Sunwest Bank
BUILT FOR ENTREPRENEURS BY ENTREPRENEURS

Market Data

Interest Rates	Current	Month Ago	Year Ago
Bank Rates (As Of 9/29)			
WSJ Prime	8.50%	8.50%	6.25%
1 Month Term SOFR	5.32%	5.33%	3.02%
Fed Funds Rate	5.33%	5.33%	3.08%
30 Year Mortgage Fixed	7.31%	7.18%	6.70%
Treasury Rates (As Of 9/29)			
10 Year	4.57%	4.18%	3.80%
7 Year	4.61%	4.27%	3.95%
5 Year	4.60%	4.30%	4.05%
3 Year	4.80%	4.59%	4.24%
1 Year	5.47%	5.38%	4.00%
1 Month	5.40%	5.40%	2.65%
1-Month SOFR Term SOFR Swap Rates (As Of 9/29)			
10 Year	4.19%	3.90%	3.35%
7 Year	4.22%	3.96%	3.46%
5 Year	4.30%	4.07%	3.61%
3 Year	4.55%	4.39%	3.88%

Inflation Data	Current	Month Ago	Year Ago
CPI Headline YoY	3.7%	3.3%	8.2%
CPI Core YoY	4.4%	4.7%	6.3%
PPI Headline YoY	1.8%	0.8%	8.7%
PPI Core YoY	3.0%	2.9%	5.6%

Economic Data	Current	Month Ago	Year Ago
PMI Manufacturing	49.8	47.9	52.0
PMI Services	50.2	51	49.2
Case/Shiller U.S. Home Price Index	310.2	308.3	307.1
Housing Permits	1,541k	1,443k	1,586k
Housing Starts	1,283k	1,447k	1,505k
Retail Sales	$607b	$603b	$597b
Unemployment Rate	3.8%	3.5%	3.7%
Non-Farm Payrolls	+187k	+157k	+352k

Equity Markets	Current	Month Ago	Year Ago
Indices (As Of 9/29)			
DJIA	$33,508	3.82%	13.62%
S&P 500	$4,288	5.04%	16.57%
NASDAQ	$13,219	5.79%	22.23%

LETTER FROM THE PRESIDENT

The Rising Cost of Health Insurance in 2024 and Beyond

As we approach the upcoming healthcare insurance renewal season for employers, the industry is anticipating one of the most substantial increases in premiums since 2012, when the Affordable Care Act was implemented. Current projections are estimating an increase of 6.5% - 8% in 2024 across all companies; however, the increases will be much larger for corporations with high medical claims. In terms of financial impact, the average per-employee employer spending is projected to increase from $12,900 per employee in 2021 to over $14,600 in the coming year.

Year-over-year healthcare costs have consistently risen over the past few years, driven by increasing hospital and facility costs, wage inflation, healthcare staffing shortages, pharmacy costs, changing population demographics, and medical procedures delayed by COVID-19. Healthcare rates increased from 5% of overall GDP in 1960 to 18% in 2021 and will continue to rise over the coming years. Relative to the size of the economy healthcare costs have increased faster than general inflation rates.

One of the systemic issues facing healthcare costs is that, in many instances, no one is incentivized to manage and keep costs low. Prior to the Affordable Care Act, health insurers were incentivized to manage costs because the difference between health insurance premiums paid by both employees and employers, and the claims paid to healthcare providers was the profit that the insurer generated. However, after the Affordable Care Act, healthcare insurance companies' profits were capped and calculated as a percentage of healthcare spending; therefore, the only way to increase profits was to increase overall spending. Beyond the insurance companies, nearly every care or service provider benefits either through actual payments or compensation arrangements from the cost of healthcare increasing.

Sports Fact of the Month:
In 2010, Pittsburgh Steelers safety Troy Polamalu had his hair insured for $1 million by the shampoo brand Head and Shoulders.

Increasing pharmacy usage and drug costs are a large contributor to these cost increases. The surge can be attributed to the growing use of specialty drugs, including medications for depression, anxiety, and diabetes. The year-over-year increases of many drugs are increasing at a staggering rate, with expectations of similar increases to continue in 2024 and beyond. Further, the aging population is another driving force in increased costs. In 2010, 13% of the population was 65 and older; in 2021, that number rose to 16% and is expected to climb to 20% by 2030. As this demographic continues to age, the number of individuals enrolled in Medicare will increase over time, leading to an additional rise in healthcare expenses.

There are also growing costs around mental healthcare. Millennials will represent 75% of the workforce by 2025 and this generation has a higher propensity for mental health claims, for instance that generations' anxiety claims exceed any other age group. Mike Moorhead, Managing Partner of Tippett, Moorhead & Haden, an Alera Group Agency, LLC. states, "Millennials are shaping our workforce's future and approach to mental health. This shift in dynamics will change how we approach mental health care in the years to come."

The most important person controlling healthcare's overall cost is the individual consuming the healthcare. Healthcare is the one area where we have conditioned our society not to ask how much something costs, whether it is a visit, procedure, or drug. The emergence of high-deductible health plans (HDHP), referred to as HSA plans, enables employers and employees to have much lower monthly healthcare premiums and only pay for the healthcare they consume using pre-tax contributions through a Health Savings Account ("HSA") they establish. All unused funds accumulate over time for future healthcare needs and can be leveraged as an additional vehicle for retirement savings.

Another strategy employers are using to reduce costs is to evaluate self-insuring their healthcare costs. This is a plan where the employer takes on all or most of the cost of the benefit claims while a third-party administrator ("TPA") network manages the payments. Andrew Agress, Executive Vice President of Bolton & Company, states, "Self-funding is an advantageous model to follow as it provides an opportunity not only to tailor benefits but also an opportunity to control costs for a business." Sunwest elected to self-insure its healthcare insurance and offers a very attractive HSA plan for employees. Leadership became very involved in the structure of our benefits program because we knew how impactful it would be for our overall organization, while many companies simply leave the benefits decisions to their team. Sunwest even built its own HSA platform for the Bank and its customers called SelfcareHSA. As a result of these steps, the Bank has not experienced an increase in healthcare premiums for over five years.

The rising cost of healthcare is being increasingly felt by employers because, in the aftermath of the pandemic and the difficult hiring environment, employers must offer robust benefits packages to attract and retain talent. These benefits may include paying the entirety of the employee's healthcare premium, providing all specialty drugs, offering infertility coverage, paid parental leave, and many more benefits.

Employers are increasingly focused on developing creative and innovative strategies to mitigate some of the price surges. Effectively managing healthcare costs requires a proactive benefits team, focus from leadership, and strong broker representation to identify the best options and services for your employees. Many employers are actively considering various control initiatives, such as prior authorization requirements, disease management programs, RX rebates, telehealth, and incorporating nurse lines to control costs, while ensuring employees can access the best care at the best price.

The historical and ongoing surge in healthcare costs is influenced by the various factors we have outlined, and there is no sign they will abate. It is very important that companies have a proactive strategy to manage their benefit offerings both for talent retention and cost management. Research suggests that the majority of employers plan to absorb the premium increases themselves rather than shifting the burden to their employees; therefore, these premium increases will directly impact your company's profitability. There are many options available to employers to combat these rising healthcare costs, such as education, plan offerings, plan design, or simply more effective plan management. All these can be executed while delivering employees a better overall healthcare experience.

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