San Francisco Health Service System
Health Service Board

Board Education

Healthcare Cost Trend Influencers Update

Delivered by Iftikhar Hussain, CFO — SFHSS and
Mike Clarke, Lead Actuary — Aon

May 11, 2023

Healthcare Cost Trend Influencers Update — Agenda

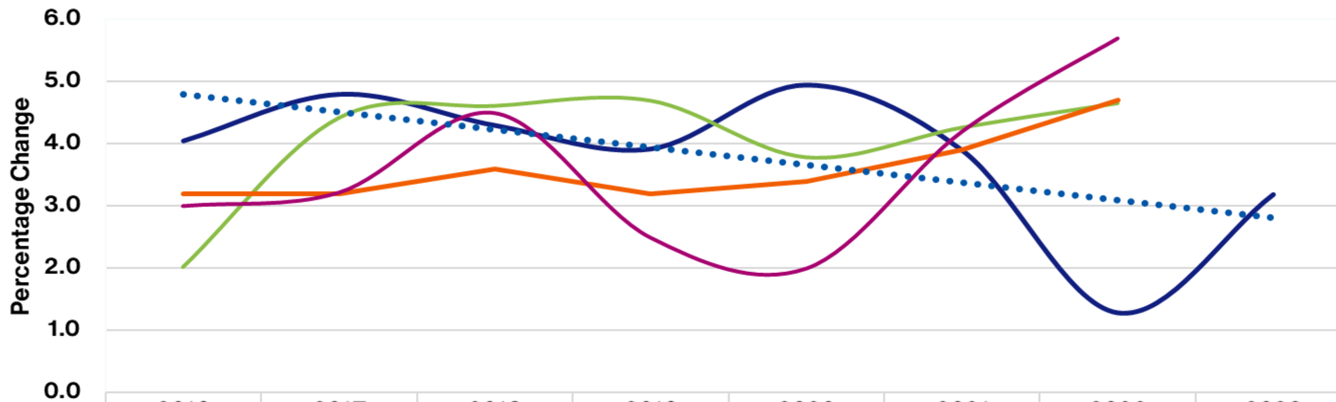
- Discuss new information influencing health care cost trends—and 2024 SFHSS plan renewals—since February 9, 2023, Health Service Board (HSB) presentation by SFHSS CFO Iftikhar Hussain and Aon Lead Actuary Mike Clarke.
  - Healthcare labor cost growth—outpacing inflation
  - Ongoing COVID-19 expense impacts
  - Behavioral health impacts
  - Pharmaceutical impacts
- New information for Medicare Advantage plans—reduction in growth of government payments creating pressure on 2024 plan year premiums.

From Our February Discussion

Marketplace View — Compared to SFHSS Experience (Blue Lines)

- Favorable historical trends for SFHSS—but concern voiced in February about economy-wide inflation likely to drive wages up in the healthcare sector, which may in turn drive negotiated prices up with health plans.

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



	2016	2017	2018	2019	2020	2021	2022	2023
HSS Health Premium Changes	4.1	4.8	4.3	3.9	5.0	3.9	1.3	3.2
CA 10 County Premium Changes	2.0	4.4	4.6	4.7	3.8	4.3	4.7	
Mercer National	3.2	3.2	3.6	3.2	3.4	3.9	4.7	
CPI — Urban San Francisco Area*	3.0	3.2	4.5	2.5	2.0	4.2	5.7	

Calendar Year

HSS Health Premium Changes
CA 10 County Premium Changes
Mercer National
CPI — Urban San Francisco Area*
Linear (HSS Health Premium Changes)

* *CPI Source: US Bureau of Labor Statistics*

Escalated Medical Trend Drivers

Healthcare wage and supply cost inflation drives up negotiated prices between payers and providers. The impact will vary by plan depending on carrier/provider contract renewal cycles—these are typically renegotiated every two to four years.

Increasing prevalence of chronic conditions magnified by Long COVID impacts leads to higher demand for and utilization of health plan services and prescription drugs.

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

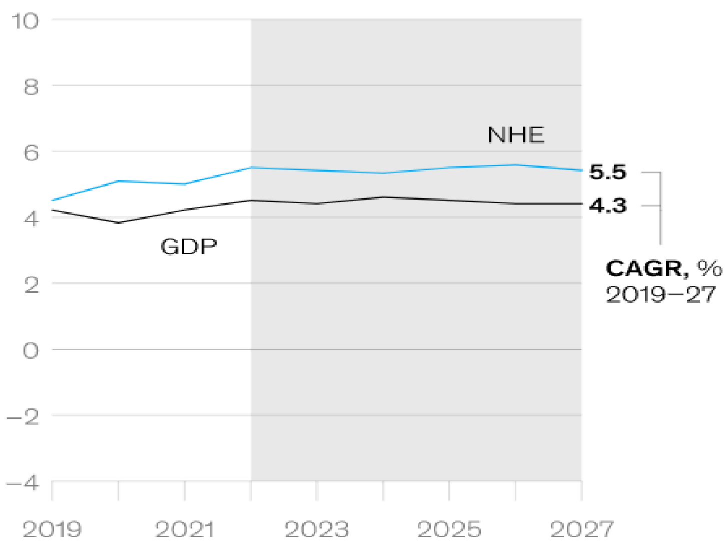
Cost shifting from the government to the private sector is magnifying as fewer qualify for Medicaid into the future (government redetermination process) and the federal government reduces the growth of payments into Medicare Advantage plans.

New Health Expenditure Forecasts Causing Concern

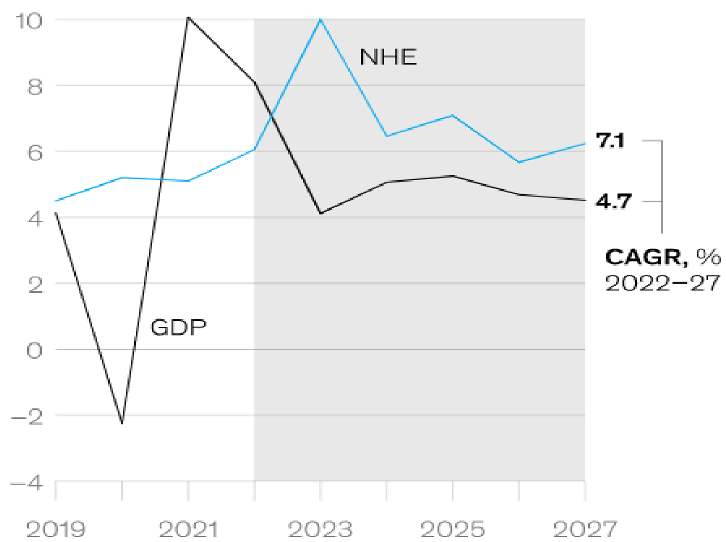
National Health Expenditures (NHE) Growth Forecast to Exceed General Inflation (Measured by Gross Domestic Product, or GDP, Inflation)

National health expenditure growth with incremental effects could significantly outpace GDP growth over the next two to three years.

Projections of NHE and GDP growth, pre-COVID-19, % (nominal) 2019–27



Projections of NHE and GDP growth, with additional impacts, % (nominal) 2019–27



NHE growth in excess of GDP growth, percentage points

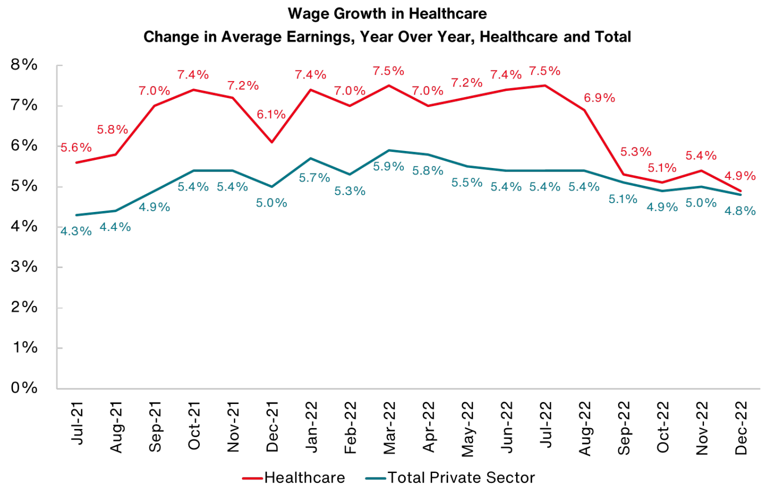
2022	2023	2024	2025	2026	2027
1.2	1.2	0.9	1.2	1.4	1.2

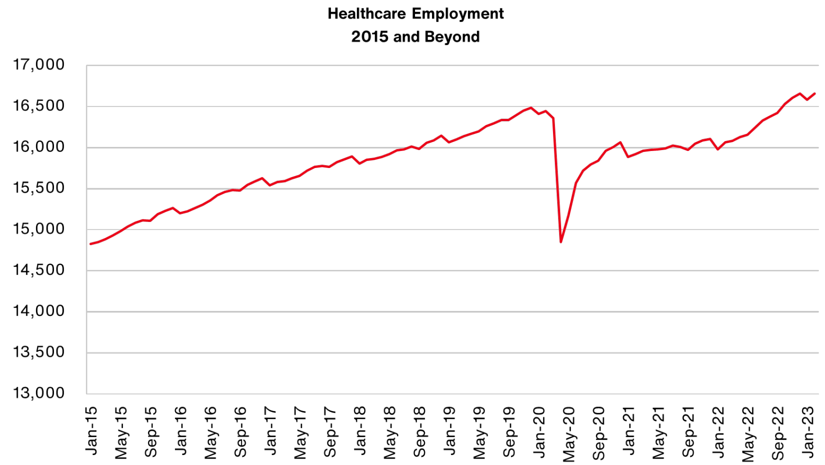
2022	2023	2024	2025	2026	2027
–2.1	5.9	1.4	1.8	1.0	1.7

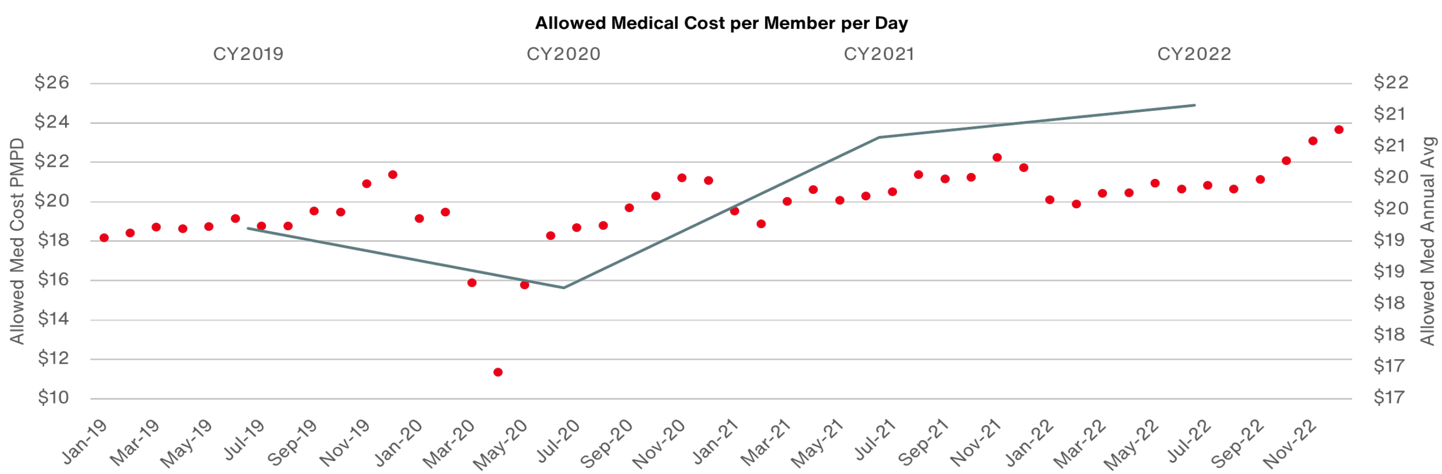
Note: For pre-COVID-19 projection, nominal NHE growth and nominal GDP growth based on March 2020 NHE release; nominal NHE growth, with additional impacts, is based on March 2020 NHE release for 2019–21 and March 2020 NHE release, plus additional modeled impacts for 2022–27; nominal GDP growth is actuals through 2021 and projections from 2022–27 based on McKinsey analysis in partnership with Oxford Economics, scenario 3B.
Source: *National health expenditure projections 2019–28*, US Centers for Medicare & Medicaid Services, Mar 24, 2020; McKinsey analysis

Wage and Supply Cost Inflation Have Elevated Trend Pressure

Healthcare employment levels are returning to pre-pandemic levels—but wage inflation and supply cost inflation have created an escalated service price environment for health systems.







Source: *Altarum Health Sector Economic Indicators; February 2023 Labor Brief*

Service Pricing Influences Are Magnifying for Large Claims

Complex care needs are escalating—as are the costs to treat complex needs due to overall provider service price inflation and the rising costs of advanced health technologies (treatment and pharmaceuticals).

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 as well as declining overall health. From 2020 to 2021 for one stop-loss carrier, total book of business million-dollar claims increased by 19%.

SFHSS data: Blue Shield of California HMO claimants exceeding $500K in annual spend (Access+ and Trio plans) increased from 28 individuals in 2021 to 49 individuals in 2022 (March 23, 2023, HSB report, BSC HMO 2022 experience)

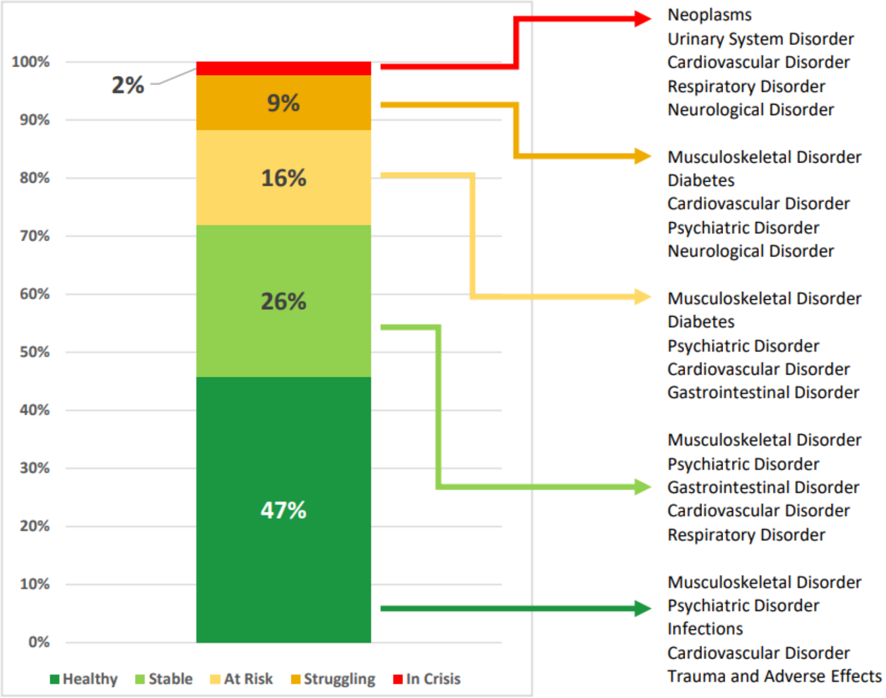
Sources: Medical Cost Trend: Behind the Numbers 2022 (PWC); Sun Life High-Cost Claims and Injectable Drug Trends Analysis, 2022 Edition

Population Health Risk is Increasing

More than a quarter of health care costs or roughly $455B are associated with four complex condition categories: diseases of the heart, musculoskeletal, cancer, and kidney disease.[1]

Utilization is driven by declining overall health, long-term impact of COVID on the body, longer survival rates of those with rare or chronic conditions. As many as 1 out of 6 people who have recovered from COVID continue to have symptoms 6 months later.[2]

SFHSS data, April 2023 Risk Scores Report, Active Employee / Early Retiree Populations:



[1] *Complex, Costly Conditions: A Strategic Imperative for Payers and Employers (Optum)*

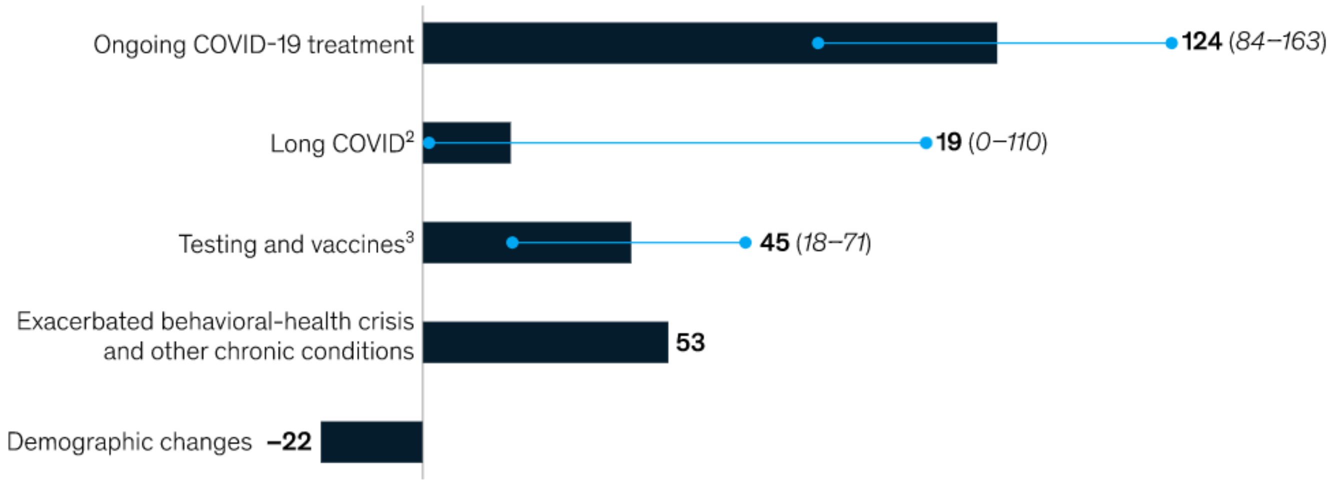
[2] *The Hill: 8 Reasons Why Health Care Cost Inflation Is Likely to Escalate, 4/2/2022*

COVID-19 Expenditures Will Continue

McKinsey Study estimates as much as $200B in US costs attributable to COVID-19 by 2027

Across factors, the total additional costs of treating COVID-19 could be over $200 billion.

Impact on cost of care from COVID-19-related factors and exacerbations of other conditions, 2027,[1]
$ billion



[1]Total range of $137 billion–$379 billion is based on scenario analysis using McKinsey's COVID-19 Epidemiological Scenario Planning Tool (v13.3), which includes a range of 110 million–220 million annual cases, of which 10–15% require outpatient treatment; 4,100–6,100 people per day require non-ICU hospital admission; and 400–900 per day require ICU admission. Cost of treatment estimates are from Blue Cross Blue Shield and FAIR Health. All figures are scaled to nominal 2027 estimates.

[2]Long COVID treatment costs are based on an estimate that at least 3–12% of cases result in long COVID (UK Office for National Statistics) for 3–12 months, published estimates of long COVID symptoms (UpToDate), and standard treatment costs for those symptoms (MEPS). The upper estimates of long COVID incidence assume approximately 20 million US long COVID cases per year, based on data on current rates of long COVID from the US Census Bureau's July–August 2022 Household Pulse Survey. There is significant uncertainty in ascertaining prevalence and resulting cost impact of long COVID, and data continue to become available on a frequent basis as more research is conducted. Our aggregate analysis, based on these enumerated data sources, uses a point estimate of $19 billion as a conservative estimate based on available data. For both ongoing COVID-19 treatment and long COVID, higher incidence rates would result in an estimate at the higher end of the range.

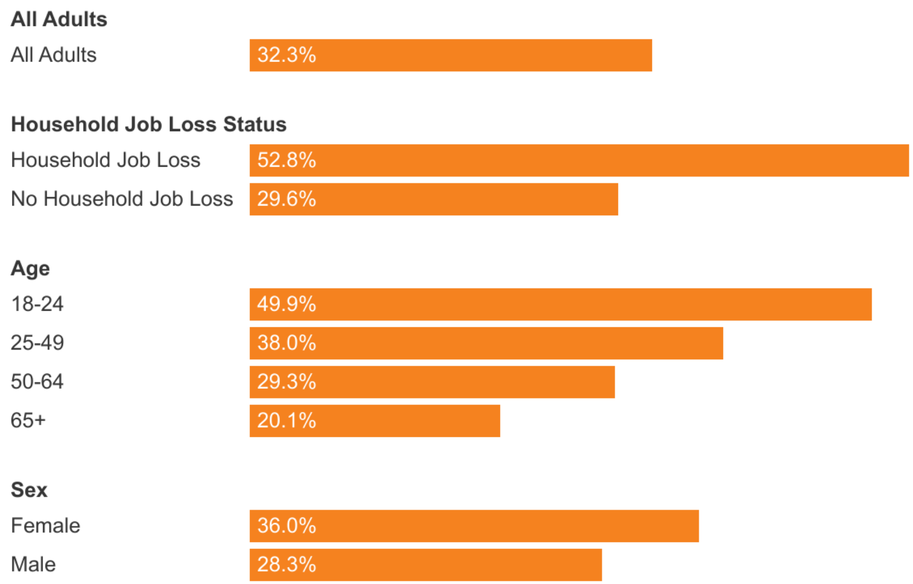
[3]Testing and vaccine estimates are based on 2021 costs per test and per vaccine and on data from HHS and the CDC as to annual demand for testing and boosters. For this factor, higher utilization of testing (times per person, per year) would result in an estimate at the higher end of the range. All figures are scaled to nominal 2027 estimates.

Behavioral Health Needs and Services Delivered are Expanding—With the By-Product of Increased BH Spend

KFF summary of US Census Bureau Pulse Survey on Adult Prevalence of Anxiety/Depression:

Figure 2

Share of Adults Reporting Symptoms of Anxiety and/or Depressive Disorder, February 2023



NOTE: Adults having symptoms of depressive or anxiety disorder were determined based on having a score of 3 or more on the Patient Health Questionnaire (PHQ-2) and/or Generalized Anxiety Disorder (GAD-2) scale. Household job loss status refers to whether anyone in the respondent's household experienced loss of employment income in the past four weeks.

SOURCE: KFF analysis of U.S. Census Bureau, Household Pulse Survey, 2023

Source: The Implications of COVID-19 for Mental Health and Substance Use | KFF

Escalated Pharmacy Trend Drivers

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.

No significant cost reductions are expected in 2023 from new generic drug or biosimilar drug entry—a change from past developments.

Increased utilization of GLP-1 (glucagon-like peptide-1) medications for treatment of diabetes is anticipated to contribute to trend pressures, especially as this medication is prescribed for weight-loss uses beyond original intent.

Medicare Advantage Plans—Methodology Changes Impacting Government Revenues

- The majority of medical and prescription drug claim costs within Medicare Advantage plans are covered through federal government payments managed by the Centers for Medicare and Medicaid (CMS).

- Over the past several years, the percentage increases in CMS revenues have been consistent with the percentage increases in annual claim costs – leading to relatively favorable rate renewal positions for SFHSS Medicare Advantage plan.

- However, recent changes in CMS revenue determination processes into Medicare Advantage plans will lead to lower percentage increases in third-party revenue relative to claims trend – creating higher-than-typical increases in the plan rates that cascade to MAPD plans.

  - This phenomenon will be discussed further during Medicare Advantage plan rate renewals at the June 8, 2023, HSB meeting.

Healthcare Cost Trend Influencers – Projected Impact on 2024 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 2024 will vary.
  - Aon expects a 7% typical cost trend for plans nationwide into 2024.
  - In addition to trend, the forces discussed in this document are likely to result in significantly higher rate renewals for some plans than what was projected in February 2023.
- SFHSS and Aon continue to work diligently with the health plans to understand specific cost trend drivers impacting their proposed rate renewals for the 2024 plan year.
- Plan-specific cost trend influencer impacts will be discussed with each plan's renewal recommendation in coming HSB meetings.