



White Paper

Navigating Rising Healthcare Costs



Navigating Rising Healthcare Costs:

5 Smart Strategies for Small Businesses

Small businesses are facing unprecedented challenges in meeting rising healthcare costs. The average per-employee cost of employer-sponsored health insurance reached \$16,501 in 2024, according to a Mercer survey of employers. That figure was a 5% increase from the previous year. The projected growth rate in 2025 is 8%, the highest growth rate in 13 years, with smaller employers (50-499 employees) facing increases as high as 9%.¹

94% of small businesses
find it challenging
to manage the cost of
employer-sponsored
health insurance.

*NFIB Small Business Health Insurance Survey, 2023*²

Health insurance premiums represent a sizeable share of small business compensation costs. The associated payroll burden is estimated to be 11.8% for companies with less than \$600,000 in annual revenues and 7.1% for those whose revenues exceed \$2.4 million.^{3,4} Nevertheless, most employers remain committed to providing high quality health insurance, believing the coverage is essential for attracting and retaining talent. As a result, almost half of small businesses have chosen to absorb these higher costs by accepting lower profits or raising prices and jeopardizing market share. A notable percentage are reducing business investment and freezing wages.

The financial burden will only worsen as costs continue to escalate. However, small businesses can take meaningful action, adopting proactive strategies and solutions to mitigate healthcare expenses and offer high-quality coverage.

This white paper explores the key drivers of rising healthcare expenses and describes many of the successful cost-management changes small companies are making.

What's Driving the Escalation in Healthcare Costs?

Call it the perfect storm. Multiple factors are contributing to increased healthcare costs and higher insurance premiums. Major influences with the greatest impact include:

An Aging, Unhealthy Population with More Medical Needs

Per the Centers for Disease Control and Prevention (CDC), 6 in 10 adults in the U.S. have at least one chronic disease, such as heart disease, asthma, diabetes, and cancer. The American Medical Association considers obesity to be a chronic condition which is linked to a higher risk of other diseases. Currently, 42% of U.S. adults aged 20 and are obese, and severe obesity is increasingly prevalent.

Chronic conditions are some of the most expensive illnesses to treat, and according to the CDC, treatment is responsible for more than 75% of all healthcare costs. Because chronic conditions are associated with aging, treatment costs are projected to increase as the American workforce grows older.

In the coming years, increasing numbers of employees will be living with illness and disability, putting added pressure on healthcare resources and ultimately, on the bottom line of businesses.

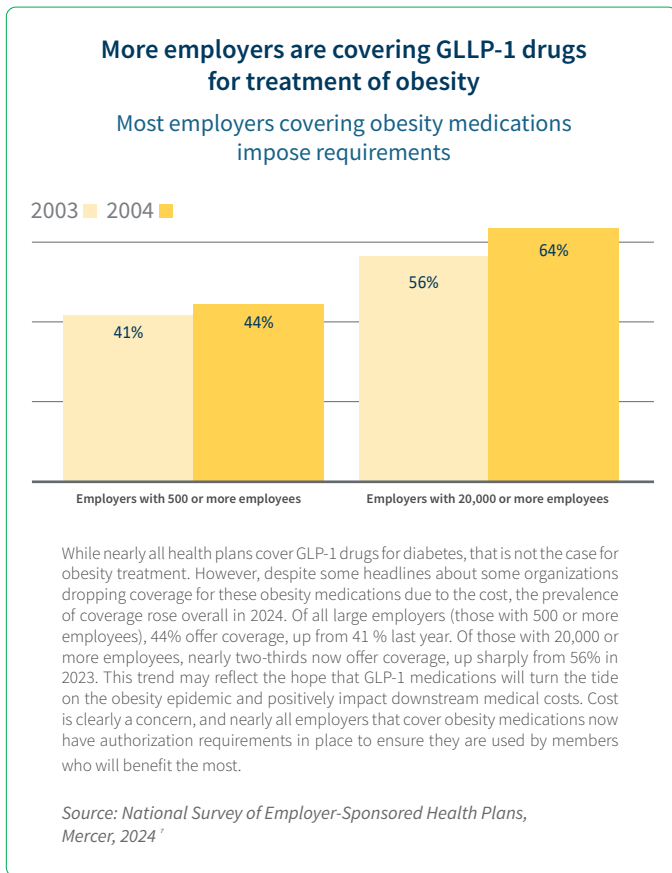
High Utilization of Expensive Pharmaceuticals

The rising use of Glucagon-like Peptide-1 (GLP-1) medication for weight loss and diabetes management is having a major impact on healthcare costs and health insurance premiums. Drugs like Ozempic and Wegovy are expensive, with monthly per-patient costs in the \$1,000 range.

GLP-1 agents are first-line and add-on therapies for controlling blood sugar and weight in patients with type 2 diabetes, and most health plans cover their use for this purpose. The market for diabetes medication is large and growing, with the CDC estimating more than 38.4 million Americans suffer from the disease.⁵

These drugs are also being used to control the obesity epidemic. The weight loss market is enormous. One hundred million American adults are obese, with a body mass index (BMI) of 30.0 or higher. A high BMI is associated with the development of chronic conditions that can be debilitating and expensive to treat.⁶

While some health plans exclude or limit the use of GLP-1 medication for weight loss, a significant number provide coverage with a doctor's prescription.



Demand for GLP-1 agonists is likely to increase given the projected growth in obesity and diabetes in the aging population and their potential approval for heart attack and stroke prevention.

Other costly specialty drugs and biologics are also becoming more common. For example, a new wave of expensive central nervous system (CNS) drugs is being introduced to treat brain disorders such as Alzheimer's, Parkinson's, MS, schizophrenia, and bi-polar disorders.



Increased Use of Behavioral Health Care

In the aftermath of the COVID-19 pandemic, the use of behavioral healthcare has skyrocketed, and spending has increased by 50%.⁸ As a result, mental health services have represented an ever-larger percentage of annual healthcare costs. Demand for services has outstripped supply, which is leading to inflated costs.

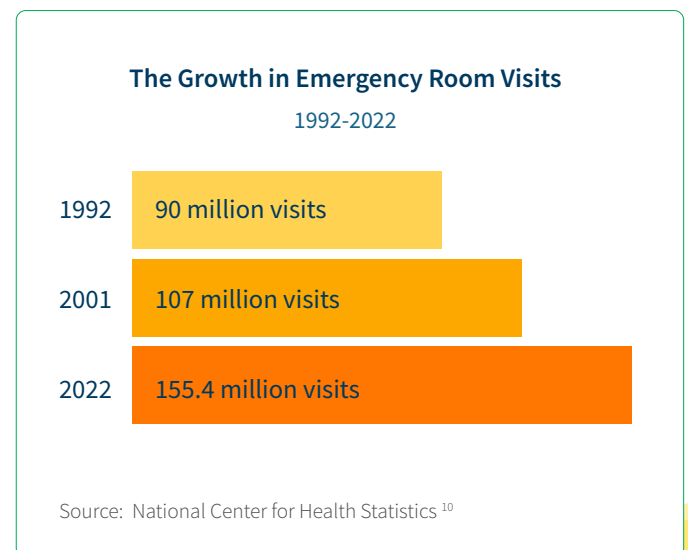
More than 60 million U.S. adults— or 1 in 5 — experienced a mental illness in the past 12 months, and 45 million struggled with a substance use disorder.

Source: Mental Health America, 2024⁹

Trends in reimbursement rates will also be a factor in future cost increases. Behavioral health clinicians are currently reimbursed by health plans at a lower rate than their medical and surgical counterparts. As behavioral health clinicians seek parity, that will put added pressure on healthcare costs and insurers.

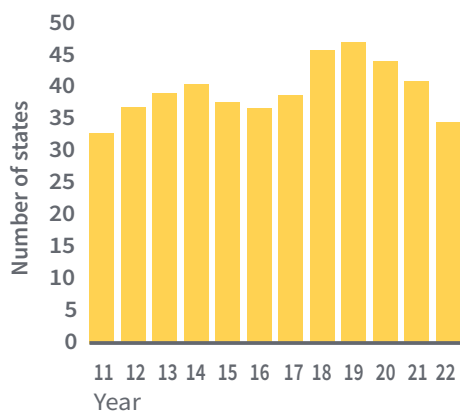
More Reliance on Emergency Care

More patients are using hospital emergency rooms (ER) for needs that were once addressed less expensively by primary care physicians. General practice doctors are in short supply, waiting times are long, and office hours are limited. In contrast, hospitals offer convenience and 24/7 access to care but at a higher cost. Non-emergency care at an ER is considerably more expensive than primary or urgent care because hospitals add facility fees to high evaluation and management charges.

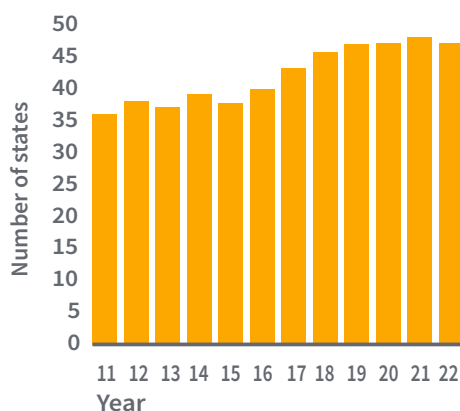


States and D.C. where the 3 largest insurance companies had at least 80% of enrollment, 2011-2022

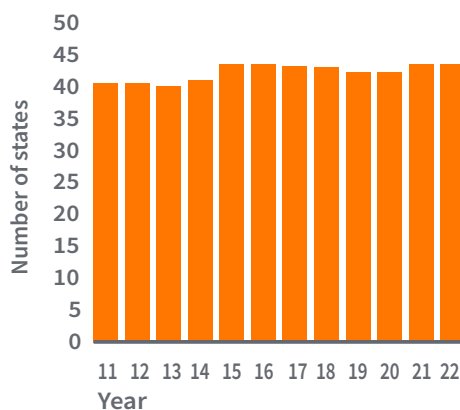
Individual Market



Small Group Market



Large Group Market



Greater Market Concentration Due to Insurer Consolidation

The number of insurers participating in the small employer market has decreased. Fewer companies mean less competition and less pressure to keep premiums down. In some states, the market is controlled by one insurer or a few companies.

Market concentration, which was noted as early as 2011, has become more widespread.¹¹

Severe Staffing Shortages

Staffing shortages are prevalent throughout the medical field. The higher costs for temporary staffing, recruitment, and incentive offers to fill positions are passed along in the form of larger medical bills and insurance premiums.

The current shortage of physicians in the U.S. is estimated at 64,000. The deficit is projected to be 86,000 by 2036.



Source: McKinsey & Company, 2024¹²

Demand for RNs currently exceeds the supply by 295,800. Source: Analysis of data from Health Resources and Services Administration¹³

The lack of staff is also a factor in the increasing use of expensive medical tests. Uncertainty of diagnoses, limited time for consultations, and more patients with chronic conditions have motivated requests for testing. The rise of “defensive medicine” has also played a role, as health professionals order tests that aren’t clinically necessary but offer protection from malpractice and negligence claims.

The Disproportionate Impact of Rising Costs on Small Business

Compared to larger companies, small businesses have fewer plan participations and less risk distribution. As a result, the impact of medical cost escalation on insurance premiums is more significant.

✓ The average per-employee cost of employer-sponsored health insurance reached \$16,501 in 2024.

Source: Mercer, 2024¹⁴

✓ An employee earning \$50,000 will cost a small company \$70,000 annually in salary, taxes, and insurance.

Source: Connecteam, 2025¹⁵

5 Smart Strategies for Cost Management

Faced with rising costs, businesses are implementing cost-management measures. Fifty-three percent of employers say they plan to make changes to their health plan in 2025. That’s an increase of 9% over 2024.¹⁶

When it comes to change, it’s essential to balance affordability and the employee experience. Discussing your options with benefit advisors is an effective way for business owners to pursue this outcome. Advisors are experienced in identifying and implementing practical solutions that get results, thereby simplifying and streamlining the process of change.

Here are 5 smart strategies advisors recommend for controlling healthcare costs:

1. Introduce Wellness Resources

Wellness programs attack high healthcare costs by reducing claims. These programs focus on prevention and healthy living by promoting annual physicals and preventive tests like mammograms. Positive lifestyle changes such as regular exercise and healthy eating are also encouraged.¹⁷

2. Implement and Promote HSAs, FSAs, and HRAs

Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs), and Health Reimbursement Accounts (HRAs) help offset medical expenses with tax savings.

These benefits offer increased cost saving potential when they are combined with benefit education programs that teach employees how and when to use the accounts most effectively.

HSAs, FSAs, and HRAs all offer cost savings, but they have significant differences. (See chart below)

These three benefits offer increased potential for cost savings when they are combined with education programs that teach employees how and when to use these accounts effectively.

3. Add an Employee Assistance Program

An employee assistance program (EAP) addresses employee mental health concerns by providing confidential, short-term counseling and support as well as referrals. Behavioral healthcare can help individuals who are struggling with personal or work-related challenges, resulting in benefits to both employee and employer.

Employees who get behavioral care often lead healthier lifestyles and reduce the likelihood of related physical ailments and medical visits. Along with a potential reduction in healthcare claims, employers may see an uptick in productivity and decrease in absenteeism.

An EAP is a voluntary benefit and is typically made available to employees at little to no cost. The average cost to a small business is only \$2.00 per month per employee.¹⁸ Exact pricing depends on the number of participants and the services offered.

	FSA	HRA	HSA
What is it?	An account to help employees pay for eligible medical expenses tax-free.	An account to help employees pay for eligible medical expenses tax-free.	A personal bank account to help employees save and pay for qualified medical expenses tax-free.
How does an employee get it?	Enrollment is through the employer. There is no need to enroll in a health plan.	The HRA is usually connected to a health plan. If offered, enrollment is automatic when signing up for the health plan.	Requires enrollment in a high-deductible health plan that meets a deductible amount set by the Internal Revenue Service (IRS).
Can the employee keep the money if they leave your organization?	No. The employer keeps the money.	This depends upon plan setup. If the plan has a forfeiture clause, the funds will go back to the employer if the participant leaves. If there is no forfeiture requirement, the participant can retire or separate from service and keep using their HRA funds until they are gone.	Yes. The employee owns the account
Does the employee pay taxes on the money?	No	No	No
What can the employee pay for with it?	Medical expenses that are determined by the IRS and the employer. This includes dental, vision, and many other health care services and supplies as listed under Section 213(d) of the Internal Revenue Code.	Medical expenses that are determined by the IRS and the employer. The employer may only allow the HRA to pay for services covered by your health plan. Some HRAs can be used to pay for dental, vision, and other services/supplies listed under Section 213(d) of the Internal Revenue Code.	Qualified medical expenses, including services covered by a health plan as well as expenses listed under Section 213(d) of the Internal Revenue Code.

4. Outsource Plan Administration and Compliance

Many small companies spend time and money on plan administration that would be better used for managing and growing the business. Plan enrollment, claim management, and expense tracking can all be outsourced to third party service providers who specialize in these functions and use advanced technology for improved accuracy and efficiency.

Outsourcing compliance and risk mitigation services can result in long-term savings. Providers with expertise in these areas keep plans current with complex healthcare laws and prevent costly errors that stem from misinterpretation or low awareness of changes in rules and requirements.

5. Evaluate the Current Plan

Conducting a plan review is a smart way to potentially increase affordability without sacrificing quality. Enlisting the assistance of a benefit advisor is beneficial for a thorough evaluation of current and projected costs, coverage options, delivery methods, value-added benefits, providers, employee needs, and more.

The following questions are pertinent to plan evaluations:

- Does the plan currently allow for virtual visits, and telehealth consultations as a less expensive alternative to in-person care? Is AI chat available for first line diagnosis?
- Does claims data indicate areas where costs are exceptionally high and could be reduced?
- Does the plan promote preventive care, well-being and chronic condition management?
- Are the same or better plan features available at a lower price from other providers based on available health data?
- Does the plan integrate Pharmacy benefit management?
- Is the company taking full advantage of health insurance tax credits and deductions and alternative funding strategies?
- Does it optimize cost-sharing?

Take Action

Rising healthcare costs present a significant challenge for small businesses, but proactive strategies can help mitigate expenses while supporting high-quality coverage. Now is the time to act—partner by partnering with experts to explore tailored solutions that align with your employees' needs and your company's budget. Using an expert offers an easy way to address these issues and lets you focus instead on growing your business. Daybright makes it simple by:

1. Combining a comprehensive offer of plans — and associated consulting, design, enrollment, administration, recordkeeping and compliance services.
2. Demonstrating the impact — simplicity plus cost/time savings — of accessing all these services through one expert partner.
3. Targeting complex benefits that can be simplified. We deliver a seamless experience by combining superior customer service with easy-to-use technology and ongoing innovation.

The resulting strategy is customized for you and your employees, while the complex parts like compliance and recordkeeping are handled by an expert.

People are the #1 asset of your organization. Taking care of your employees' health contributes to your company's growth. Daybright can take the complexity out of meeting today's health insurance challenges and provide simple solutions tailored to your wants and needs.



Scan this code.

Or visit daybright.com/campaign/employee-benefits/ to find out more, set up a chat, and have us review your current plan.

Notes

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