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Focus On Your PEPY Instead of Year-to-Year Change Percentages

By Chris Van Buren

Too often, organizations focus on the percentage increase or, in rare cases, decrease in the pricing of their medical plan when deciding what actions to take instead of focusing on gross dollars spent. While it is understandable to focus on the increase or decrease for the sake of budgeting, it might not be the best way to analyze a medical plan's cost. Perfect benchmarks are difficult to come by for small and middle market businesses – because these types of organizations rarely fit neatly into one defined category.


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What can small and middle market businesses do instead? Place greater emphasis on benchmarking the **Per Employee Per Year (PEPY)** cost of their medical plans. While not perfect, the PEPY benchmark combined with anecdotal evidence can serve as a good "weather vane" to provide direction on future strategies.

How to Calculate Your PEPY Medical Spend

PEPY refers to the average individual healthcare benefit cost for your business per employee per year.

(Total Employer + Employee Medical Benefit Spend) ÷ # of enrolled employees

Following are a few considerations:

- PEPY is the overall cost of your medical plan divided by the number of employees participating in the plan.
- PEPY removes the variability of the number of employees on the plan from year to year.

Overall spend includes employer and employee contributions to the plan. "Employees participating in the plan" only counts employees enrolled in the plan and does not tally dependents on the plan. For fully insured plans, the overall spend includes the premiums plus any employer contributions to HRAs or HSAs. For self-funded plans, it is the total of the fixed and variable costs.

The number of enrolled employees includes only employees who participate in the plan; not total employees. It also does not include dependents enrolled in the plan.

For example, let's assume your business pays $500,000 per year to a health insurance carrier for medical insurance. If you employ 60 full time people, but only 50 enroll in the plan, then your PEPY spend on medical insurance would be $10,000.

A note about PEPY: Never rely solely on any one benchmark, including PEPY. It is merely a tool to help you determine what is driving your cost. PEPY is highly simplistic, ignoring the level of benefits, how many dependents are covered and the population's health and demographics. However, many more sophisticated benchmarking figures also ignore some of these factors while taking more time and resources without providing better actionable data.

The goal for using PEPY spend as a metric is to figure out what steps to take in the next one to three years with your medical plan.

TODAY'S BENCHMARKS AND A FEW THINGS TO CONSIDER:

If your PEPY is lower than $10,000

Overall, your plan is better than average and you can work to incrementally improve the plan. The average employer total cost expressed as PEPY was $13,360 according to the Willis Towers Watson's 2021 Best Practices in Health Care Survey. We recommend you keep the foundation of what you are doing and look at your data to fine tune the plan..

Specific actions: Consider niche solutions to improve Primary Care, specialty drug management or engage centers of excellence to set your plan apart from your competition while driving costs even lower. Analyze your employer contribution strategy to make sure it fits the type of people you need to recruit and retain, making sure your PEPY isn't artificially low due to your low contributions to the plan.

If your PEPY is between $10,000 to $15,000

You are in the fat part of the bell curve hovering near the average. Analyze your organization's ability and willingness to employ more innovative ways to drive down cost.

Specific actions: These would include changing fundamental elements of the plan, including the plan's funding structure, provider networks and employee incentives to drive where they get care. Your culture is critical when considering making significant changes to your health plan.

The following characteristics are critical to your ability to move from traditional health plans to innovative, high-performing health plans:

- Trust – employees need to trust management because they will be asked to change behavior regarding their health care, which is a very personal issue.
- Passion – A key manager, preferably the CEO, must be passionate about getting high quality health care at lower costs.

If your PEPY is higher than $15,000

This places you on the high side of the curve. Dedicate time and resources to understand why your cost is high and what options are available to drive it down. Gather as much data as available to understand the underlying health and risk of the population on your plan. If your plan doesn't provide claims data, then you will want to field health questionnaires or concierge nursing services to collect data and/or move to a plan which will provide some level of claims data.

The benefits of PEPY

Once you have this extra data, you might see the need to improve your ability to manage and buy health care, or you might need to work on your employees' population health, or both.

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