"We think it's important for our people to have good health care—and not worry or stress about the payments," said Shirley Adams, AECOM's chief human resources officer.

The company surveyed employees about what was important to them, Adams said: "And they came back and told us, 'It's health care.' It was as simple as that."

According to Kaiser, affordability continues to be an issue for many with job-based coverage, especially those working at small firms. Nearly half the workers at small firms have an annual deductible of $2,000 or more for single coverage, twice the share of large firms. Premiums also may be unaffordable for lower-wage workers, Kaiser said.

At AECOM, the reduction in premiums will affect nearly 20,000 employees in the U.S., including more than 1,200 in Texas and 300 in Dallas, the company said. Adams declined to say how much AECOM will spend on the effort but said it had the support of the board because investing in people was a strategic priority.

"Attracting and retaining talent is the lifeblood of our business," Adams said.

It's also crucial to maintaining strong growth. AECOM reported $183 million in operating income in the quarter ended in June, a gain of 14%. Total backlog topped $41 billion, including 10% growth in the design business.

"We have amazing work opportunities," Adams said. "The thing that would potentially limit our growth would be the inability to attract and retain people."

Many companies are worried about filling open positions and slowing the number of departures. There were 10.7 million job openings nationwide on the last business day of September, up 437,000 from August, according to the U.S. Bureau of Labor Statistics.

Over 4 million quit their jobs in September, a high number of exits that has persisted for over a year.

So much turnover may blunt the impact of higher health premiums, at least on employees: "Given the tight labor market and rising wages, it will be tough for employers to shift costs onto workers when costs spike," said Altman of the Kaiser Family Foundation.

AECOM doesn't believe the job market will loosen up anytime soon. In addition to cutting health premiums, it's trying to foster a strong culture by offering flexible work schedules, professional development and well-being initiatives, such as yoga classes.

"There's always a shortage of the best people," Adams said. "If you're just crossing your fingers and hoping it will go away, that's a big mistake. We're being proactive."

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