

San Francisco Health Service System Health Service Board

Board Education

Healthcare Cost Trend Influencers Update

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Healthcare Cost Trend Influencers Update — Agenda

- Today's materials present new information to the Health Service Board (HSB) that has influenced health care cost trends over the past year.
- This information about medical benefit and pharmacy benefit trends will guide factors used by health plans and Aon for clients' 2026 plan year renewal rating—including for San Francisco Health Service System (SFHSS).

Escalated Medical Trend Continues

... and likely will be higher in 2025 than in 2024

2024 Aon client experience shows **higher medical cost trend** than in 2023—and trend in 2025 is expected to be slightly higher than in 2024.

Mental health and substance abuse services utilization and cost continue to increase as both provider supply and population demand continue to increase.

Rising employment levels (utilization impact) and **salary increases** (price impact) in healthcare sector contribute to the medical trend increase.

Cost shifting from the government to the private sector continues as fewer qualify for Medicaid into the future (government redetermination process) and the federal government reduces the growth of payments into Medicare Advantage plans.

2025 Average Employer Budgeted Cost Increases (Aon Clients)

Aon actuaries recently aggregated clients' healthcare budget/rate increases for 2025—including 750 U.S. employers, representing 5.5 million employees and \$88 billion in projected 2025 healthcare spend. This reflects budgeting/rating decisions largely made during Spring/Summer 2024—so does not include how actual experience developed during the second half of 2024.

- Plan sponsors made design and program changes to proactively manage costs by almost 1 percent on average nationally.
- Employers nationally continue to absorb more of the increase—though increases on average were proportionally shared among West Region and national Public Sector employers.
- The 7.0% average plan cost increase for employers nationally is the highest in recent years—compares to 6.0% for 2023 and 6.5% for 2024 (and 6.6% for SFHSS budget).
- We expect cost trends to be lower for managed HMO plans than for fee-for-service PPOs.

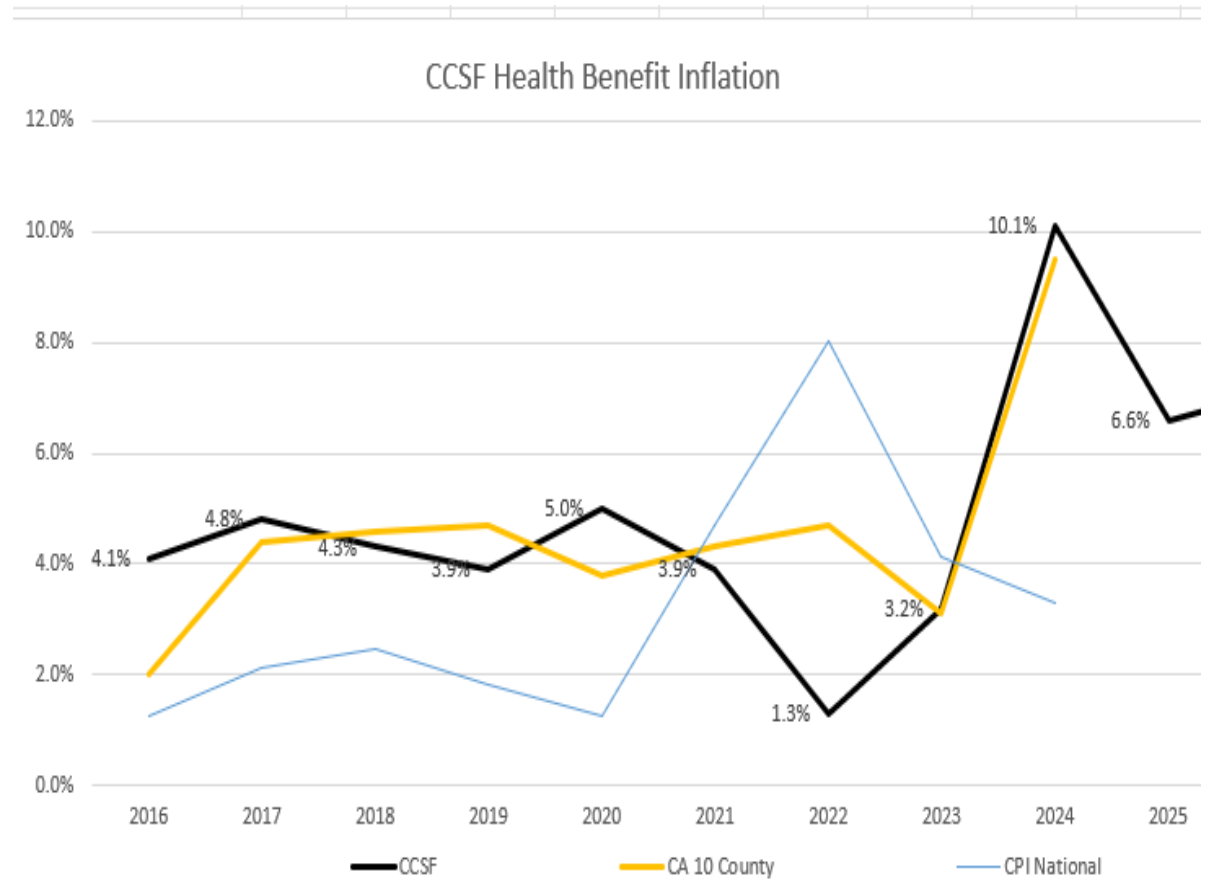
| Costs & Contributions by Segment | | | | |
|---|---|--------------------------------|---|----------------------|
| Survey Segment | Total Plan Cost (Before Changes) | Total Plan Cost (Final) | Employee Contributions from Paycheck | Employer Cost |
| West Region Employers | 8.3% | 7.0% | 7.0% | 7.0% |
| Public Sector Employers | 7.2% | 6.8% | 6.8% | 6.8% |
| Total Survey (US) | 7.8% | 7.0% | 5.6% | 7.3% |



Updated Trend Experience Through 2024

Marketplace View — Compared to SFHSS Experience (Black Line)

- Healthcare costs historically outpace CPI
- SFHSS costs in line or favorable vs. California 10-County benchmark
- Rates for 2024 were high due to lagging impact of rising inflation
- For 2025, SFHSS conducted an MA PPO plan RFP saving \$67M over 3 years
- Favorable SFHSS 2025 trend of 6.6% vs 8% benchmark due to MA RFP and high use of managed care plans



Service Pricing Influences Are Magnifying for Large Claims

Complex care needs continue to escalate—as are the costs to treat these complex needs. Provider price inflation and rising costs of advanced health technologies (treatment and pharmaceuticals) are key drivers.

Service pricing for high-cost claimant services is driven by general inflationary trends on supplies and labor, increased provider negotiating power, hospital and health system consolidation, and non-discounted charges at higher spend thresholds

High-cost claimant incidence increases are driven by technology advancements treating high-intensity conditions such as cancer and pre-mature infants. One stop-loss carrier¹ reports a 50% increase in incidence of \$1M+ claims over the past four years.

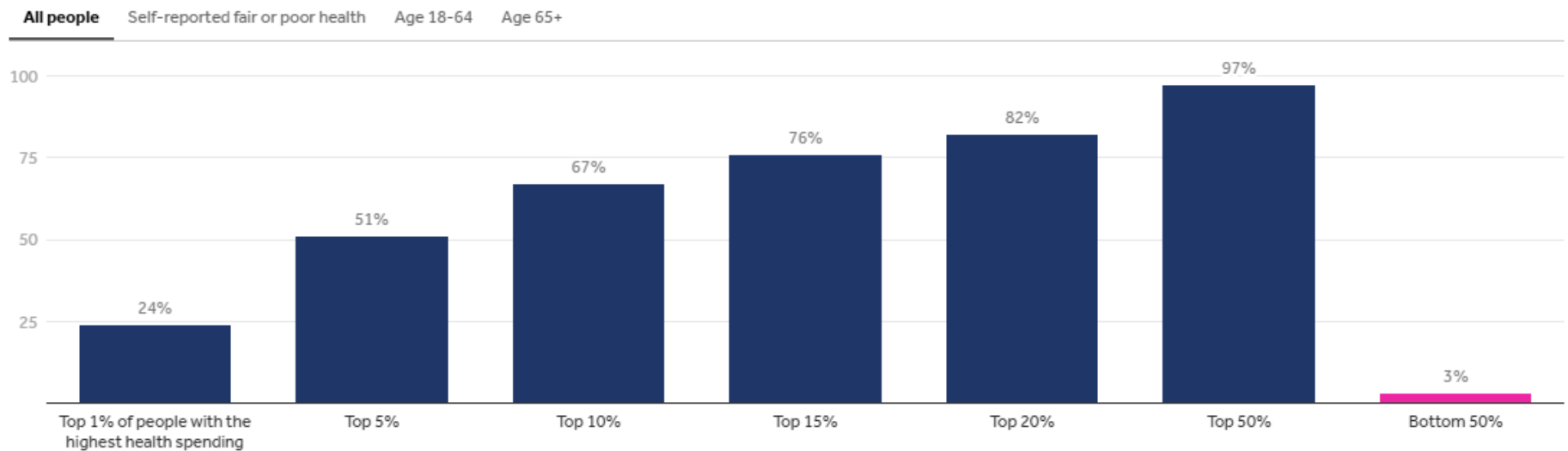
SFHSS data, claimants \$100K+ (Blue Shield of CA plans): 1% of HMO plans population drives 30% of spend, 1.5% of PPO plan population drives 42% of spend.

¹ Sun Life High-Cost Claims and Injectable Drug Trends Analysis, 2024 Edition

Population Health Risk Impacts—Spend Distribution

- A small portion of the population accounts for a large share of health spending (exhibited by Kaiser Family Foundation [KFF] study graphic below from 2021 data where 5% of the population accounted for half of all health spending).

Share of total health spending, by percentile, 2021



Note: Between those aged 18-64 and 65+, there is a statistical difference in the share of total health spending for all quantile categories.

Source: [KFF analysis of 2021 Medical Expenditure Panel Survey data](#) • [Get the data](#) • [PNG](#)

Peterson-KFF
Health System Tracker

[A link to an online article titled: Health Care Costs and Affordability by the Kaiser Family Foundation.](#)

Population Health Risk Impacts—Spend by Age and Health Status

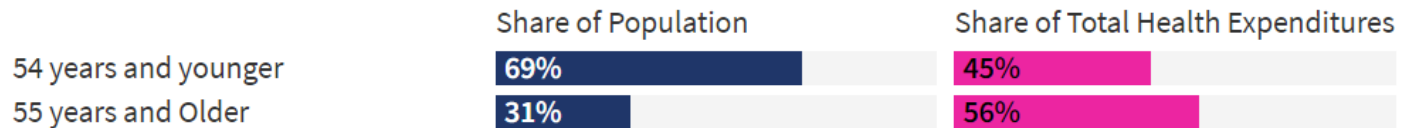
- Baby boomers (born 1946 to 1964) will continue to age into Medicare until 2030.
- As the graphic below based on 2021 KFF data demonstrates, the influence aging and health status have on health care costs is pronounced.

Older People and People with Significant Health Needs Account for Most Health Expenditures

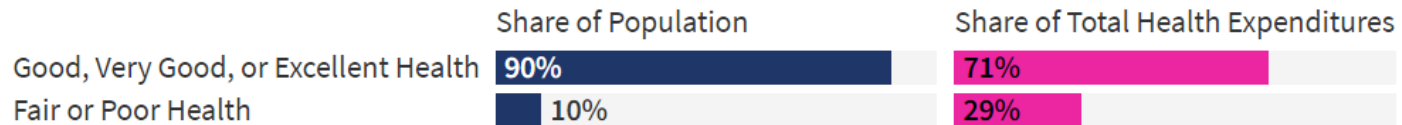
Figure 8

Share of Total Population and Total Health Spending, by Age Group and Health Status, 2021

By Age



By Health Status



Source: [KFF analysis of 2021 Medical Expenditure Panel Survey data](#) • [Get the data](#) • [Download PNG](#)

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The [KFF 2021 Data source](#) is located on the Kaiser Family Foundation webpage.

Behavioral Health Needs Continue to Escalate— As Access Concerns Also Continue

Key points from recent KFF articles (weblinks below) on mental healthcare access and affordability:

- At least four in 10 insured adults (43%) who describe their mental health as either fair or poor say there was a time in the past year when they needed mental health services or medication but didn't get them.
- There are pronounced racial disparities—among adults who report fair or poor mental health, White adults (50%) are more likely to say they received mental health services in the past three years than Black (39%) or Hispanic adults (36%).
- 44% of insured adults who did not receive needed mental health care say they couldn't find a provider they trust; 36% say they didn't know how to find care; and 34% say they were afraid or embarrassed to seek care.
- It was compelling to see in a recent KFF survey that half of adults (53%) who received mental health services in the past three years said they were very or extremely helpful.

[A link to an article titled Racial and Ethnic Disparities in Mental Health Care: Findings from the KFF Survey of Racism, Discrimination and Health](#)

[A link to an article titled The Twin Problems of Mental Health Care: Access and Affordability](#)

Escalated Pharmacy Trend Drivers Continue—With One Glimmer of **Good News**

Specialty drugs continue to escalate in cost—especially new medications which address rare conditions, along with tremendous developments in cancer treatments.

Utilization of traditional brand and generic drugs will increase gradually as population health risk continues to escalate.

Gene and cellular therapies (GCTs) provide life-saving treatments for rare conditions but at a substantial cost (average \$2.5M+)—with the number of GCTs on the market expected to double between 2024 and 2026.

Continued increased utilization of GLP-1 (glucagon-like peptide-1) medications for treatment of diabetes—escalation driven more by weight loss use in 2024.

Biosimilars are starting to emerge for recent high spend medications beginning with Humira now, Stelara soon.

Aon's Perspective on the Pharmacy Market (From November 2024 Board Education)

GLP-1s continue to evolve health care



- Comparing Jul-Dec '23 v Jan-Jun '24, utilizers of **GLP-1s for diabetes** are flat and gross plan paid is up 3.5% as utilization shifts to Ozempic and Mounjaro.
- Comparing Jul-Dec '23 v Jan-Jun '24, utilizers of **GLP-1s for weight loss** are up 64.7% and gross plan paid is up 55.5%. Saxenda utilizers are down 68.2% as Zepbound has fully moved into the market.
- **Supply** challenges begin to resolve, which will increase utilization for clients.
- 134 **potential GLP-1 therapies** in the development pipeline.

Innovation & New Market Entrants



- **Biosimilar utilization will increase** in 2025 for Humira with revised PBM formulary strategies, which will lower overall specialty costs.
- **Stelara** biosimilar enters the market in 2025. Adoption plans in place with the major PBMs.
- The FDA approved 15 **biosimilars** during the first half of 2024 in the anti-inflammatory, cancer, macular degeneration, and osteoporosis categories.
- FDA approved seven novel **oncology** drugs to date in 2024 with breakthrough therapies anticipated for colorectal cancer, breast cancer.

Forces Shaping the Future of Pharmacy



- **Federal and state** anti-PBM efforts persist.
- **The FTC** sues the big three PBMs specific to insulin pricing.
- To increase patient access to care, state laws and pharmacy practice acts are changing to allow **pharmacists to test, treat and prescribe for minor non-chronic conditions**.
- **Artificial intelligence** is being studied to identify patients at high risk of discontinuing opioid use disorder treatment.
- The DEA has increased production to help reduce **short supply of Vyvanse** for ADHD.

Pharmacy Cost Trend Drivers

Data from Aon's pharmacy database consisting of 4.3M members was reviewed by therapeutic category, sub-therapeutic category and drug to determine which medications had the highest spend and trends

Specialty Medications Continue to be a Top Trend Driver

- Anti-rheumatic/Anti-inflammatory (Skyrizi, Rinvoq, Enbrel, Taltz)
- Eczema agents (Dupixent)
- Other specialty

Shift from Humira to Biosimilars is Occurring

- Humira utilization is down 90% for clients with CVS
- Expect similar drop in 2025 for clients of other Pharmacy Benefit Managers (PBMs)

GLP-1s / SGLT-2s Medications for Obesity and Diabetes are Driving Brand Trend

- GLP-1s make up around 30% of overall brand spend, with high double-digit trends continuing to push this higher
- Spend on SGLT-2s for diabetes also continues to trend higher

Aon Clients GLP-1 Experience, 2021-Q1 to 2024-Q3

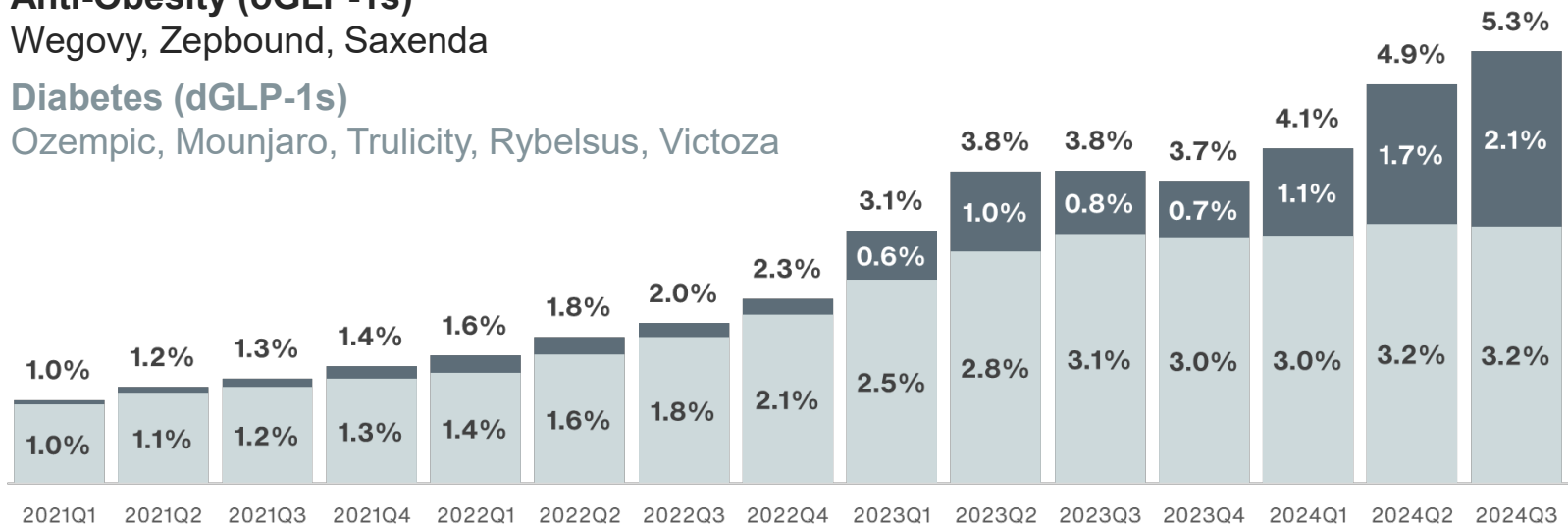
Percentage of Members with a Prescription Fill

Anti-Obesity (oGLP-1s)

Wegovy, Zepbound, Saxenda

Diabetes (dGLP-1s)

Ozempic, Mounjaro, Trulicity, Rybelsus, Victoza



Growth of GLP-1s plateaued at the end of 2023 as supply issues constrained utilization—but into 2024 anti-obesity class utilization has accelerated

Average GLP-1 gross per member per month (PMPM) spend **quadrupled** from 2021 to 2024: **\$8.50 in 2021 to \$12.80 in 2022 to \$24.00 in 2023 to \$34 in Q1-3 2024**

Average GLP-1 percentage of gross drug spend moved from **5.8% in 2021 to 8.0% in 2022 to 12.8% in 2023 to 16.3% in Q1-3 2024**

Healthcare Cost Trend Influencers – Projected Impact on 2026 SFHSS Medical/Rx Plan Rates

- The degree to which the influencers discussed in this document impact the projected rate change for a given SFHSS plan into 2025 will vary.
 - Aon now expects 9% typical cost trend for plans nationwide into 2025 across all plan types, and again into 2026—though increases for managed HMO plans are expected to again be lower than those for fee-for-service PPO plans
 - This is about 1% higher than average client budget increases for 2025 given latest observations from review of 2nd half 2024 client data.
- SFHSS and Aon continue to work diligently with the health plans to understand specific cost trend drivers impacting their proposed rate renewals for the 2026 plan year.
- Plan-specific cost trend influencer impacts will be discussed with each plan's renewal recommendation in coming HSB meetings.

Next Steps to Determine SFHSS Medical/Rx Plan Rates and Contributions for 2026 Plan Year

- During the March and April HSB meetings, SFHSS and Aon will present information that will guide 2026 plan year renewal rating and employer contribution determination.
 - March: 10-County Survey Amount for use in 2026 rating for retirees and employer groups using 10-County Amount for employer contribution calculations; self-funded and flex-funded health plans 2024 experience reviews.
 - April: Kaiser HMO plans 2024 experience review, SFHSS Risk Scores.
- May/June: presentation of 2026 plan year medical/Rx plans renewal rating recommendations for HSB action.