The Health Plan Economic Sustainability Framework

A measurable framework for evaluating whether health plan cost growth remains economically aligned with the business funding it.

$$\left(\frac{\text{Ending Health Plan Cost}}{\text{Beginning Health Plan Cost}}\right)^{1/5} - 1 \;\leq\; \left(\frac{\text{Ending EBITDA}}{\text{Beginning EBITDA}}\right)^{1/5} - 1$$

Economic alignment exists when Health Plan CAGR does not exceed EBITDA CAGR.

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Executive Summary

Employer-sponsored health plans are often managed as annual renewal events. Each year, the employer receives an increase, reviews competing quotes, adjusts contributions or plan design, and moves forward. That process may be familiar, but it does not answer the larger economic question.

Has the health plan grown faster than the business funding it?

The Health Plan Economic Sustainability Framework was created to answer that question. It compares the compound annual growth rate of health plan cost against the compound annual growth rate of company economics, primarily EBITDA. Revenue growth, margin trend, headcount, payroll, and contribution strategy may all provide supporting context, but EBITDA remains the cleanest primary measure of the company's ability to absorb recurring benefit cost growth.

The central test

If Health Plan CAGR exceeds EBITDA CAGR over a meaningful period, the plan may be economically misaligned with the business funding it. The renewal is the output. The structure producing that output is the issue.

This framework does not assume that one health plan structure is always superior. It does not begin with a carrier, network, captive, level-funded arrangement, reference-based pricing model, or fully insured renewal. It begins with measurement. Only after the economic gap is understood should alternative structures be evaluated.

Why This Framework Matters

Health plan costs compound. A single difficult renewal may be manageable. Repeated increases over several years can become a material operating expense problem, especially when the underlying business is not growing at the same rate.

Recent employer health cost projections reinforce the point. Mercer reported that total health benefit cost per employee rose 6.0% in 2025 and projected a 6.7% increase for 2026. Aon projected U.S. employer health care costs to rise 9.5% in 2026. The specific number will vary by employer, industry, geography, demographics, claims, and plan structure, but the direction is clear: cost pressure remains persistent.

Most companies would closely examine a recurring deterioration in gross margin, EBITDA margin, or cost of goods sold. Yet many absorb six-figure health plan increases year after year without measuring whether the plan's cost growth remains aligned with the company's economics. That is backwards.

The management question

Not: Can we get a better quote? The better question is: Which health plan structure best aligns with the current and future economics of this business?

The Problem With Renewal-Only Thinking

A renewal is not a diagnosis. It is a result. It reflects claims, contracts, demographics, carrier assumptions, provider reimbursement, pharmacy spend, pooling charges, network economics, administrative costs, and

risk structure. Treating the renewal as the whole problem can lead to repeated shopping without ever examining the mechanism producing the increase.

The traditional market response is often a broker beauty pageant: carriers are asked to quote, spreadsheets are compared, and the employer selects the least painful option. That exercise may be necessary, but it is incomplete. A lower renewal does not automatically mean the plan is economically sustainable. A higher renewal does not automatically mean the plan is wrong. The issue is whether the structure is producing a cost trajectory the company can support.

The Health Plan Economic Sustainability Framework moves the discussion away from annual premium reaction and toward business alignment. It gives leadership a way to connect health plan decisions to the economics of the enterprise.

The Measurement: Health Plan CAGR vs. EBITDA CAGR

The framework uses compound annual growth rate because employers rarely experience health plan pressure as a single isolated event. The business feels the cumulative effect of repeated annual increases.

Health Plan CAGR measures how quickly the total employer health plan cost has grown over the selected period. EBITDA CAGR measures how quickly the company's earnings capacity has grown over that same period. The comparison is intentionally simple.

Interpretation

Economic alignment exists when Health Plan CAGR does not exceed EBITDA CAGR. If Health Plan CAGR materially exceeds EBITDA CAGR, the company should evaluate whether plan structure, financing method, reimbursement architecture, contribution strategy, or risk position needs to change.

The Core Formulas

Measure	Formula
Health Plan CAGR	((Ending Health Plan Cost / Beginning Health Plan Cost) ^ (1/5)) - 1
EBITDA CAGR	((Ending EBITDA / Beginning EBITDA) ^ (1/5)) - 1

The five-year period is a practical default. A three-year period may be useful when data is limited or when a major restructuring, acquisition, workforce change, or carrier change makes older data less comparable.

What HPESA Measures

The Health Plan Economic Sustainability Analysis, or HPESA, is the applied analysis behind the framework. It is not a quote. It is a stress test of the relationship between benefit cost growth and company economics.

A typical HPESA reviews total health plan cost, employer contribution, employee contribution, renewal history, enrollment changes, payroll context, revenue trend, margin trend, EBITDA trend, and relevant plan structure details. The goal is not to force a predetermined solution. The goal is to identify whether a measurable economic gap exists and whether the current structure is likely to remain sustainable.

HPESA in one sentence

HPESA measures whether the health plan's cost trajectory remains economically aligned with the business funding it.

The Reimbursement Architecture Question

When a health plan is economically misaligned, the next issue is not merely which carrier will quote lower. The next issue is reimbursement architecture: how the plan pays for care, how provider contracts are accessed, how claims are repriced, how risk is financed, and how much control the employer has over the underlying cost structure.

Different employers may require different structures. A traditional fully insured plan may be appropriate for some. Level-funded arrangements, captives, partial self-funding, reference-based pricing, or hybrid models may be appropriate for others. The correct structure depends on risk tolerance, claims experience, employee disruption, provider access needs, cash flow, leadership appetite, and the measured economic gap.

This is why the framework begins with analysis instead of a product recommendation. In a world full of group health plans, the relevant question is not which option sounds attractive. The relevant question is which structure best aligns with the current and future economics of the business.

A Simple Example

Assume a company's total health plan cost increased from $1,000,000 to $1,470,000 over five years. That is approximately an 8.0% Health Plan CAGR. If EBITDA increased from $5,000,000 to $5,525,000 over the same period, EBITDA CAGR is approximately 2.0%.

The gap is not a renewal problem. It is an economic alignment problem. The health plan is compounding at four times the rate of the company's earnings capacity. The company may still decide to maintain the plan, but leadership should make that decision with full awareness of the trend.

The practical point

A company does not need to know the right solution before the analysis. The purpose of the analysis is to determine whether the current structure deserves to remain the default.

How Leadership Should Use the Framework

The framework gives CEOs, CFOs, owners, and executive teams a disciplined way to discuss health plan strategy before the renewal dictates the conversation. The best time to analyze health plan structure is before the renewal.

When the renewal arrives, time pressure often narrows the discussion to short-term choices. Should we absorb the increase? Shift cost to employees? Change deductibles? Quote other carriers? Those may be necessary tactical questions, but they are not the strategic question.

The strategic question is whether the current health plan structure is economically aligned with the company funding it. If it is aligned, leadership can defend the plan with greater confidence. If it is not

aligned, leadership has a reason to evaluate structural alternatives before compounding costs become more difficult to correct.

Conclusion

Employer health plans should be evaluated as economic structures, not just annual renewals. The renewal is only the output. The framework asks a more important question: has years of compounding health plan cost growth created an economic misalignment with the economics of the business?

No employer should be expected to know the answer without measurement. That is the point.

In a world full of group health plans, which structure best aligns with the current and future economics of your business? I do not know right now. But when we complete the analysis, you will tell me.

Source Notes

Mercer, National Survey of Employer-Sponsored Health Plans, 2025 preliminary/final reporting: total health benefit cost per employee rose 6.0% in 2025, with 2026 projected increases reported at approximately 6.5% to 6.7%.

Aon, U.S. Employer Health Care Costs Expected to Rise 9.5 Percent in 2026, September 10, 2025.

This paper is intended as an executive framework, not legal, tax, accounting, actuarial, or medical advice. Employer-specific analysis should be based on the company's actual plan data, financial data, renewal history, workforce profile, and risk tolerance.