

Demystifying the U.S. insurance marketplace

For global companies doing business in the United States for the first time, navigating the U.S. insurance marketplace can be a daunting task. Each of the 50 states has its own insurance laws and regulatory system, making the U.S. insurance system highly complex and diverse, with more than 1,600 carriers operating in the nation.¹

U.S. insurance is regulated primarily at the state level. Companies need to respond to both marketplace and regulatory differences in every state where they have operations. Complexity aside, every year, companies from all over the world successfully establish operations in the U.S., obtain insurance, and benefit from doing business in the U.S.'s large, competitive, dynamic marketplace.

Organizations venturing into the American market for the first time should understand the intricacies of health insurance and property and casualty (P&C) insurance. These foundational elements are pivotal in establishing a strong foothold and ensuring comprehensive coverage.



Employee health insurance benefits

The U.S. does not have a national healthcare system. Instead, most Americans obtain healthcare via private health insurers who pay medical providers. Most private sector employees have access to health insurance paid for—at least in part—by their employer. Under U.S. law, companies with more than 50 full-time employees must offer some form of health insurance, but many smaller employers also provide health insurance benefits to their employees.

Advisors partnering with companies expanding into the U.S. should emphasize one fundamental point: even if a company is not legally obligated to offer health insurance to its employees, providing this benefit can be a critical factor in attracting and retaining talent. Employers also often offer employees the option to obtain health insurance for their immediate family. In the U.S., benefits such as health insurance are the second most influential factor after salary in a job seeker's decision to accept or reject an employment offer.

When companies entering the U.S. seek to obtain health insurance for their U.S.-based employees, they should be aware of the following:

Cost

Health insurance represents a substantial business cost not found in most other nations. The price of health insurance per employee varies by company size, location, carrier, and scope of coverage. In addition, an employee's age, gender, and other factors impact premium costs. In 2022, the average annual premium price across different health insurance plans was \$7,911 for single coverage and \$22,463 for family coverage. In most cases, employees share the cost of coverage with employers; employees, on average, paid 17% of the premium for single coverage and 28% of the premium for family coverage in 2022.²

Coverage options

Basic health insurance only applies to medically related costs. Many employers also provide separate dental, vision, life, and disability coverage. Employers also often voluntarily provide a range of other benefits beyond insurance, including a retirement savings program known as a 401(k) plan. This makes an employee's benefits package more attractive but adds cost. Some health insurance policies will also cover additional services that fall outside traditional medicine, such as massage therapy and acupuncture.

Time to obtain coverage

Identifying carriers, receiving coverage and premium quotes, and evaluating options takes time. Companies should allow at least 60 days to find and implement coverage. A health insurance policy cannot be established until a company has active, full-time employees—sometimes called “W2 employees”—to indicate their tax classification. There are ways employers can address the gap between when employees are hired and when a health insurance plan takes effect.

Property and casualty

Businesses with operations in the U.S. must typically obtain property and casualty (P&C) insurance, in particular general liability and workers compensation. This type of coverage is often required by lenders, landlords, local regulators, and contractual counterparties.

As with health insurance, P&C insurance must be applicable in each state where a company does business. Premium costs can vary widely based on the type of business, number of employees, business assets, location, and terms and limits of a policy. In some states—such as California—businesses can face significantly higher insurance costs and more difficulty obtaining coverage.

As a rough estimate, a new business with less than \$1 million in annual revenue can generally expect to pay up to \$10,000 for a comprehensive suite of coverages that includes property, general liability, management liability, cyber risk, and workers compensation.



Drivers of U.S. P&C costs

Companies establishing operations in the U.S. may face higher than expected costs for P&C insurance.

Key factors contributing to higher costs include:

TORTS AND LITIGATION

High cost of claims in the U.S. is a considerable contributing factor to higher insurance costs. The U.S. has a noteworthy amount of litigation compared to other nations. Judgments, settlements, and legal expenses can be a significant expense. Nuclear verdicts—jury awards greater than \$10 million—are trending upward.

SEVERE WEATHER EVENTS

Over the last several years, the U.S. has been severely impacted by extreme weather events and natural disasters, including hurricanes, wildfires, flooding, hail, and tornadoes. High insurance losses have led some carriers to reduce capacity for some lines and even exit some markets. The combination of losses and reduced capacity has led to rising premium costs.

INFLATION

Rising replacement costs for property losses—driven by increased pricing for materials and labor—have contributed to higher insurance premiums.

Other coverages

In the U.S., businesses also often obtain a range of voluntary insurance policies to help mitigate risks. In some cases, contracts may require that businesses secure specific coverages. Beyond health, property, and general liability coverage, other policies to consider include:

- Business interruption
- Commercial auto and non-owned and hired auto liability
- Product liability and product recall
- Directors and officers (D&O)
- Employment practices liability
- Fiduciary liability
- Errors and omissions (E&O)
- Cyber risk
- Business travel accident
- Media liability and intellectual property
- Environmental liability
- Key person
- Crime
- Kidnap and ransom

Questions to consider when establishing U.S. operations

As companies contemplate expanding into the U.S., they should consider the following questions:

How will individuals be employed?

U.S. labor laws differ from those in other nations. Many businesses rely on a mix of employees and contractors. Hiring direct employees can provide operational benefits but lead to higher costs associated with employee benefits such as health insurance. On the other hand, using contractors can create liability exposures.

Organized labor (unions) in the U.S. is less prevalent than in many other nations, and unionization varies across industries and locations. Some employee benefits, such as health insurance coverage, may be required by the terms of union contracts.

A business beginning operations in the U.S. may also want to consider utilizing a Professional Employment Organization (PEO), which operates as an outsourced human resources department.

Companies can establish co-employment contracts with PEOs, with the PEO handling administrative functions: payroll, employee benefits, and workers compensation.

Another option is to work with an Employer of Record (EOR) organization, which is the legal employer of a business's U.S.-based workforce. Under this arrangement, the EOR assumes all compliance and administrative responsibilities associated with employees.

What type of business entity will be formed—and where will it be located?

In the U.S., businesses can be legally organized in a number of ways: a C corporation, an S corporation, or as a limited liability company. How a business is organized impacts taxation and liability exposure. Where a company is organized and where it operates also have tax, regulatory, insurance, and other operational implications. For example, many companies choose to incorporate in the small state of Delaware because of favorable taxes and regulations, even if they operate in another state. Location impacts insurance pricing for a number of reasons, including exposure to severe weather events and cost of litigation.

Will operations generate U.S. revenue?

Insurance costs are linked to revenue. Companies headquartered in other nations that establish operations in the U.S. can limit exposures and insurance costs by completing transactions and recording revenue in other nations. For instance, a company that manufactures industrial parts in the U.S. for the export market may be able to limit U.S. revenues, taxes, and insurance costs. Conversely, there may be tax advantages for transacting business in the U.S. that help offset higher insurance costs.

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¹ Insurance Information Institute, Facts + Statistics: Industry Overview ² Kaiser Family Foundation, 2022 Employer Health Benefits Survey

² Kaiser Family Foundation, 2022 Employer Health Benefits Survey