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ARTHUR J. GALLAGHER & CO.

SPRING 2018

EMI

Employer Market
Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

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EMI 2018

Market Overview & Trends Report

Introduction

Benfield-Gallagher's fourteenth annual Market Overview & Trends Report tracks, anticipates and analyzes the role of jumbo employers and employer health coalitions in the constantly changing health benefits landscape. Part of the Employer Market Intelligence (EMI) Service, this core report examines topics that influence employer benefit design and decision-making with a focus on pharmacy benefit management and its impact on biopharmaceutical manufacturers.

This primary research includes results from 117 jumbo employers (5,000+ employees) and 35 leading health coalitions. Additional insights are provided from interviews with 21 employer benefit executives, coalition leaders and benefit advisors (see Figure A1). The report studies current and future market developments including:

- Pharmacy Benefit Design Trends, such as VBBD, Exclusion Lists, PDL Customization & More
- Longitudinal Outlook of Employer Benefit Actions
- Biologics & Biosimilars
- Employer Segmentation Model
- Consumer-Directed Health Plans (CDHPs), HSAs and Related Rx Approach
- Disease States of Importance
- Direct & Risk-Based Contracting for Healthcare Benefits
- Coalition Group Rx Purchasing
- Coalition Involvement in Market-Level Initiatives & Innovations
- Implications & Recommendations for Biopharmaceutical Manufacturers

NEW CONTENT INCLUDES:

- » Use of Separate Rx Deductibles
- » Use of Copay Accumulator Adjustment Programs
- » Barriers to Value-Based Benefit Design
- » Employer-Led Healthcare Supply Chain Approaches
- » Importance of Hemophilia, Insomnia and Women's Health
- » Impact of Obesity Management Efforts
- » Biosimilar Knowledge
- » CDHP Outcomes & Concerns
- » Rx Purchasing Coalition Engagement with PBMs

SPECIAL FEATURES:

- » Copay Accumulator Adjustment Programs
- » Point-of-Sale Rebates
- » Amazon Partnership & Health Transformation Alliance (HTA)

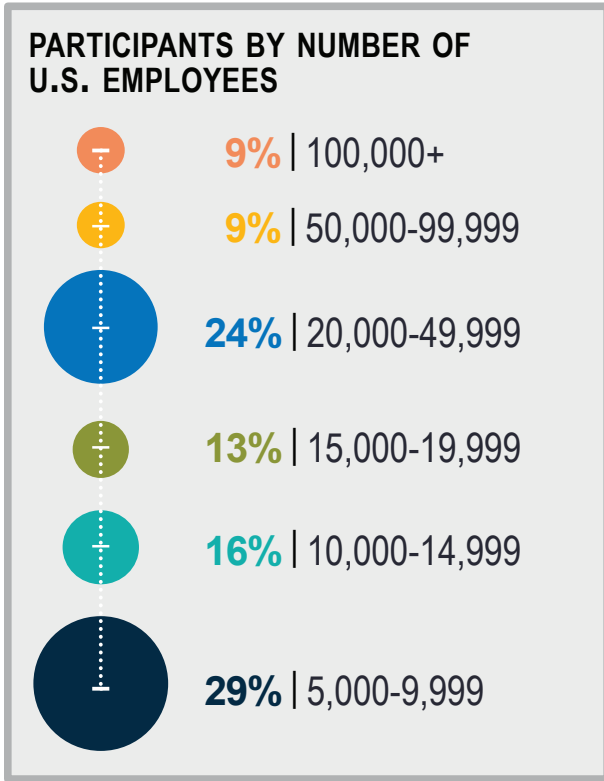
Clients utilize this report for employer strategy development, market assessment and product/service alignment. Findings can be applied to showcase product value using research and outcomes data valued by employers and coalitions.

Manufacturers with account management, outcomes research or medical liaison resources focused directly on employers and coalitions will find this report critical for understanding and successfully working with their customers.

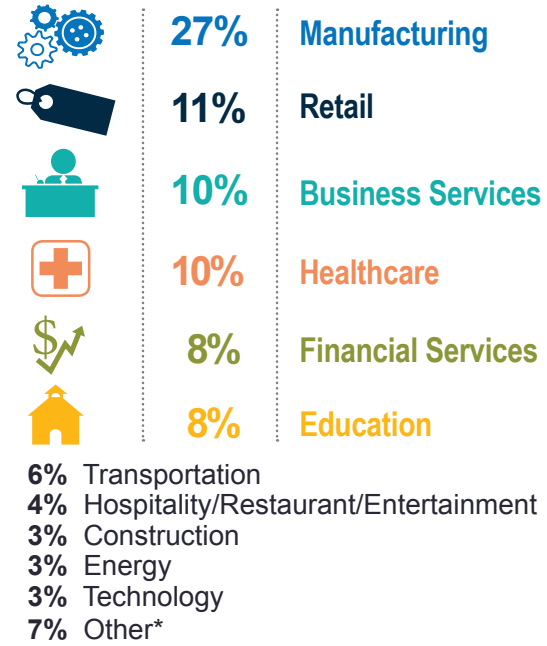
Contact Sarah Daley at 314-656-2384 or sarah_daley@ajg.com with questions or comments about this report or the EMI Service.

Employer Participant Panel

117 SURVEYS | 9 INTERVIEWS | 6.5 MILLION COVERED U.S. LIVES



INDUSTRY

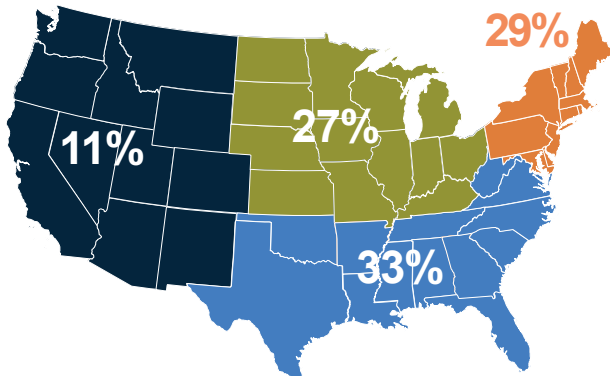


*Other includes: Agriculture; Communications; Public Entity; Pharmaceutical; Religious Institutions; Utility

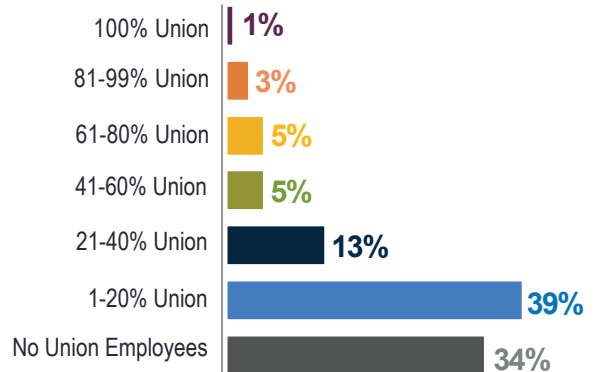
EMPLOYER RESPONDENT ORGANIZATIONAL POSITION



GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS

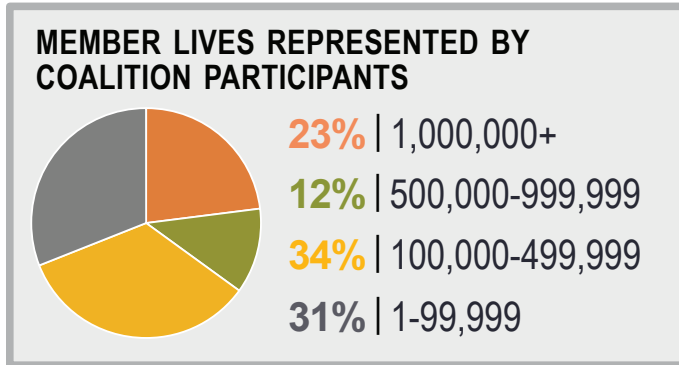


PERCENT OF ACTIVE EMPLOYEES IN A UNION



Coalition Participant Panel

35 SURVEYS | 8 INTERVIEWS | 28.7 MILLION MEMBER LIVES



COALITION GROUP BENEFIT PURCHASING



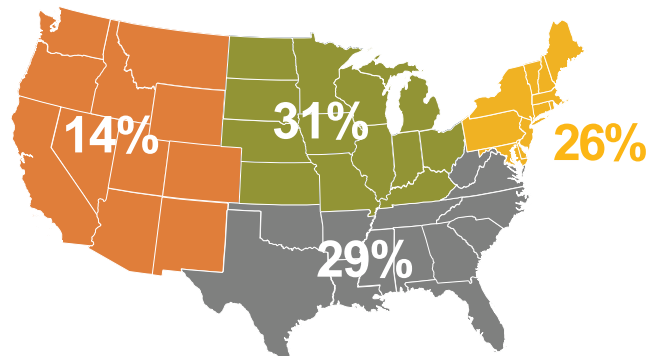
COALITION RESPONDENT ORGANIZATIONAL POSITION



SCOPE OF COALITION MEMBERSHIP & ACTIVITY



GEOGRAPHICAL BREAKDOWN OF COALITION LOCATIONS



See Appendix Figures A2 and A3 for a full list of employer and coalition participants.

Employer Segmentation

Benfield-Gallagher's employer segmentation tool is a proprietary model designed to identify sophisticated, action-oriented employers who will be most willing to strategically modify their benefit design, influence peers and lead the larger employer market. If your company is concerned about PBM and health plan-driven tactics such as exclusion lists, customized preventive drug lists for HSA-based CDHPs, pharmacy copay accumulator adjustment programs and aggressive generics policies, or want to understand which employers are most engaged in disease/care management solutions, this tool will distinguish customers who are willing to drive innovation in benefit design. The segmentation model classifies employers into one of four quadrants based on their level of activation in benefit design and the utilization of information in healthcare benefit decision making (Figure 1).

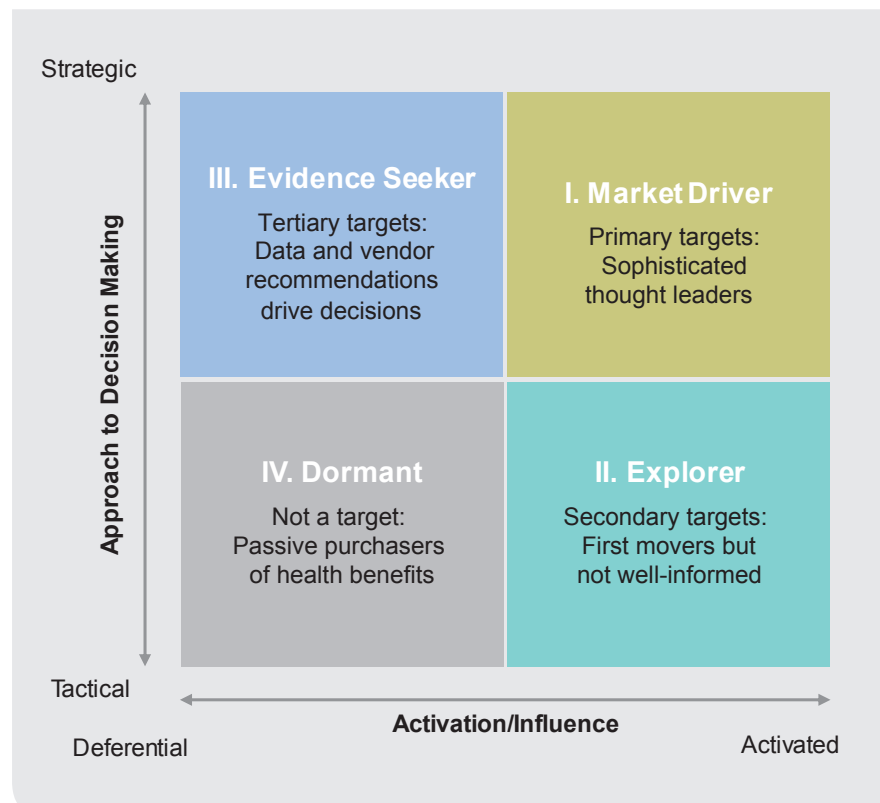
The Most Activated Employers (x-axis)...

- Have independent processes for evaluating recommendations made by vendor partners
- Are less reliant on benchmarking/willing to be among first to try a new approach
- Have a history of pushing back on vendor (health plan or PBM) recommendations

The Most Strategic Employers (y-axis)...

- Have a 3+ year strategy for managing health and health benefits
- Collect and use data from multiple programs (medical, pharmacy, wellness, disability, absence) in planning and evaluation
- Make evidence-based decisions

Figure 1: Overview of Employer Segments



Value-Based Benefit Design for Pharmacy Benefits

Nearly one-third of employers currently use value-based benefit/insurance design (VBBD/VBID) for pharmacy benefits and half anticipate having it in place by 2020 (Figure 12). The benefit design lowers or waives copays/coinsurance for high-value medications that typically treat high-cost, chronic conditions.

We haven't observed this much interest in VBBD/VBID since pre-ACA, going back to 2009. We can't be sure, but perhaps this is a reaction to ACA de-emphasis or perhaps the pendulum is swinging back on high-deductible health plans.

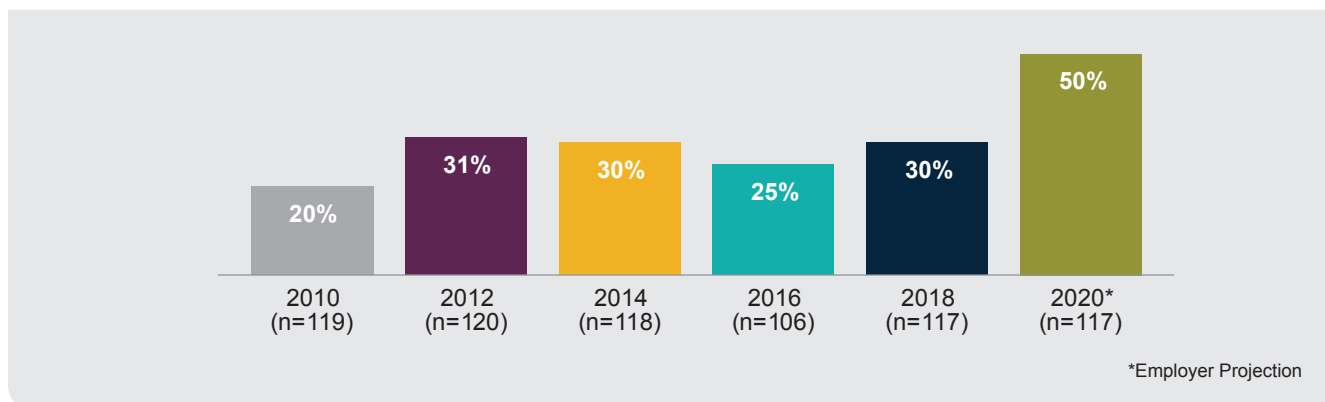
Employer implementation of VBBD/VBID:

- **Branded Rx:** Two-thirds of employers apply their VBBD to branded Rx, most often covering these medications at a reduced cost share tier
- **Generic Rx:** 97% apply the benefit design to generics, primarily making them free or at the lowest cost share tier
- **Medical supplies:** Three-fourths of employers with VBBD apply it to medical supplies, most often making them free or at the lowest cost share tier

Top disease states for which employers have VBBD/VBID in place for pharmacy include:

1. Diabetes (86%)
2. Hypertension (66%)
3. High cholesterol (60%)
4. Cardiovascular disease (49%)

Figure 12: Employers with Value-Based Benefit/Insurance Design (VBBD/VBID)



“They have to opt-in for the value-based savings. The goal is to at least see your doctor once a year and talk to a counselor at least once a year. We’ll give you free generic meds or brand meds at a significantly reduced price. We have about 1,300 people in the program.”

– Director of Benefits, Employer

“If you’re a diabetic, enrolled in our program and have your blood sugar, cholesterol, weight and blood pressure under control, you not only can get a 30% premium discount, but you also are not paying anything out of pocket for your diabetes meds, your glucose test strips or your endocrinologist visits.”

– Chief Medical Officer, Employer

“Our biggest issue is trying to get people in the value-based program, even with free meds. Less than half the diabetics and about 40% of asthmatics are in. It costs us about \$850,000 a year to give away those meds.”

– Director of Benefits, Employer

Biologics & Biosimilars

This section outlines employer concerns and initiatives for managing the growing cost and utilization of biologics and specialty medications. It then studies biosimilars, including employer knowledge of, concerns with, and approaches to managing this category of drugs.

Biologic Concerns & Management Initiatives

The top biologics issues for employers are the organizational cost (81% highly concerned) and site-of-care pricing variations between the cost of biologics administration in a hospital versus outpatient setting (70% highly concerned, Figure 22).

Findings from the last three years show notable growth in concern with manufacturer savings/copay cards, the only surveyed area of concern that had an increase in 2018 over 2017 (41% vs. 36%, respectively). New copay accumulator adjustment programs promoted by PBMs may be putting these cards in the spotlight, with the percentage of those highly concerned increasing 16% since 2016.

“It’s very frustrating. All these new advances, and some of them are wonder drugs, there’s no doubt about it but it’s out of control and they just expect us to pay for it. They set outlandish pricing for medications that quite frankly we’re stuck with.”

– Benefits Director, Employer

“We’re seeing all the same utilization increases and unit price increases that everybody else is, but I think the price inflation piece is what is most concerning to us.”

– Benefits Director, Employer

“We identified \$500,000 to \$600,000 that could be saved if we moved the site of care or used home infusion nurses. However, what that doesn’t account for is the number of providers that are going to bristle at the idea that they’re not going to be able to administer the drug within their infusion clinics or, worse, in a hospital setting.”

– Benefits Director, Employer

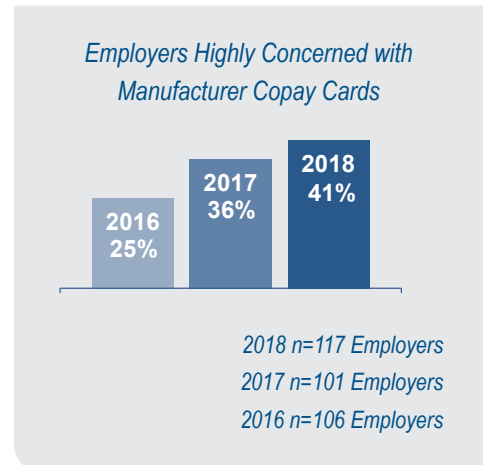
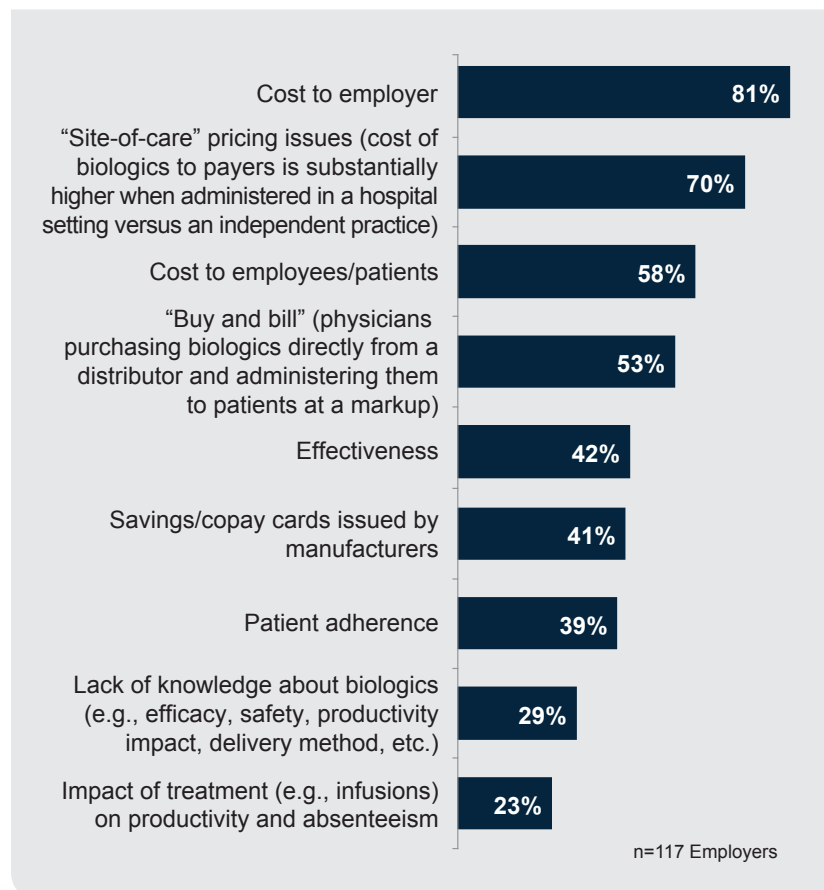


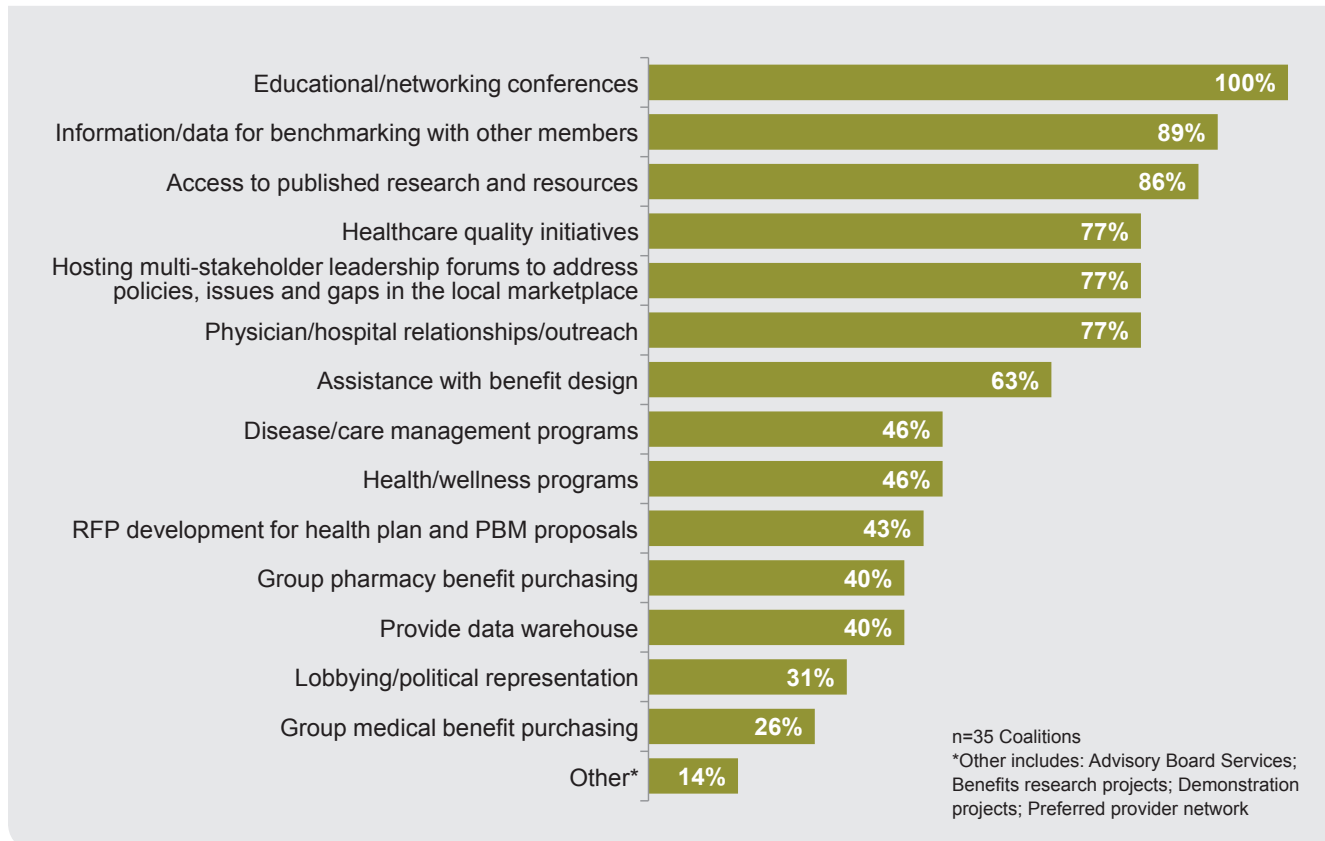
Figure 22: Concerns Pertaining to Biologics
(percentage highly concerned)



Coalition Member Services

Coalitions offer a wide variety of member services driven by the needs and priorities of employer members and in response to local market dynamics (Figure 52). All surveyed coalitions hold educational and networking conferences, usually in the form of annual and topic-based meetings. Benchmarking information is provided by 89% of coalitions (up from 81% in 2017) and 86% provide members with access to published research, up from 74% last year.

Figure 52: Coalition Services Offered to Employer Members



“Our members really want to benchmark, network and learn from each other.”

– President & CEO, Coalition

“My focus for the coalition is trying to improve the quality of care and reduce the variability of cost in the marketplace...helping members manage overall costs and focus on the high-cost conditions. That’s where our value and quality initiatives are focused, on specialty drug management, the high cost of specialty drugs and the appropriateness of the specialty drugs for the high-cost conditions.”

– Executive Director, Coalition

“We are looking at tools for employers to engage their employees and not just incentives for the right medication at the right time but also instilling the importance of taking enough time to rejuvenate. Tools that go beyond just talking about medical but also address work/life balance. We have several employers that are really excited about that.”

– Vice President, Coalition

Figure A1: Breakdown of Research Participants

Type of Research Participant	Number of Surveys	Number of Interviews
Jumbo Employer	117	9
Employer Health Coalition	35	8
Benefits Advisors	0	4
TOTAL	152	21

See the Employer & Coalition Participant Panel on pages 6-7 for additional demographic data including: number of employees, covered lives, industry, respondent's organizational position, geographic distribution and unionization.

Figure A2: Employer Research Participants

Employer Research Participants		
ABM	Dr Pepper Snapple	Orange County Public Schools
Accenture	DST Systems	O'Reilly Auto Parts
Advocate Health Care	Duke University	Parsons
AECOM	East Penn Manufacturing	PepsiCo
Akron Children's Hospital	Eastman Chemical	Pfizer
Alliance Data	Essilor of America	Pilot Flying J
AlSCO	Flynn Restaurant	Pitney Bowes
American Electric Power	Foot Locker	PPG Industries
American Express	Ford Motor	Praxair
Ascena Retail	GE Oil & Gas, now part of Baker Hughes	Public Service Enterprise Group (PSEG)
Ascension Health	Golden Living	Public Storage
Asurion	Goodyear Tire & Rubber	PVH Corporation
Automobile Club of Southern California	HealthPartners	QuadMed/QuadGraphics
AutoNation	Hershey	Quest Diagnostics
Averitt Express	Honeywell	Rollins
Barclays	Hospital Corporation of America (HCA)	RWJBarnabas Health
Berry Global	Ingersoll Rand	Ryder Systems
Board of Pensions, PC (USA)	Intuit	SCANA
Boeing	Iron Mountain	School Board of Broward County, FL
Booz Allen Hamilton	Kimberly-Clark	Sephora
BP	LafargeHolcim	7-Eleven
Campbell Soup	Lancaster General Health	Silgan Containers
Caterpillar	Land O' Lakes	Smithfield Foods
Cato	Lands' End	Sodexo
Charlotte-Mecklenburg Schools	Lennar	Southeastern Pennsylvania Transportation Authority (SEPTA)
CHS	Lennox International	Southern California Edison
Chubb Insurance	Lowe's	Southwest Airlines
City of Mesa	MassMutual	St. Louis-Kansas City Carpenters Regional Council
Cleveland Bakers and Teamsters	Metro Nashville Public Schools	Steel Dynamics
Cleveland Clinic	MGM Resorts International	Sykes Enterprises
Coca-Cola	Mutual of Omaha Insurance	Techtronic Industries
Comcast	Navistar	Tyson Foods
Compass	Nielsen	United Services Automobile Association (USAA)
Con Edison	Northern Trust	United States Steel
Corning	Northwestern University	University of Michigan
Cox Enterprises	Oath, a Verizon Company	University of Rochester
CSX Transportation	OhioHealth	US Foods
Cummins	Oklahoma State University	Walgreens
Denny's	Old Republic	XPO Logistics

n=117 Employers

Figure A3: Coalition Research Participants

Coalition Research Participants	
Central Penn Business Group on Health	Mid-America Coalition on Health Care
Colorado Business Group on Health	MidAtlantic Business Group on Health
Dallas/Fort Worth Business Group on Health	Midwest Business Group on Health
Employer Health Alliance of Georgia	Mississippi Business Group on Health
Employers Healthcare Coalition	Montana Association of Health Care Purchasers
Florida Health Care Coalition	Nevada Business Group on Health
Fond du Lac Area Businesses on Health	New Mexico Coalition for Healthcare Value
Greater Philadelphia Business Coalition on Health	Northeast Business Group on Health
Health Action Council Ohio	Pittsburgh Business Group on Health
Health Policy Corporation of Iowa	Rhode Island Business Group on Health
HealthCare 21 Business Coalition	Savannah Business Group
Heartland Healthcare Coalition	South Carolina Business Coalition on Health
Kentuckiana Health Collaborative	Washington Health Alliance
Labor Health Alliance	WELLCOM
Lehigh Valley Business Coalition on Healthcare	WellOK, the Northeastern Oklahoma Business Coalition on Health
Louisiana Business Group on Health	Wichita Business Coalition on Health Care
Maine Health Management Coalition	Wisconsin Collaborative for Healthcare Quality
Memphis Business Group on Health	

n=35 Coalitions



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