San Francisco Health Service System
Health Service Board

Board Education
Healthcare Cost Trend Influencers
Delivered by Iftikhar Hussain, CFO — SFHSS and Mike Clarke, Lead Actuary — Aon

February 9, 2023
Healthcare Cost Trend Influencers — Agenda

• Historical healthcare cost trend view — SFHSS and key comparators
• Drivers of near-term cost trend expectations
• Broad forces influencing medical trends — and resulting mitigation strategies
• Importance of well-being, primary prevention, early intervention, and advanced primary care initiatives on reducing cost trends
• Trend mitigation potential strategies for SFHSS
• Appendix — Pandemic Influencers on Trend
Historical Healthcare Trends: Medical/Rx Premiums
Marketplace View

• After periods of moderate trend through 2020, national and local benchmark data suggests an increase in annual healthcare cost trends through 2021 and into 2022

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>2016</th>
<th>2017</th>
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Historical Healthcare Trends: Medical/Rx Premiums
Marketplace View — Compared to SFHSS Experience (Blue Line)

- SFHSS cost trends (blue line) have been demonstrably lower in 2021 – 2023 than national benchmark cost trends

CHANGE IN SFHSS MEDICAL RATES
vs BENCHMARKS BY PLAN (CALENDAR) YEAR

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Historical Healthcare Trends: Medical/Rx Premiums
Marketplace View — Compared to SFHSS Experience (Blue Lines)

- SFHSS experienced declining rates of increase from 2016 to current (dotted blue line) — recognizing overall trend is increasing presently

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Projected Healthcare Trends: Medical/Rx (Aon Forecast)

- Price increases continue to drive trend, with smaller contribution from utilization change.
- Provider price increases are driven in part by market consolidation as large health systems continue growth by acquisition.

Key Trend Themes in Pharmacy:
- Rising costs
- Expensive cell/gene therapies
- Management of patients on high-cost therapies
- Integration of specialty pharmacies into healthcare organizations

Prescription Drug Costs are Influenced by:
- Member drug utilization mix
- Drug rebates
- Contractual pricing provisions
- Formulary management
- Utilization programs

2022 – 2023 Expected Rate of Increase Relativities by Component

- Medical
- Pharmacy

Price
Utilization
Medical Trend
Price
Utilization
Rx Trend
(Before Rebate Improvement)
Leading employers are tackling the underlying risk factors that are making employees ill — and therefore driving higher medical premiums.

Improved member wellbeing and integrated primary care focuses have significant potential to mitigate the influence of increasing health risk.
Healthcare Cost Trend Influencers and Mitigation Strategies

Component

- Price
- Service Mix
- Utilization
- Plan Design

Driven by...

- Lifestyle Risks
- Economy
- Regulation
- Technology
- System Consolidation and Labor Shortages
- COVID

Mitigated by...

- Advanced Primary Care Initiatives
- Member Wellbeing
- Health Risk Improvement
- Navigation to Efficient Care Settings/Optimal Quality and Cost Providers
- Virtual Services
## 2023 Global Medical Trend — Wellbeing & Health Promotion

**Aon Global Survey — Percentage of Employers Stating Strategic Focus**

| Detection: Primary Care Well Visits, Vision Screening, Hearing Screening, Mammograms, Colonoscopies | Advanced Assessment Programs: Advanced Check-ups, Heart Health, Nutrition Substance Use, Level of Fitness |
| Education Programs: Communication Materials on Wellness, Wellness Kits, Informational Web Service, Fitness Education | Coaching Programs: Health Specialists, Health Coaching, Wellbeing Apps, Incentive Programs |
| Wellness Interventions: Employee Assistance Program, Emotional Wellbeing, Healthy Eating, Quitting Smoking/Tobacco Use, Physical Activity, Healthy Weight, Back Care, Reducing Risk for Heart Disease |

<table>
<thead>
<tr>
<th>Detection</th>
<th>Advanced Assessment Programs</th>
<th>Education Programs</th>
<th>Coaching Programs</th>
<th>Wellness Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>87%</td>
<td>75%</td>
<td>81%</td>
<td>67%</td>
<td>82%</td>
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</table>

**Wellness Interventions:**
- Employee Assistance Program
- Emotional Wellbeing
- Healthy Eating
- Quitting Smoking/Tobacco Use
- Physical Activity
- Healthy Weight
- Back Care
- Reducing Risk for Heart Disease
Primary Care Case Study by California Health Care Foundation (CHCF)—Stressing Importance of Primary Care

High Use of Primary Care Services Improves Quality and Lowers Cost

<table>
<thead>
<tr>
<th>STUDY FINDINGS</th>
<th>Performance of Provider Organizations, by Quartile of Primary Care Spending Percentage</th>
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<tbody>
<tr>
<td></td>
<td>PRIMARY CARE SPENDING PERCENTAGE (average adjusted)</td>
</tr>
<tr>
<td>1st Quartile (lowest)</td>
<td>6.0%</td>
</tr>
<tr>
<td>2nd and 3rd Quartiles</td>
<td>8.6%</td>
</tr>
<tr>
<td>4th Quartile (highest)</td>
<td>12.5%</td>
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</table>

* Percentage of patients who rated their doctor and all care ≥9 out of 10.
Notes: ED is emergency department. PMPM is per-member per-month.
Source: Authors’ analysis of IHA primary care data set, 2021

AUTHORS
Dolores Yanagihara, MPH, Integrated Healthcare Association and Ann Hwang, MD, Bailit Health Purchasing, LLC
Rising Healthcare Trends: Back to the Future?
Trend spikes are not new — recognizing we are in an upward cycle
Future Trends: Impact of Inflation

Economy-wide inflation will likely drive wages up in the healthcare sector, which may in turn drive negotiated prices up with health plans.

Price increases will exhibit some delay in appearing in medical claims because provider contracts are renegotiated every two to four years.

- Historically, healthcare prices have trended higher than underlying broad inflation measures — will providers be able to maintain that spread in upcoming negotiations?
- Aon is monitoring healthcare claim trend patterns and provider/carrier negotiation results frequently in order to provide early warning on emerging negotiation trends.
Trend Mitigation Potential Strategies for SFHSS

The majority of SFHSS healthcare spend is on fully-insured health plans (primarily Kaiser HMOs and UnitedHealthcare MAPD plan) based on enrollment distribution — continued partnership among the plans and SFHSS to support member wellbeing is more important than ever to maintain reasonable renewal positions.

• Forecast aggregate SFHSS cost distribution by plan for 2023 plan year:

<table>
<thead>
<tr>
<th>Kaiser HMOs</th>
<th>UHC MAPD</th>
<th>BSC/HN/UHC HMOs</th>
<th>BSC/UHC PPO</th>
<th>Active</th>
<th>Active</th>
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</thead>
<tbody>
<tr>
<td>Med/Rx/Vis</td>
<td>Med/Rx/Vis</td>
<td>Med/Rx/Vis</td>
<td>Med/Rx/Vis</td>
<td>Dental</td>
<td>Life/LTD</td>
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<tr>
<td>48.2%</td>
<td>8.6%</td>
<td>33.1%</td>
<td>5.5%</td>
<td>3.9%</td>
<td>0.7%</td>
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Trend mitigation strategies for SFHSS are multi-faceted and may include:

- Plan Rate Negotiations and Periodic RFPs
- Lower Member Demand for Healthcare Services through Health Risk Improvement Initiatives
- Increased Use of Alternative Care Settings (e.g., virtual care, urgent care instead of emergency department)
- Advanced Primary Care Initiatives that Better Engage Patients in Health Risk Management and Healthcare Decisions
- Optional Plan Design Feature Review (e.g., deductibles, copayments, Rx formularies, etc.)
Appendix

Pandemic Influencers on Trend
Pandemic Influencers Then and Now
What Will Change Going Forward?

Previous COVID Waves
The medical claims experience in the last 2.5 years contains the impacts of multiple separate periods of COVID lulls and outbreaks.

Recent years claim experience includes these COVID-related elements:
- COVID Testing Costs
- Vaccine Costs
- COVID Treatment Costs
- Suppression of other claims to make room for COVID patients (mostly in 2020 and early 2021)

Future COVID Waves
The expectation is for continuing seasonal COVID waves, with testing/vaccine/treatment costs included in each wave.

How much will each element influence claim experience in subsequent waves?

Direct COVID costs expected to be less than previous COVID waves as a higher percent of population is vaccinated.

Deferred Care
Initial expectations assumed there would be a rebound of deferred care—but it occurred slower than expected and, in some cases, did not reach pre-pandemic levels.

We will monitor potential impacts of “Long COVID” — as of now, it is too early to evaluate.

Deferred Care
Little to no expected net cost impact.

Inflation Impacts
U.S. inflation rates are at the highest levels since the 1980s. Inflation is linked to healthcare spending through healthcare wages.

Monitoring specialty drug costs, cancer costs and catastrophic claim activity, carrier and market updates are crucial for timely trend expectation updates.

Inflation Impacts
Near-term trend guidance is slightly higher for each upcoming year than each prior year.