

# CONTROLLING BENEFITS COSTS





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Consultant

 <p><b>4<sup>th</sup></b> <b>Largest</b> privately-held broker of U.S. business</p>	 <p>The USI ONE Advantage® delivers superior client solutions with financial impact</p>	<p><b>500,000<sup>+</sup></b>  clients served</p>
<p><b>"Top Insurance Employer"</b> <i>Five Years in a Row!</i> <i>Insurance Business America, 2018 - 2022</i></p>	<p><b>~200 Local offices</b> Servicing local, national, and international needs.</p> 	<p>Over <b>\$2.5 BILLION</b> IN Revenue</p>
<p><b>~10,000</b> employees</p> 	<p><b>150<sup>+</sup></b> Years of brokerage experience <i>through our acquired agencies</i></p>	

PROPERTY & CASUALTY ■ EMPLOYEE BENEFITS ■ PERSONAL RISK ■ PROGRAMS ■ RETIREMENT CONSULTING

# Agenda

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The Problem

Potential Solutions

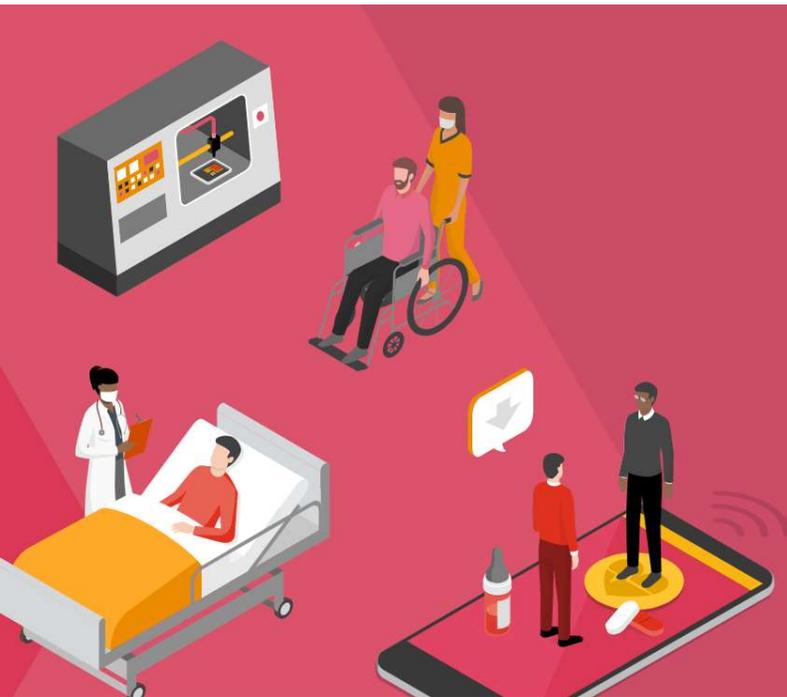
Contract Design

Benefit Plan Design

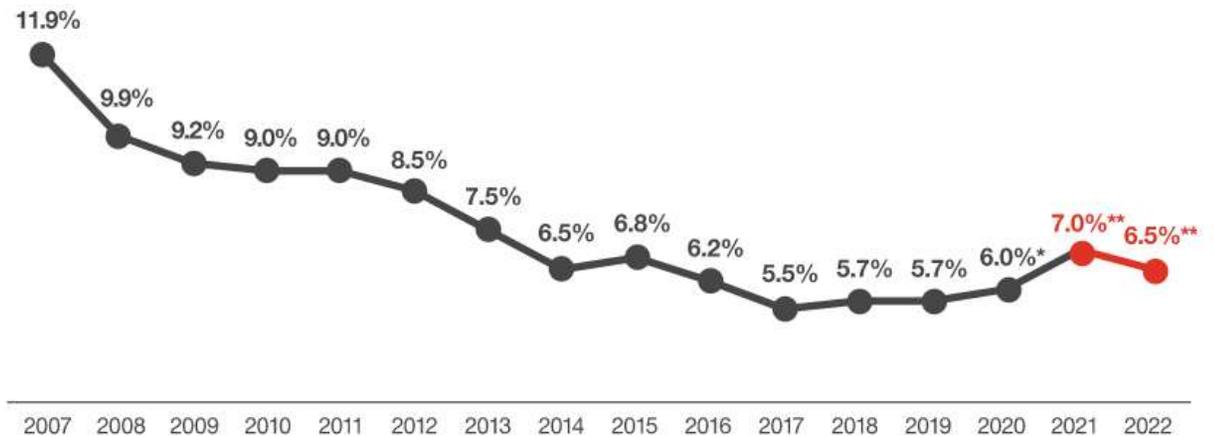
Q&A



# Health Plan Spending - Employers



PwC's medical cost trend



Source: PwC Health Research Institute medical cost trends, 2007-22

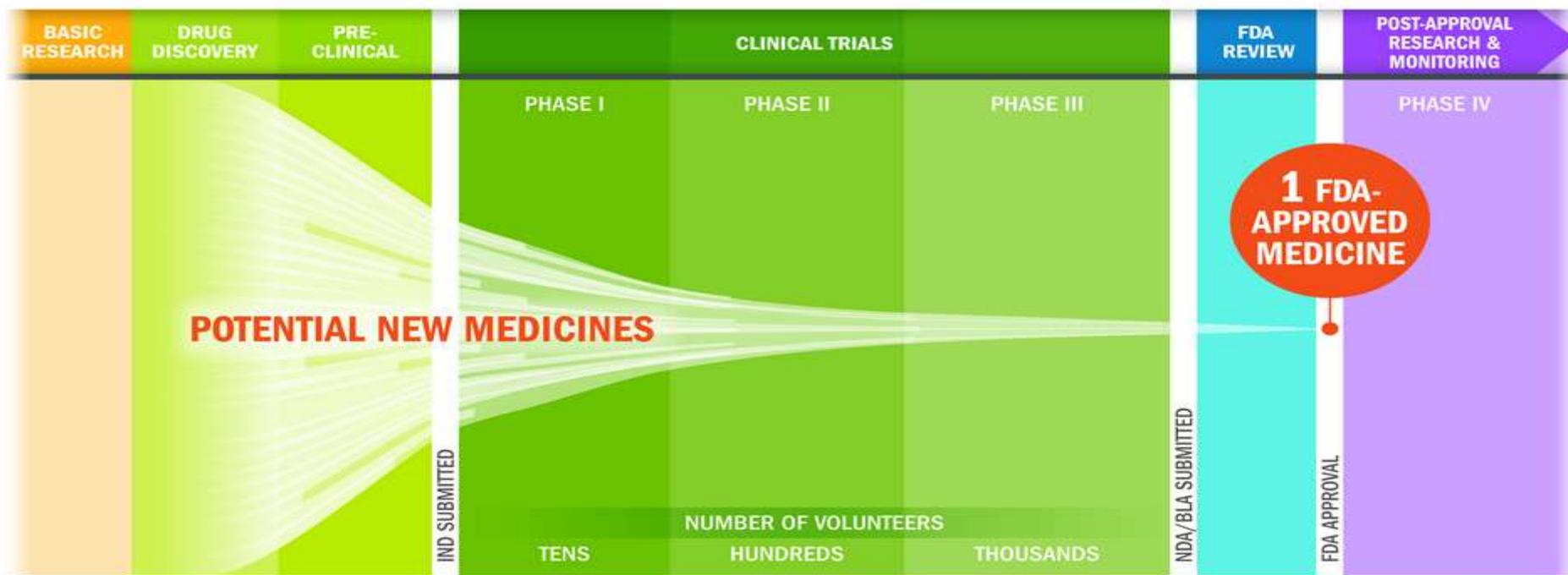
\*Projected medical cost trend. Does not account for the effects of the pandemic on actual 2020 spending.

\*\*Growth in spending expected over prior-year spending, with the effects of the pandemic removed from the prior-year spending. See report Appendix for details.

Note: The 7% medical cost trend for 2021 was revised from a range of scenarios, from 4% to 10%, originally projected in PwC Health Research Institute's "Medical Cost Trend: Behind the Numbers 2021" report in June 2020. See report Appendix for details.

## THE BIOPHARMACEUTICAL RESEARCH AND DEVELOPMENT PROCESS

From drug discovery through FDA approval, developing a new medicine takes at least 10 years on average and costs an average of \$2.6 billion.\* Less than 12% of the candidate medicines that make it into Phase I clinical trials will be approved by the FDA.

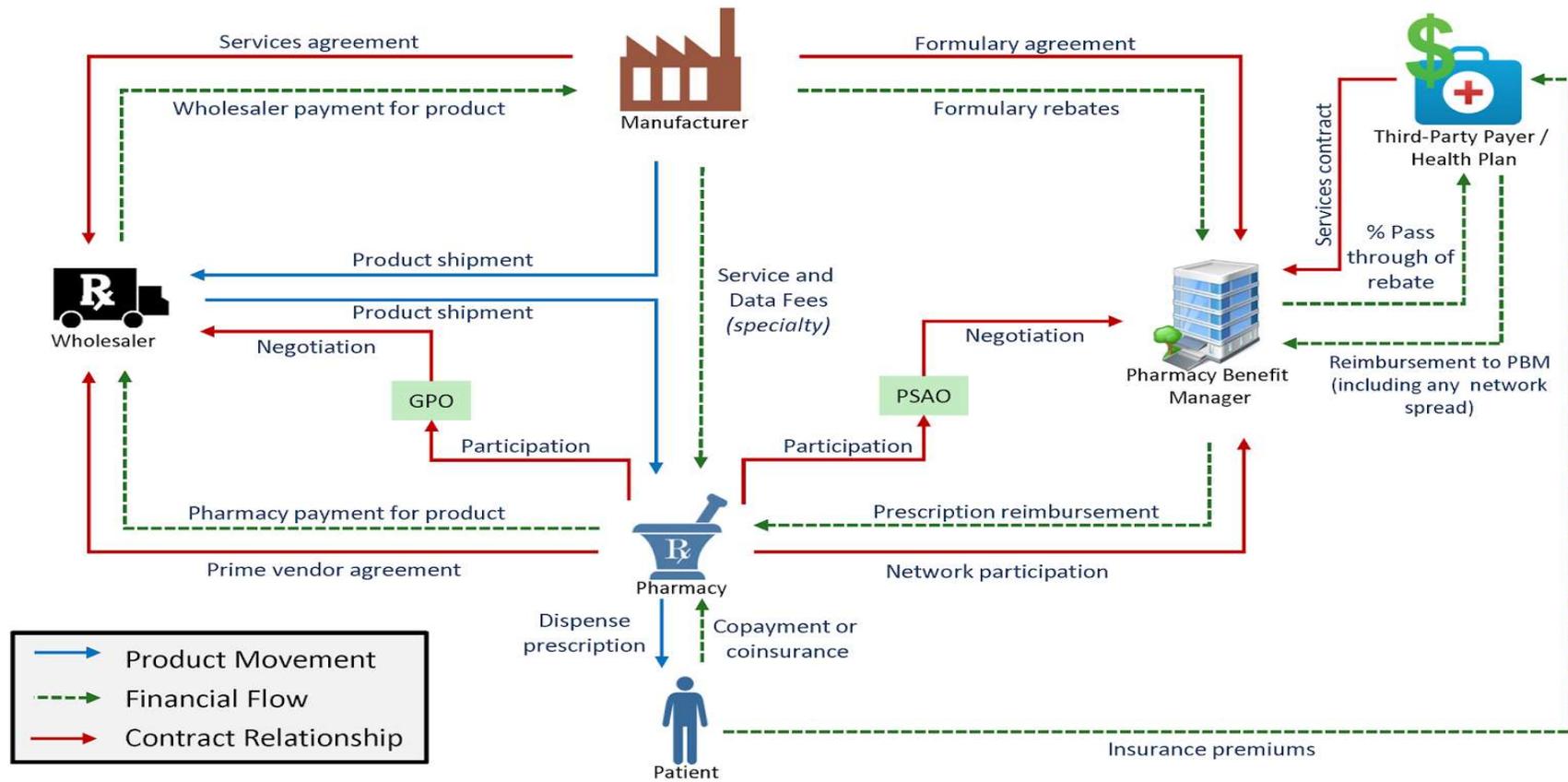


Key: IND: Investigational New Drug Application, NDA: New Drug Application, BLA: Biologics License Application

\* The average R&D cost required to bring a new, FDA-approved medicine to patients is estimated to be \$2.6 billion over the past decade (in 2013 dollars), including the cost of the many potential medicines that do not make it through to FDA approval.

Source: PhRMA adaptation based on Tufts Center for the Study of Drug Development (CSDD) Briefing: "Cost of Developing a New Drug," Nov. 2014. Tufts CSDD & School of Medicine., and US FDA Infographic, "Drug Approval Process," <http://www.fda.gov/downloads/Drugs/ResourcesForYou/Consumers/UCM284393.pdf> (accessed Jan. 20, 2015).

## U.S. Distribution and Reimbursement System: Patient-Administered, Outpatient Drugs



Source: Fein, Adam J., [The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers](#), Drug Channels Institute, 2017. Chart illustrates flows for **Patient-Administered, Outpatient Drugs**. Please note that this chart is illustrative. It not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace. GPO = Group Purchasing Organization; PSAO = Pharmacy Services Administrative Organization

# Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers, 2022



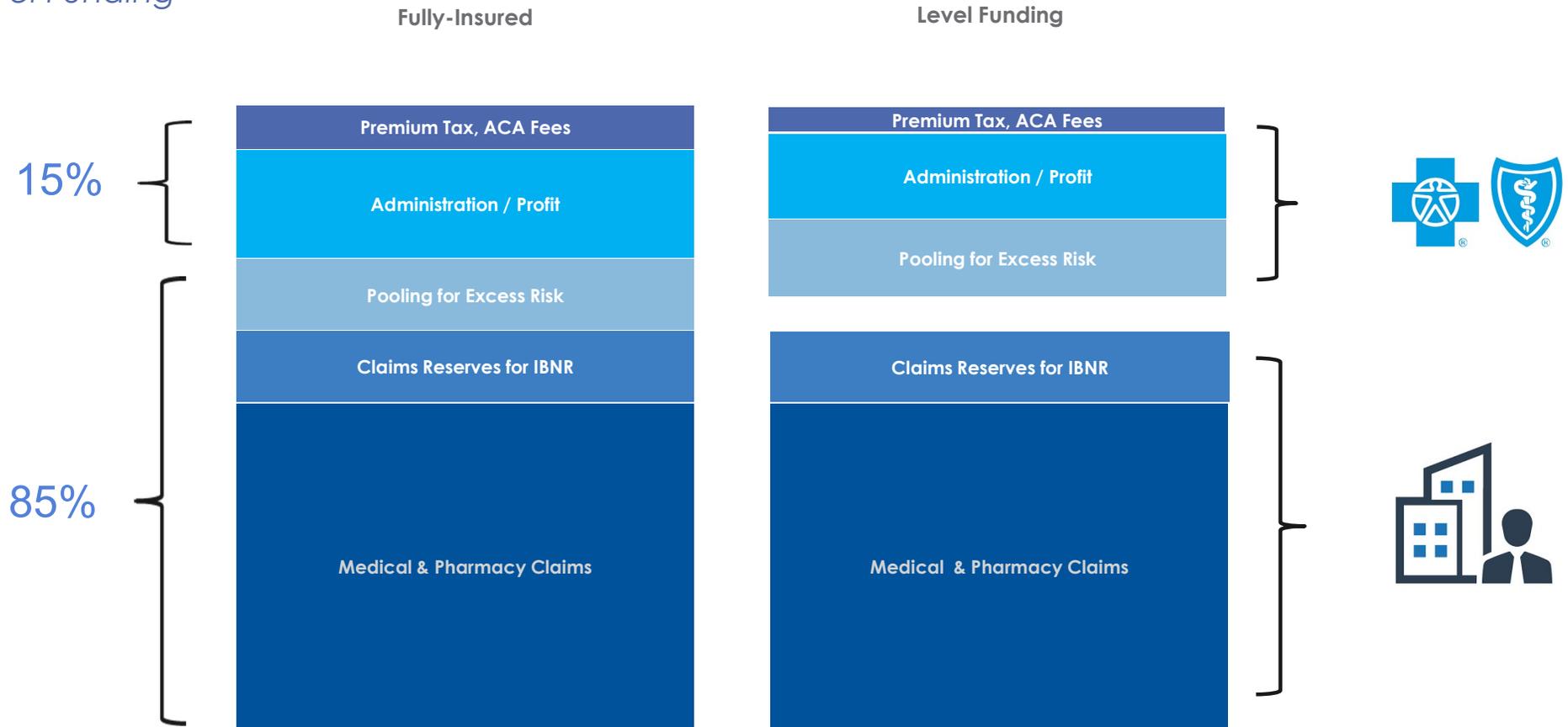
1. In September 2022, CVS Health announced its acquisition of Signify Health. The transaction is expected to close in 2023.  
 2. Since January 2021, Prime's Blue Cross and Blue Shield plans have had the option to use Express Scripts or AllianceRx Walgreens Prime for mail and specialty pharmacy services. On Dec. 31, 2021, Walgreens purchased Prime Therapeutics' 45% ownership interest in AllianceRx Walgreens Prime, so this business has no PBM ownership in 2022. Effective June 2022, the company has been known as AllianceRx Walgreens Pharmacy.  
 3. In 2021, Centene has announced its intention to consolidate all of its PBM operations onto a single platform and outsource its PBM operations to an external company.  
 4. In 2021, Centene sold a majority stake in its U.S. Medical Management to a group of private equity firms.  
 5. Since 2020, Prime has sourced formulary rebates via Ascent Health Services. In 2021, Humana began sourcing formulary rebates via Ascent Health Services for its commercial plans.  
 6. Cigna also partners with providers via its Cigna Collaborative Care program.  
 7. In 2022, Humana announced an agreement to divest its majority interest in Kindred at Home's Hospice and Personal Care Divisions to Clayton, Dubilier & Rice. In 2022, Kindred at Home was rebranded as CenterWell Home Health.  
 Source: *The 2022 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Exhibit 212. Companies are listed alphabetically by insurer name. Published on *Drug Channels* ([www.DrugChannels.net](http://www.DrugChannels.net)) on October 13, 2022.

# CONTRACT OPTIONS



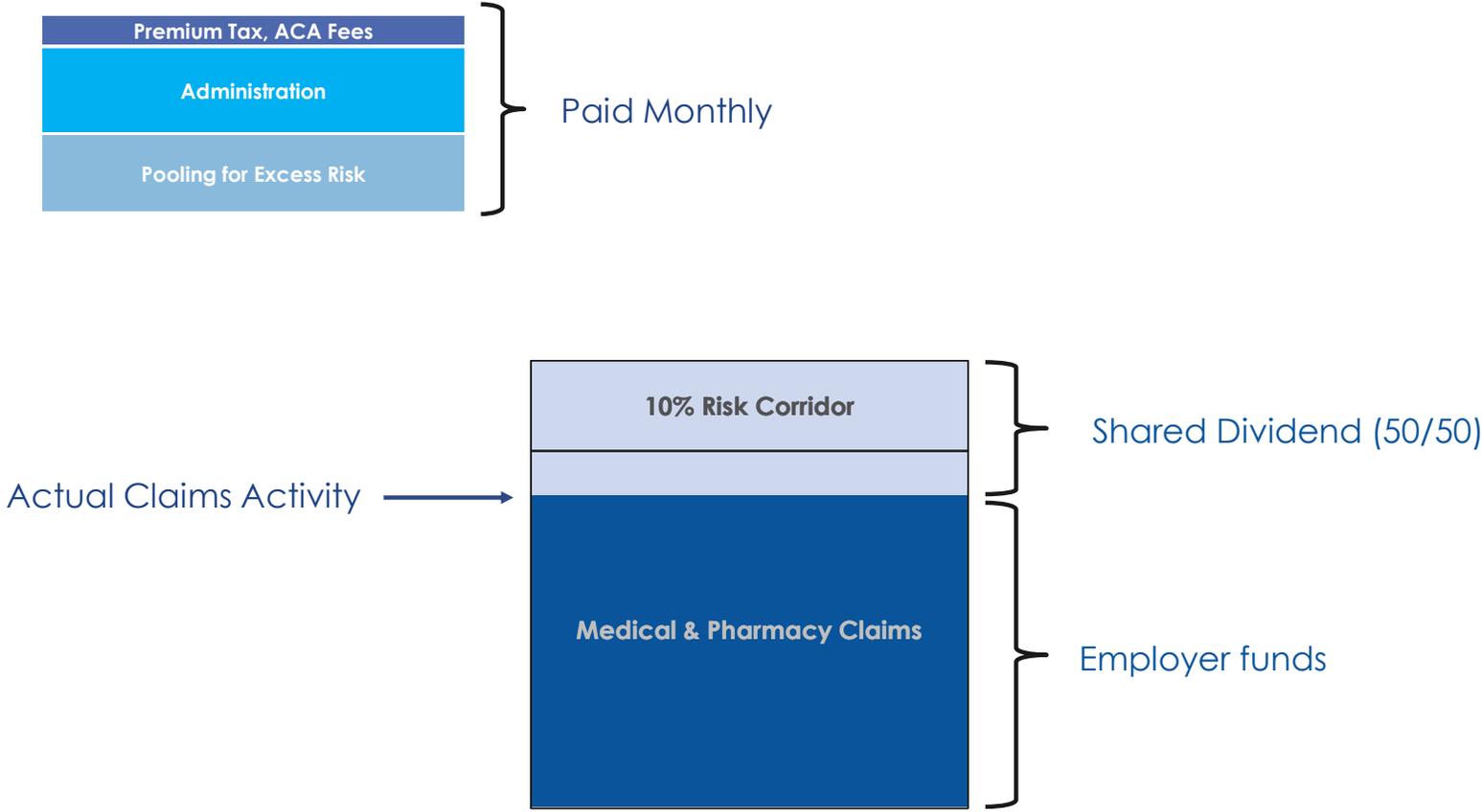
# Alternative Funding - #1

## Level Funding

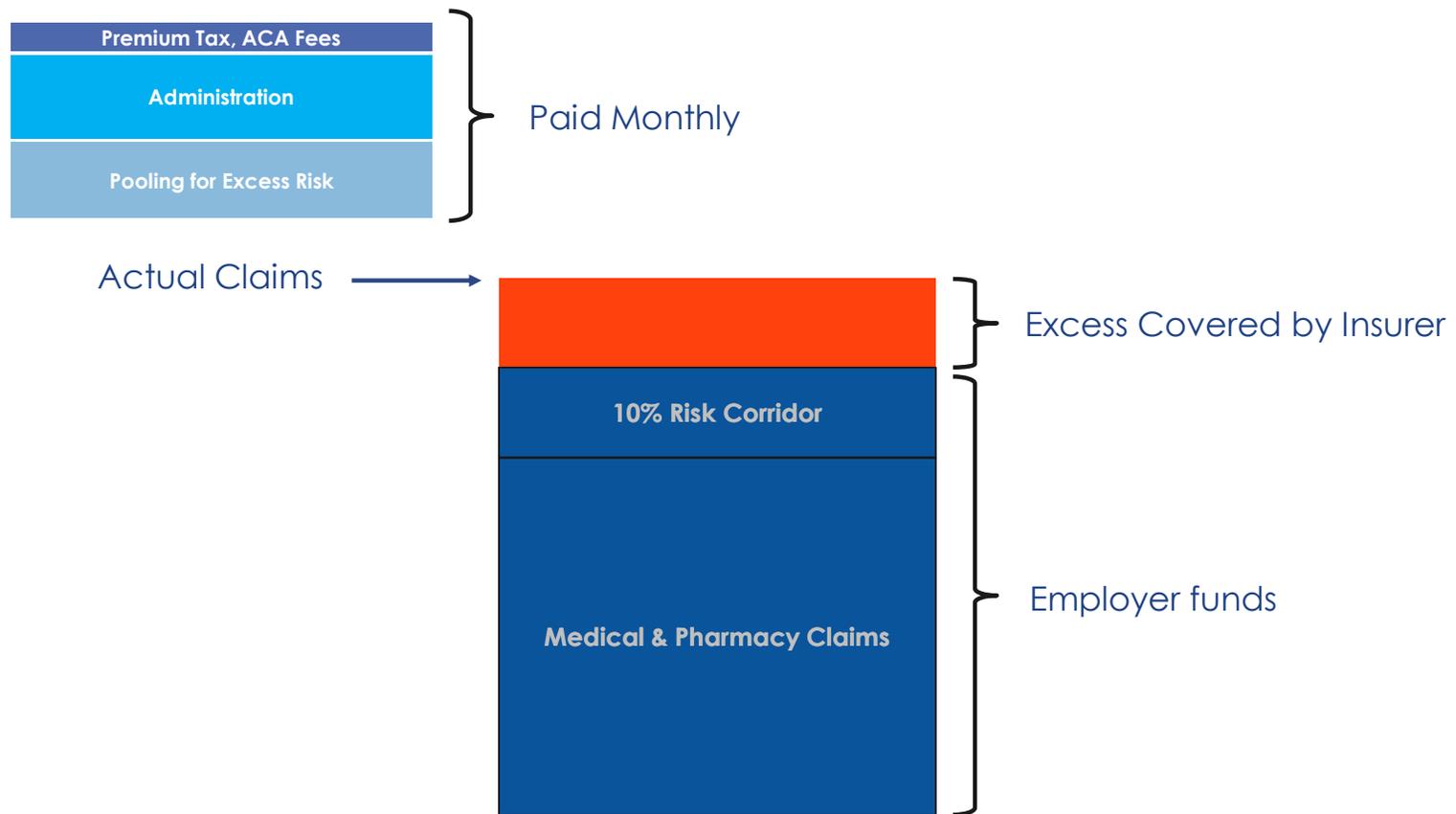


Key difference: who holds the premium components

# Scenario #1 – Claims activity is below maximum liability

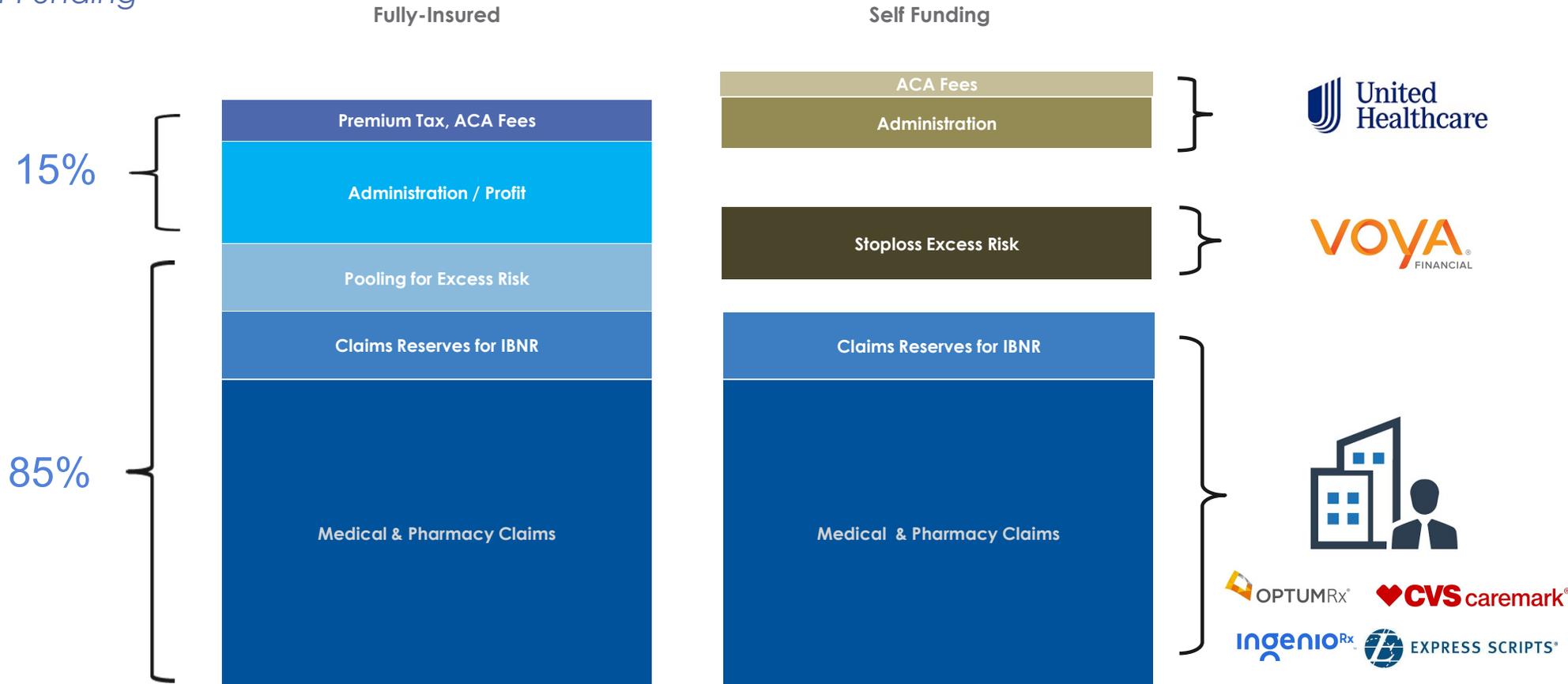


## Scenario #2 – Claims activity is greater than maximum liability



# Alternative Funding - #2

## Self Funding



Key difference: greater risk, greater reward; customization

# Alternative Funding - #2b

Captives



Key difference: stoploss layer is dividend eligible; more rules

# Captive Structure

## Y AXIS – Catastrophic Claims

**Individual Stop Loss Protection:** Defines a maximum liability for an individual enrolled member - \$50,000

**Captive Layer Specific Stop Loss Protection:** Defines a maximum liability for an individual enrolled member for the Captive Layer - \$250,000

## X AXIS – Claims for Group

**Aggregate Stop Loss Protection:** Provides maximum liability for employer and captive layer – 125% of claims



# Funding Options - Summary

	PRO	CON
Level-funded (26 – 150)	<ul style="list-style-type: none"> <li>▪ Introduction to self-funding for midsize employers</li> <li>▪ Easier administration – reserves, run-out protection, billing</li> <li>▪ Claims risk corridor of 10%</li> <li>▪ Better access to data</li> </ul>	<ul style="list-style-type: none"> <li>▪ Favorable plan performance gains are shared with carrier (Client keeps 50% or 67%)</li> <li>▪ Carrier restricts best-in-market vendor options; must bundle</li> </ul>
Self-funded (150+)	<ul style="list-style-type: none"> <li>▪ Pay no NC state premium tax</li> <li>▪ Client retains 100% of savings for claims below budgeted levels (attachment point)</li> <li>▪ May pursue a “best in class” strategy for all vendors versus bundling with one partner – Rx, care mgmt.</li> <li>▪ Stoploss will protect Client from individual catastrophe or bad plan year</li> <li>▪ Client holds its own plan reserves</li> <li>▪ Full access to data</li> </ul>	<ul style="list-style-type: none"> <li>▪ Client becomes ERISA plan fiduciary for benefits determination and can be legally liable</li> <li>▪ Fluctuation of weekly claims payments which can put pressure on cash flow – claims risk corridor of 25%</li> <li>▪ Fluctuation of large claimants under individual stoploss deductible (i.e., \$50,000)</li> <li>▪ Greater administration – reserves, run-out funding, appeals, federal reporting requirements (CAA)</li> </ul>
Captive (26 – 350)	<ul style="list-style-type: none"> <li>▪ Shared risk arrangement with “homogenous” groups</li> <li>▪ Can participate in favorable stoploss performance, not just claims favorability</li> <li>▪ Certain arrangements have large claimant protections that traditional SL products don’t – i.e., large claimants can never be dropped from coverage</li> </ul>	<ul style="list-style-type: none"> <li>▪ Other groups’ poor performance can hurt the larger pool, thereby impacting Client</li> <li>▪ 2 to 3-year commitment</li> <li>▪ Capital dues/fees required (10% of SL premium)</li> <li>▪ Must adhere/comply with Captive recommendations</li> </ul>

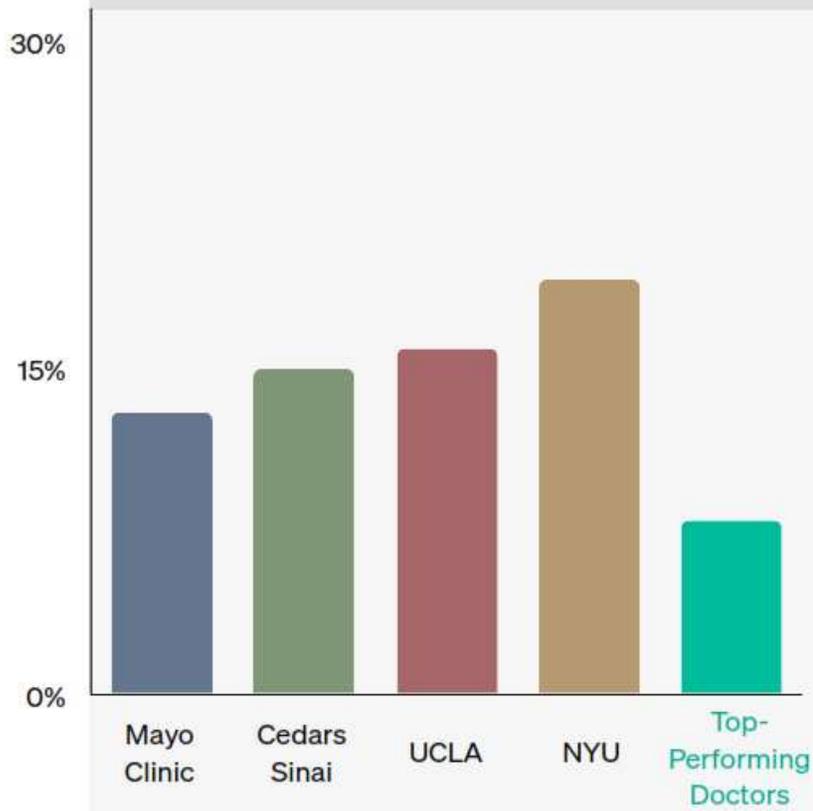
# PRODUCT INNOVATIONS IN THE MARKET



## Surgical site infection after major surgery

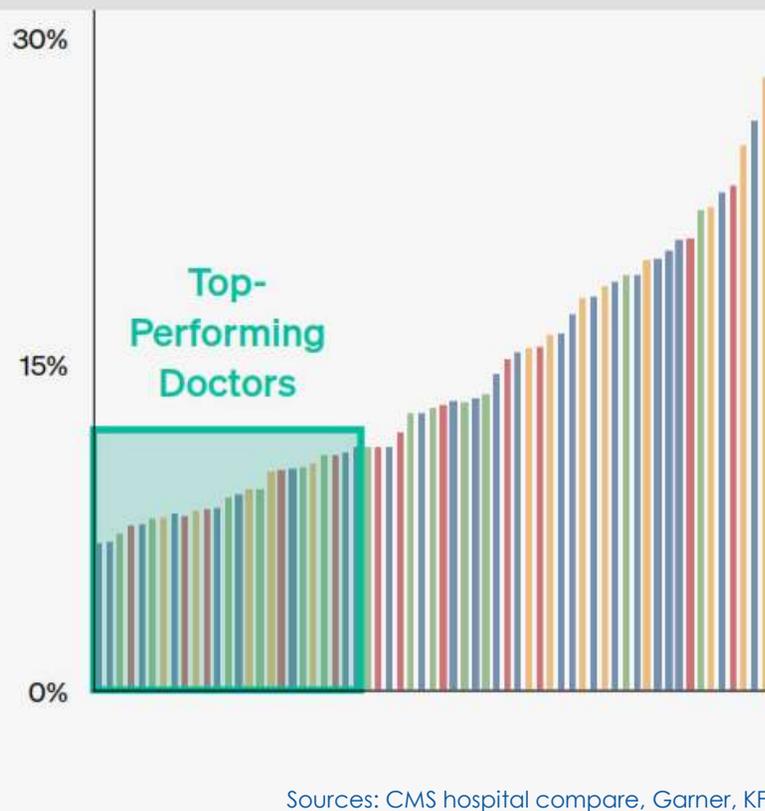
### Hospitals

US News and World Report Top Hospitals



### Doctors

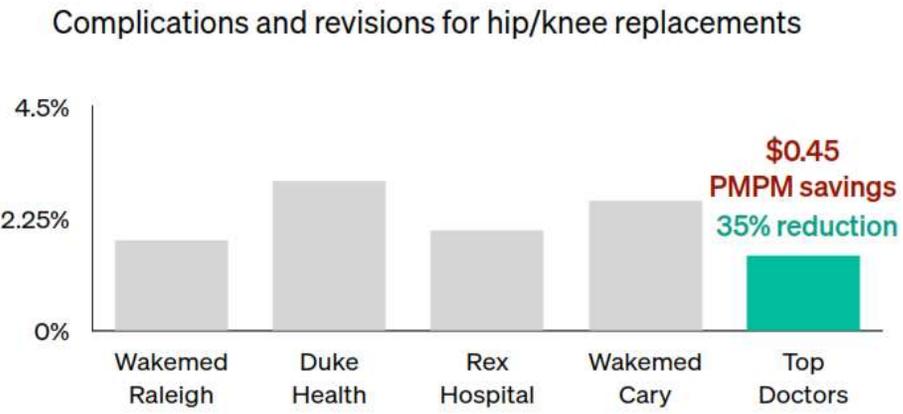
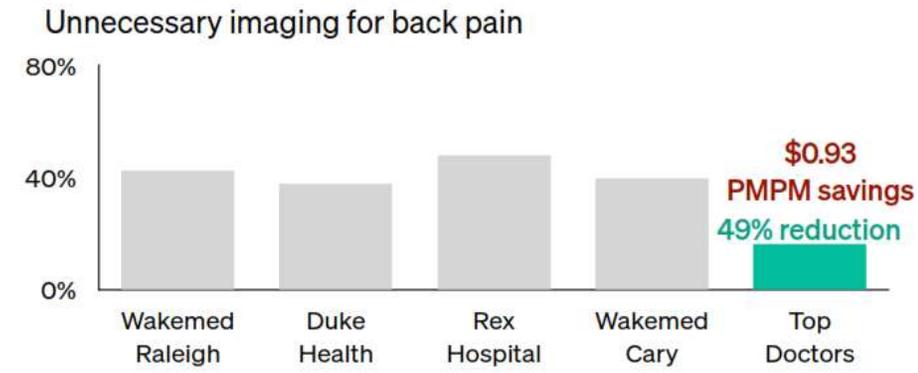
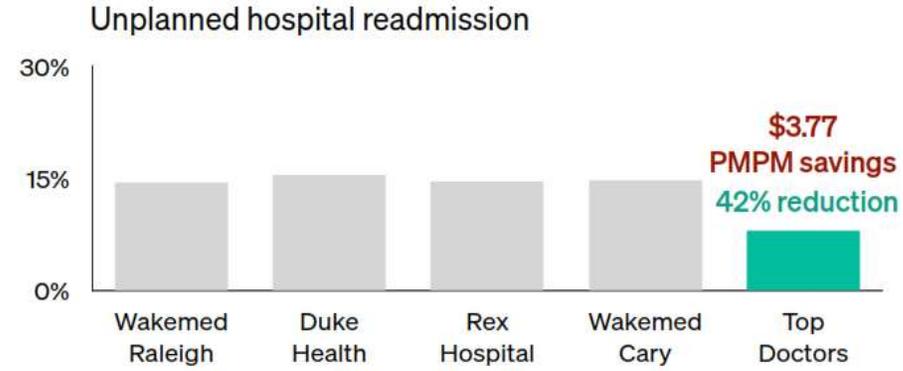
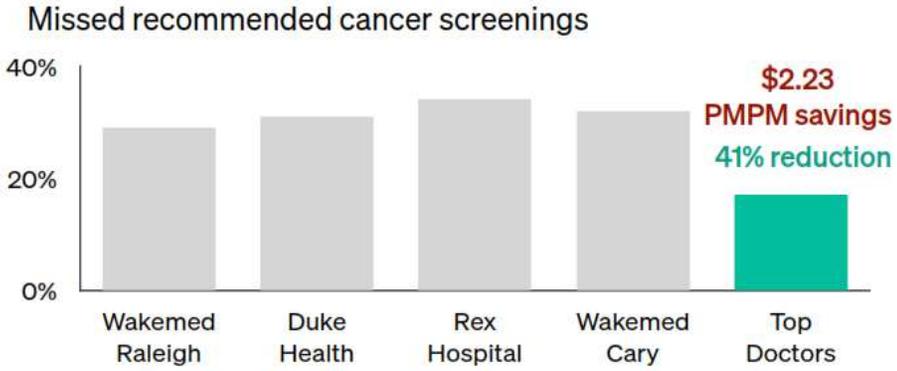
Practicing at those hospitals



Sources: CMS hospital compare, Garner, KFF



# Top Doctors Outperform the Best Hospitals



# Option #1 – Carrot



### Compare Prices

Employees compare prices and incentives by shopping online or calling for concierge support.



### Schedule an Appointment

SmartShopper helps schedule appointments online or with the concierge.



### Earn Cash

Employees receive cash after completing the scheduled appointment.

**\$528**  
average claim savings

**\$92**  
average employee reward

**2.4:1**  
Program ROI

### Top Shopped Procedures

MRI	26%
Mammogram	13%
CT Scan	12%
Colonoscopy	12%
Ultrasound	11%

### Concierge Service Results



**82%**  
Scheduling Rate



**91%**  
Conversion Rate

## Option #2 – Orange Stick

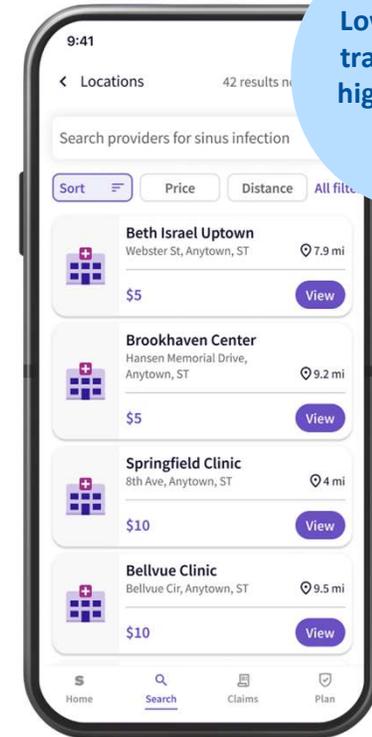
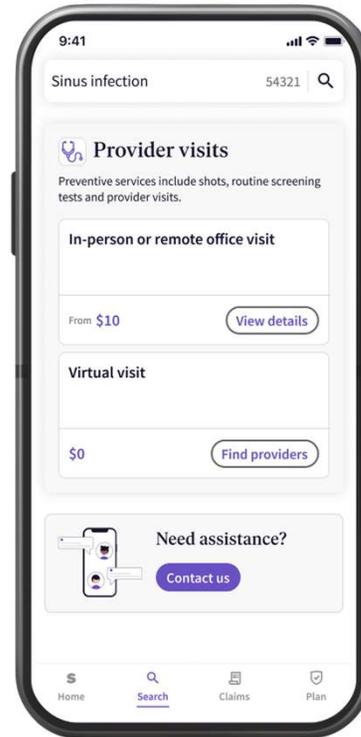
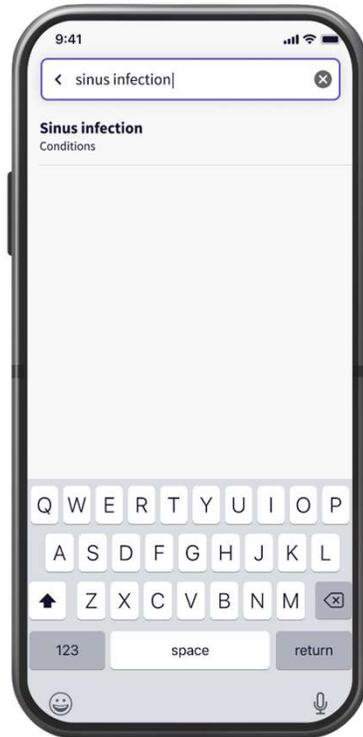
- Revise medical plan design significantly
- Create an incentive where cost-share goes to \$0 when EE engages/visits Top Performing Doctor
- Vendor guarantees monthly cost of \$48 PEPM to include claims + program administration
- If HRA funds not depleted, employer recoups 80% of the unused portion

	Current Medical Plan	Revised Medical Plan	If Optimized Care Path (Provider) Chosen
Deductible	\$1,000	\$3,000	\$0
Copays	\$35	D&C	\$0
Co. Cost (PEPM)	\$631	\$492	\$540

Concierge vendor guarantees cost-share reductions will not exceed \$48 PEPM –  
**net SAVINGS of \$91 PEPM**

# Option #3 – Digital Front Door

Employers save up to **15%**<sup>1</sup>  
**50%** less OOP spend per employee<sup>2</sup>



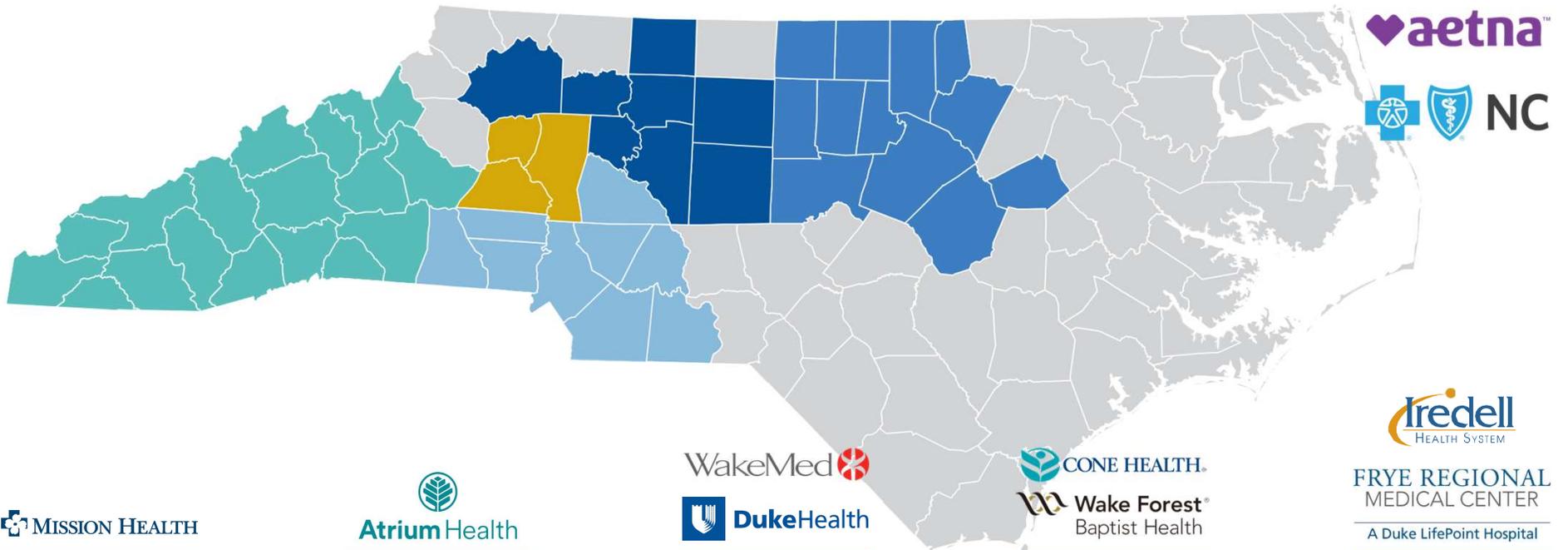
Lower copays translate into higher quality provider



Easy = health services are assigned a price

Illustrative values (single; in-network)		Surest	PPO	CDHP
<b>Out-of-pocket limit</b>		\$4,000	\$3,600	\$5,000
<b>Deductible</b>		None	\$800	\$2,000
<b>Coinsurance</b>		None	80% / 20%	80% / 20%
<b>Copays</b>	Preventive	\$0	\$0	\$0
	Office visit (primary care, specialty care)**	\$10–\$60	\$25 & \$50	Deductible, then 20%
	Urgent care	\$50	\$100	Deductible, then 20%
	Emergency room	\$400	\$150	Deductible, then 20%
	Maternity	\$550–\$1,700	Deductible, then 20%	Deductible, then 20%
	Complex imaging	\$110–\$415	Deductible, then 20%	Deductible, then 20%
	Physical therapy	\$5–\$20	Deductible, then 20%	Deductible, then 20%
	Procedures (office, outpatient, inpatient, etc.)	\$35–\$2,900	Deductible, then 20%	Deductible, then 20%
	Prescription drugs (tier 1 • tier 2 • tier 3)	\$15 • \$40 • \$60	\$10 • \$30 • \$55	Deductible, then 20%

# Option #4 – Network Redesign



 MISSION HEALTH

**11.9% SAVINGS**  
Total cost of care savings over PPO

 Atrium Health

**16.8% SAVINGS**  
Total cost of care savings over PPO

WakeMed   
 DukeHealth

**13.3% SAVINGS**  
Total cost of care savings over PPO

 CONE HEALTH.  
 Wake Forest<sup>®</sup>  
Baptist Health

**12.3% SAVINGS**  
Total cost of care savings over PPO

 Iredell  
HEALTH SYSTEM  
FRYE REGIONAL  
MEDICAL CENTER  
A Duke LifePoint Hospital

**10.2% SAVINGS**  
Total cost of care savings over PPO



Benefit	In Network Max Savings (Tier 1)	In Network Std Savings (Tier 2)	Out of Network (Tier 3)
Deductible (Individual/Family)	\$2,500 (\$5,000)	\$4,000 (\$8,000)	\$8,000 (\$16,000)
Out-of-pocket limit (Individual/Family)	\$6,000 (\$12,000)	\$8,000 (\$16,000)	\$16,000 (\$32,000)
Primary care physician office visit	\$35	\$50	70% after deductible
Specialist office visit	\$70	\$100	70% after deductible
Walk-in clinics	Designated Walk-in Clinics: \$0 All Other Network Providers: \$35	Designated Walk-in Clinics: N/A All Other Network Providers: \$50	50% after deductible
Diagnostic testing: Lab	80% after deductible	60% after deductible	50% after deductible
Diagnostic testing: X-ray	80% after deductible	60% after deductible	50% after deductible
Imaging CT/PET scans MRIs	80% after deductible	60% after deductible	50% after deductible
Inpatient hospital facility	80% after deductible	60% after deductible	50% after deductible
Outpatient surgery	80% after deductible	60% after deductible	50% after deductible
Emergency room	80% after deductible	60% after deductible	60% after deductible
Drug Card	\$3 / \$10 / \$35 / \$60 / 20% to \$300 or \$500	Same	80% after deductible

**Q&A**

**THANK YOU!**

