

San Francisco Health Service System Health Service Board

Board Education

Healthcare Cost Trend Influencers

Delivered by Iftikhar Hussain, CFO — SFHSS and
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February 9, 2023

Healthcare Cost Trend Influencers — Agenda

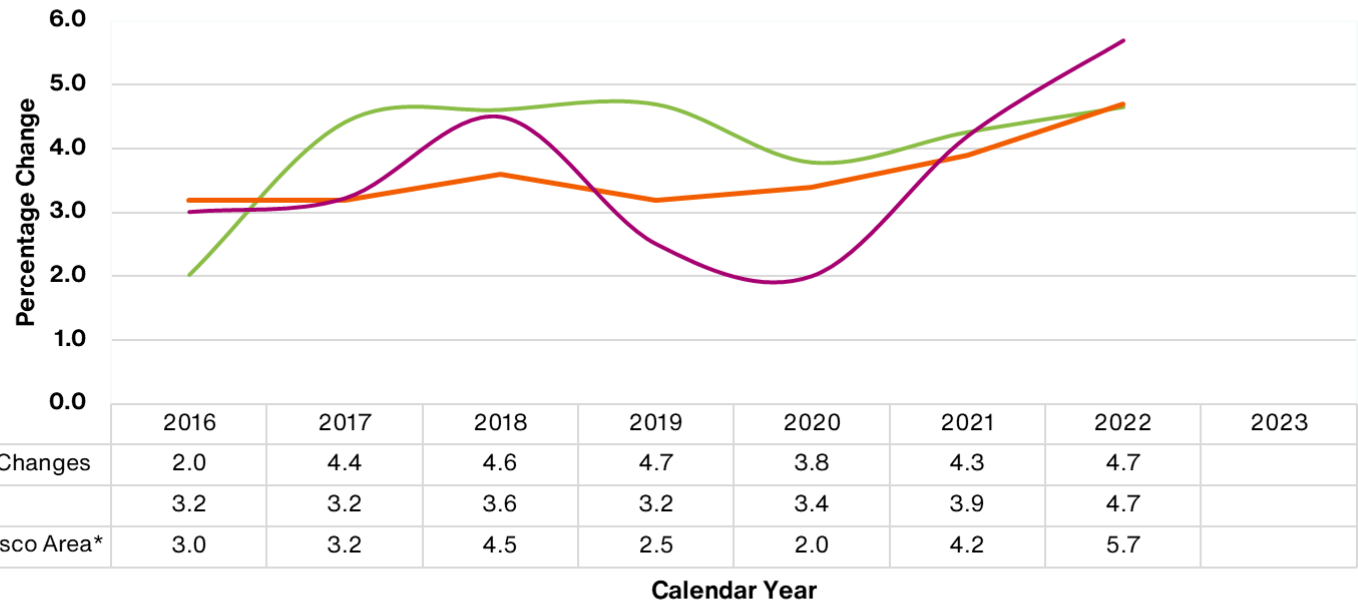
- Historical healthcare cost trend view — SFHSS and key comparators
- Drivers of near-term cost trend expectations
- Broad forces influencing medical trends — and resulting mitigation strategies
- Importance of well-being, primary prevention, early intervention, and advanced primary care initiatives 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

BENCHMARKS BY PLAN (CALENDAR) YEAR



— CA 10 County Premium Changes

— Mercer National

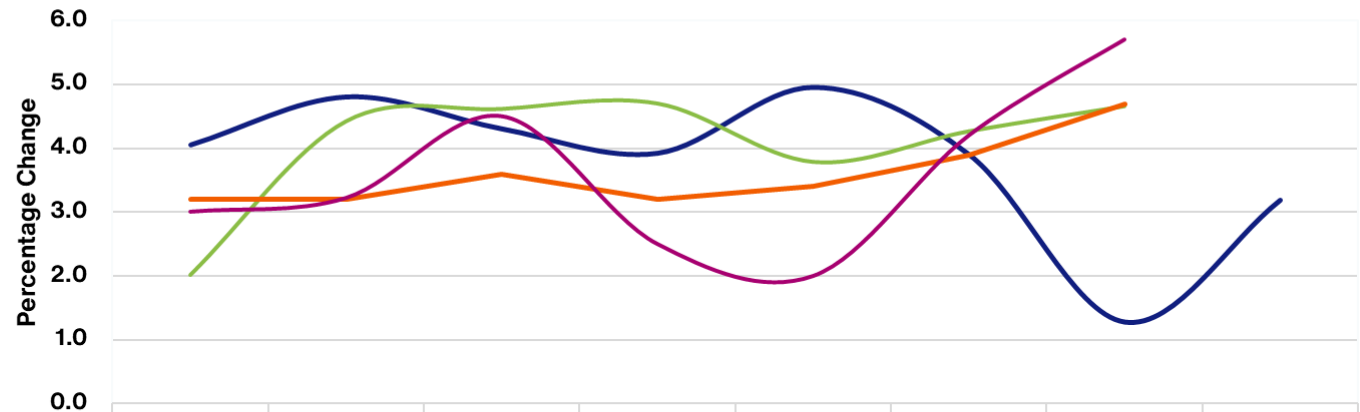
— CPI — Urban San Francisco Area*

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**



	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

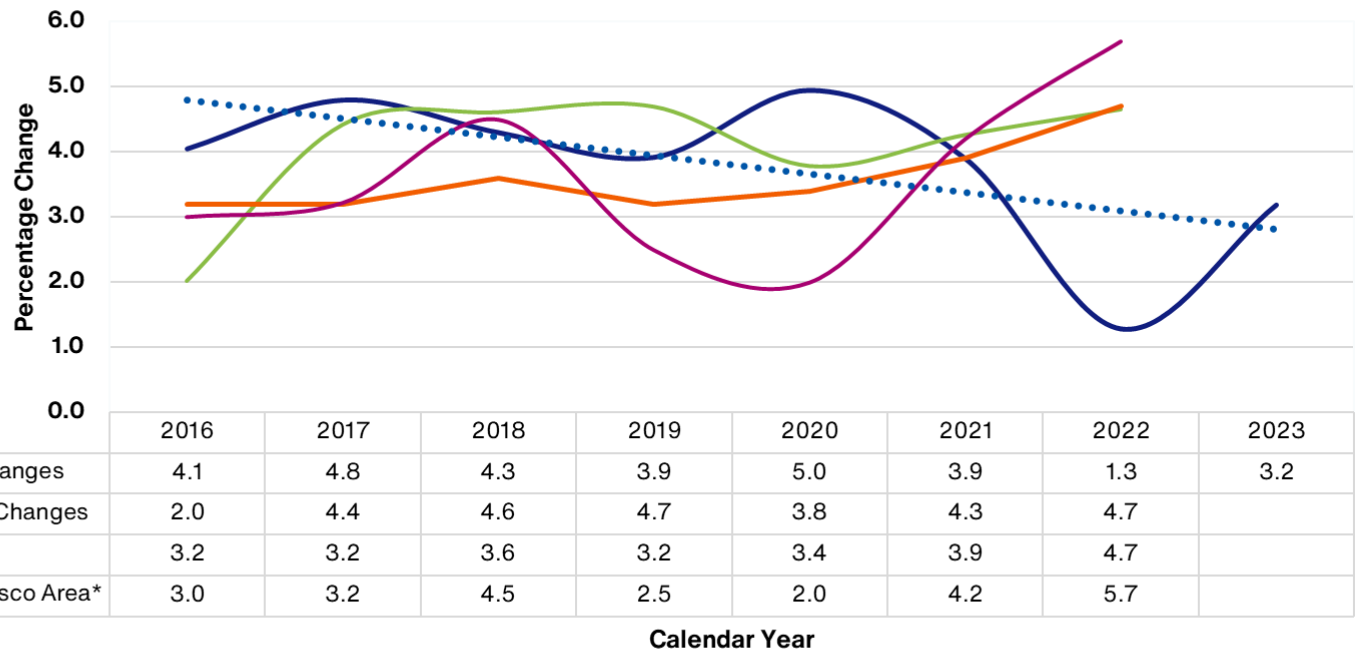
— HSS Health Premium Changes — CA 10 County Premium Changes — Mercer National — CPI — Urban San Francisco Area*

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

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



— HSS Health Premium Changes
— CPI — Urban San Francisco Area*

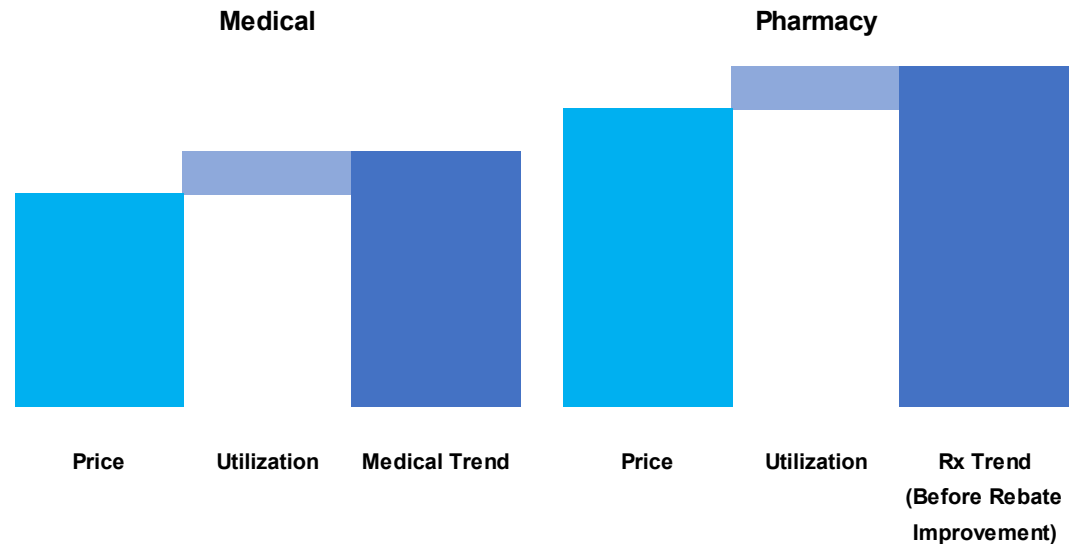
— CA 10 County Premium Changes
••• Linear (HSS Health Premium Changes)

— Mercer National

Projected Healthcare Trends: Medical/Rx (Aon Forecast)

- Price increases continues 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.

2022 – 2023 Expected Rate of Increase Relativities by Component



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

Healthcare Cost Trend Influencers — Broad Factors







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...

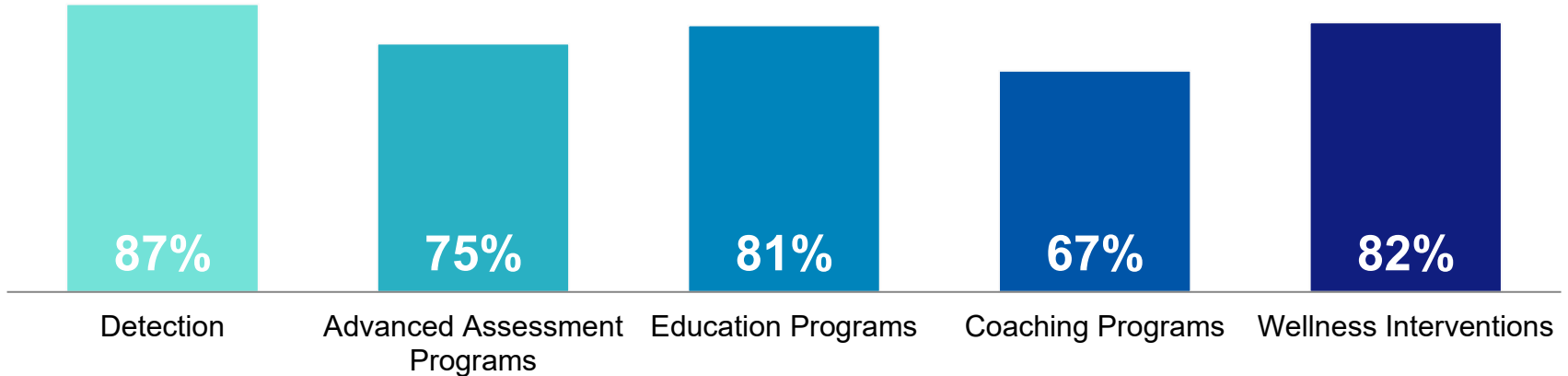
-  Lifestyle Risks
-  Economy
-  Regulation
-  Technology
-  System Consolidation and Labor Shortages
-  COVID

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

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

STUDY FINDINGS

Performance of Provider Organizations, by Quartile of Primary Care Spending Percentage

	PRIMARY CARE SPENDING PERCENTAGE (average adjusted)	CLINICAL QUALITY COMPOSITE SCORE (average)	RATING OF DOCTOR AND ALL CARE* (average)	ACUTE HOSPITAL UTILIZATION (discharges/1,000 member-years, average adjusted)	ED UTILIZATION (visits/1,000 member-years, average adjusted)	TOTAL COST OF CARE (PMPM, average adjusted)
1st Quartile (lowest)	6.0%	72.2%	68.0%	31	139	\$436
2nd and 3rd Quartiles	8.6%	73.9%	70.1%	29	130	\$440
4th Quartile (highest)	12.5%	77.9%	72.8%	24	113	\$400

* 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

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Rising Healthcare Trends: Back to the Future?

Trend spikes are not new — recognizing we are in an upward cycle

Trends by Service Type

Trends by Source of Funds

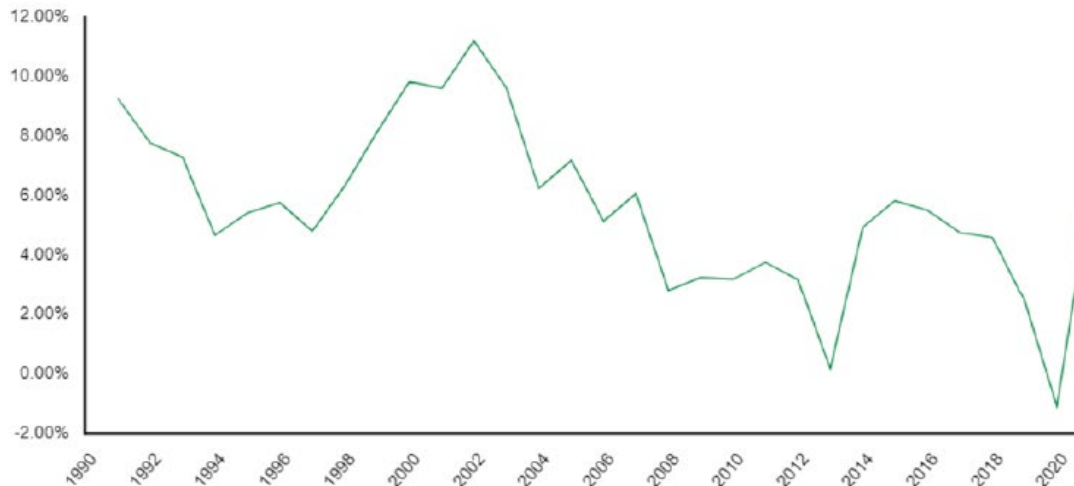
Distribution by Service Type

Distribution by Source of Funds

HEALTH EXPENDITURES 1990 - 2021

On All Types by Private Health Insurance

Annual % Change



FILTER BY

SERVICE TYPE

- All Types
- Hospitals
- Physicians & Clinics
- Dental
- Other Professional Services
- Retail Prescription Drugs

+ show more

SOURCE OF FUNDS

- All Sources
- Health Insurance
- Private Health Insurance
- CHIP (Title XIX and Title XXI)
- Department of Defense

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:

Kaiser HMOs	UHC MAPD	BSC/HN/UHC HMOs	BSC/UHC PPO	Active	Active	
Med/Rx/Vis	Med/Rx/Vis	Med/Rx/Vis	Med/Rx/Vis	Dental	Life/LTD	Total
48.2%	8.6%	33.1%	5.5%	3.9%	0.7%	100.0%

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.

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.

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