



2022

HEFFERNAN BENEFIT ADVISORY SERVICES 13TH ANNUAL
HEALTH CARE TREND REPORT



TABLE OF CONTENTS

- 4 **Executive Summary**
- 5 **What Is Trend?**
- 6 **2023 Medical Trend Projections**
- 6 *2023 Medical Plan Survey Results*
- 7 *Summary of Medical Trend Results*
- 8 **National Medical Projections**
- 9 **Historic National Trends**
- 9 *Historic National Medical Trends*
- 9 *2022 and 2023 National Medical Trend Compared to Prior Five-Year Average (2017 - 2021)*
- 10 *Summary of National Results*
- 11 **Dental and Vision Survey Results**
- 11 *2022 and 2023 Dental and Vision Trends Compared to Prior Five-Year Average (2017-2021)*
- 11 *Summary of Dental and Vision Trend Results*
- 12 **Stop Loss Trend Projections**
- 15 **Drivers of Trend**
- 15 *Covid*
- 16 *Rising Cost of Specialty Drugs*
- 17 **Controlling Health Care Costs**
- 17 *Health Care Literacy*
- 18 *Virtual Care*
- 19 **Employee Well-Being**
- 19 *Creating a Positive Company Culture*
- 19 *Mental Health Benefits*
- 20 *Physical Health*
- 22 *Social and Financial Health*
- 23 **Conclusion**



Definitions:

Health Maintenance Organization (HMO) – Plans that require a Primary Care Physician (PCP) gatekeeper referral for specialty services

Preferred Provider Organization (PPO) – Benefits paid at a specific level if patient seeks care for a preferred provider network, these plans do not require a PCP referral

Point-of Service (POS) – Plans that require a PCP referral on the first tier, and offer a PPO type structure on the second and third tiers

Consumer Directed Health Plans (CDHP) – Plans that have high deductibles—tax-advantaged designed to encourage consumer engagement

Dental HMO (DHMO) – A dental plan wherein a set group of dentists provides broad and affordable dental care at a low monthly premium

Dental PPO – Benefits paid at a specific level if patient seeks care through a preferred dental provider network

Dental Indemnity – Also known as traditional plan, services are paid on a fee for service basis, individuals can visit any dentist



EXECUTIVE SUMMARY



The COVID-19 pandemic has caused many uncertainties within the health care industry. Understanding the projections that carriers will be using to develop their trends, as well what is causing those fluctuations and cost projections, is key to controlling health care costs. For the past 13 years, Heffernan Insurance Brokers has been surveying the medical, dental, and vision carriers in all the key regions that our clients cover their employees. In our survey this year, we have added the trend projections for two additional states, Virginia and Pennsylvania, and broken out the trend projections by five different geographic regions.

While carrier trend projections are typically used to develop fully insured renewal increases, trend projections are just as critical for groups in the self-funded markets. In an effort to better control costs, many employers are moving from fully insured plans to self-funded plans. Carriers are offering more creative products and funding models so that self-funded options are available to smaller employers that may not previously have been able to self-fund. Our report this year expands our analysis to include some of the key trends and factors that affect employers with self-funded plans.

The primary drivers of trend are price inflation and increased utilization. To develop a cost-effective employee benefits package, employers need to understand the trend projections for the upcoming year, and the drivers of that trend that inflate the price of goods and services and increase the use of services. It is no surprise that COVID-19 is a key driver of the trend for 2023. However, each year the pandemic is affecting the trend in different ways. Just as COVID-19 has evolved in the past two years, so has its effect on health care trend. The second key factor that has been a major driver of trend for the past several years is the development of specialty drugs. Specialty drug claims now represent more than 50% of the total RX spend, yet they are only prescribed to a limited, small population. Understanding why specialty drugs costs are so high will help employers create more cost-effective employee benefits packages.

In addition to driving trend, the COVID-19 pandemic has had other impacts on the health care industry. Priorities for both employers and their employees have shifted, bringing renewed focus to an employee's total well-being. Despite rising costs, for the first time in many years, employers are not cost-shifting to employees and are taking on more of the financial burden, and expanding employees' benefits packages to include more than just the physical health of their employees. Employees expect more from their employers and with the tight labor markets, employers are offering increased mental health benefits, financial wellness tools, as well as programs that encourage emotional, social, and professional well-being.

Faced with both rising costs and a demand for more robust employee benefits packages at no additional cost to employees, employers need to apply as many strategies as possible to control costs. In addition to exploring the drivers of trend, our annual trend report highlights key methods that employers can use to manage trend. Telemedicine, or virtual care, has been a leading strategy to eliminate costly emergency room visits and reduce absenteeism. The pandemic brought virtual care to the forefront, creating increased access to care for more than just emergencies. As a result of the pandemic, more people suffered from stress and anxiety, bringing all mental health issues to the forefront. Virtual care made treatment more accessible and reduced the stigma around mental health issues.

Long-employed cost-saving strategies such as driving patients to receive care in centers of excellence, increasing voluntary products, and offering consumer-driven health plans such as High Deductible Health plans with Health Saving Accounts and Health Reimbursement accounts are still central tools for a well-rounded employee benefits plan. However, it is even more critical for employers to educate their employees and their families to become better health care consumers and increase their health literacy. Only by truly understanding their benefits, knowing the questions to ask their providers and pharmacists, and actively looking for the most cost-effective, best care will an employer's benefits plan control costs in the long run.

WHAT IS TREND?



Health care trend is the projected percentage change (increase) in the cost to treat patients from one year to the next, assuming that benefits remain the same. For more than 20 years, the projected trend for medical, dental, and vision claims has outpaced the standard rate of inflation. While trend is not the only factor that determines an employer group's annual premium increase, it is the primary component. Claim costs typically represent 65% to 90% of the total health care premium.

Each year, Heffernan Insurance Brokers surveys the medical, dental, and vision carriers in the key regions where our employers are located to identify what trend projections the carriers will be using in their upcoming renewal calculations.

The primary drivers of health care trend are:

Price Inflation – The average increase in the cost of goods and services such as medical supplies, equipment, staffing, and prescription drugs.

Utilization – The usage of medical care and services.

Technological Advancements – The change in cost due to new procedures or equipment replacing older ones, or to new drug treatments or regimens.

Deductible Leveraging – The cost added to a health plan as a result of increases to the cost of services while benefits remain constant.

In our 2022 Health Care Trend Report, we will explore which factors in particular are the driving force behind the carriers' 2023 trend projections. An employer group's actual renewal increase may differ from the trend projections for a variety of reasons. Other factors that influence a renewal increase are:

- Plan Design Differences
- Demographics
- Group Experience
- Regional Cost Variations and Market Competition
- Administration and Health Care Taxes

It is important to note that there are two different types of trends—prospective trend and retrospective trend. The focus of our trend survey is on prospective health care trend, where health care costs are expected to be in the future. Retrospective trend, a measure of the actual change in health care costs experienced, is also important to understand but is not as critical when looking forward to the upcoming employer group renewal. Insurance companies will be looking at their own books of business to determine what they expect their future costs to be. These are the projections used in developing renewals.

Heffernan's annual trend report surveyed more than 50 health, dental, and vision providers, asking them what trend factors they will be using to determine their upcoming 2023 renewals.

Health, dental, and vision plans that HIB surveyed include:

Aetna, AIG, Ameritas, Anthem, Beam Dental, Berkley Accident and Health, Berkshire Hathaway, Best Life and Health, Blue Cross of North Carolina, Blue Cross Blue Shield of Alabama, Blue Cross Blue Shield of Arizona, Blue Cross Blue Shield of Kansas City, Blue Cross Blue Shield of Massachusetts, Blue Shield of California, California Dental, CareFirst Blue Cross Blue Shield, Century Healthcare, Cigna, Coventry Health Care of Missouri, Crum and Forster Dearborn National, Delta Dental, Emblem Health, Empire Blue Cross, Equitable, Evolution Pan American, EyeMed, Florida Blue, Guardian, HCSC, Health Net of California, Health Net of Oregon, Highmark, Horizon Blue Cross Blue Shield New Jersey, Inc., Humana, HCC Life, Kaiser Permanente of California, Kaiser Permanente of Oregon, Lincoln, Medical Eye Services, MetLife, Moda Health, Mutual of Omaha, PacificSource Health Plans, Premiera, Premier Life Premier Access, Principal, Providence, Regence Blue Cross Blue Shield of Oregon, Regence Blue Shield of Washington, Reliance, Stealth, Sun Life Financial, Superior Vision, Sutter Health Plus, Swiss Re, Symetra, The Standard, Tokio Marine, United Concordia, United Healthcare, Unum, Versant Health, Vision Service Plan (VSP), Voya, Wellmark Blue Cross Blue Shield, Western Health Advantage, Willamette Dental

2023 MEDICAL TREND PROJECTIONS



2023 Medical Plan Survey Results

Plan Type	Arizona	California	Illinois	Missouri	New Mexico	New York
HMO w/RX	6.3%	5.0%	4.8%	8.9%	8.1%	9.2%
PPO w/RX	7.9%	9.0%	7.4%	7.6%	7.9%	8.9%
POS w/RX	7.9%	8.0%	7.4%	8.6%	7.9%	8.9%
CDHP w/RX	8.3%	7.5%	4.8%	8.9%	8.1%	9.0%
IND w/RX	7.5%	9.5%	8.0%	7.9%	8.7%	8.2%

Plan Type	North Carolina	Oregon	Pennsylvania	Texas	Virginia	Washington
HMO w/RX	8.2%	5.3%	8.5%	8.4%	8.5%	6.5%
PPO w/RX	6.2%	5.7%	9.1%	6.8%	7.9%	9.0%
POS w/RX	6.2%	5.7%	9.1%	7.7%	7.9%	8.7%
CDHP w/RX	8.2%	7.7%	9.1%	7.5%	8.2%	9.0%
IND w/RX	8.3%	8.0%	7.9%	7.1%	8.0%	9.3%

Plan Type	National	West	Southwest	Midwest	Northeast	Southeast
HMO w/RX	6.7%	5.5%	8.2%	7.7%	8.4%	7.7%
PPO w/RX	8.2%	8.4%	7.6%	7.7%	8.7%	7.6%
POS w/RX	7.8%	7.5%	7.5%	8.0%	8.8%	7.6%
CDHP w/RX	7.6%	7.1%	8.0%	7.6%	8.5%	8.1%
IND w/RX	8.4%	8.8%	7.1%	7.8%	7.8%	7.6%

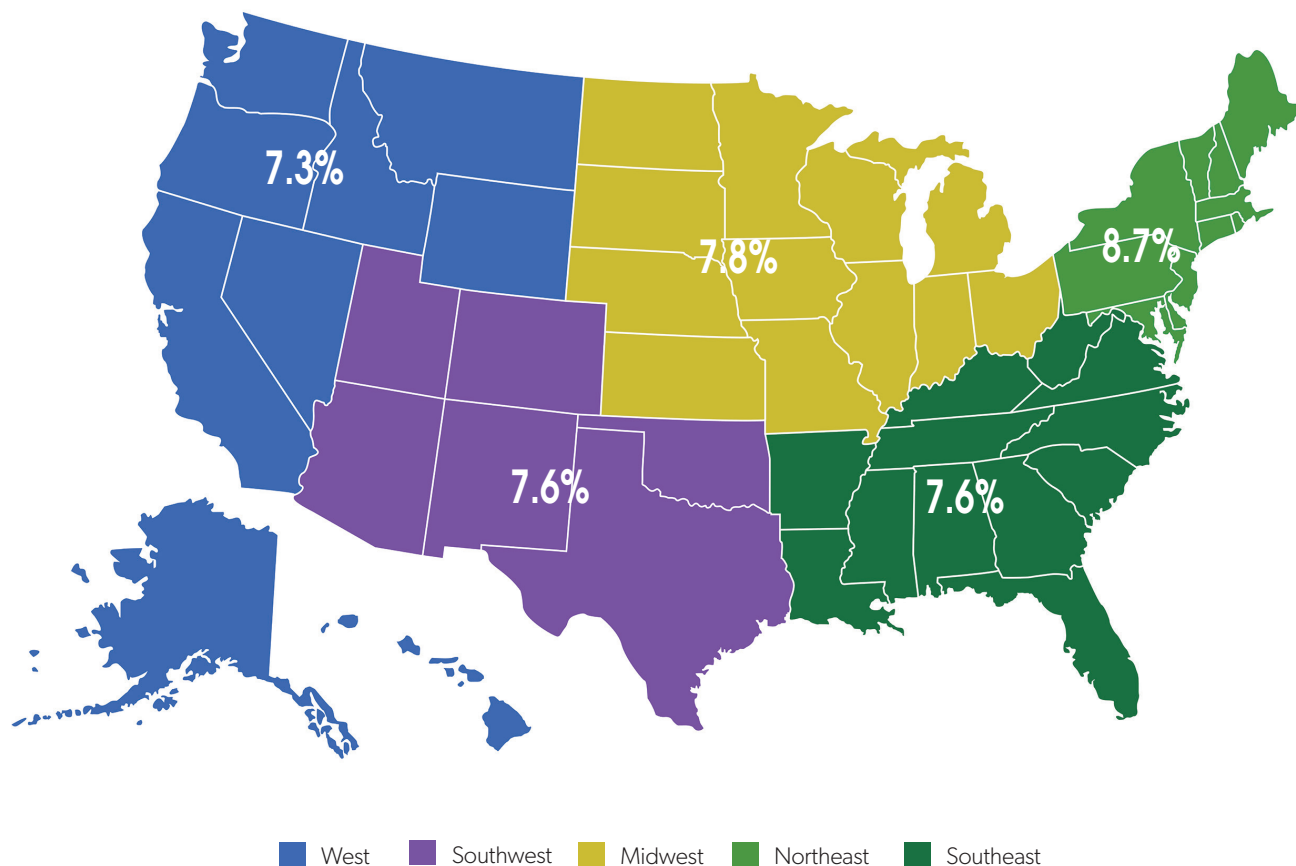
2023 MEDICAL TREND PROJECTIONS



Summary of Medical Trend Results

- Heffernan Benefits Advisory Services surveys the medical carriers in all 50 states to get their 2023 trend projections. The states above represent the areas with the highest concentration of employees for our clients. We have also aggregated the trends from all states into five geographic regions.
- Health Maintenance Plans (HMOs) have the highest enrollment rates in the Western Region. HMO trend projections in all regions, but particularly in the West, are significantly lower than the 2022 projections. In some states, the 2023 trend projection is 3% lower than it was in 2022. It is likely that actual costs for HMO plans in 2022 were not as high as expected, resulting in a lowering of trend projections for 2023.
- Preferred Provider Organization (PPO) plans are also projecting lower trends for 2023 than for 2022 with a few exceptions, such as California and Washington. However, the difference in 2023 compared to 2022 is not as significant as for HMO plans with only a 1% variance between the years. The highest percentage of members are enrolled in PPO plans, particularly in the Northeast and Southeast where enrollment is over 50%.¹
- While HMO and PPO plans are projecting lower trends for 2023, the trend projections for the second-most-popular plan design, Consumer Driven Health Plans (CDHPs), vary widely from state to state and from region to region. In California, the trend projection for CDHPs is over 1% lower than the 2022 projection, while in Washington the trend projection is almost 2% higher than the previous year. CDHP plans include both Health Savings Account plans (HSAs) and Health Reimbursement Account plans (HRAs), though HSAs are the most popular. Most employers offer CDHPs alongside either an HMO or a PPO plan. Enrollment in these plans have grown to 34% to 49%, with the highest enrollment rates in the Midwest.²
- Unlike in 2022, the national trend projections, though still high, are lower for 2023 across all products.

NATIONAL MEDICAL PROJECTIONS

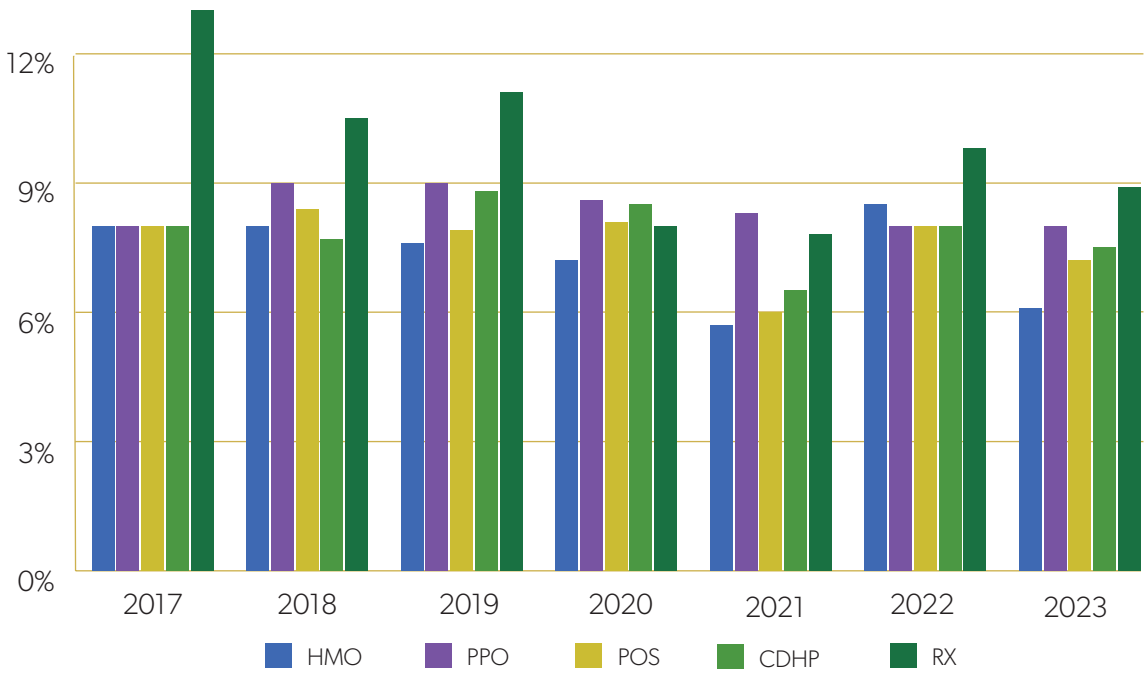


The chart above shows the blended medical and prescription drug trend across the United States for five key regions: West, Southwest, Midwest, Northeast, and the Southeast. Adjustments have been made for enrollment by region in HMO, PPO, and CDHP plans. The 2023 projected trend is within 0.5% for all regions except the Northeast, which is almost 1.5% higher than the lowest trend projection in the West.

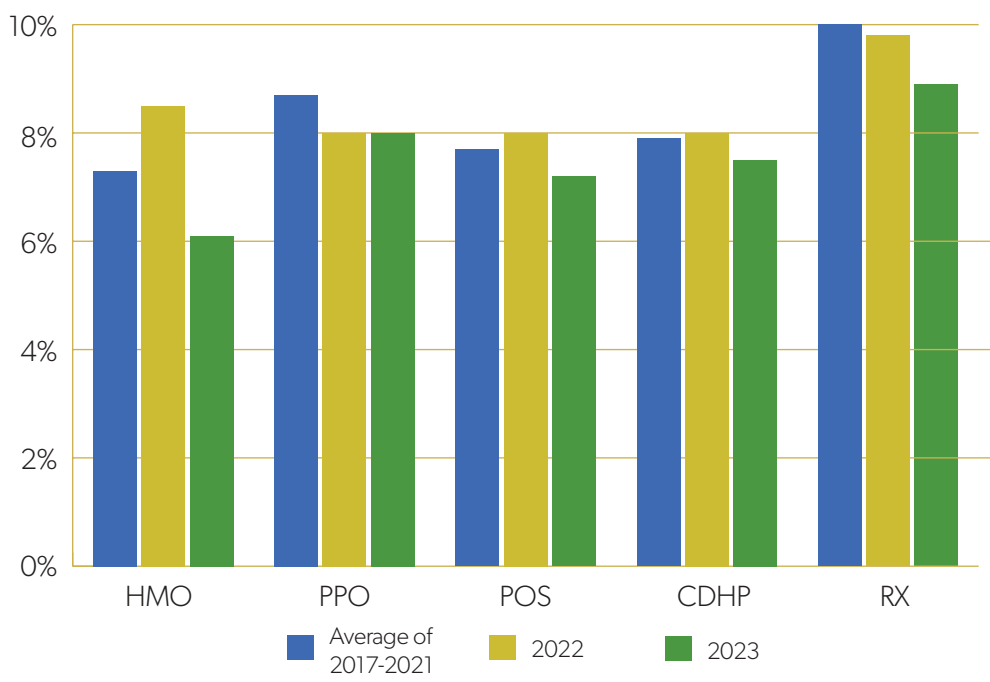
HISTORIC NATIONAL TRENDS



Historic National Medical Trends



2022 and 2023 National Medical Trend Compared to Prior Five-Year Average (2017-2021)



HISTORIC NATIONAL TRENDS



Summary of National Results

- The 2023 trend projections for all medical plans and Rx are not only lower than 2022 but also lower than the prior five years as well.
- The national trend projection for HMOs is more than 2% lower than it was for 2022 and over 1% lower than the average for the prior years. HMO plans have the most significant decrease in trend projections of any medical plan.
- PPO plans are projected to see the same trend in 2023 as in 2022. A similar trend projection from one year to the next generally indicates that the trend projections of the prior year were indicative of the actual trend experienced by the market. PPO trend projections are still lower than they were on average from 2017–2021.
- While many carriers still offer Point of Service (POS) plans, these plans have the lowest enrollment. POS plans are a hybrid of HMO and PPO plans and will often mirror the trends of those products, depending on the carrier.
- In our regional projections, the trend projections for CDHP plans varied widely, but on a national level, CDHP plans are expected to trend 0.5% less than the prior year's projections. CDHP plans are often the lowest-costing plans available to employees and their families. Enrollment in these plans have gradually increased over time.
- In four out of the last six years, the trend projections for RX have been higher than any medical product. Seven years ago, pharmacy spend represented about 15% of the total medical spend. In 2023, pharmacy spend is estimated at 22% of the total medical spend. Primarily caused by the development of specialty drugs, in years where more new prescriptions are hitting the market, the trend projections for Rx are higher than medical trend. This was particularly true in 2017 and 2018 as well as the last two years. In 2023, the trend for prescription drugs is once again the highest trend projection, but it is significantly lower than it has been in the past.



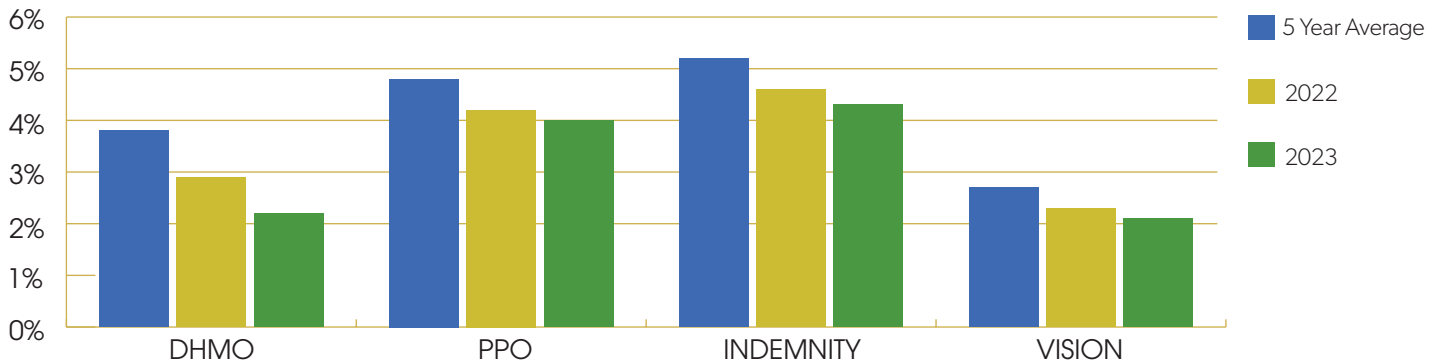
DENTAL AND VISION SURVEY RESULTS



Dental and Vision Survey Results

	2017	2018	2019	2020	2021	2022	2023
DHMO	3.6%	4.3%	3.8%	3.5%	3.7%	2.9%	2.2%
PPO	5.3%	5.2%	4.5%	4.4%	4.5%	4.2%	4.0%
Indemnity	5.4%	6.2%	5.0%	4.7%	4.6%	4.6%	4.3%
Vision	2.9%	3.0%	2.9%	2.7%	2.2%	2.3%	2.1%

2022 Dental and Vision Trends Compared to Prior Five-Year Average (2017–2020)



Summary of Dental and Vision Trend Results

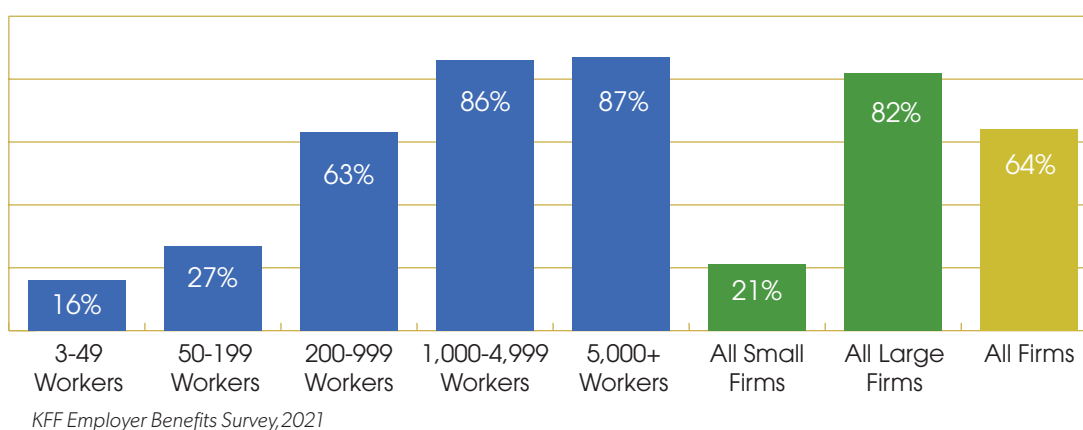
- Trend projections for Dental HMO plans, Dental PPO plans, and Indemnity plans are not only lower than the trend projections for 2022 but are also significantly lower than they were for the prior five years. Despite an expected surge in utilization during 2021 as a result of deferred care in 2020 due to the COVID-19 pandemic, trend projections for 2023 are lower than they were pre-pandemic.
- Dental coverage remains a key benefits offering with 67.9% of employers sponsoring their dental plans and 32.1% of employers offering dental on a voluntary basis. Dental PPO plans are the most commonly offered and sold benefits plans; 91% of dental plans directly contract with providers to create their own dental networks.
- Vision trend projections are also lower than they were both in 2022 and the prior five-year average. Vision plans are still widely offered by employers, but only 36% of employers sponsor their vision plan, while 64% offer vision on a voluntary basis. Among vision carriers, 44% have a proprietary vision network, while the majority of vision providers lease their vision networks.
- Neither the COVID-19 pandemic nor rising inflation are having the same effect on dental and vision trend projections as carriers are projecting for medical costs.

STOP LOSS TREND PROJECTIONS



For more than 20 years, medical trend has outpaced the rate of inflation, making it increasingly difficult for employers to control their medical benefits spend. Many employers have switched funding models from traditional fully insured plans to self-funded options. Self-funded plans are no longer only an option for large employers with over 1,000 employees. Due to the rising demand for self-funded options, there are a number of ways that smaller employers can take on some of the claims risk and partially self-fund their medical, dental, and vision plans. According to the Kaiser Family Foundation's annual Employer Health Benefits survey, 64% of all employees are covered by a self-funded plan.³ Among small firms, employers with 3 to 199 employees, 21% are covered by a self-funded plan. When you add in the number of employees covered by either a self-funded or level-funded plan, this number increases to 45%.⁴

Percentage of Covered Workers Enrolled in a Self-Funded Plan, by Firm Size, 2021



Self-funding is not a miracle cure to beat medical trend, but it does allow employers more control over their costs. When employers with self-funded plans add wellness programs, telemedicine services, centers of excellence, or other cost-saving strategies to their plans, the savings directly affect the employees' claims. Large increases are easier to absorb when the costs are directly associated with the employer group's population and not the market at large. However, employers should be aware that there are other challenges such as the rise in million dollar claims, possible lasers, and fiduciary responsibility that may outweigh the potential claim savings.

In addition to surveying the medical, dental, and vision carriers in our key markets, we also surveyed a number of stop loss carriers to get a better understanding of where stop loss trends might be headed in 2023. For specific stop loss, the average trend projection for 2023 is 8.1%; for aggregate stop loss, the trend projection is 7.5%. Both of these trend projections include medical and prescription drugs. Similar to the fully insured market, the projected trends are an estimate of the increase in medical costs. Actual stop loss renewals will be determined by a group's actual claims experience, high dollar claims exposure, any third-party administrator (TPA) or network changes, as well as no new laser and rate cap provisions in the contract. The stop loss trend projections are also first dollar trends and do not take into consideration leveraged trend.

STOP LOSS TREND PROJECTIONS



While deductible leveraging plays a key role in all trend projections, it is particularly important to understand its significance in specific stop loss projections. When employers self-fund their plans, they assume responsibility for claims below a specific limit. This limit varies by employer based primarily on group size and appetite for risk. Larger employers typically have larger deductibles and small employers have smaller deductibles. As trend increases each year, if employers don't increase their deductibles, then the stop loss carriers are assuming a higher portion of the risk. An 8.1% trend becomes an 18.9% trend.

Suppose an employer has a \$200,000 specific deductible.

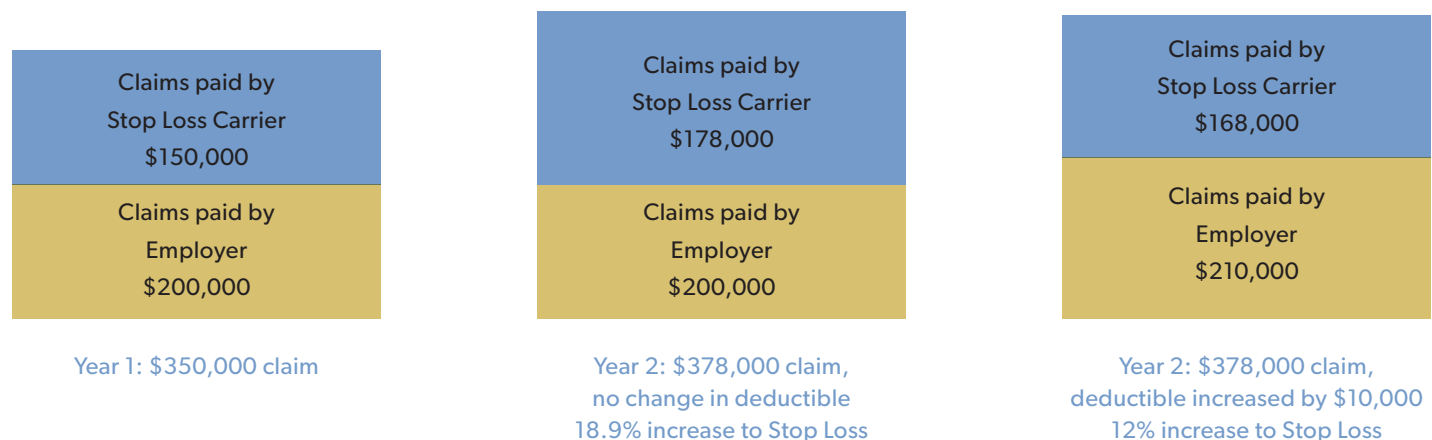
Year 1 they had a claim that cost \$350,000. The employer paid the first \$200,000 and the stop loss carrier paid the remaining \$150,000.

In Year 2 that same \$350,000 claim with an 8.1% trend would now cost \$378,000.

If the employer didn't change their specific deductible, then the employer would still pay \$200,000 for that \$350,000 claim, and the stop loss carrier would pay \$178,000.

The claims cost has only increased 8.1% from \$350,000 to \$378,000, but the stop loss carrier's cost has now increased by 18.9%.

If the employer were to increase their specific deductible in Year 2 from \$200,000 to \$210,000, then the stop loss carrier would only be paying \$168,000 in reinsurance, lowering the effective trend from 18.1% to 12%. By taking on an additional \$10,000 in risk, the employer will lower the trend being applied to their renewal increase.



Employers may not be able to fully increase their deductibles each year to keep in pace with trend increases, but raising the specific deductible at least a little bit each year may lower costs by minimizing the effect of leveraged trend. Additionally, while stop loss carriers typically don't adjust their premiums by location or size, the amount of the specific deductible will affect the premium. As an employer increases their deductibles and assumes more of the risk, the premiums will decrease.

STOP LOSS TREND PROJECTIONS



Stop loss insurance is different from fully insured plans in that the coverage only comes into play when there are large claims (specific stop loss) or an extremely high frequency of claims (aggregate stop loss). Conditions that may not be rare but are costly, such as hemophilia or transplants, play a larger part in their trend projections. According to Sun Life's 10th Annual Research Report, in which the average cost of different conditions is a good benchmark for estimating the potential impact of a high-cost claim, there can be a difference of over a million dollars between the average cost and the highest cost for most of the highest costing conditions.⁵ For example, the average treatment for malignant neoplasms is \$170,400, but the highest costing claim was \$2.09 million. Employers need to be aware that individual circumstances can greatly affect the cost of treatment for a single condition.

Another stop loss trend is the rise in million dollar claims. For Tokio Marine HCC in 2013, there were 18 claims that were one million over the specific deductible, with the total incurred amount of \$39.2 million. In 2020 this number rose to 45 claims and \$148.8 million.⁶ This is a dramatic increase in million dollar claims. To minimize the risks due to these potential million dollar claims, many employers are implementing laser provisions to reduce the chance of these claimants being carved out (lasered) from their stop loss insurance. However, the likelihood of a self-funded plan having a million dollar claim is only 10%.⁷

Percentage of Employers to Have a Stop-Loss Claim



Sun Life 2022 High-Cost Claims and Injectable Drug Trend Analysis

Regardless of the added risks and responsibilities that self-funding options may bring, they remain a viable option for employers, particularly larger employers, to control costs and offer their employees tailored employee benefits packages that best meet their employees' needs.



COVID-19

More than two years after COVID-19 disrupted our health care system, the pandemic remains one of the primary drivers of medical trend. COVID-19 has had an impact on every facet of medical care from an increase in the need for mental health services, the expensive cost of treating long covid or covid conditions with multiple morbidities, to health care industry labor shortages, and a need for increased virtual care options. The effects of COVID-19 on both health care trend and the health care industry in general will be experienced for years to come.

One of the more direct drivers of the pandemic to the medical trend is the actual treatment of COVID-19 and its comorbidities. While the latest variations of COVID-19 may not need hospitalization or even treatment, especially among the younger populations, when a patient gets long COVID or a more severe case, the treatment is very expensive. In 2021, COVID-19 had the fourth-highest average cost among the leading conditions or diseases, with an average cost of \$231,300.⁸ Less directly, COVID-19 has also impacted medical trend due to the worsened severity of different medical conditions such as cancer, diabetes, and heart conditions because of deferred care and disruptions to routine screenings and treatment. This impact is likely to continue for a number of years, especially given that outbreaks in new variants of COVID continue to disrupt care.

Another way that the COVID-19 pandemic has affected the health care industry is the increased need for mental

health services. Mental health has long been an overlooked aspect of patient care, with many plans not offering comparable services for mental health benefits as for more physical conditions. The increased stress and emotional toll on millions of Americans have highlighted the need for not only more robust mental health care options, but also the need to normalize mental health treatment and reduce the stigma around mental health. While highlighting the need for better mental health options is a positive result of the pandemic, there are millions more patients who have need for mental health services. While the increased utilization of mental health services may be driving up health care trend in the near future, the treatment of mental health among patients who may not have previously accessed care will have a long-term, positive impact on both the mental and physical health of patients.

Before the pandemic, hospitals were using contract labor to fill both clinical and non-clinical labor shortages. As COVID-19 hospitalizations reached record levels, health care workers faced a tremendous physical as well as emotional toll, resulting in burnout. The health care industry labor shortage has only been exacerbated by the pandemic, with many health care workers leaving the industry. Before 2020, 23.7% of hospitals had a nurse vacancy rate greater than 10%. In 2022, 35.8% of hospitals had a vacancy rate of more than 10%. The staffing shortages have forced hospitals to look to staffing agencies, driving up the costs for labor.⁹ Until the labor and staffing issues can be resolved, high labor costs will continue to drive up medical trend.



DRIVERS OF TREND



Rising Cost of Specialty Drugs

Over the last 10 years, the cost of prescription drugs has become a critical component of the overall medical trend. An employer's average pharmacy spend is now 22% of their total health care spend.¹⁰ In all regions throughout the United States except for the West, the trend projection for prescription drugs is more than 1% higher than the medical trend. The driving cost for RX trend is specialty drugs, which while taken by a much smaller percentage of the population, now represents 50% of an employer group's total pharmacy spend.¹¹ Specialty drugs require specific handling and administration methods that are often costlier to develop and are often biologic and injectable. They are typically used to treat more complex health conditions such as cancer, and chronic diseases such as rheumatoid arthritis and multiple sclerosis.

Since 2020, specialty drugs have made up 80% of new FDA approvals, many of these are for rare diseases and cancer.¹² Though few patients require specialty drugs, they offer immense value to treating more complicated diseases. They also give patients more control in managing their health.¹³ However, their high costs do require employers to implement strategies to manage the costs.

The first method for controlling rising specialty drug costs is to encourage the use of biosimilars. A biosimilar is a biologic drug, approved by the FDA, that is similar to another biologic medication. Biosimilars are as clinically effective as the brand name drug but are significantly cheaper. One of the higher-costing specialty drugs is Remicade, which costs about \$31,000 to \$46,000 in

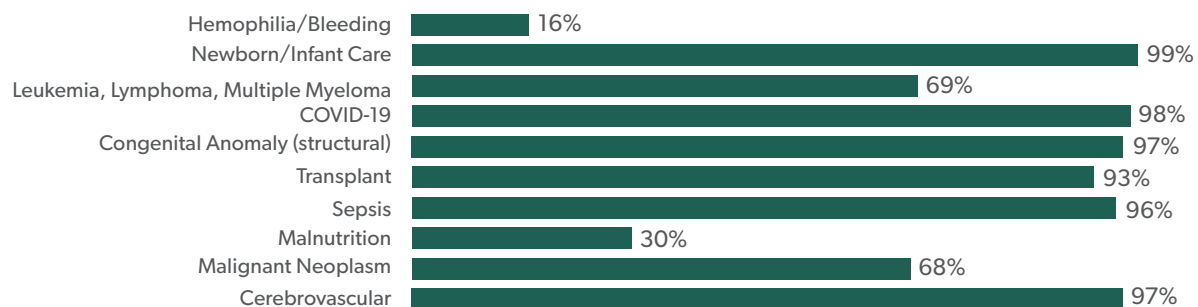
the first year. A known biosimilar to Remicade is Inflectra; though still expensive, it averages \$16,000 to \$24,000. Encouraging patients to take biosimilars can offer significant savings.

It is also important for employers to have targeted formularies and utilization management programs in place. While specialty drugs are a key driver of pharmacy trend, other brand name drugs may also be prescribed when there may be more cost-effective, generic equivalent options available. Utilization management programs review both specialty and non-specialty drugs and review data on new and emerging drugs to protect patients against potentially harmful, ineffective or unnecessary drug treatments.¹⁴ Many patients may not be aware that an alternative, lower-cost drug may be available.

The recent increased development of specialty drugs is changing the medical landscape. In past years, treatment options were separated into clearly defined categories of medical treatment versus pharmacy treatment. Because specialty drugs are often administered in a hospital setting, they can be charged as a medical claim even though it is pharmaceutical. As a result, true drug costs may be understated. Integration between medical and drug treatments is crucial for the highest-costing medical conditions. Of the top 10 medical conditions from Sun Life's 2021 book of business, two conditions were primarily treated pharmaceutically and two conditions had more than 30% of the total spend due to prescription drugs.

Top 10 Medical Conditions Medical vs. Rx Spend

Sun Life 2022 High-Cost Claims and Injectable Drug Trend Analysis



Specialty drugs offer not only life-saving options, but also life improvement options that were not previously available to patients. Diseases that previously were only treatable surgically when they hit their most critical points, can now be cured with specialty drugs. Specialty drugs may actually lower overall medical spend in the long-run, but it is still important to effectively manage pharmacy costs so that not only the lowest-costing option but also the most effective treatment is being made available to patients.

CONTROLLING HEALTH CARE COSTS



Health Care Literacy

As year after year the rise in health care cost outpaces the rate of inflation, it becomes increasingly critical for consumers to become more health literate. Health literacy is the ability to use health care information to make appropriate health decisions. While seemingly basic questions such as “How much will this service cost?” and “Is there a more cost-effective treatment that is as effective?” are the key to guiding employees into making better health care decisions, the answers to these questions have not always been either readily available or simple. Recent laws such as the No Surprises Act and the transparency provisions of the Consolidated Appropriations Act, 2021, both aim to eliminate surprise bills after treatments as well as require hospitals to list the prices of the services they provide. These laws, however, are only in their infancies, and while they provide a good start in arming consumers with the knowledge to answer the basic health care cost questions, there are still many components of these laws that are not yet in force.

Ten years ago, the health care industry saw a rise in consumer driven health plans (CDHPs). These plans have higher deductibles, encouraging employees to become better consumers by switching the first dollar costs onto the patients. The challenge with these plans is that the information to make effective price comparisons and develop a reasonable expectation of what a service will actually cost has not always been available. Later phases of the recent transparency legislation aim to help patients better make these decisions. The more that employees understand how to make better health decisions such as when to use urgent care versus the emergency room, asking for generic drugs in place of more-expensive brand name drugs, and how copayments and deductibles work, will lower costs for both employees and their employers.

In an effort to control costs at the same time as meeting the needs of a broadening workforce, employers often offer a wide variety of different medical plans. The plan selections are more nuanced than just an HMO and PPO with some

employers offering both full and narrow network options, high deductible plans tied to health reimbursement arrangements, or health savings accounts. Employees must now have a deeper understanding of how these different health plans work to make informed decisions about their care. In Healthy People 2030, the U.S. Department of Health and Human Services (HHS) defined health literacy as “The degree to which individuals have



the ability to find, understand and use information and services to inform health-related decisions and actions for themselves and others.” This updated definition of health literacy shifts the emphasis from merely understanding health information to the ability to use the information. It also focuses on the ability to make well-informed decisions rather than merely appropriate ones. While these differences are nuanced, it demonstrates how critical it is for all individuals to be better health care consumers. Employers that work to better educate their employees about not just the benefits they offer but also about health care, more generally will produce wiser health care consumers that will seek out preventive care, mitigate chronic conditions, and avoid unnecessary treatments. Employers that invest in educating their workforce and their families to become more health care literate will result in not only reduced health expenses, but also healthier employees.

CONTROLLING HEALTH CARE COSTS



Virtual Care

Since the mid-2000s, employers have been offering telemedicine as part of their employee benefits packages; carriers have also incorporated telemedicine into their medical offerings. While employees seemed to appreciate that telemedicine was available, utilization rates were below 10% until the pandemic.¹⁵ Traditional telemedicine, which replaces an in-person doctor's visit with a virtual option, whether live or delayed, allowed patients to access care for routine or minor emergencies during the height of the pandemic while remaining safely at home. Very quickly both patients and physicians began to see the benefit of telemedicine beyond the basic services. Before the pandemic, most telemedicine visits were with a network of virtual doctors that were different from the regular physicians that a patient might visit. When medical offices were forced to close down, physicians saw the benefits of expanding their options to include virtual care. Today, patients can often choose between scheduling a virtual visit with their own physician or scheduling a visit with an array of virtual doctors. While the original spike of utilization in telemedicine has leveled since its peak in 2020, utilization rates are still significantly higher than before the pandemic.

Over the last decade, medical plans have been structured to encourage patients in urgent situations to seek care at an urgent care facility rather than an emergency room. Urgent care is approximately 10 times cheaper than a similar visit in an Emergency Room. However, there are additional savings to be had with a telehealth visit. A virtual visit is much cheaper than seeking treatment at an urgent care facility. With the ease of access and convenience of a virtual visit, more consumers are now willing to use virtual care as an option for non-emergencies. With the flexibility and ease of virtual care, patients who live in more rural areas are also more likely to see their doctors more frequently, resulting in better overall health.

With traditional telemedicine expanding in popularity, other virtual care options are also growing, particularly in disease management. Technological advancements allow patients to use their own smartphones, tablets, or other wearable devices to track health risks and digitally report back to their physicians. Previous restrictions such as lack of access to specialists, time constraints, and health illiteracy are removed with these new technologies that can link patients to the best care, provide real-time consistent data, and give patients the ability to manage and understand their treatment. As technology grows so will the uses for virtual care. These technologies will better health outcomes and lower costs for patients and employers.

What Is Virtual Health Care?

Virtual health care is a term that encompasses all the different ways that health care providers can remotely interact with patients. Telehealth or telemedicine typically refers to virtual visits with a provider specifically to treat a health care issue.

Virtual care is much broader than a digital provider visit, and can include all of the ways that a provider can virtually interact with a patient including scheduling benefits, automatic emails or texts, virtual check-ins, pre- and post-surgery/treatment care, educational campaigns for groups with certain chronic conditions, identifying disconnected patients, and digital pricing tools.



Creating a Positive Company Culture

Before the pandemic, the benefits packages that employers offered their employees focused on both physical and financial wellness. The last two years have created a shift in the mindset of both workers and their employers. Employees are looking for more-flexible working hours and a more rounded work-life balance. They expect their employers to expand their benefits to not only include physical and financial well-being programs, but also emotional, professional, and social well-being programs.

The COVID-19 pandemic has changed almost every facet of the workplace. It has taken a toll on the physical and emotional health of the workforce, changed the shape of the office with many employees working remotely or hybrid schedules (2 to 3 days in the office and other days from home), and created a labor shortage. Employers are challenged with creating a positive company culture in this new environment where employees are looking for even more from their employers despite rising health care costs and reduced revenues. The workforce has also become more diverse with different needs and expectations from their employers. Employers can no longer operate with a one-size-fits-all mentality; employers need to understand what matters to employees.

Historically, a well-rounded employee benefits package included robust health insurance and an opportunity for retirement savings. Since the pandemic, employees are looking for more. The challenge for employers is to address all aspects of health: physical, financial, mental, and social health while also controlling costs.

Mental Health Benefits

Since the late 1990s, there has been a movement for mental health conditions to be treated similarly to physical conditions. In 1996, the Mental Health Parity Act provided that large group health plans could not impose annual or lifetime dollar limits on mental health benefits that were less favorable than any such limits imposed on medical or surgical benefits. Through the years this law has been expanded to include substance abuse disorder benefits as well. Despite the legislation intending to create parity of benefits, mental health conditions were still not given the resources to effectively help many patients until the pandemic shed light on the inadequacies of mental health benefits. The COVID-19 pandemic has had an adverse effect on the mental, emotional, and behavioral health of most workers. In early 2020, depression rates among adults were 8.5%, they grew to 27.8% by the end of 2020 and rose to 32.8% in 2021, affecting one in every three American adults.¹⁶

Adults Suffering from Depression

8.5%

Early 2020

27.80%

Late 2020

32.80%

2021

*Boston University
School of Public Health, 2021*

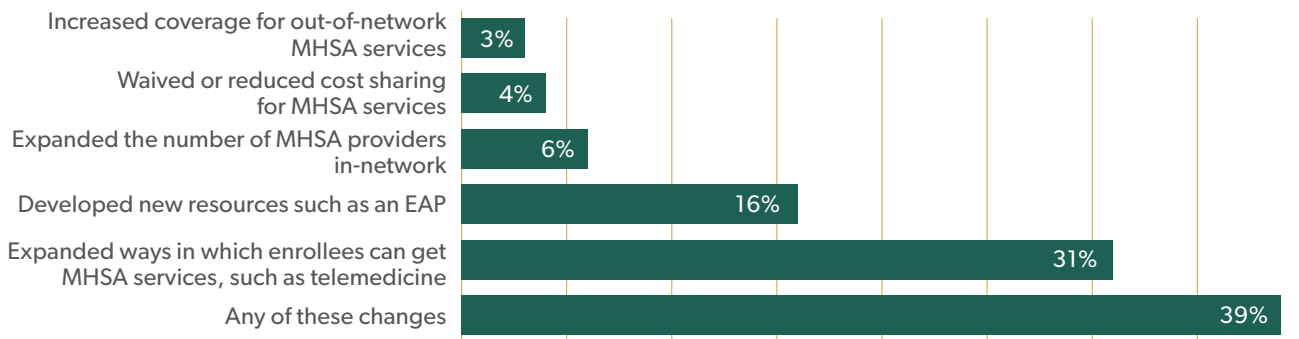


Mental Health Benefits (continued)

Many benefits plans lacked the resources to address the added stress that their workforce was under due to the pandemic. In 2021, some employers responded by increasing their employee assistance programs, increasing their coverage for out-of-network mental health or substance abuse services, increasing the number of mental health providers in their plan's networks, and expanding access to mental health services through telemedicine.¹⁷

Changes Made to Meet the Mental Health of Employees, 2021

KFF Employer Benefits Survey, 2021



In addition to ensuring that employees and their families have access to mental health resources, more needs to be done to reduce the stigma for patients seeking behavioral health treatment, and for managers to be more aware of issues that their employees are facing and guide them to the resources available. Before the pandemic, the goal in offering a well-rounded, robust employee benefits package was to increase productivity and lower costs through reduced absenteeism and better health outcomes. The outlook of employees has been significantly altered by the COVID-19 pandemic; employees are looking for more fulfillment from their work and greater value from their employer benefits. In the tight labor market, employers that adjust to the new expectations of their workforce and adopt a more holistic view of employee needs will have better success in attracting and retaining their employees.¹⁸

Physical Health

Physical health has been the cornerstone of an employee's health package and is likely to remain a key aspect of any health and welfare package. The focus within physical health has shifted from treatments of illness and injury to prevention, disease management, and physical fitness. While wellness initiatives are expanding to include social, mental, and financial well-being, programs targeting healthy lifestyles such as fitness classes, healthy eating options, and gym memberships are still highly valued.

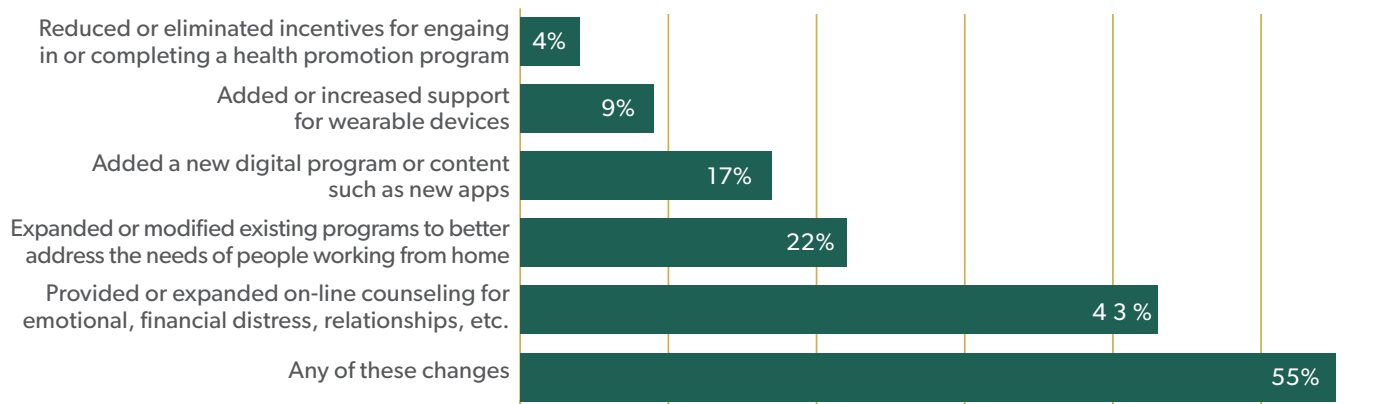
Because many employees were required to stay at home during the early stages of the COVID-19 pandemic, health promotion activities such as going to the gym, getting health screenings, and remaining physically active were a challenge for many employees. Employers had to make adjustments to the wellness programs that they offered to account for the changes in their employees' lifestyles. According to the KFF Employer Health Benefits Survey, only 4% of employers that had offered wellness programs before the pandemic reduced or eliminated incentives for engaging or completing a health promotion program.



Physical Health (continued)

Percentage of Firms Which Changed Wellness Programs Due to the COVID-19 Pandemic, 2021

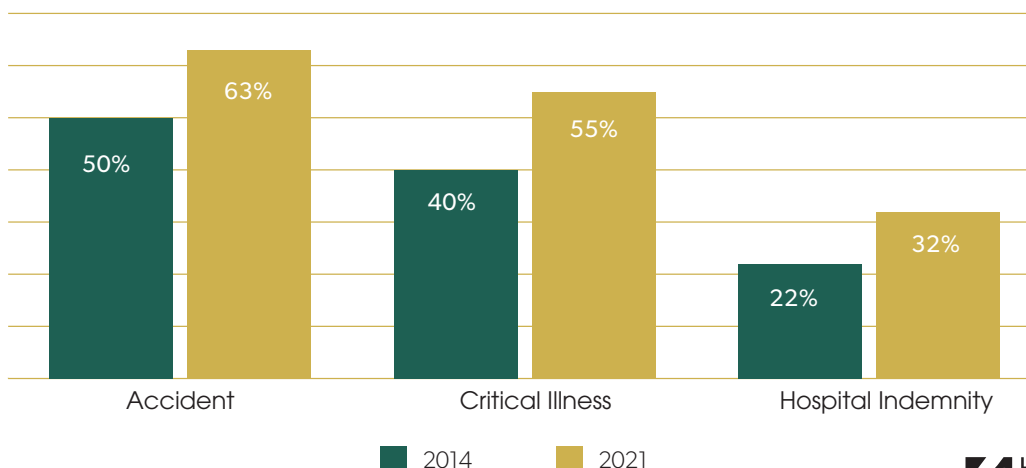
KFF Employer Benefits Survey, 2021



Decades of rising health care costs have forced employers to increase copays, deductibles, and out-of-pocket maximums of the plans that they offer. Decreased first dollar benefits compounded with higher employee contributions have made it harder for some employees to get the critical care they need or to manage chronic conditions. Voluntary benefits have increasingly become a solution to help pay for out-of-pocket expenses that the major medical plans do not cover. Voluntary plans such as hospital indemnity plans, accident insurance, and critical illness plans not only protect employees from major expenses, but also encourage patients to access care and treatment as early as possible.

Percentage of Employers Offering Voluntary Benefits

Mercer National Survey of Employer-Sponsored Health Plans, 2014 and 2021





Social and Financial Health

MetLife's 20th Annual U.S. Employee Benefits Trends Study defines social health as the ability to form satisfying interpersonal relationships with others. Since early 2020, supporting an employee's social health has become a higher priority. As the workforce becomes more diverse—with new generations of workers, near parity of men and women, and increased racial and ethnic diversity as well as more physically separated—it is critical for employers to offer initiatives that focus on social connections and building a sense of community. Initiatives that support social well-being range from simple activities such as virtual cooking classes and hikes to supporting efforts for employees to volunteer within the community and participate in peer support groups. Supplemental benefits, such as pet insurance, fertility riders, and elder care benefits can reinforce cultural inclusiveness by supporting the various needs of employees.

With a renewed focus on employees' total well-being, as well as recognizing the growing diversity of the workplace, are critical to maintain employees' social wellness. The top three DEI Initiatives that employees expect are:

- Create more representative leadership – 26%
- Offer a wider range of benefits that address diversity, equity and inclusion – 23%
- Provide conflict resolution training to managers – 23%¹⁹

Recognizing the growing diversity of the workplace and expanding initiatives to encompass the wide array of employees' needs is critical to fostering social well-being.

Supporting employees' financial health has long been a practice of many employers by offering competitive wages, robust benefits, retirement accounts and planning, and even stock ownership programs. The COVID-19 pandemic has put increased financial stress on employees, which in turn impacts all the other aspects of employees' well-being—mental, physical, and social. Financial well-being is a focus for 62% of employers. For larger employers (with 20,000 or more employees) this focus increases to 76%.²⁰ Looking to 2023, employers will need to maintain the core financial programs they have in the past but also recognize the expanding needs of employees through financial planning services, legal support, debt-reduction programs, and career development programs.

All aspects of well-being whether physical, emotional, social, or financial are intertwined. Taking a holistic approach will not only increase employee dedication and satisfaction, but will produce a richer work experience where employees find more purpose and engagement in their work.



CONCLUSION



For decades, employers have been faced with health care costs far outpacing the normal rate of inflation. The COVID-19 pandemic and the rapid development of specialty drugs are two key drivers that are inflating trends and, as a result, premiums in 2023. But the pandemic has also severely affected employees and their families. To save costs, employers can no longer share the burden of high increases with their employees. In fact, employers are expected to expand their benefits packages to better meet all of the needs of the diversifying workplace. It is a steep hill that employers must climb; employers must think creatively how they can accommodate the needs of their employees while controlling costs. Employers who are aware of the challenges ahead and take small steps toward treating the whole employee will be better prepared for 2023.

SOURCES

1. Mercer National Survey of Employer-Sponsored Health Plans 2021
2. Mercer National Survey of Employer-Sponsored Health Plans 2021
3. KFF Employer Health Benefits Survey, 2021
4. KFF Employer Health Benefits Survey, 2021
5. Sun Life 10th Annual Research Report 2022 Edition, High-cost claims and injectable drug trend analysis
6. Tokio Marine HCC 2021 Annual Market Report
7. Sun Life 10th Annual Research Report 2022 Edition, High-cost claims and injectable drug trend analysis
8. Sun Life 10th Annual Research Report 2022 Edition, High-cost claims and injectable drug trend analysis
9. AHA Senate Statement: Recruiting, Revitalizing & Diversifying: Examining the Health Care Workforce Shortage; <https://www.aha.org/testimony/2022-02-10-aha-senate-statement-recruiting-revitalizing-diversifying-examining-health>
10. Cigna: Integrated Specialty Drug Cost Management, 2022 Cigna
11. Cigna: Integrated Specialty Drug Cost Management, 2022 Cigna
12. In the Pipeline: Specialty Drugs to Watch; Navitus December 2021, <https://blog.navitus.com/specialty-pipeline-2022-0>
13. Cigna: Integrated Specialty Drug Cost Management, 2022 Cigna
14. Cigna: Integrated Specialty Drug Cost Management, 2022 Cigna
15. Mercer National Survey of Employer-Sponsored Health Plans 2021
16. Boston University School of Public Health, <https://www.bu.edu/articles/2021/depression-rates-tripled-when-pandemic-first-hit/#:~:text=New%20research%20from%20Boston%20University,every%203%20American%20adults>
17. KFF Employer Health Benefits Survey, 2021
18. MetLife's 20th Annual U.S. Employee Benefits Trends Study 2022
19. MetLife's 20th Annual U.S. Employee Benefits Trends Study 2022
20. Mercer National Survey of Employer-Sponsored Health Plans 2021



Because You're Different

Heffernan Insurance Brokers
1350 Carlback Avenue • Walnut Creek, CA 94596
800.234.6787 • heffins.com
License #0564249