COGNIZANT BENEFITS SOLUTIONS, INC.

# When Health Plan Cost Growth Outruns Margin

A business-first framework for determining whether a health plan is sustainable or structurally misaligned with company economics.

| Strategic Health Benefits Cost Advisory Insight |
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| Date: June 5, 2026 |

## Executive Summary

Health plan cost becomes a business problem when it grows faster than the company's ability to absorb it. A company can be profitable and still have a health plan that is quietly consuming margin, weakening cash flow, increasing employee contribution pressure, and limiting pricing flexibility. When health plan cost growth outruns margin, the problem is no longer only an HR or benefits issue. It becomes an executive-level economic alignment issue.

## Why Margin Matters

Most employers evaluate health plan cost in isolation: last year's premium, this year's renewal, employee contribution, and carrier alternatives. Executive leadership should also evaluate whether the plan's cost trajectory is proportionate to revenue growth, EBITDA growth, operating margin, payroll trend, cash flow, and pricing power. A plan that grows faster than the business can gradually become unsustainable even when each individual renewal appears manageable.

## The Compounding Problem

A single renewal increase may be absorbed. Repeated increases that exceed revenue growth, EBITDA growth, or margin stability create compounding pressure. Over several years, the employer may be forced to shift more cost to employees, reduce benefit richness, accept lower margins, delay hiring, raise prices, or tolerate weaker cash flow. This is how health plan cost becomes a business economics issue.

## Signals of Structural Pressure

- Healthcare cost growth consistently exceeds revenue growth

- Renewal trend materially outpaces EBITDA growth
- Employer contributions increase faster than payroll
- Employee contributions rise enough to affect morale or retention
- Margins compress while health plan costs keep rising
- Leadership accepts renewals because no one has explained the structure producing them
- The company receives quotes but not a clear diagnosis

## Business-First Review Framework

### 1. Establish the baseline

Identify total annual health plan cost, employer share, employee share, renewal history, employee count, payroll, and funding arrangement.

### 2. Compare against business economics

Review three-to-five-year cost trend relative to revenue, margin, EBITDA, payroll, cash flow, and pricing power.

### 3. Separate claims risk from structural cost

Determine whether the cost problem appears driven by claims, underwriting, network reimbursement, funding model, plan design, contribution strategy, or a combination.

### 4. Evaluate alternatives only after diagnosis

Consider fully insured, level-funded, self-funded, reference-based pricing, network alternatives, stop-loss design, or contribution redesign only after the cause of pressure is better understood.

## The Executive Question

The question is not simply whether the renewal is high. The question is whether the health plan is consuming economic capacity faster than the business can create it. If so, leadership should not treat the renewal as a routine annual benefits task. It should be treated as a structural cost review.

## Closing Perspective

When health plan cost growth outruns margin, the employer needs more than another quote. It needs a clear review of whether the plan remains economically aligned with the business. The purpose of Strategic Health Benefits Cost Advisory is to help leadership see that relationship clearly before accepting another year of compounding pressure.

## Important Disclaimer

This document is intended solely as an informational and strategic business analysis framework. It does not constitute legal advice, tax advice, accounting advice, actuarial certification, securities analysis, valuation consulting, or a guarantee of savings or future performance. Any conclusions depend on the quality and completeness of employer-provided information and require case-specific review.