

# **San Francisco Health Service System Health Service Board**

## **Board Education**

Healthcare Cost Trend Influencers Update

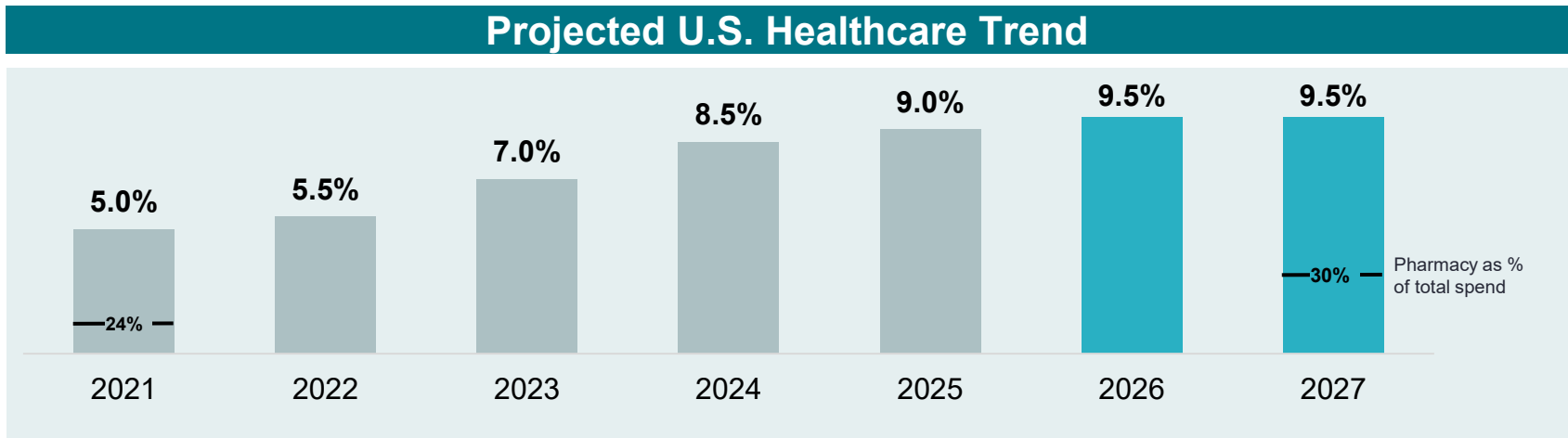
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# Healthcare Cost Trend Influencers Update — Agenda

- Today's materials present updated information to the Health Service Board (HSB) about factors influencing current health care cost trends.
- This is especially important as the current health care cost increase trends are higher presently than in the recent past.
- This information about medical benefit and pharmacy benefit trends will guide factors used by both health plans and Aon for San Francisco Health Service System (SFHSS) 2027 plan year renewal rating.

# U.S. Healthcare in Highest Trend Environment in 20 Years



Source: Aon Trend Survey

Eight Key Cost Increase Drivers	
<b>Service Price Inflation</b> Increasing Labor Costs, Higher Service Intensity	<b>GLP-1 Drugs</b> Weight Loss + Oral Forms + New Indications
<b>Worsening Population Health Status</b> Chronic Conditions – Cancer, MH + Aging Population	<b>Policy and Regulation Shifting Cost to Commercial Plans</b> Medicaid and ACA Cuts, Tariffs, Unintended No Surprises Act Impacts
<b>High-Cost Claims</b> Neonatal ICU, Cancers	<b>Market Consolidation</b> Health Systems, Payors, Private Equity
<b>Specialty Prescription Drugs</b>	<b>High-Cost Gene and Cell Therapies</b>

Monitoring: Artificial Intelligence Impacts, Prescription Drugs Regulation

# Breaking Down 9.5% Healthcare Trend Increase for 2026

Price, Utilization, and Mix of Services All Contribute to Trend<sup>1</sup>

<b>Price (40% of trend)</b>	<ul style="list-style-type: none"><li>• Cost of labor (nurses, providers, administration)</li><li>• New-to-market brand medications (e.g., Wegovy, Zepbound and Ozempic)</li><li>• Specialty medications (e.g., cancer and anti-inflammatory drugs)</li></ul>
<b>Utilization (35% of trend)</b>	<ul style="list-style-type: none"><li>• A rise in demand for services due to rising prevalence and aging population supported by a rise in healthcare employment to support the utilization increase;</li><li>• higher uptake in brand (e.g., GLP-1s) and specialty medications</li></ul>
<b>Service Mix (25% of trend)</b>	<ul style="list-style-type: none"><li>• Shift to higher intensity, more costly drugs (e.g., brand and specialty)</li><li>• Increased demand of higher risk populations (higher service use, more high-cost claimants)</li><li>• Shifts in service mix type (e.g., more mental health and substance abuse)</li></ul>

<sup>1</sup> Aon's U.S. Employer Trend Guidance

# Current Market Landscape



## Legislation Adding Cost & Access Issues, Unevenly Felt

**12M**

Increase in uninsured  
over next 10 years  
(CBO)

**300+**

# of rural hospitals to  
close over 10 years from  
Medicare & Affordable  
Care Act cuts  
(AHA)



## Artificial Intelligence To Improve Cost, Access, Experiences

**13%**

Reduction in payor  
medical spend from  
GenAI Adoption  
(McKinsey)

**40%**

Employer comfort with AI  
making treatment  
recommendations  
(Aon)



## Under Prepared National Infrastructure

**27**

Hours needed in a day for  
primary care to manage  
current patients  
(AAMC)

**35%**

Increase in population  
65 and older over next  
10 years  
(AAMC)



## Pace of Clinical Innovation Adding Cost & Coverage Concerns

**12.5%**

2026 projected  
pharmacy trend  
(Aon)

**12**

Additional indications GLP-1s  
are being studied for approval  
(Aon)

<sup>1</sup> Aon's U.S. Employer Trend Guidance

CBO = Congressional Budget Office

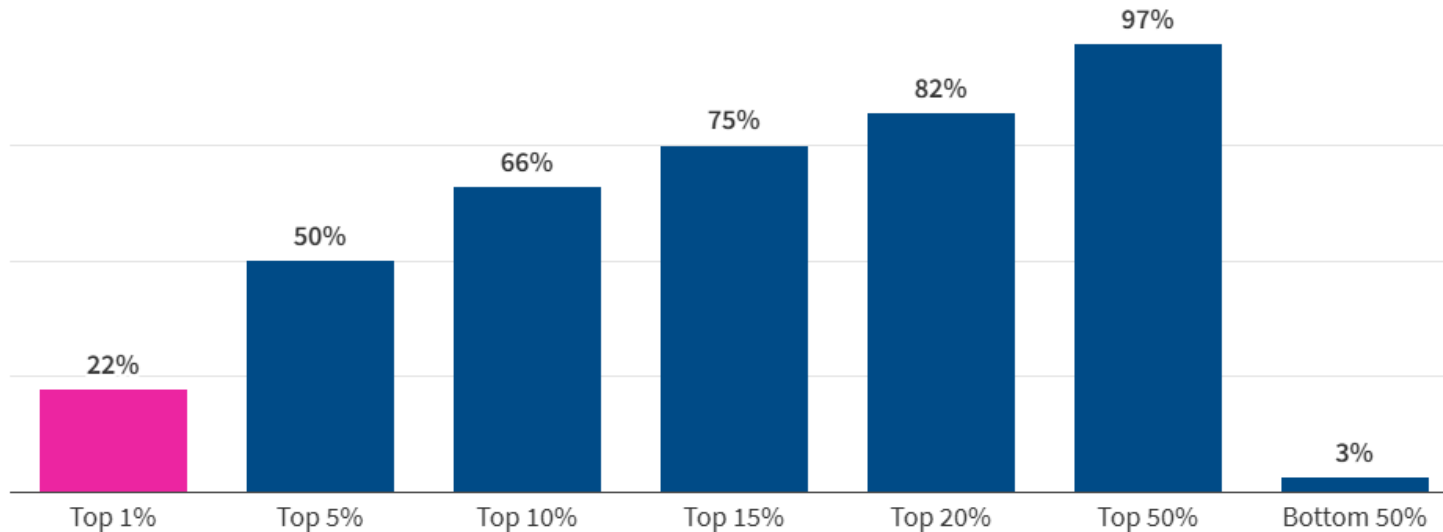
AHA = American Hospital Association

AAMC = Association of American Medical College

# 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 2022 data where 5% of the population accounted for half of all health spending).

**Share of Total Health Spending, by Percentile, 2022**



[Link - Oct 2025 article: Health Care Costs and Affordability from the Kaiser Family Foundation](#)

# Explosive Growth in Specialty and Biologic Drugs<sup>1</sup>

Specialty/Biologic drugs are high-cost medicines for serious, chronic conditions that often need special handling, monitoring, or administration.



## **Specialty market is growing rapidly by ~40% annually**

- ~40% projected annual growth
- Projected to reach ~\$966B by 2030



## **Over 50% of drug spend comes from less than 2% of members**

- By 2028, projected to be 55%+ of total healthcare spend



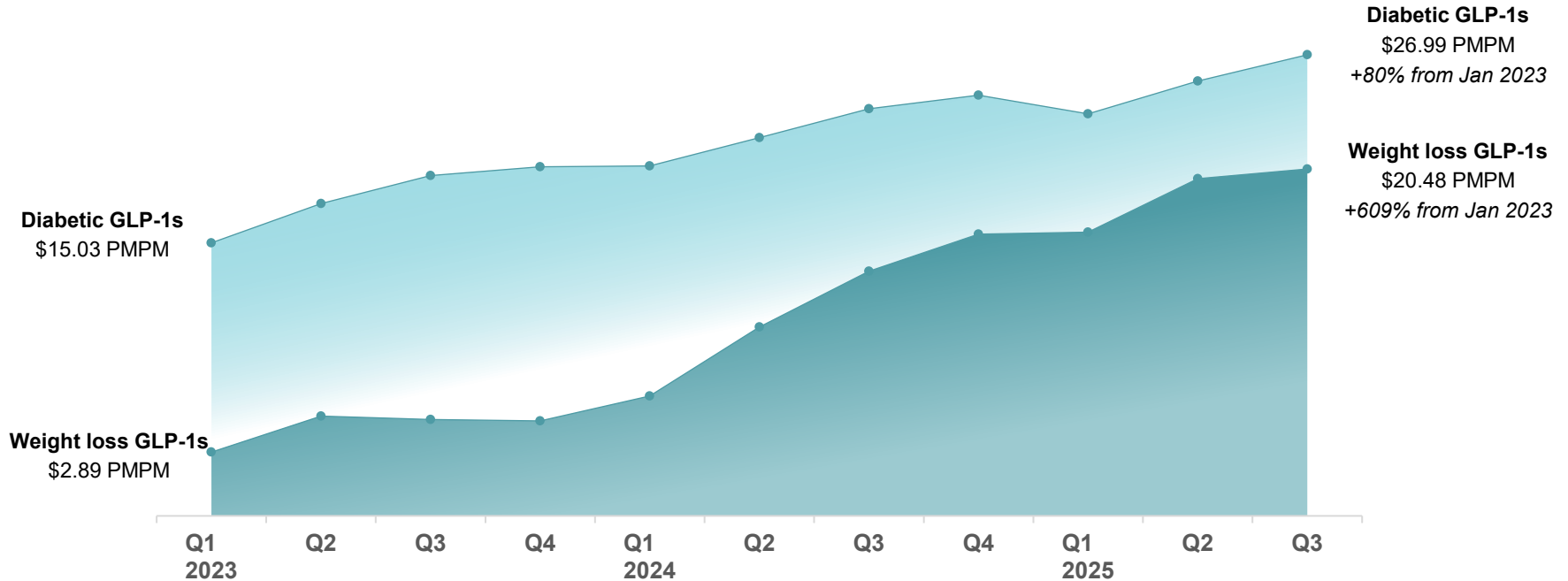
## **Specialty dominates the pipeline with every 3 out of 4 drugs**

- Mid-1990s: Less than 30 specialty drugs on market
- As of mid-2024: 75% of 7,000 drugs in development are specialty

<sup>1</sup> See Appendix for glossary of prescription drug terms

# Aon Clients' GLP-1 Experience

Diabetic & weight loss GLP-1s surged in 2023/24, trend starting to slow but could accelerate as pill forms are becoming available now

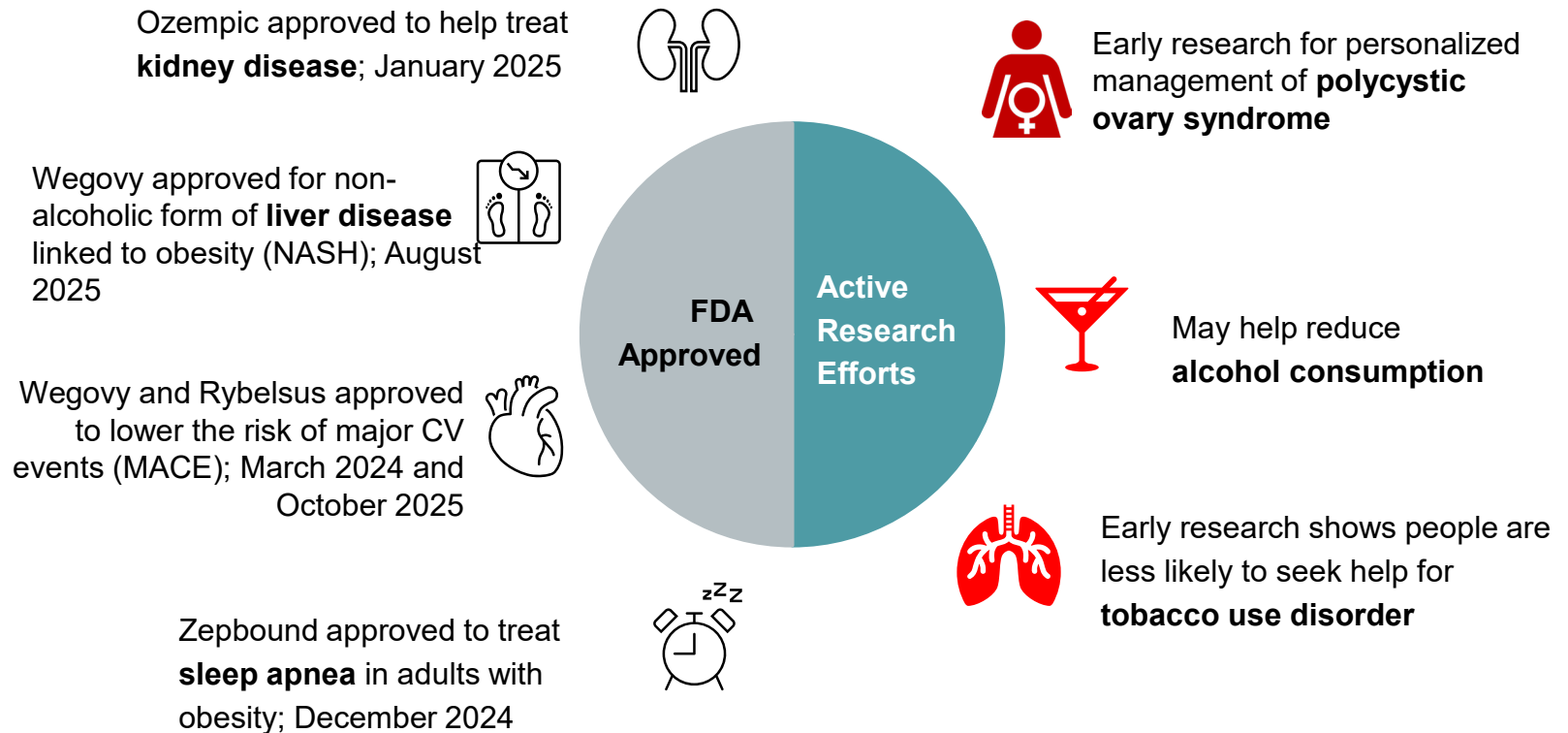


Note: All figures shown are on a **gross cost** basis and have not been reduced by member paid nor manufacturer paid (rebate) values. PMPM values shown are **average PMPM for the quarter**.

Source: Aon Pharmacy data warehouse, reporting period of January 2023 – September 2025.



# GLP-1s Show Clinical Promise Beyond Weight Loss & Diabetes



# Health Plan Focuses From Recent Aon Discussions

Investing in AI Backend To Improve Front End Experiences	Innovation on Cost Management slower to evolve	Focus on Digital Experiences & Partnering To Fill Gaps
<p>Health plans focus on creating operational efficiencies to better serve members, service team, practitioners, &amp; providers.</p>	<p>With current high trend environment, difficult to meaningfully “bend the cost curve”.</p>	<p>Enhancing core programs like navigation and digital applications. Expanding partnerships to fill experience &amp; capability gaps.</p>
<p><b>Impact</b></p> <ul style="list-style-type: none"> <li>• Less friction and delays</li> <li>• Improved navigation and prior authorization process</li> <li>• Leverage more data to more quickly resolve member interactions</li> </ul>	<p><b>Impact</b></p> <ul style="list-style-type: none"> <li>• Current focus on network discounts, narrow networks</li> <li>• Building alternative health plans</li> <li>• Increase in volume of payor and health system contract disputes</li> </ul>	<p><b>Impact</b></p> <ul style="list-style-type: none"> <li>• More condition-targeted programs offered with increased reporting</li> <li>• Navigation and digital application improvements</li> </ul>

# Bright Spots In Addressing Employer Pain Points

Even in a high-cost environment, there are encouraging developments

## High Trend & Affordability

- Reduce total cost of care through targeted interventions.
- Use of data and near-real time tools to shift to lower-cost options.
- Movement toward value-based care arrangements aligning payment with care outcomes.

## Identifying & Engaging Members in Programs

- Flag high-risk, high-cost members earlier, guiding to appropriate care.
- Investment in navigation, advocacy, and digital engagement connecting members with the right care and benefits.

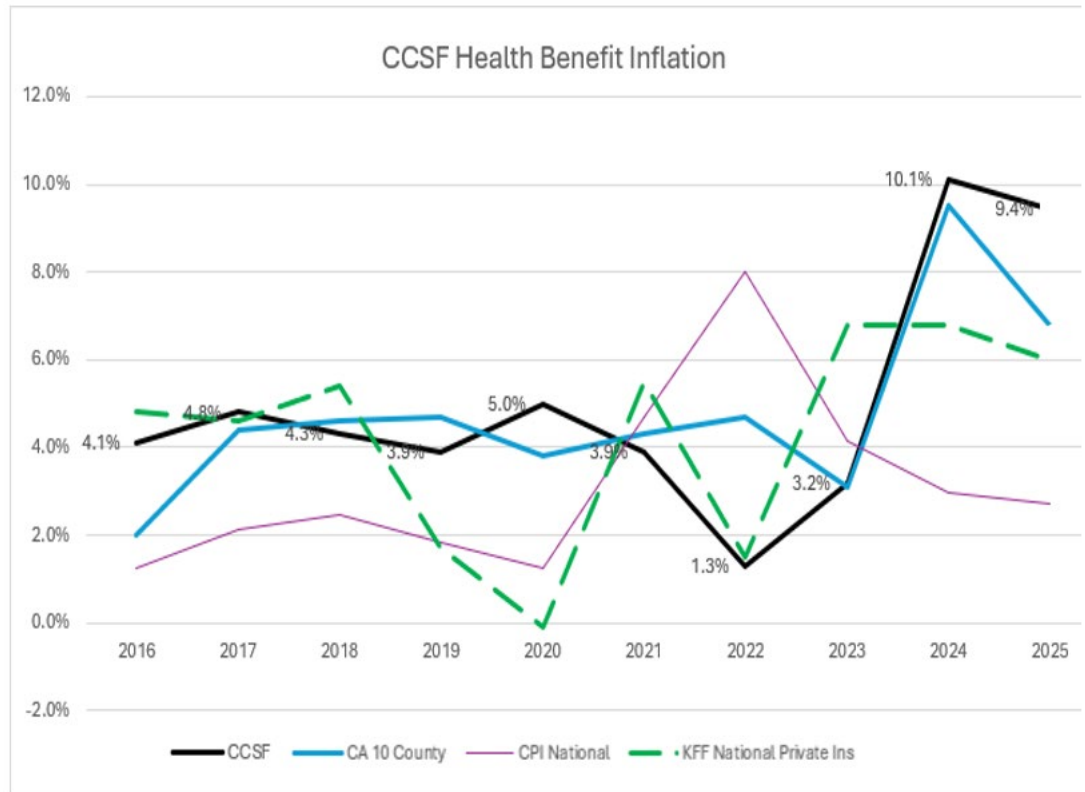
## Getting Members to Quality, Cost-Effective Providers

- More flexible benefit designs and wellbeing platforms better reflect members' needs.
- Tools that steer members to high-quality, cost-effective providers.
- Efforts to integrate medical and pharmacy.
- Price certainty before visits.

# Trend Experience Historical View

## Marketplace View — Compared to SFHSS Experience (Black Line)

- Healthcare costs historically outpace CPI
- SFHSS costs in line with California 10-County benchmark
- Trends escalated starting 2024 with catch up from lagging impact of inflation
- Slightly favorable SFHSS 2026 trend of 8.3% vs 9.5% benchmark due to high use of managed care plans



\* CPI Source: US Bureau of Labor Statistics

# Health Service Board's Role - Control Versus Influence

The HSB has a critical role in guiding the present and future state of health plan offerings, financials, and key initiatives for SFHSS members:

Control (via Authority to Approve)	Influence
Health Plan Total Cost Rates	Member Health Resources Awareness
Health Plan Design Features	Information to the Public About Health Care Trends and Developments
HSB Policies (e.g., reserves, rate stabilization, legal settlements, Board education)	Near-Term and Long-Range Key Initiatives for Consideration
Request for Proposal Recommendations	Matters Requiring Health Plan Attention

# Healthcare Cost Trend Influencers – Projected Impact on 2027 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 2027 will vary.
  - Aon expects 9.5% typical cost trend for plans nationwide into 2026 across all plan types, and again into 2027—though increases for managed HMO plans are expected to again be lower than those for fee-for-service PPO plans
- SFHSS and Aon continue to work diligently with the health plans to understand specific cost trend drivers impacting their proposed rate renewals for the 2027 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 2027 Plan Year**

- During the March and April HSB meetings, SFHSS and Aon will present information that will guide 2027 plan year renewal rating and employer contribution determination.
  - March: 10-County Survey Amount for use in 2027 rating for retirees and employer groups using 10-County Amount for employer contribution calculations; self-funded and flex-funded health plans 2025 experience reviews.
  - April: Kaiser HMO plans 2025 experience review.
- April to June: presentation of 2027 plan year medical/Rx plans renewal rating recommendations for HSB action.

# Appendix—Glossary of Prescription Drug Terms

**Generic medication:** a medication created to be the same as a brand-name drug in active ingredient, dosage, safety, strength, quality, and performance. Generic drugs can be manufactured once a patent expires on the originally formulated brand medication. Generic drugs are almost always lower in cost than their brand equivalents.

**Brand medication:** original medication developed by a pharmaceutical company, marketed under a unique, trademarked name and protected by a patent (typically 20 years from original filing date), granting exclusive rights for production and sales for a period to recoup R&D costs.

**Specialty:** medications that treat rare, complex, or chronic conditions (such as cancer, HIV, Crohn's, and hepatitis) that often need special handling, storage, or administration (injection/infusion) and require close patient monitoring. Specialty medications are commonly significantly higher in cost than brand medications.

**Biologics:** complex, high-molecular-weight drugs derived from living organisms—such as human, animal, or microorganisms—rather than through chemical synthesis.

**Gene and Cell Therapy:** advanced, often one-time, treatments that address the root causes of genetic disorders and cancers by modifying, replacing, or repairing dysfunctional cells or DNA.