

A person in a dark jacket stands in a snowy field, looking up at the aurora borealis in a starry night sky. The aurora displays vibrant green and purple hues. The scene is framed by decorative geometric shapes in shades of purple and pink.

Exploring the Impact of Economic & Social Inflation on Healthcare Trend

2023 NLC-RISC Staff Conference

October 25, 2023

Agenda

1. Economic inflation
2. Social inflation
3. Healthcare inflation – review results from
 - WTW's 2023 Financial Benchmarks Survey
 - WTW's 2023 Best Practices in Healthcare Survey

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Economic and market outlook

A familiar cast of characters: inflation, monetary policy and labor market dynamics

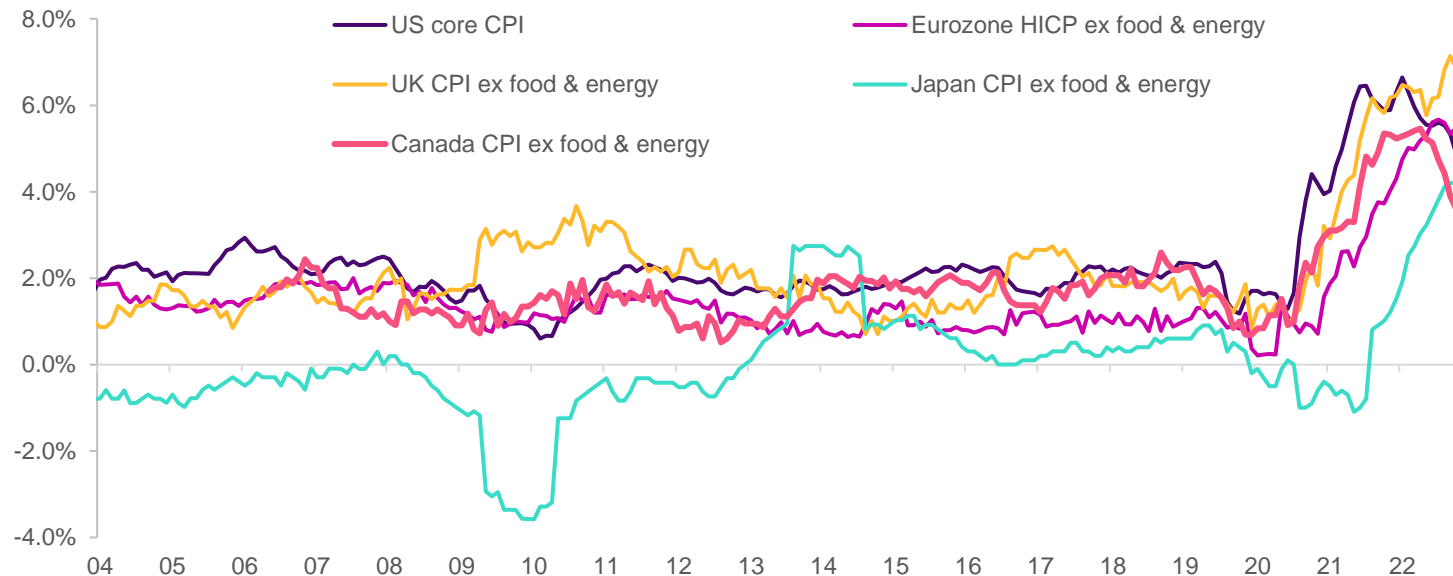
Inflation

- Inflation continues to be a key source of imbalance in US and globally
- It has fallen from its 2022 peak, but there are sticky elements, especially wages
- Significant drop in YoY energy prices is driving divergence between headline and core numbers

Monetary Policy

Labor Market

Core inflation measures, YoY



Annual % change, August 2023	US
Headline CPI	3.7
Core CPI	4.3
Energy	-3.6
Food	4.3
Transport	2.8
Housing/shelter	7.3
Goods	-2.0
Services	5.9
Wages	5.3

Sources: FactSet, Eikon, WTW

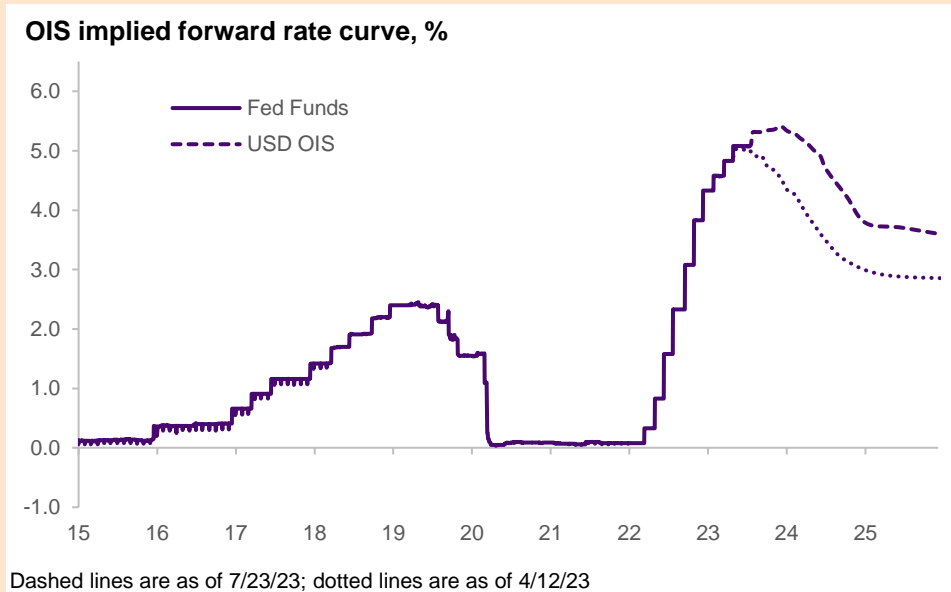
Economic and market outlook

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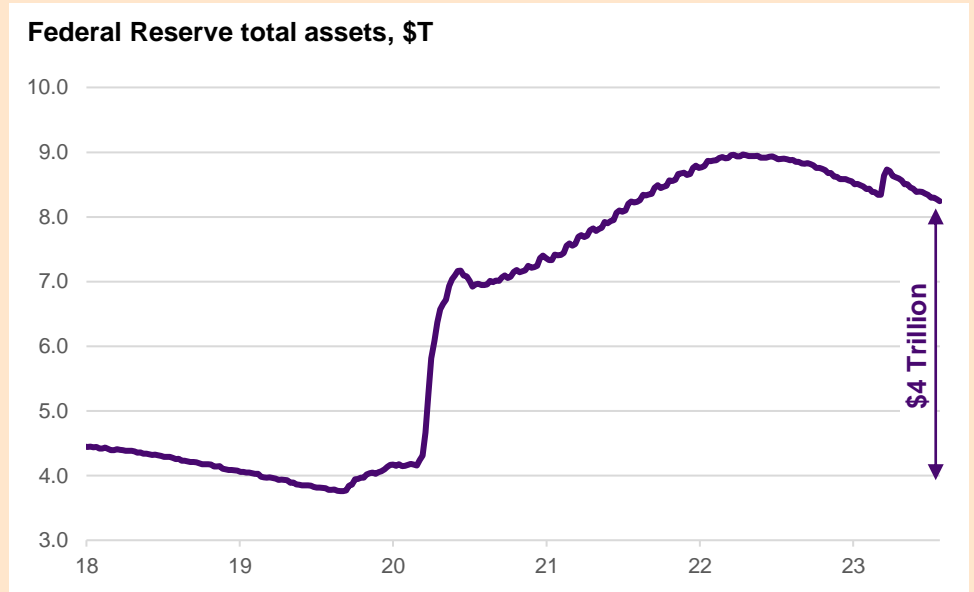
Inflation

- In recent months, market expectations for interest rates is that they will go higher for a longer period
- After disruption in wake of regional banking turmoil, quantitative tightening has resumed; Fed balance sheet still \$4T larger than in Feb 2020
- Demand seems to be supported by excess savings despite rate hikes

Monetary Policy



Labor Market



Sources: FactSet, Oxford Economics, WTW

Economic and market outlook

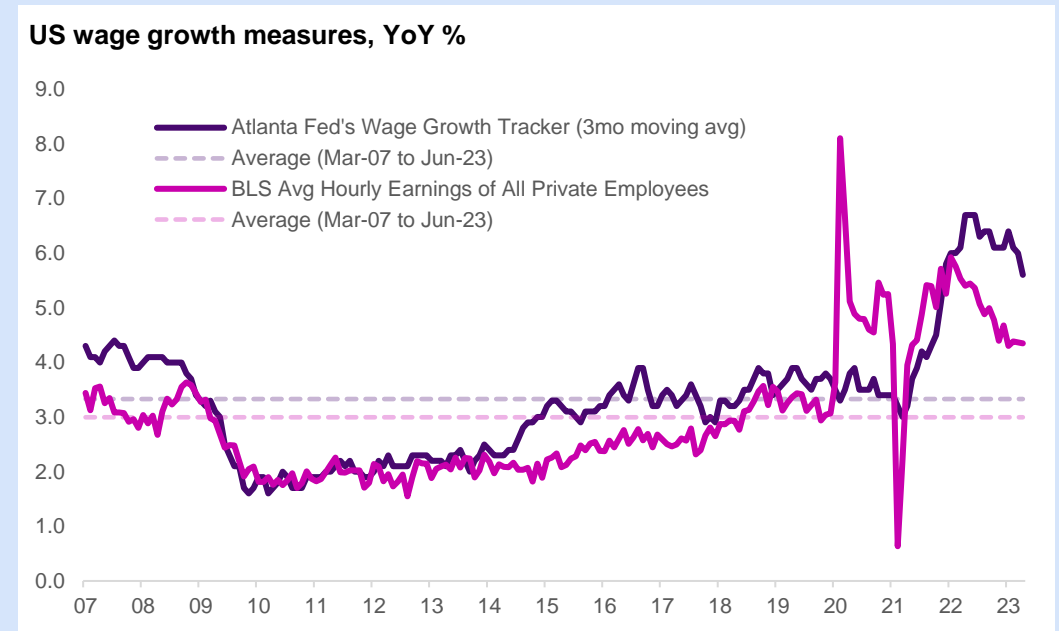
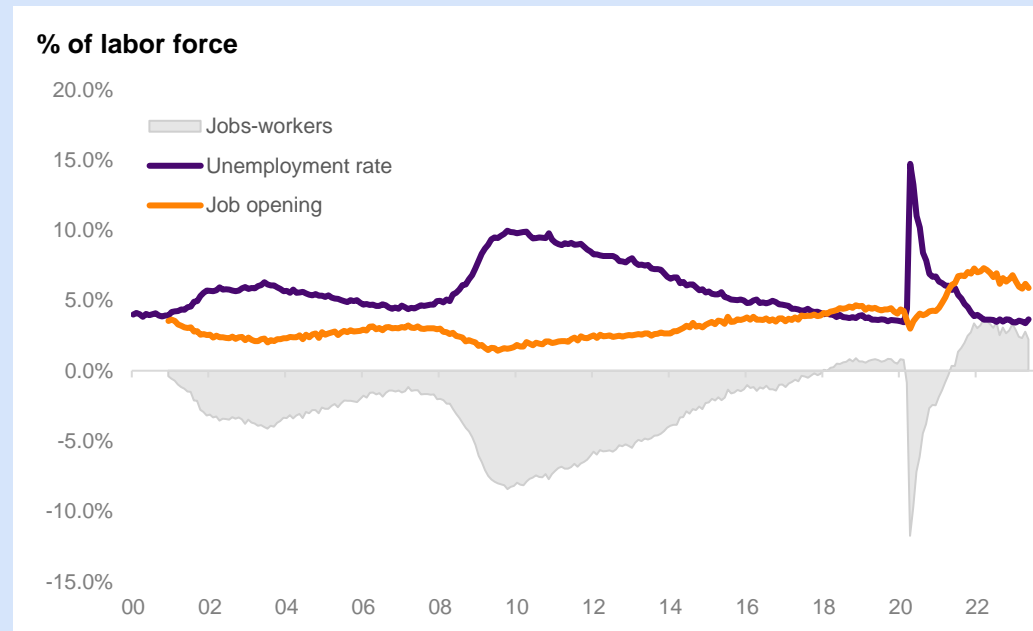
A familiar cast of characters: inflation, monetary policy and labor market dynamics

Inflation

- Labor market remains tight – the rebalancing is slow and gradual but susceptible to sudden changes
- Globally, unemployment rates are low relative to history
- Tying back to inflation, wage growth has ticked down recently but remains elevated

Monetary Policy

Labor Market



Sources: US Bureau of Labor Statistics, Atlanta Fed, WTW

Economic and market outlook

Our view is that the pathway back to balance is more likely to be volatile than smooth

The Tell

Bond traders see 'green light' to push up yields after Powell remarks: Fed watcher

Last Updated: Oct. 20, 2023 at 7:20 a.m. ET

CENTRAL BANKS

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Oct. 20, 2023 5:30 am ET | WSJ PRO

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Recent economic figures show 'ongoing progress' toward goals, U.S. central bank chair says

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Updated Oct. 19, 2023 10:46 am ET | WSJ PRO

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A Recession Is No Longer the Consensus

In WSJ survey, economists lower recession probability below 50% and say Fed is finished raising interest rates

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Updated Oct. 15, 2023 12:04 am ET

Social inflation



The Society of Actuaries has broadly defined **Social Inflation** as the amount that claim costs are rising above the rate of ‘normal’ inflation. It is typically associated with liability claims, e.g., property & casualty, professional liability, medical malpractice, but the drivers of social inflation could easily extend to general healthcare coverage.

Factors Contributing to Social Inflation

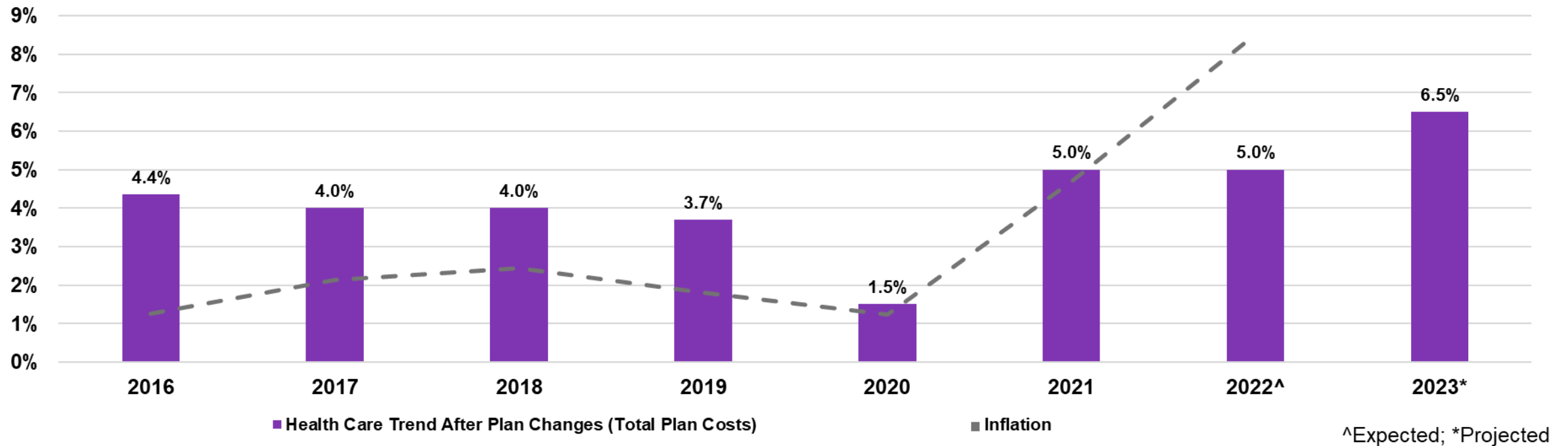
Social pessimism	<ul style="list-style-type: none">• General lack of trust/desire for change
Changing jury demographics	<ul style="list-style-type: none">• Evolving views on corporate conduct, victimization, and vulnerability
Income inequality	<ul style="list-style-type: none">• Higher jury awards reported in areas with greater income inequality
Changes in the value of money	<ul style="list-style-type: none">• Jurors are increasingly numb to high-dollar awards
Legal and political factors	<ul style="list-style-type: none">• Reversal/rollback of tort reform in some jurisdictions
Influence of social media	<ul style="list-style-type: none">• Social media has the ability to shape perceptions and attitudes• Issues move forward when they otherwise wouldn't have

Sources:

<https://www.soa.org/news-and-publications/newsletters/general-insurance/2021/june/gii-2021-06/developments-in-social-inflation/>

<https://carrierchronicles.com/7-factors-contributing-to-social-inflation-trends/>

Sharp increases in inflation and market forces driving projected rise in healthcare costs



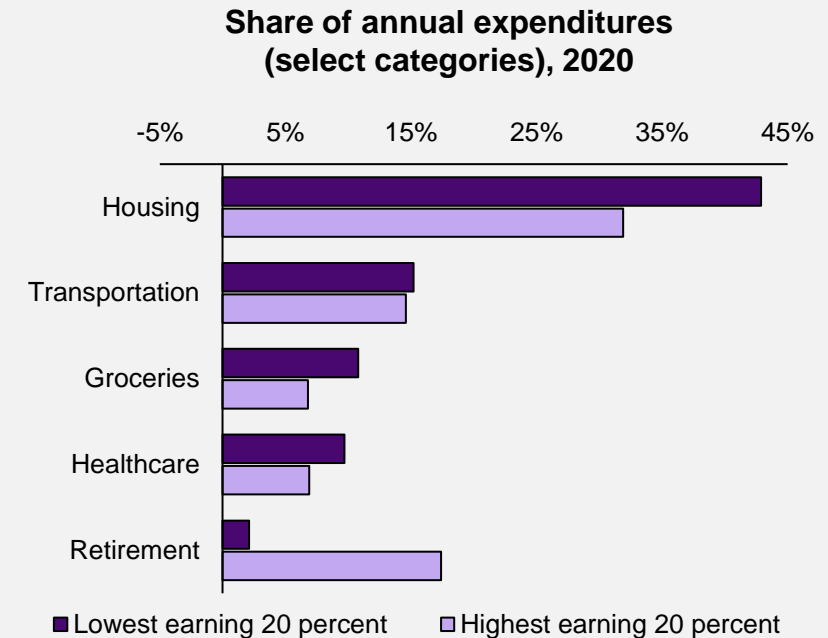
Note: Percentages of healthcare trend are **median** numbers
 Sample: Companies with at least 1,000 employees.
 Sources: WTW 2022 Best Practices in Healthcare Survey; Bureau of Labor Statistics, CPI-U, CES.

Healthcare costs are rising...

Drivers:

	Unit Cost	Utilization
1 Higher overall inflation and increased labor costs	●	
2 Provider consolidation	●	
3 Escalating drug costs	●	
4 Worsening mental health		●
5 Missed preventive and non-emergency care	●	●
6 Aftermath of the pandemic	●	●

...and will further exacerbate the financial stress that low-wage earners are experiencing

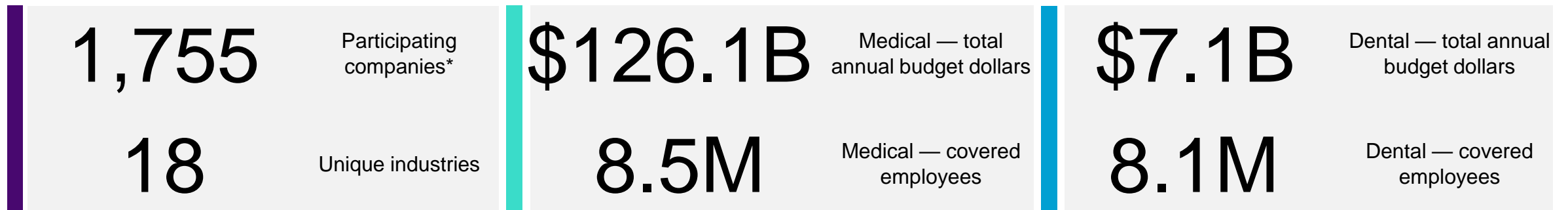


Source: Levin-Scherz, J., [8 reasons why health care cost inflation is likely to escalate](#), *The Hill*, April 2, 2022. Bureau of Labor Statistics.

Financial Benchmarking Survey – overview

Custom healthcare benchmarking with actionable insights

The WTW Healthcare Financial Benchmarking Survey (FBS) collects cost, plan design, and enrollment information in a robust database that is used to deliverable valuable financial and plan efficiency benchmarking insights.



* Database Participation as of April 13, 2023

The FBS is a critical resource for holistically evaluating healthcare program performance across the following components:

1. Cost efficiency

Healthcare programs are evaluated on how efficiently they are performing by adjusting cost data for plan design, demographics, family size and geographic cost differences so they can be easily compared.

2. Employee cost sharing

Employee costs are benchmarked both from a dollar and percentage of premium standpoint. This includes not only employee contributions, but their out-of-pocket (OOP) expenses as well.

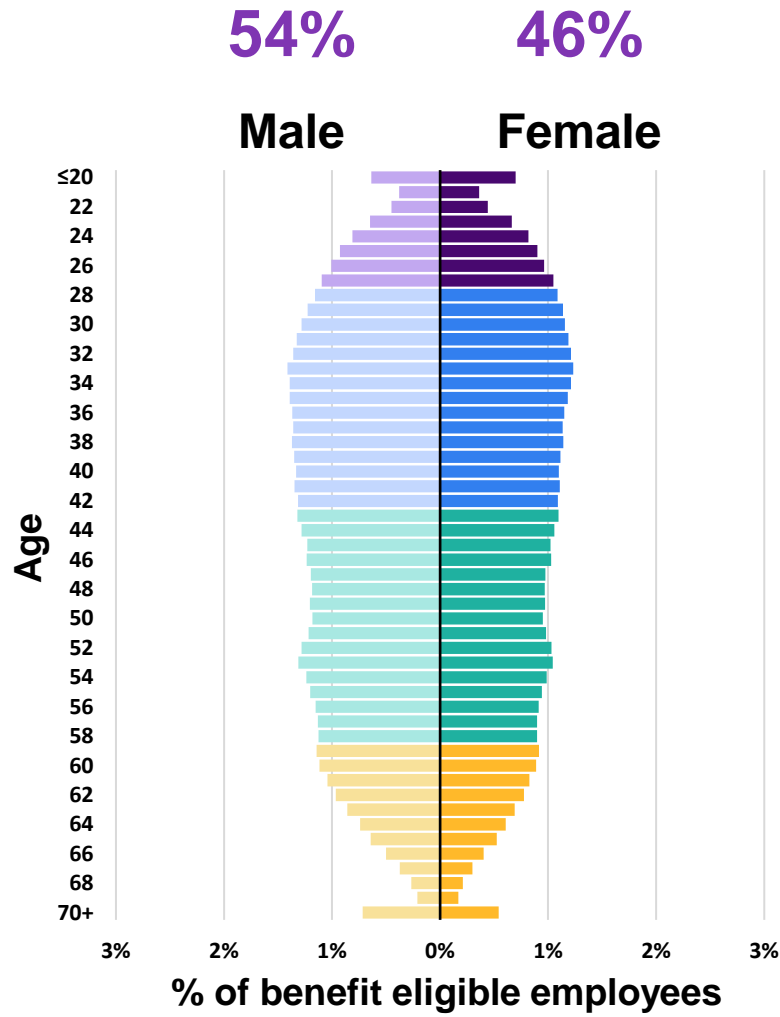
3. Account funding/incentives

The prevalence and funding of HSA and HRA accounts are compared, as well as the plans' wellness incentives and delivery methods.

4. Plan design

Medical, pharmacy and dental plan benefits are examined on a side-by-side basis, against both industry and database norms.

Demographics



0.2% of the population identified as neither "male" nor "female".

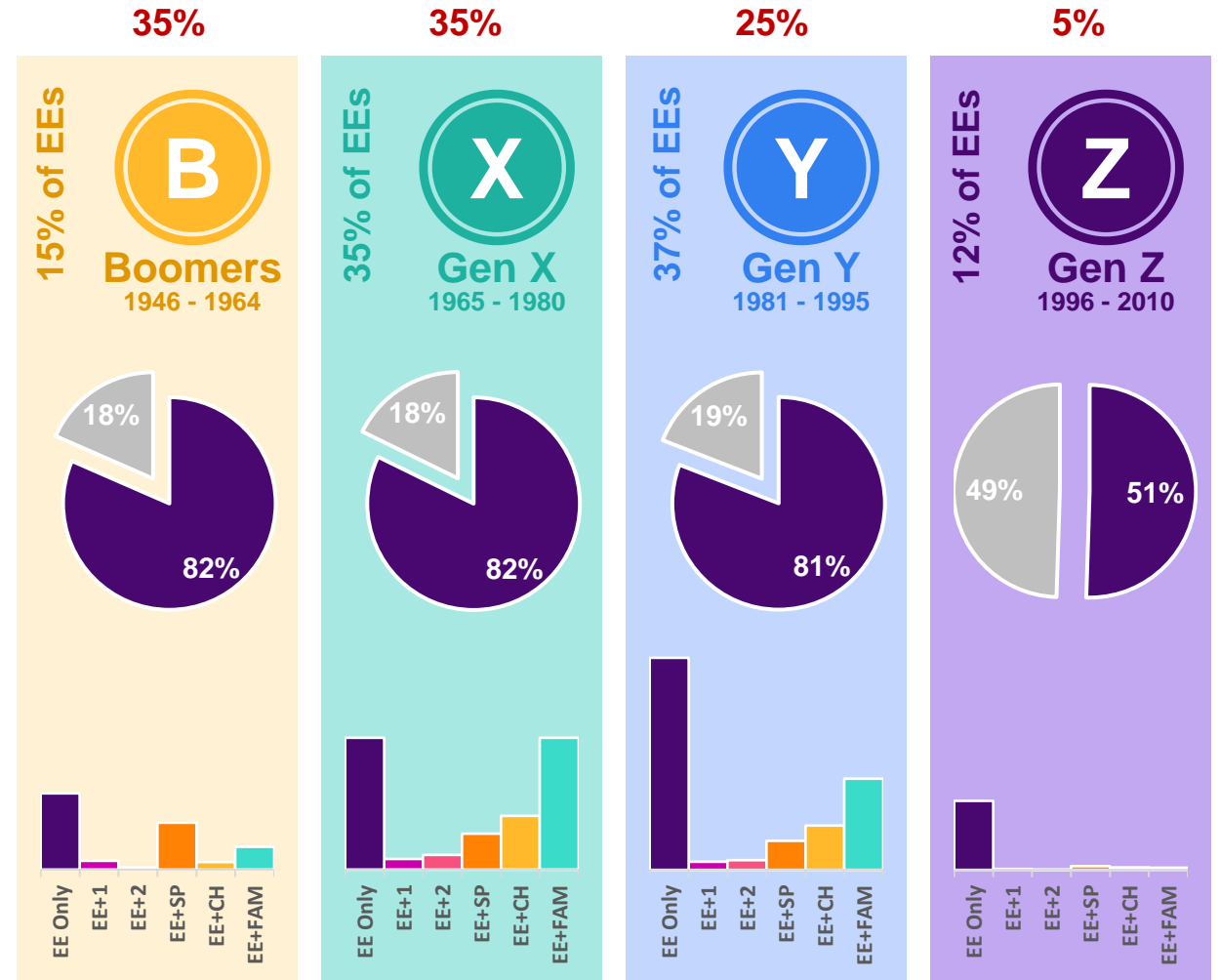
Database
Public Sector

43.5 **50.8**
Average age

22% **13%**
Waiver rate

52% **43%**
% Covering dependents

Breakout by generational cohort



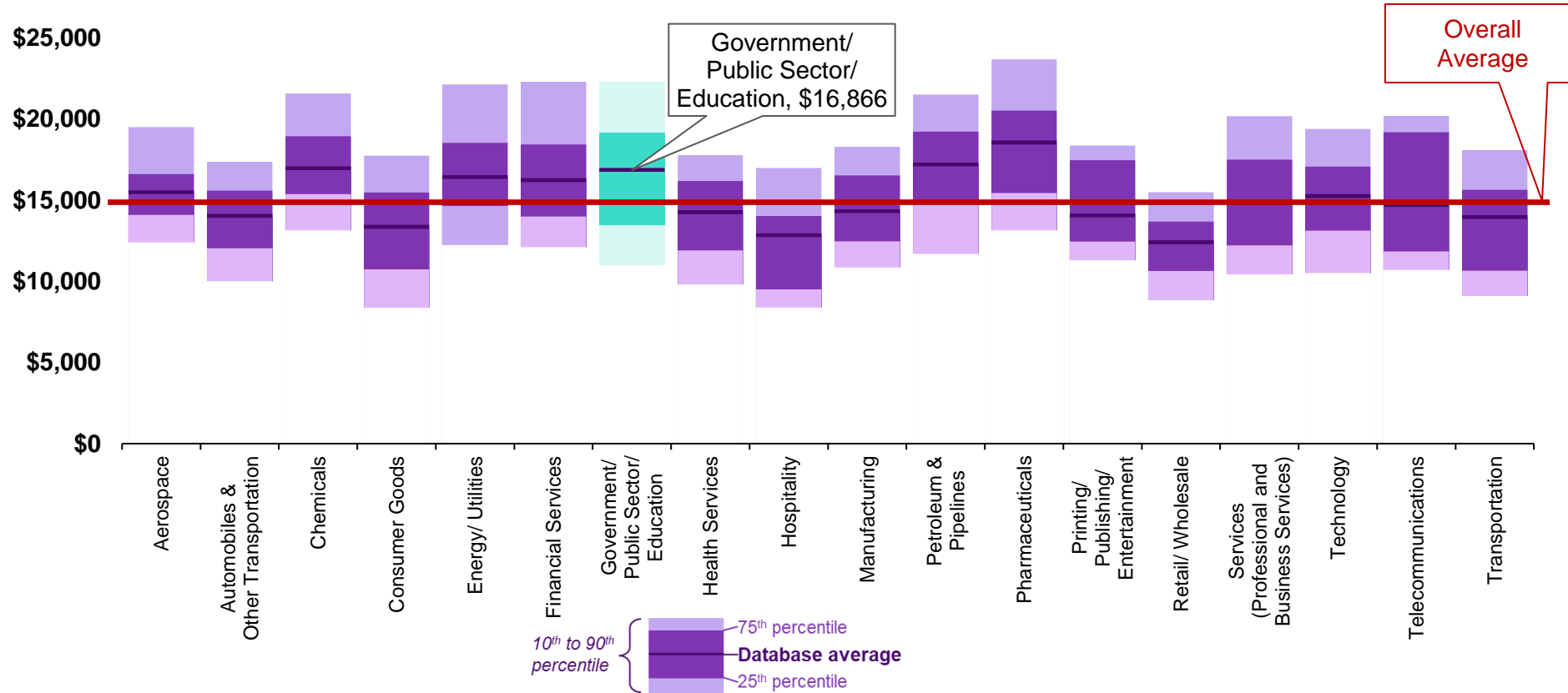


Medical cost benchmarks

CONSIDER:

- Costs are average per employee per year, across all enrollees
- These are unadjusted costs based on premiums and/or premium equivalents

Total cost per covered employee per year – industry*



✓ As is evident above, there is a significant amount of variability in average healthcare costs per employee per year across different industries.

*Unadjusted



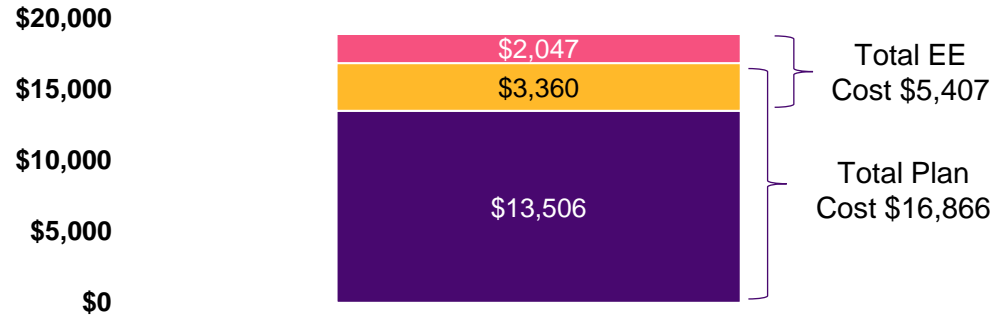
Medical cost benchmarks

CONSIDER:

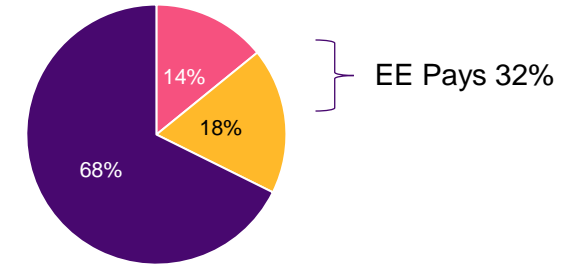
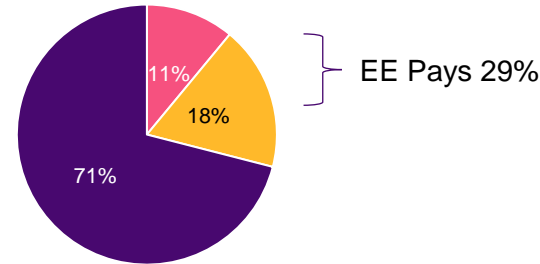
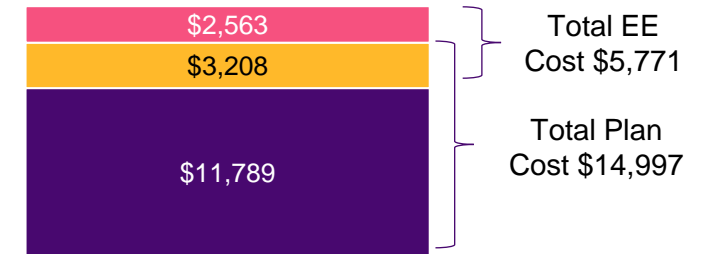
- The competitiveness of employee cost sharing is an important consideration when attracting and retaining talent
- Cost shifting is an important discussion each year in an effort to balance company cost management and employee affordability

Total cost and contributions – industry comparison

Government/Public Sector/Education



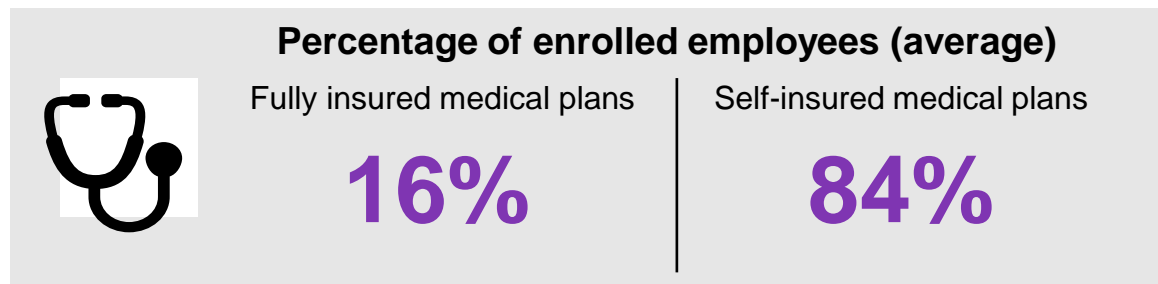
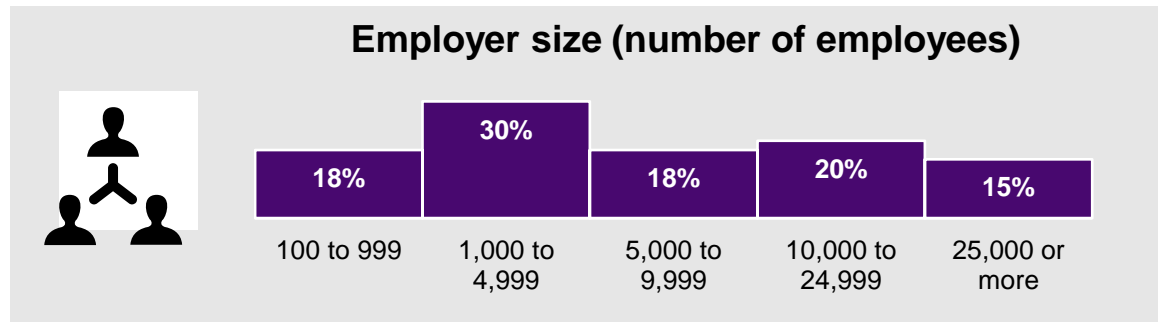
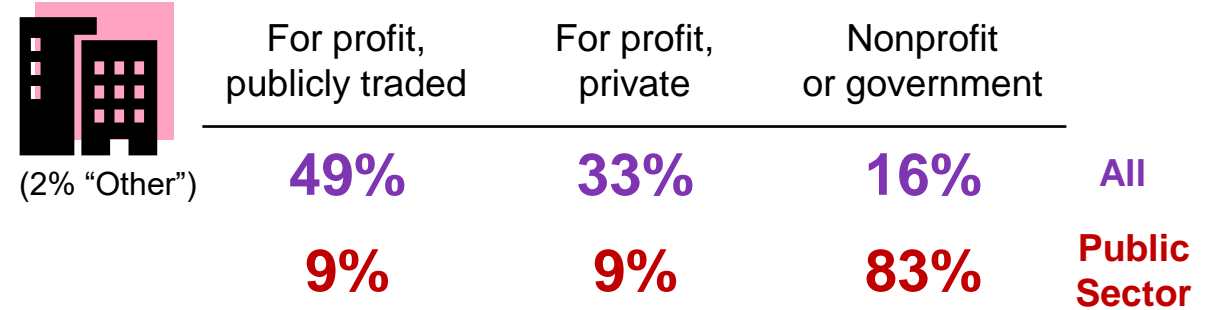
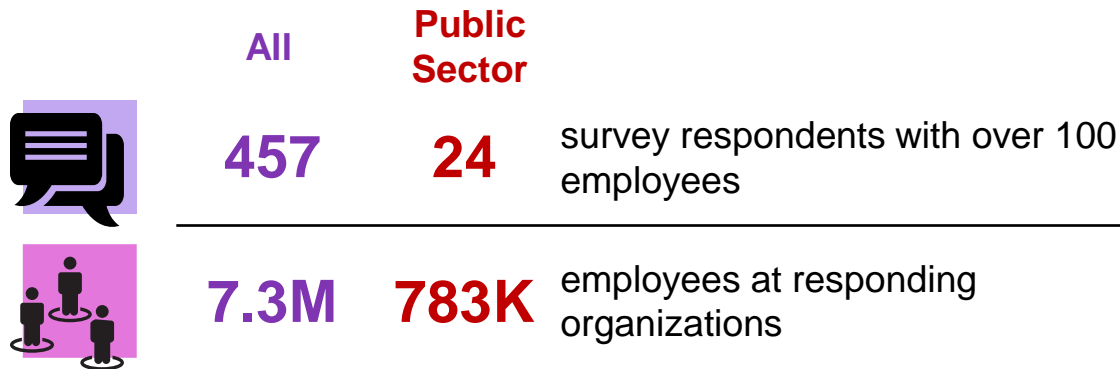
Overall Database



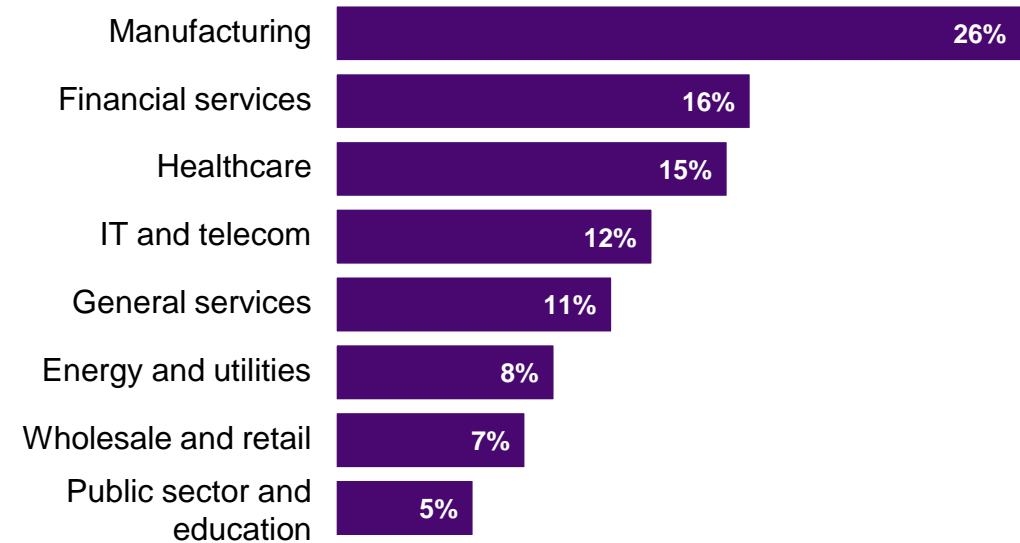
■ Employer cost
 ■ Employee contributions
 ■ Employee OOP costs

✓ The above financials provide an overview of aggregate annual healthcare costs per employee, including the employer subsidy, employee payroll contributions, and employee out-of-pocket costs at point of service.

About the Best Practices in Healthcare Survey

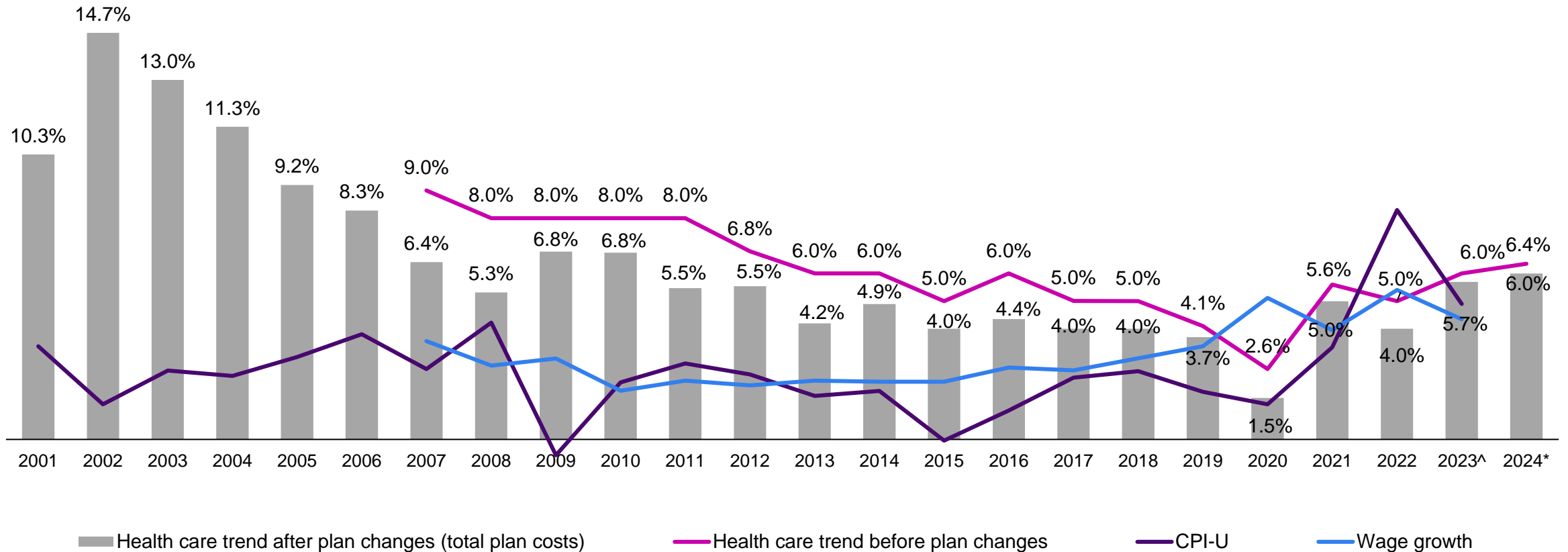


Industry



Note: Percentages may not sum up to 100% due to rounding.
 Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

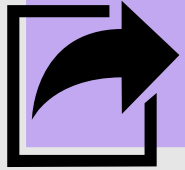
Healthcare cost increases rising but with uncertainty and variability



^Expected; *Projected

Note: Percentages of healthcare trend are **median** numbers.
 Sample: Companies with at least 1,000 employees
 Source: WTW 2023 Best Practices in Healthcare Survey; Bureau of Labor Statistics, CPI-U, CES

Employers expect healthcare costs to increase in the next three years

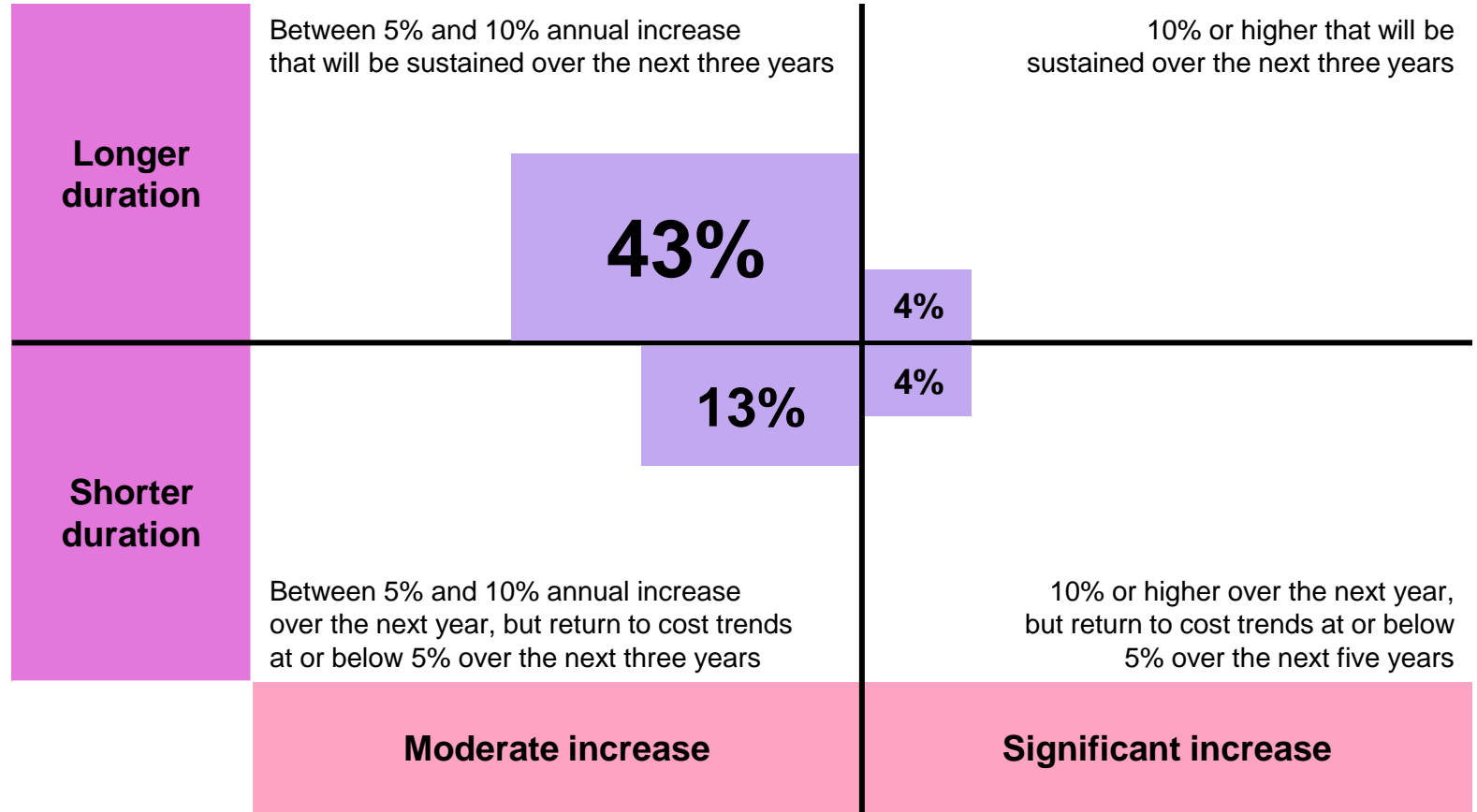


64% project moderate to significant healthcare cost increases over the next three years

9% of organizations project no change in healthcare costs over the next three years


22% do not have cost projections for the next three years

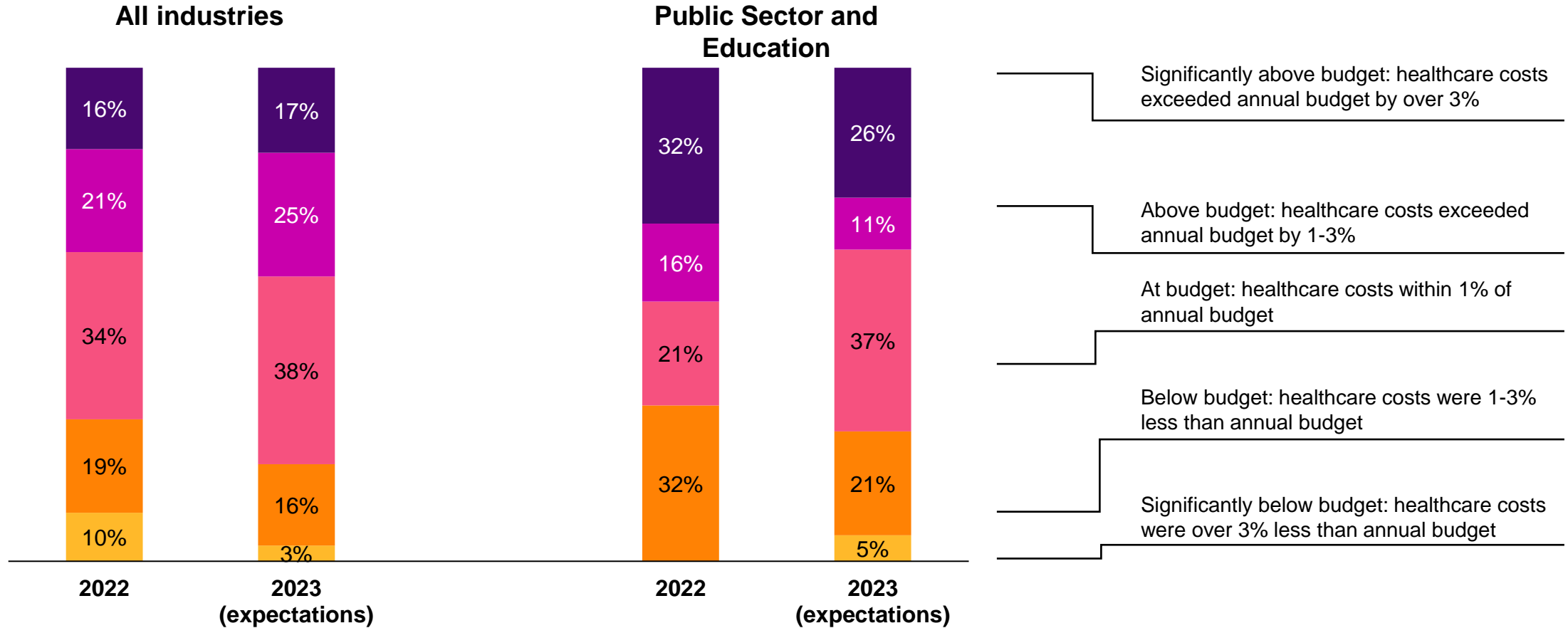
(4% "Other")



Note: Percentages may not sum up to 100% due to rounding.
Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

Around two-fifths of employers expect their healthcare costs will be above budget in 2023

 Were your organization's healthcare costs above, below or at-budget in 2022 and what do you expect for 2023?



Note: Percentages may not sum up to 100% due to rounding.
 Source: WTW 2023 Best Practices in Healthcare Survey

Top health and wellbeing priorities



Employers' top health and wellbeing priorities are **managing health plan costs** and **enhancing mental health and emotional wellbeing programs**



Manage company costs

- Cost management is taking on a new level of urgency as companies take a comprehensive set of actions
- Employers are revising plan design and increasingly sharing medical and Rx plan costs with employees
- Many are taking more aggressive steps with vendor partnerships and looking at changes to networking strategies
- Employers recognize that changes may cause disruption and are looking to socialize changes through effective communication and engagement strategies



Enhance mental health programs

- Mental and behavioral health is the top clinical area as employers make more investments in programs and navigation solutions
- Enhanced virtual care is a dominant strategy for many employers to ensure access to mental health services
- Companies are expanding their investments to support a broader set of employee needs, including integration with medical programs; robust measurement; employee listening; manager training; and links to diversity, equity and inclusion (DEI) components

Key trends

Attract and retain talent



Employers are increasing focus on ways to better manage health plan costs to support employee wellbeing and as a tool to attract and retain talent.

Targeted networks



Targeted networks and advanced primary care models are gaining traction in lieu of traditional broader networks, but companies must weigh potential disruptions to members.

Streamline vendors



Companies are looking to vendors to help reduce costs and improve member health. Mental health is a top focus for vendor strategies.

Rx plan optimization



Employers are addressing the growing prescription drug demand and costs for diabetes, weight loss, biosimilars and gene therapy.

High-touch solutions




Programs remain the foundation of many health and wellbeing strategies, but more emphasis is being placed on high-touch/high-tech solutions, including navigation and advocacy, to help direct employees in need.

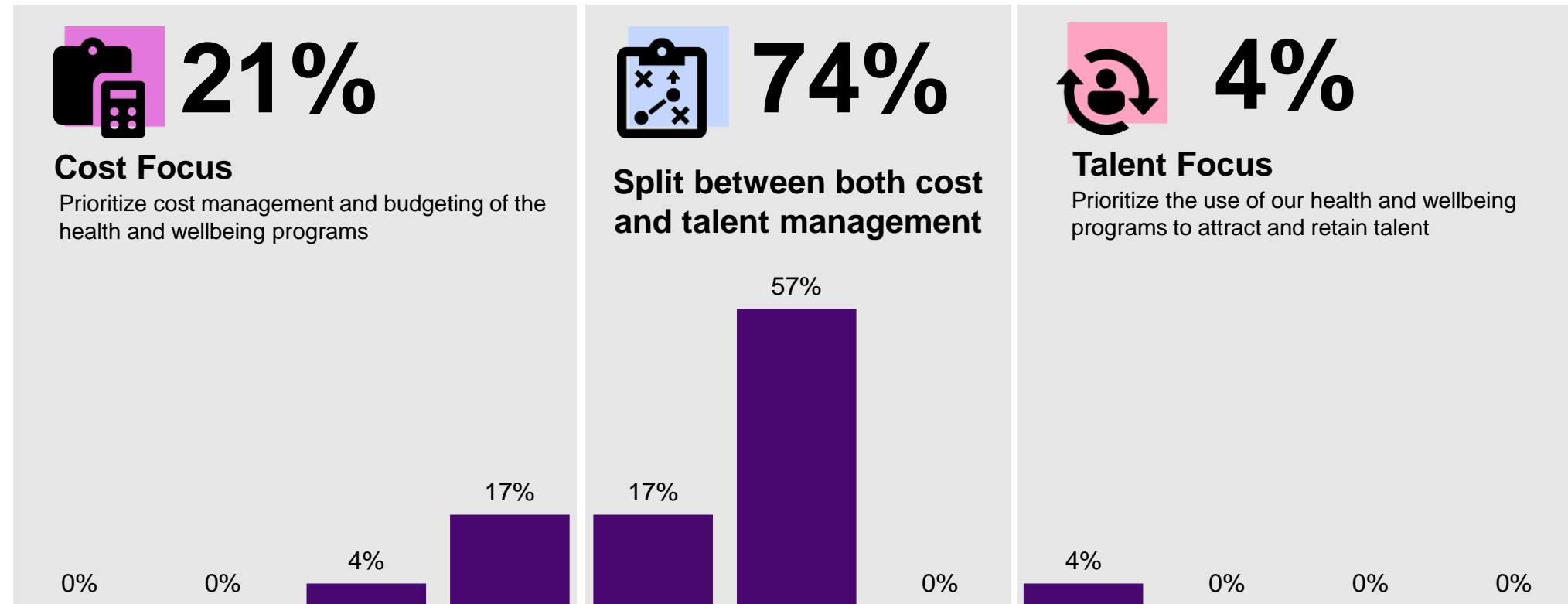
Identify needs with data



Companies are expanding their use of metrics to understand employee health and wellbeing needs to support broader access and equitable outcomes.

Despite clear cost pressures, most employers remain focused on balancing cost and talent needs

 To what extent is your company's health and wellbeing strategy focused on cost management (cost focus) or focused on enhancing the program to support your attraction and retention goals (talent focus)?



Note: Percentages may not sum up to 100% due to rounding.
Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

Managing the risk of volatility

One component of cost management is managing risk



Self-insuring against large claims

39%
(13% planning for 2024/2025)

Use a captive to manage company risks



Controlling costs at the point of care



61%

Use **centers of excellence within the health plans;**
13% through a carve-out vendor

(13% planning for 2024/2025)



35%

Offer option that **restricts or eliminates out-of-network coverage for non-emergency services;**
17% exclude all benefits

(9% planning for 2024/2025)



30%

Offer a **narrow network of higher-quality and/or lower-cost providers**

(26% planning for 2024/2025)



17%

Utilize **carve-out specialty pharmacy services and solutions,** such as utilization management and fulfillment

(13% planning for 2024/2025)



17%

Set **out-of-network reimbursement as a % of Medicare**

(22% planning for 2024/2025)

Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

Employers use navigation to help in high-cost clinical areas

Navigation and virtual care are key solutions to address mental health challenges



Advocacy and navigation solutions

35% offer plan advocacy or navigation solutions
(35% planning for 2024/2025)

Top clinical areas of focus for navigation solutions

- Mental/Behavioral health
- Metabolic syndrome/Diabetes
- Musculoskeletal
- Obesity and weight management
- Maternity/Fertility



Virtual care

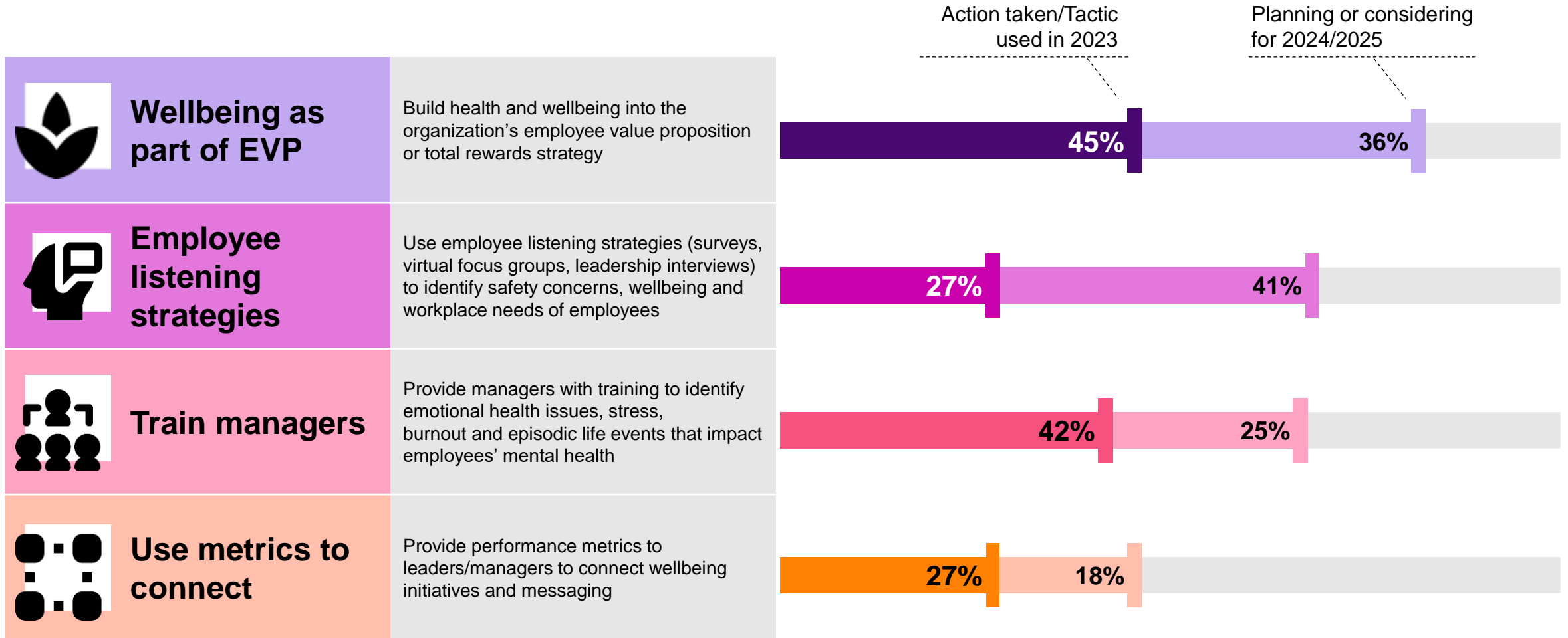
57% Offer virtual primary care through a third party or carrier
(4% planning for 2024/2025)

30% Eliminate cost sharing for virtual care visits for mental health services
(13% planning for 2024/2025)

22% Eliminate cost sharing for virtual care visits for medical services (other than mental health)
(17% planning for 2024/2025)


Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

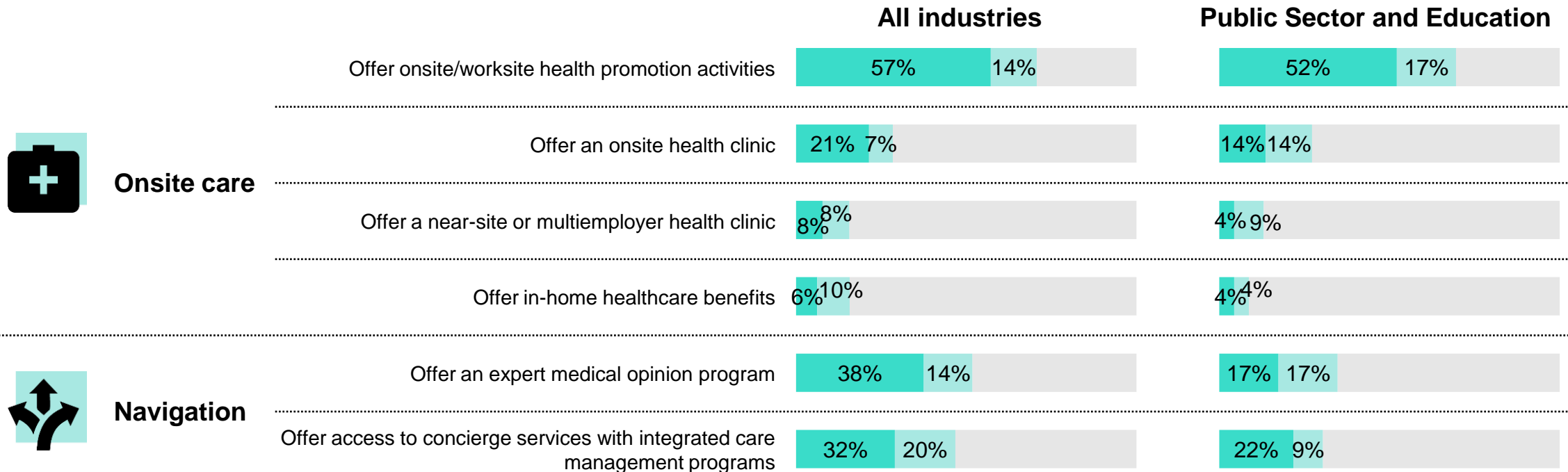
Employers move to integrate wellbeing into their culture





Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

Increase in focus on offering onsite and navigation services


 Which network and provider strategies does your organization have in place or plan to have in place in the next few years?



 Action taken/Tactic used in 2023  Planning or considering for 2024/2025

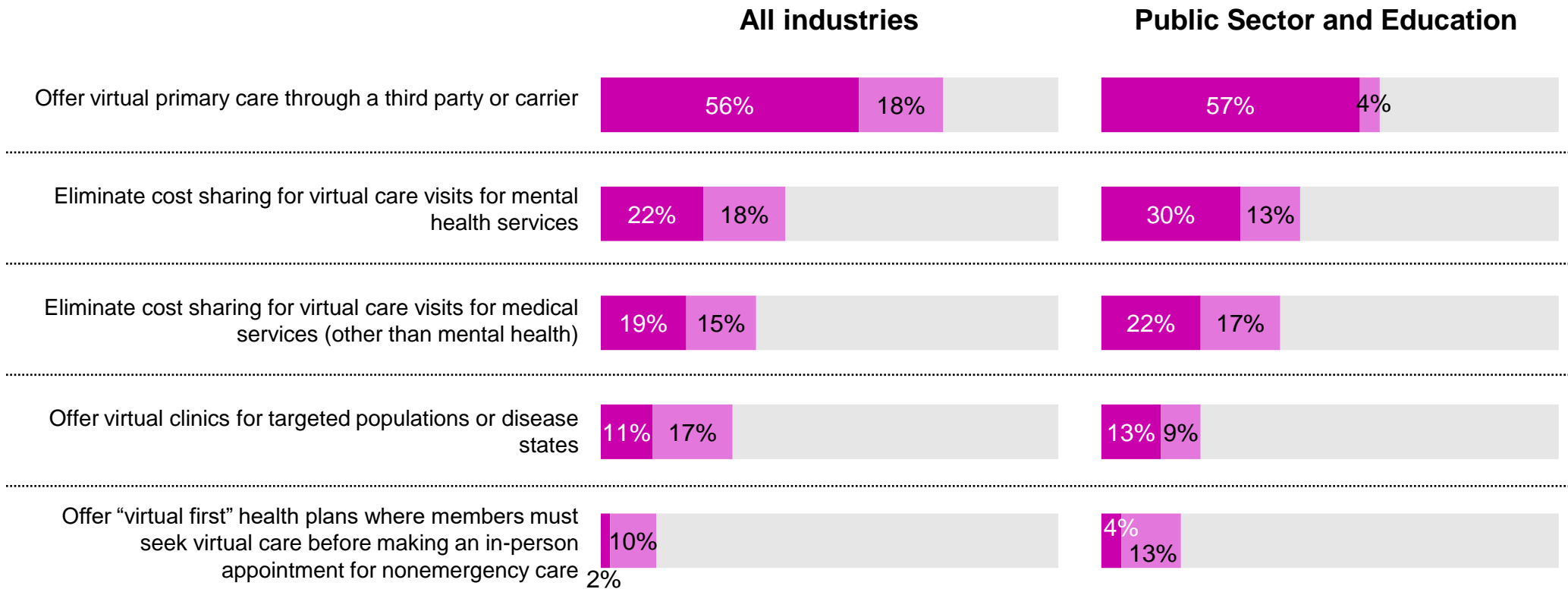
Source: WTW 2023 Best Practices in Healthcare Survey

Employers are exploring virtual care strategies

 Which specific plan design features does your organization have in place or plan to put in place in the next few years?




Virtual care

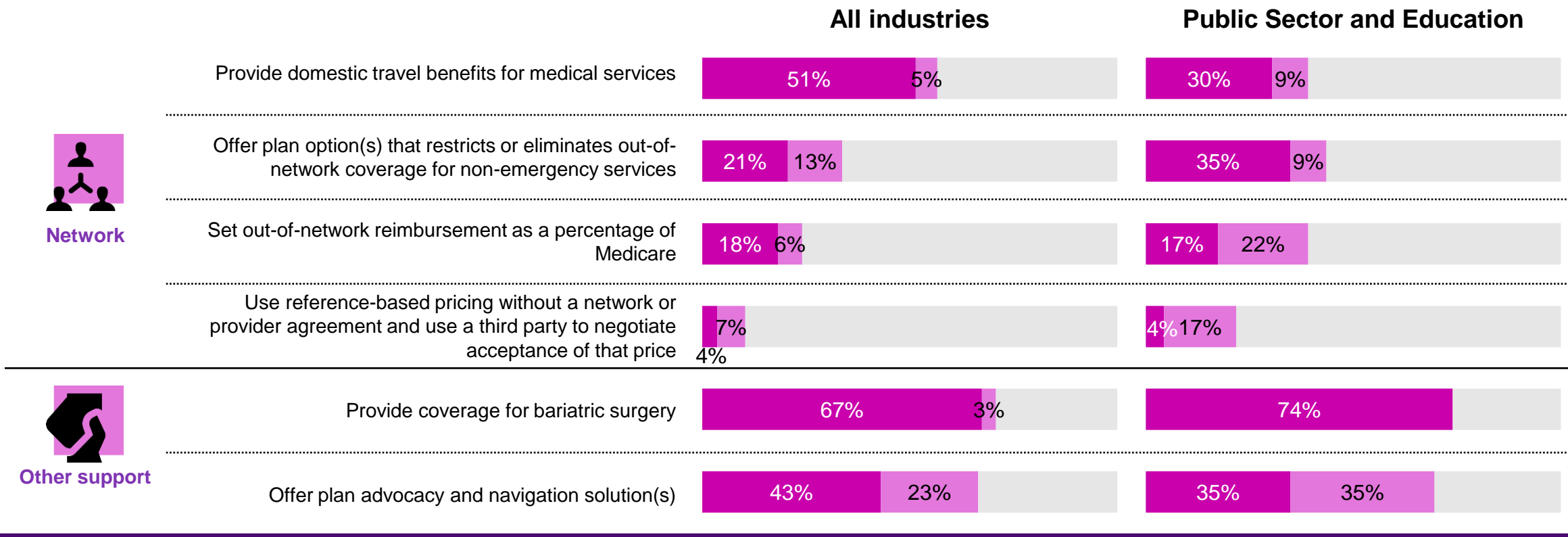


 Action taken/Tactic used in 2023  Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Employers take various benefit design actions


 Which specific plan design features does your organization have in place or plan to put in place in the next few years?

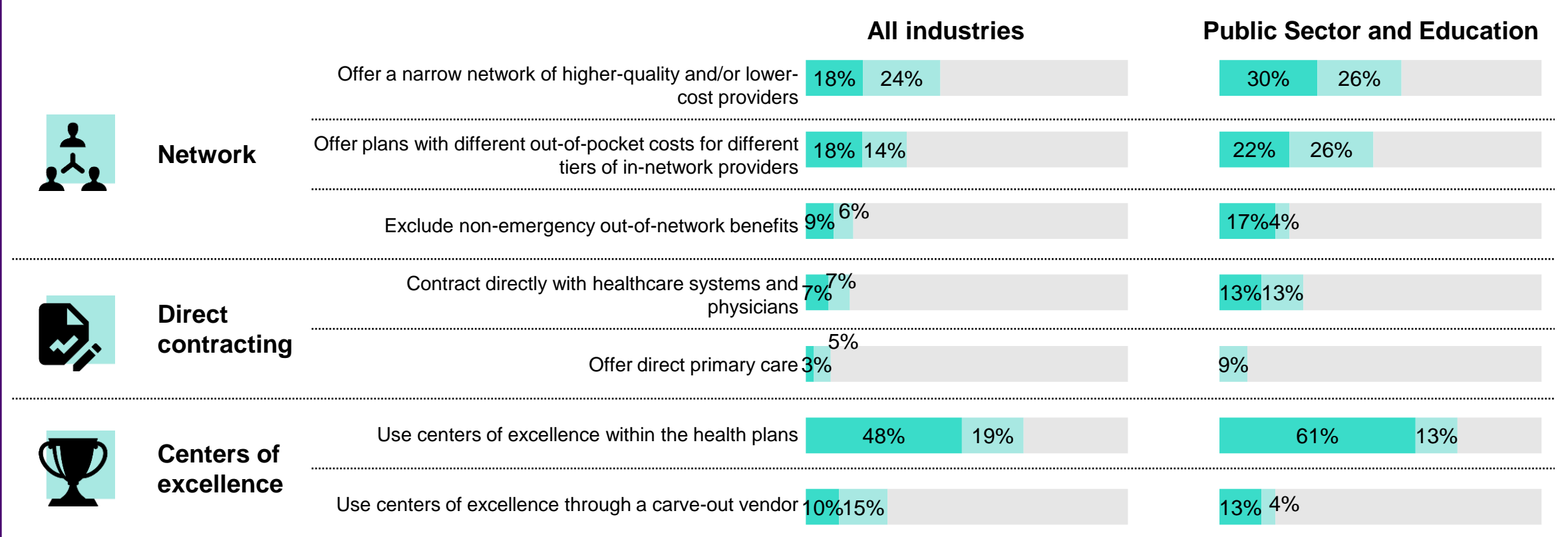


 Action taken/Tactic used in 2023  Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Employers continue to focus on network and COE strategy to manage care

 Which network and provider strategies does your organization have in place or plan to have in place in the next few years?



 Action taken/Tactic used in 2023  Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Major pharmacy trends

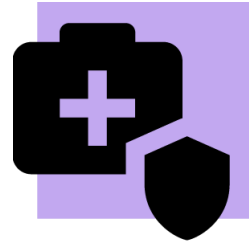
Pharmacy is a top area to manage costs



57%

(26% planning for 2024/2025)

Evaluate and address **specialty drug costs and utilization** that are paid through the medical benefit



59%

(23% planning for 2024/2025)

Have **plan coverage exclusions or higher cost sharing for high-cost/low-value medications**



39%

(17% planning for 2024/2025)

Provide coverage for **anti-obesity medications**



9%

(32% planning for 2024/2025)

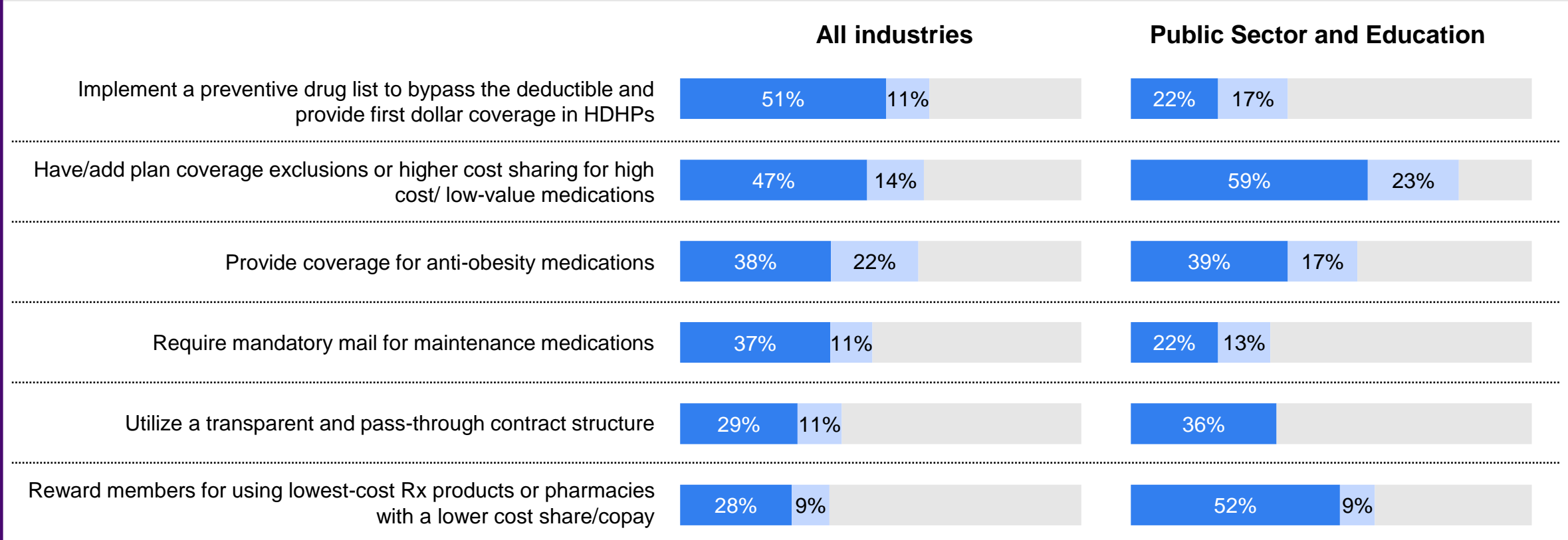
Require employees **to switch to biosimilars** when available by 2025

Source: WTW 2023 Best Practices in Healthcare Survey, Public Sector and Education

Actions to control pharmacy costs



General Rx: Which of the following pharmacy benefit management strategies does your organization have in place or plan to have in place in the next few years?



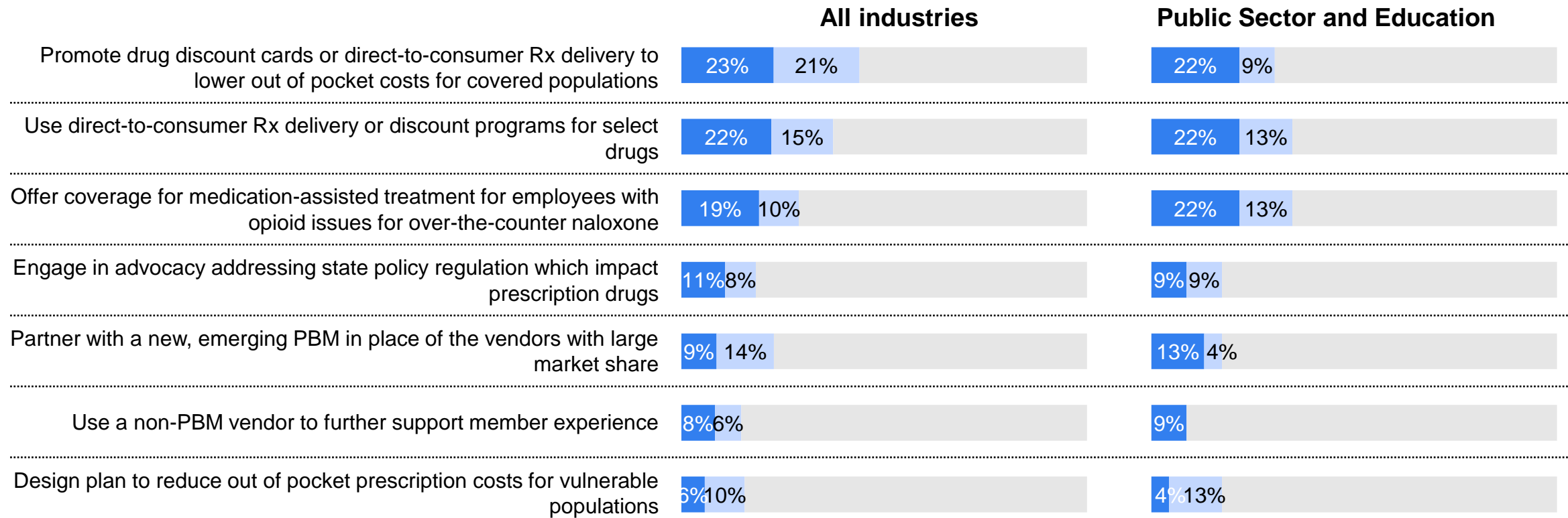
■ Action taken/Tactic used in 2023
 ■ Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Pharmacy benefit management strategies – General Rx



General Rx: Which of the following pharmacy benefit management strategies does your organization have in place or plan to have in place in the next few years?



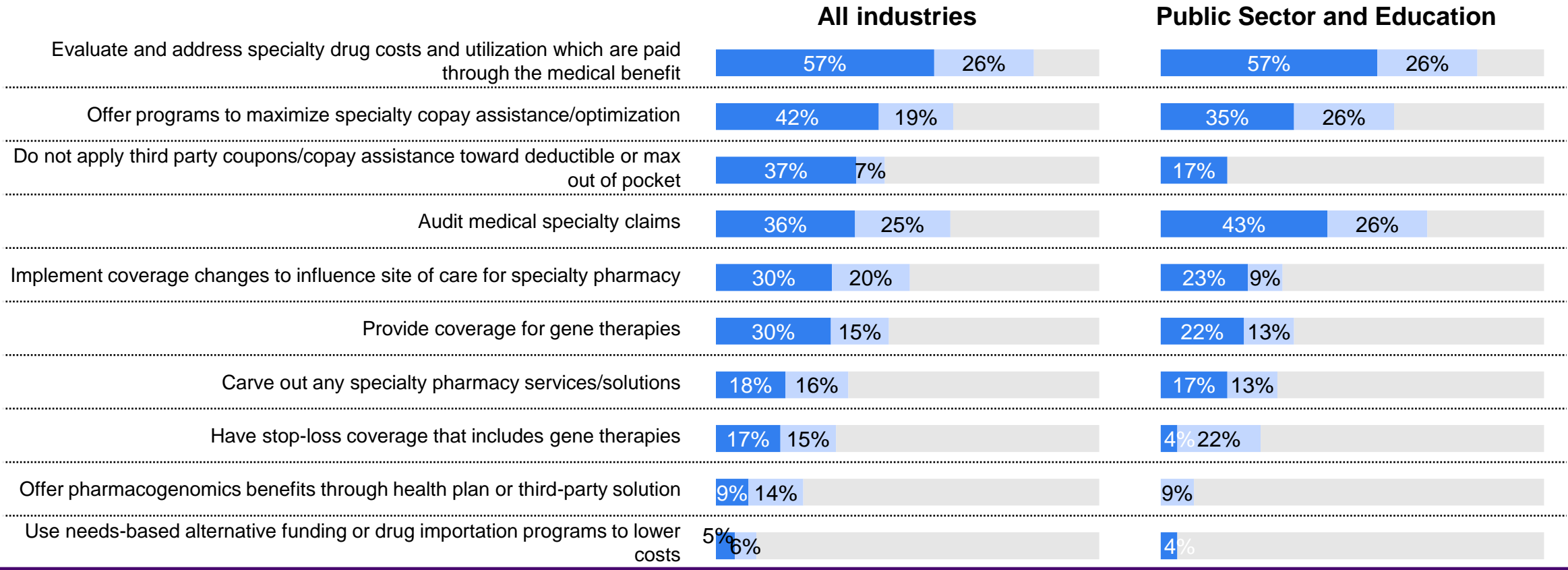
■ Action taken/Tactic used in 2023
 ■ Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Pharmacy benefit management strategies – Specialty Rx



Specialty Rx: Which of the following pharmacy benefit management strategies does your organization have in place or plan to have in place in the next few years?



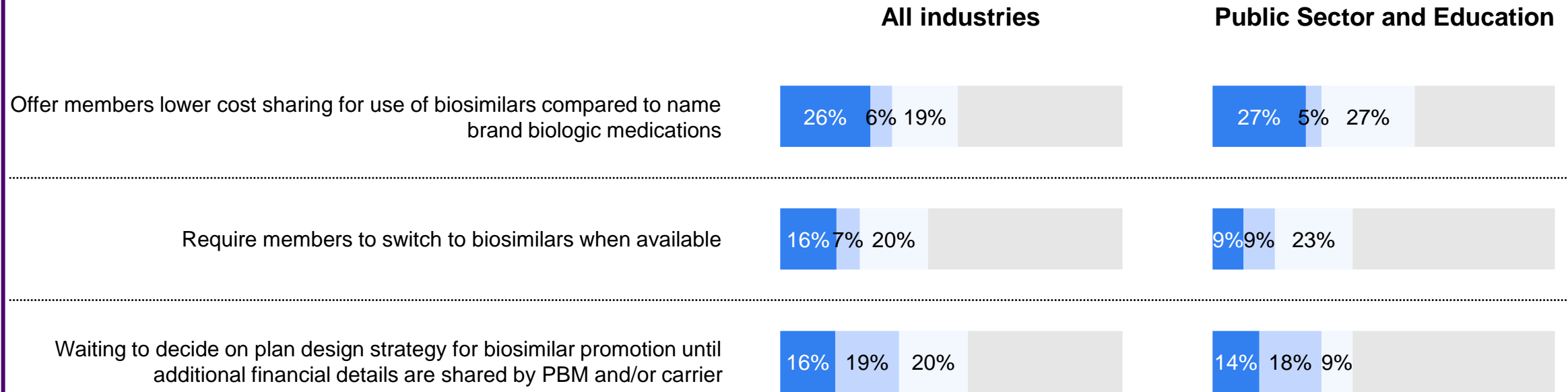
■ Action taken/Tactic used in 2023
 ■ Planning or considering for 2024/2025

Source: WTW 2023 Best Practices in Healthcare Survey

Pharmacy benefit management strategies – Biosimilars



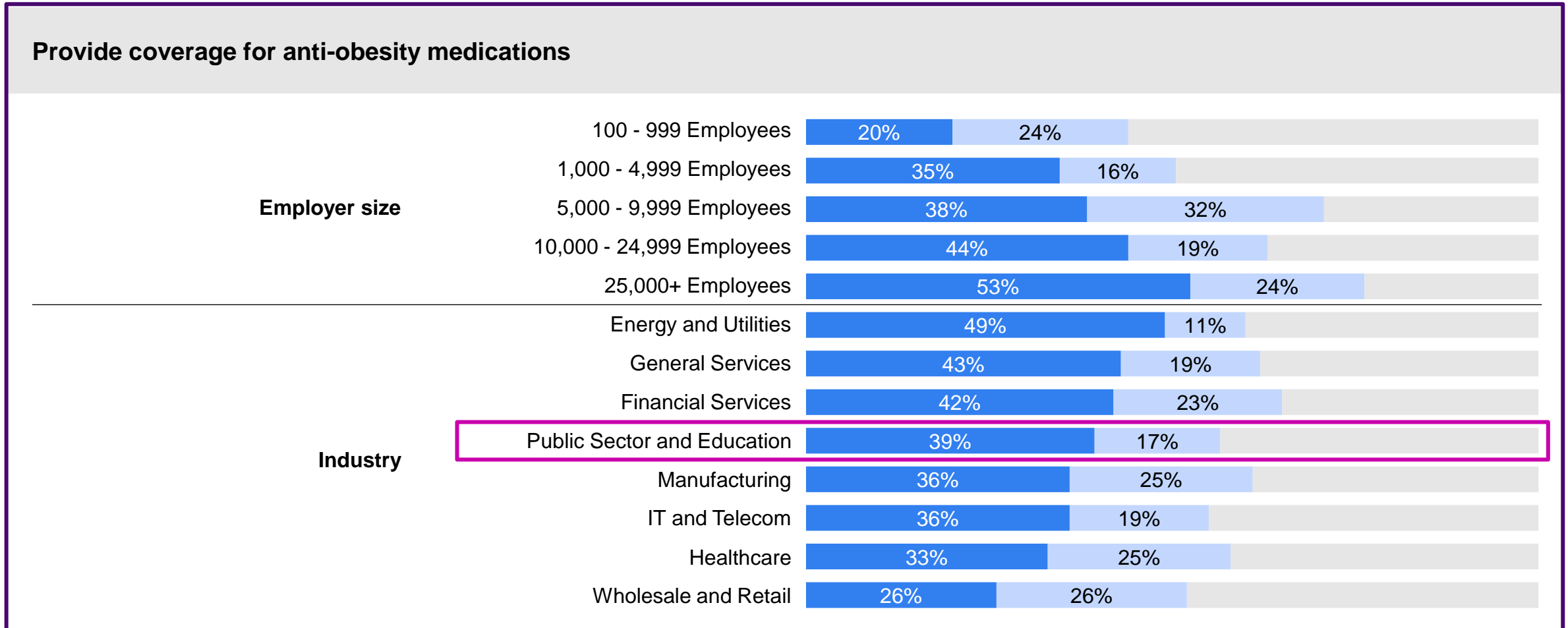
Biosimilars: Which of the following pharmacy benefit management strategies does your organization have in place or plan to have in place in the next few years?



Source: WTW 2023 Best Practices in Healthcare Survey

■ Action taken/Tactic used in 2023
 ■ Planning for 2024
 ■ Considering for 2025

Coverage for anti-obesity medications



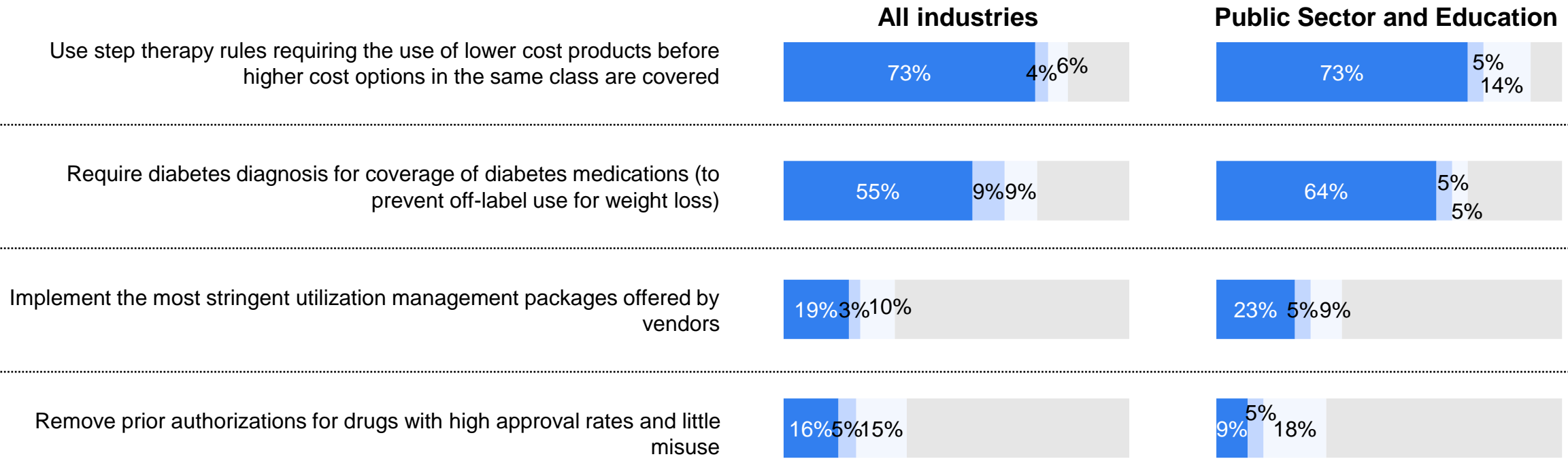
Source: WTW 2023 Best Practices in Healthcare Survey

■ Action taken/Tactic used in 2023
 ■ Planning or considering for 2024/2025

Pharmacy benefit management strategies – Management/Formulary



Utilization Management/Formulary: Which of the following pharmacy benefit management strategies does your organization have in place or plan to have in place in the next few years?



■ Action taken/Tactic used in 2023
 ■ Planning for 2024
 ■ Considering for 2025

Source: WTW 2023 Best Practices in Healthcare Survey

Questions / discussion

Thank you!