

Tight labor market, rising wages among upward pressures on health care costs

BY LAURA BENGGS, for BizTimes

IN A GROWING job market, many industries are seeing rising wages and increased spending on salaries. The health care industry is no exception.

In order to address shortages in health care positions and fill high-demand positions, hospitals have been forced to try a variety of strategies like offering higher salaries, increasing recruitment and retention bonuses and using agency staff – all of which are very expensive, said Ann Zenk, senior vice president of workforce and clinical practice for the Wisconsin Hospital Association.

Average hourly wages for Milwaukee-area general health care practitioners and technical occupations rose 7.7% from May 2019 to May 2021, according to the U.S. Bureau of Labor Statistics. Positions in high demand saw increases even higher: 8.6% for health care support positions, 8.9% for clinical laboratory technologists and technicians and 10.8% for nursing assistants.

Financial filings from local hospital systems suggest wage increases from 2021 to 2022 may be almost double from 2019 to 2021.

Wauwatosa-based Froedtert Health saw a 17.5% growth and ProHealth Waukesha Memorial Hospital saw a change as high as 23% in spending on salary and wages from 2021 to 2022, almost double the state average of 7.9%.

Wisconsin health systems are also seeing an overall growth in expenses in the past three years, with some systems reporting increases over 8%. According to hospital financial filings, the en-

tire Milwaukee-based Advocate Aurora Health system saw an 8.9% increase in overall expenses for the first nine months of the year from 2021 to 2022; Waukesha-based ProHealth Care saw an 8.6% increase for fiscal 2022; and Froedtert Health saw a 12.4% growth in total expenses for the year ending June 30, 2022.

Zenk said increased spending on salaries and wages – a line item that accounts for about half of a hospital's budget – is contributing to growing health care costs, an area of concern among businesses wanting to stay competitive in a growing labor market.

"All industries are competing for this shrinking pool of workers as baby boomers retire, but for health care, the impact is doubled," Zenk said.

By 2030, one out of five Americans (in Wisconsin, close to one out of four) will reach retirement, according to WHA's 2023 Health Care Workforce report. And though those at retirement age (over 65) make up 20% of the population, they account for more than 40% of health care utilization.

Zenk says that as the large population of baby boomers ages – a phenomenon known as the "silver tsunami" – the health care system is seeing a rapidly increasing demand on hospital care, further increasing the already-high demand for health care workers.

"Our workforce isn't going to grow fast enough to keep up with all that demand," Zenk said.

In addition to increasing demand and a com-

petitive labor market, shifting priorities in a younger workforce, like work-life balance, are making positions harder to fill, especially entry-level positions, which are some of the highest in demand.

Though increasing compensation demands are contributing to rising health care costs overall, they're not the only responsible factor, said Brian Potter, senior vice president of finance and chief operating officer for the Wisconsin Hospital Association. He said it's important to keep in mind the impact of government-funded contributions on health care costs.

According to the American Medical Association, government-funded programs Medicare and Medicaid are responsible for 38.5% of national health care spending. In Wisconsin, the portion of government-funded programs is closer to 60%, said Potter.

"They set the rates, and you've got to take that rate," Potter said. "Their rates are pretty stagnant, and their increases never keep up with inflation, through budgetary concerns of the government."

Conversely, the average health benefit cost per employee for employer-sponsored insurance is expected to grow by another 5.4% in 2023, according to the 2022 Mercer National Survey of Employer-Sponsored Health Plans. Since 2017, average family premiums have increased by 20% and annual deductibles are up 17%, according to the Kaiser Family Foundation.

As cost of care rises, Potter said the difference needs to be made up somewhere – often through increases to private insurance costs – in order for hospitals to continue providing services the community needs. Private insurance or employer-sponsored insurance, on average, pays 224% of

Increased wages, total expenses at Milwaukee-area hospitals

System/Hospital	Period	Salary & Wages (millions)	Increase from 2021	Total Expense Increase
Ascension	Year ending June 30	\$14,400	9.1%	7.9%
Advocate Aurora	Nine months ending Sept. 30	\$6,310	12.6%	8.9%
ProHealth Care	Year ending Sept. 30	\$415	12.6%	8.6%
ProHealth Waukesha Memorial Hospital	Year ending Sept. 30	\$160	23.0%	11.9%
ProHealth Oconomowoc Memorial Hospital	Year ending Sept. 30	\$35	20.1%	6.5%
Froedtert Health	Year ending June 30	\$1,280	17.5%	12.4%
Froedtert Memorial Lutheran Hospital	Year ending June 30	\$567	20.5%	10.6%
Froedtert Community Memorial Hospital	Year ending June 30	\$104	15.1%	7.0%
Froedtert West Bend Hospital	Year ending June 30	\$51	16.8%	9.5%

Source: Hospital financial filings

Medicare rates for hospital inpatient and outpatient services, according to a 2022 report from the Center for American Progress.

Several other factors contribute to rising private health insurance costs. Consolidation has created a monopolistic environment in the health care and insurance industries, creating artificially high pricing, said Peter Frittitta, director of client strategic services at Waukesha-based R&R Insurance Services Inc.

The Peter G. Peterson Foundation cites new, innovative technologies – which result in more expensive procedures and products – as another source of health care cost increases.

Dustin Hinton, chief executive of UnitedHealthcare of Wisconsin and Michigan, also attributes rising health care costs to rising prescription medication expenses and wasteful administration costs. But similar to demands brought on by the silver tsunami, Hinton also credits rising costs to an increased demand on the health care system as a whole.

Hinton said UnitedHealthcare research shows "employees made less-than-optimal health care choices 38% of the time, which directly impacted their health – and increased the cost of health care

for everyone."

A Rand Corp. study reported that Wisconsin ranks fourth highest nationally for spending on hospital care – a spending category that accounts for about 37% of all health care spending for those with private insurance. Heavy spending on hospital care to treat chronic conditions, like obesity, may be reduced through better efforts to maintain better overall health and wellness, Potter says.

In fact, Frittitta said there is a direct relationship between wellness programs and lowering underlying health care costs by changing the risk or severity of services needed. Taking a consumer-centric approach that focuses more on preventative care with amenities like weight-loss programs, accountable care organizations, rewards programs and advocacy programs is an approach UnitedHealthcare is taking, Hinton said.

John Torinus Jr., owner and chairman of Serigraph, a manufacturing company with about 500 employees in West Bend, says by working together with employees on preventative care, he's been able to keep average family plan health care costs around \$13,000 per family per year – about half of the reported national average (\$22,463, according to the Kaiser Family Foundation).

Serigraph's free on-site primary care clinic is available to anyone enrolled in the company's health care plan. When employees need secondary and tertiary care, Serigraph is able to provide high-quality procedures at low costs thanks to relationships it's developed with independent providers, like the Orthopaedic Hospital of Wisconsin.

"In today's talent and labor market, benefits play an important part of what is needed to compete in that market and attract and retain the workforce you need," Frittitta said.

Though Potter said businesses are likely to continue seeing increases as they renegotiate multi-year insurance contracts that were in place before inflation rates rose, "enhancing benefits to improve attraction and retention" continues to be a top strategic priority among businesses, according to Mercer's 2022 survey.

"There's no quick fix," Potter said. "Health systems are trying to get more efficient, insurance companies are trying to figure out best strategies and employers are challenged with seeing what's out there. These pressures are all difficult, but it forces some creative thinking and some new ways of doing stuff." ■



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