Future Trends in Employment, Health and Labor

PRESENTED BY:

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Senior Vice President
Public Sector Practice Group
The Horton Group
 Agenda

- Affordable Care Act / Legislative Update
- Municipal Health Plan Challenges
- State of Healthcare & Health Insurance
- Emerging Trends and Strategy to Control Cost
Affordable Care Act - Legislative Update
Affordable Care Act / Legislative Update

Original Three Main Goals
• Greater Accessibility for All
• Greater Affordability for All
• Bend the Cost Trend

Three Market Segments Impacted
• Nonworking Poor with No Coverage: Medicaid, Medicare
• Working Poor with No Coverage, Marketplace - Subsidies
• Employer Based Insurance
Accessibility Improved

- CMS Final Snapshot of 2019 Federal Exchange Open Enrollment Period Remained Steady.
- 8.4 Million consumers enrolled vs 8.7 million at the same time last year.
- Illinois enrollment was 312,280 in 2019 and 334,979 in 2018.
Affordability & Trend Did Not!

Cumulative Increases in Family Premiums, Worker Contributions to Family Premiums, Inflation, and Workers' Earnings, 1999-2018

- **Premiums**: 259%
- **Workers' Contribution**: 239%
- **Earnings**: 68%
- **CPI**: 51%

Employer Plans Remain Challenged!

- Healthcare for a family of 4 tripled since 2001
- Rising Medical and Rx Trend
- Cadillac Tax GASB 74/75 Liability
- ACA Compliance HIT and Medical Device Taxes
- #1 Benefit to Attract Talent
What You Need to Know for 2019

**Legislative Impacts Chain of Events:**

- The 2017 tax law set the Individual Healthcare Mandate Penalty to $0 for 2019. As a result ........
- In December 2018 Texas Judge Reed O’Connor ruled the ACA unconstitutional and therefore invalid.

**However:**

- Case will go to Appellate and possibly the Supreme Court to ultimately decide – target 2020 for any action.
What You Need to Know for 2019

For Now:
• The Affordable Care Act (ACA) is still in effect – Stay the Course.

A Few Reminders:
• All Compliance and Penalties will still be enforced.
• Keep up with reporting deadlines.
• Individual Mandate Penalty is $0 in 2019.
• HIT and Medical Device taxes return in 2020.
• Cadillac Tax starts January 2022.

New:
• EEOC vacates Wellness Incentive Rules until 2021 – default to guidelines previous to 2016.
Executive Orders Impacting 2019

Seeking More Competition and Lower Cost Options

• Association Health Plans Approved.
• Short Term Medical Plans Approved (vary by state).
• Health Reimbursement Arrangements (target 2020).
• Employer can waive coverage by class and formalize an HRA stipend that employees could use to purchase Individual Insurance on their own. Employer compliance and reporting would still be required.
• Final comments were submitted December 28, 2018.
Public Sector Health Plan Challenges
Three Factors Impact Premiums

- **Demographics**
- **Risk**
- **Trend** - Influenced by network discounts, plan design and utilization.
Unique Impacts To Public Sector

Influenced by Participation of Older Generation Brackets including Retirees

12% fewer Singles, 28% more Families

28% Greater Risk
Risk Pool Will Slowly Change Through Attrition

Millennials will comprise the majority of the workforce by 2025

Source: U.S. Census Bureau
State of Healthcare and Health Insurance
Healthcare Continues to Grow!

- Healthcare is 18% of the Nation’s GDP
- Healthcare Spending up 4.8% to $3.58 Trillion
- Per capita spending hit its highest level at $10,739 pp.
- Largest job source in the US mostly due to Nation’s aging population. Surpass manufacturing and retail.
- Half of the 30 fastest growing occupations are healthcare related.
- In 2019, for the first time ever, there will be more Americans over 60 than under the age of 18.*

*USA Today
Costs Also Continue to Grow!

- Medical trend is up 4.5%, Rx up 6%
- 2018 Milliman Medical Index family of four PPO plan is $28,166, up $1,222 from 2017.
Factors Driving Cost

Study of Commercial Members 2012 to 2016*:

- High-Cost Claimants (HCC) - $100,000 annually – increased 70%.
- Those with $500,000 or more in claims doubled.
- 38% of HCC were in the 55-64 age group, 21% in 45-54.
- 15% of all High Cost Claimants were driven by specialty drugs.
- Common conditions were cancer, end-stage renal failure, neonatal issues, hemophilia, sepsis, or other rare diseases.

*Blue Health Intelligence
Factors Driving Cost - Rx

- Pharma TV ads soared to $3.7B in 2018 vs. $3.45B in 2017.
- 3 out of 1,000 people exceed $50k in Rx costs each year.
- Prescription drug spending for BCBS members increased 10% annually, 73% in 7 years.*
- Brand Rx accounts for 18% of Scripts but 78% of spend!
- 5 new Specialty drugs expected each year for the next 5yrs., each costing more than $50,000 per year. Luxturna = $850,000.

*Blue Health Intelligence
Factors Driving Cost - M&A

- 42% of the Nation’s Physicians are Hospital employed
- 25% are owned by Larger Practices, Private Equity and Insurance Companies
- 33% remain Independent

*Avalere Health Study*
Discounts vs. Actual Pricing

Median costs at select Chicago-area hospitals

- Evanston Hospital (NorthShore University HealthSystem)
- Presence Sts. Mary and Elizabeth Medical Center
- Mount Sinai Hospital
- Northwestern Memorial Hospital
- Naperville: Edward Hospital
- Oak Lawn: Advocate Christ Medical Center
- University of Chicago Medical Center

* Chicago Tribune – Blue Cross Blue Shield, United Health Care
## Do Members Know The Real Price?

### Major joint replacement

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advocate Christ Medical Center</td>
<td>$50,241</td>
</tr>
<tr>
<td>Edward Hospital</td>
<td>$46,124</td>
</tr>
<tr>
<td>Evanston Hospital</td>
<td>$68,144</td>
</tr>
<tr>
<td>Mount Sinai Hospital</td>
<td>$78,444</td>
</tr>
<tr>
<td>Northwestern Memorial Hospital</td>
<td>$66,606</td>
</tr>
<tr>
<td>Presence Sts. Mary and Elizabeth</td>
<td>$77,144</td>
</tr>
<tr>
<td>University of Chicago Medical Center</td>
<td>$89,492</td>
</tr>
</tbody>
</table>

*Note: Figures, from Oct. 1, 2016, to Sept. 30, 2017, are median gross charges before any discounts, adjustments or negotiated rates with insurers; may not include physician fees. Sources: Illinois Department of Public Health, Tribune reporting @ChiTribGraphics*

### Gallbladder removal

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Price</th>
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<tbody>
<tr>
<td>Advocate Christ Medical Center</td>
<td>$31,675</td>
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<td>Edward Hospital</td>
<td>$33,254</td>
</tr>
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<td>Evanston Hospital</td>
<td>$30,025</td>
</tr>
<tr>
<td>Mount Sinai Hospital</td>
<td>$35,055</td>
</tr>
<tr>
<td>Northwestern Memorial Hospital</td>
<td>$54,285</td>
</tr>
<tr>
<td>Presence Sts. Mary and Elizabeth</td>
<td>$44,204</td>
</tr>
<tr>
<td>University of Chicago Medical Center</td>
<td>$80,202</td>
</tr>
</tbody>
</table>

*Note: Figures, from Oct. 1, 2016, to Sept. 30, 2017, are median gross charges before any discounts, adjustments or negotiated rates with insurers; may not include physician fees. Sources: Illinois Department of Public Health, Tribune reporting @ChiTribGraphics*

### Outpatient CT scan of head

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Price</th>
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<tbody>
<tr>
<td>Advocate Christ Medical Center</td>
<td>$1,290</td>
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<tr>
<td>Edward Hospital</td>
<td>$2,951</td>
</tr>
<tr>
<td>Evanston Hospital</td>
<td>$1,846</td>
</tr>
<tr>
<td>Mount Sinai Hospital</td>
<td>$1,868</td>
</tr>
<tr>
<td>Northwestern Memorial Hospital</td>
<td>$2,494</td>
</tr>
<tr>
<td>Presence Sts. Mary and Elizabeth</td>
<td>$2,766</td>
</tr>
<tr>
<td>University of Chicago Medical Center</td>
<td>$4,246</td>
</tr>
</tbody>
</table>

*Note: Figures, from Oct. 1, 2016, to Sept. 30, 2017, are median gross charges before any discounts, adjustments or negotiated rates with insurers; may not include physician fees. Sources: Illinois Department of Public Health, Tribune reporting @ChiTribGraphics*

### Tonsillectomy

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Price</th>
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</thead>
<tbody>
<tr>
<td>Advocate Christ Medical Center</td>
<td>$8,565</td>
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<tr>
<td>Edward Hospital</td>
<td>$3,318</td>
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<tr>
<td>Evanston Hospital</td>
<td>$10,716</td>
</tr>
<tr>
<td>Mount Sinai Hospital</td>
<td>$11,901</td>
</tr>
<tr>
<td>Northwestern Memorial Hospital</td>
<td>$18,911</td>
</tr>
<tr>
<td>Presence Sts. Mary and Elizabeth</td>
<td>$13,078</td>
</tr>
<tr>
<td>University of Chicago Medical Center</td>
<td>$23,484</td>
</tr>
</tbody>
</table>

*Note: Figures, from Oct. 1, 2016, to Sept. 30, 2017, are median gross charges before any discounts, adjustments or negotiated rates with insurers; may not include physician fees. Sources: Illinois Department of Public Health, Tribune reporting @ChiTribGraphics*
State Of Health Insurance

- Carrier bottom lines have improved since start of ACA.
- Trend has fallen to mid-single digits, mostly due to plan changes and lower utilization. Rx still runs higher than Medical.
- Group plans maintain richer offerings than individual Marketplace, especially Public Sector.
- More groups are moving to self-funded programs or some form (level-funded).
- A bump in stop loss reinsurance, pooling charges due to HCC frequency, but a lot of market capacity remains.
- Some growth in pooling risk: Associations, Co-Op, Captives.
Emerging Trends / Strategy To Control Cost
Have We Reached A Tipping Point?

Malcolm Gladwell, Author:
*The tipping point is that magic moment when an idea, trend or social behavior crosses a threshold, tips, and spreads like wildfire.*

**Current Concerns**

- Consumers are unhappy with status quo in healthcare.*
- Trust in the U.S. Medical system eroded from 80% in 1975 to 36% today.**
- 62% of adults favor a *Medicare for All* option over the status quo and 75% say they prefer it as a *public option* for any who want it.**
- What will our newly elected officials propose?

* Gallup Poll  
** Kaiser Family Foundation
Employers Taking More Control Now!

1. Consumer Engagement (HDHP-HSA)
2. Transparency - Redirection of Care
3. Rx Solutions
4. Well-Being Management
5. Moving to Human Capital Management
Enrollment by Medical Plan Type*

*Pwc – touchstone report 2018
HDHPs Win On Performance

Blue Cross Blue Shield Study of 500,000 participants
• 7.1% Decrease in 1st year Medical Spend for new HDHP members.
• 9.2% decrease in 3 year average Medical Trend and Risk adjustment for those new HDHP members.

Positives:
• Drop in Inpatient and Outpatient Use
• Drop in Emergency Room Use
• Drop in Surgeries
• Increase in Generic Rx Fill Rate

Negative:
• Slight drop in Physician Office Visits and Wellness
HDHPs Lead The Pack*

*Pwc – touchstone report 2018

<table>
<thead>
<tr>
<th># of employees</th>
<th>HDHP</th>
<th>Full replacement HDHP</th>
<th>Value-based plan design</th>
<th>Narrow network</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;1,000</td>
<td>68%</td>
<td>21%</td>
<td>62%</td>
<td>82%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>21%</td>
<td>62%</td>
<td>82%</td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>29%</td>
<td>62%</td>
<td>82%</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>13%</td>
<td>62%</td>
<td>82%</td>
</tr>
<tr>
<td>1,000 - 4,999</td>
<td>77%</td>
<td>15%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>27%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>42%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>30%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td>5,000+</td>
<td>79%</td>
<td>14%</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>21%</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>24%</td>
<td>43%</td>
<td>34%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>37%</td>
<td>34%</td>
<td>38%</td>
</tr>
</tbody>
</table>

% of respondents

- Dark brown: Already implemented
- Red: Under consideration
- Orange: Not under consideration
Redirection of Care By Transparency

• Hospitals Post Prices Online 1/1/2019

Kaiser Health
Figure 14.5
Among Firms Offering Health Benefits, Percentage of Firms That Eliminated Hospitals From Their Network in the Past Year to Reduce Cost or Offer a Narrow Network Plan, by Firm Size, 2018

- Eliminated Hospitals or Health Systems from a Network
- Offers Plan Considered a Narrow Network

* Estimate is statistically different from estimate for all other firms not in the indicated size category (p < .05).

NOTE: Narrow network plans limit the number of providers that can participate in order to reduce costs and generally are more restrictive than standard HMO networks.

SOURCE: KFF Employer Health Benefits Survey, 2018
Redirection of Care by Plan Payment

Reference Based Pricing
- Carriers
- ELAP
- HST
- AMP
- 6 Degrees

In contrast to PPO models, reference-based pricing starts at the bottom with an actual cost amount, then adds a fair profit margin to calculate a total cost of service.
Redirect to Primary Care First

• More Doctor contracts are based on *Pay for Value* rather than *Volume*. A move to Accountable Care Organizations (ACOs)

• Primary Care (PC) is being considered the bridge from the status quo to a more efficient and effective health system. It represents 5.8% – 7.7% of total health spending in U.S.

• Rhode Island increased PC flows to 9% from 6% over a four-year period, as a result, overall spending reduced 14%.

• Look for an increase in: Onsite Clinics, Primary Care Concierge
Engaging Members: Concierge Tele-Medicine

MEMBERS NEED HELP NAVIGATING HEALTHCARE

Wellness
Medical
Dental
Vision
Prescription
LTD/STD
Lives & Disability
Voluntary Life
Voluntary Disability
HSA
Accident
Critical Illness
Legal Protection

Benefits Value Advisor

<table>
<thead>
<tr>
<th>Estimated cost comparison for brain MRI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider A: $977**</td>
</tr>
<tr>
<td>Provider B: $3,821**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated cost comparison for a knee replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider A: 15,837**</td>
</tr>
<tr>
<td>Provider B: 58,758**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated cost comparison for a C-section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider A: $11,156**</td>
</tr>
<tr>
<td>Provider B: $33,751**</td>
</tr>
</tbody>
</table>
# Expanding Education

Knowing where to go for care can make a big difference in cost and time. Here’s how your options compare:

<table>
<thead>
<tr>
<th>Service</th>
<th>Average Costs</th>
<th>Average Wait Times</th>
<th>Examples of Health Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virtual Visits</td>
<td>$</td>
<td>20 minutes or less</td>
<td>Allergies, Cold and flu, Nausea, Sinus infections, Asthma, Pinkeye</td>
</tr>
<tr>
<td>Your Doctor’s Office</td>
<td>$</td>
<td>18 minutes*</td>
<td>Fever, colds and flu, Sore throat, Minor burns, Stomach ache, Ear or sinus pain, Physicals, Shots, Minor allergic reactions</td>
</tr>
<tr>
<td>Retail Health Clinic</td>
<td>$</td>
<td>15 minutes</td>
<td>Infections, Cold and flu, Minor injuries or pain, Shots, Flu shots, Sore and strep throat, Skin problems, Allergies</td>
</tr>
<tr>
<td>Urgent Care Clinic</td>
<td>$$$</td>
<td>16-24 minutes**</td>
<td>Migraines or headaches, Cuts that need stitches, Abdominal pain, Sprains or strains, Urinary tract infection, Animal bites, Back pain</td>
</tr>
<tr>
<td>Hospital Emergency Room</td>
<td>$$$</td>
<td>4 hours, 7 minutes***</td>
<td>Chest pain, stroke, Seizures, Head or neck injuries, Sudden or severe pain, Fainting, dizziness, weakness, Uncontrolled bleeding, Problem breathing, Broken bones</td>
</tr>
</tbody>
</table>

* Based on study conducted by the American Medical Association.
** Based on study conducted by the American Academy of Family Physicians.
*** Based on study conducted by the Emergency Nurses Association.
**Rx Solutions: Unique To The Plan**

- Most TPAs/Carriers Drive the Process and Control the PBM*
- Sometimes determined by Size of Group and Funding Type

**Prescription drug benefits**

<table>
<thead>
<tr>
<th>% of respondents using medical vendor versus carve-out pharmacy benefits, by size</th>
<th># of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;1,000</td>
</tr>
<tr>
<td>Carved-in through medical plan</td>
<td>0%</td>
</tr>
<tr>
<td>With PBM directly (carve-out)</td>
<td>87%</td>
</tr>
<tr>
<td>Other (e.g. Third Party Administrator, collaborative, etc.)</td>
<td>10%</td>
</tr>
</tbody>
</table>

*60% of employers provide prescription drug benefits through their medical plan. Small employers are more likely to use their medical vendor (87%) compared to large employers (36%), while large employers are more likely to use a carve-out PBM (55%) compared to small employers (10%).

**Most Common Strategies Today:**
- Formulary or Benefit Exclusions, Higher Member Cost Share, Limited or Exclusive Pharmacy Network, Prior Authorization, Quantity Limits and Step Therapy

**Note:**
- The President signed several Bills to help lower Rx Costs by 2020 through: Greater Transparency, Faster to Market Generics and BioSimilar Drugs, Control of Rebates, Greater Cost Sharing for R&D with other countries.

*Pwc – touchstone report 2018*
Well-Being Management
Mind, Body, Sprit = Happy, Productive Employees

Controlling healthcare costs and improving employees’ health are the most important outcomes expected from wellness/well-being programs.

### Ranked importance of wellness/well-being program outcomes

<table>
<thead>
<tr>
<th></th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Controlling healthcare costs</td>
<td>47%</td>
</tr>
<tr>
<td>Improving employees’ health</td>
<td>36%</td>
</tr>
<tr>
<td>Enhancing employee engagement</td>
<td>12%</td>
</tr>
<tr>
<td>Reinforcing overall culture</td>
<td>4%</td>
</tr>
<tr>
<td>Improving performance and productivity</td>
<td>2%</td>
</tr>
<tr>
<td>Reinforcing corporate responsibility and image</td>
<td>1%</td>
</tr>
<tr>
<td>Reducing presenteeism</td>
<td>4%</td>
</tr>
</tbody>
</table>

### Wellness/well-being programs offered*

<table>
<thead>
<tr>
<th>Program</th>
<th>Currently offering</th>
<th>Interested in offering</th>
<th>Not interested in offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Assistance Program (EAP)</td>
<td>98%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Tobacco/smoking cessation</td>
<td>83%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Health risk questionnaire</td>
<td>84%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Biometric screening (BMI, blood pressure, cholesterol, etc.)</td>
<td>80%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Physical activity programs and/or fitness challenges</td>
<td>78%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Weight management</td>
<td>75%</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>Stress management</td>
<td>65%</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>Financial literacy, habits, and behavior management</td>
<td>62%</td>
<td>24%</td>
<td>13%</td>
</tr>
<tr>
<td>Fitness center membership fee/class reimbursements</td>
<td>62%</td>
<td>14%</td>
<td>23%</td>
</tr>
<tr>
<td>Social well-being</td>
<td>36%</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>Executive health exam</td>
<td>38%</td>
<td>7%</td>
<td>55%</td>
</tr>
<tr>
<td>Spiritual well-being</td>
<td>25%</td>
<td>22%</td>
<td>51%</td>
</tr>
</tbody>
</table>

*Not shown: those currently offering but considering removing, which were less than 2% for all programs.

*Pwc – touchstone report 2018
Disease Management Retooling

Carriers are Retooling their Disease Management Programs for Greater Engagement and Results
Human Capital Management

- In our time of low unemployment, causing extreme competition for talent, **Human Capital Management** will be the next pillar Human Resource teams will encounter.

- Attract and Retain remains the number one focus but at what Cost and Value?

- Greater emphasis of ROI which means greater analytics tracking.

- Greater need for HRIS systems that integrate many modules: On-Boarding, Time & Attendance, PTO Tracking, Performance, Social Benefits

- Streamline Administration Duties
Key Takeaways
Key Takeaways

- The Affordable Care Act (ACA) Remains in force.
- All ACA Compliance Remains – including Reporting
- Healthcare Continues to Expand due to Society’s aging population.
- Healthcare Costs continue to rise due to Innovation, Mergers and Acquisitions of Hospitals and Providers, Rx and lack of Transparency.
- High Cost Claimants ($100,000 & $500,000) have soared over the past 5 years.
- Insurance Carriers have stabilized from the onset of ACA
- Public Sector Employers remain challenged by higher risk aging demographic, and richer benefit plans.
Key Takeaways

- Employers are reaching a tipping point and looking to take more control of healthcare costs through several strategies:
  - Consumerism – High Deductible Health Plans (HSAs),
  - Transparency for efficient provider use
  - Stronger controls on Rx.
  - New Concierge services will help Communicate 24/7/365.
  - Well Being efforts to cover Mind, Body and Spirit for early detection, health compliance to lower cost and improve productivity.
  - Human Resources is moving into the Human Capital Management era where greater reporting and analytics will be at the forefront requiring robust integrated HRIS systems.