



Benfield

ARTHUR J. GALLAGHER & CO.

SPRING 2017

EMI

Employer Market
Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

Benfield | Arthur J. Gallagher & Co., St. Louis, MO 63119
© Benfield, a division of Gallagher Benefit Services, Inc.
All rights reserved. Published 2017
Printed in the United States of America

This Report is licensed only to the original party licensed by Benfield, a division of Gallagher Benefit Services, Inc. (respectively the "Licensee" and "Benfield-Gallagher") and is subject to a binding license agreement between Licensee and Benfield-Gallagher. Benfield-Gallagher continues to retain title to and ownership of this Report. All copies and portions of this Report, in any form, belong to Benfield-Gallagher, which retains all rights not expressly granted. Licensee is entitled to use this Report solely for its own internal business purposes and is prohibited from modifying, translating, or otherwise creating derivative works based on this Report. Licensee is further prohibited from licensing, selling, leasing, distributing, lending or otherwise transferring this Report to any third party. Licensee may not make any copies of Benfield-Gallagher Reports except for internal distribution purposes as described and agreed to in the license agreement provided that all such copies are reproduced with and incorporate all of Benfield-Gallagher's protective notices, including this and all copyright notices. Nothing in this Report and/or license agreement applicable thereto constitute a waiver of Benfield-Gallagher's rights under United States Copyright law or any other law.

This information has been obtained from sources which Benfield-Gallagher believes to be reliable but we do not guarantee the accuracy or completeness of this information.



Benfield

ARTHUR J. GALLAGHER & CO.

SPRING 2017

EMI

Employer Market
Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

Table of Contents

Introduction	5
Employer & Coalition Participant Panel	6
Executive Summary	8
Why Employers?	10
Health Benefit Strategy	13
Approach to Active Employee Healthcare Benefits	13
ACA Perspectives	14
Innovative Benefit Designs and Management	15
Benefits Decision Making	18
Health Benefit Management Summary	20
Health Benefit Management—Manufacturer Implications	20
Pharmacy Benefit Management	21
Trends Impacting Pharmacy Benefit Management	21
Spotlight on Healthcare Purchasing Transparency: Health Transformation Alliance (HTA)	23
Pharmacy Management Initiatives	24
Value-Based Benefit Design for Pharmacy Benefits	25
Prescription Drug Formulary Approach	25
PBM Exclusion Lists	27
Pharmacy Benefit Management Summary	32
Pharmacy Benefit Management—Manufacturer Implications	32
Biologics & Biosimilars	34
Biologics Concerns & Management Initiatives	34
Biosimilars	37
Biologics & Biosimilars Summary	39
Biologics & Biosimilars—Manufacturer Implications	39
Consumer-Directed Health Plans (CDHPs)	40
Healthcare Accounts Linked to CDHPs: HSAs & HRAs	42
HSA & HRA Pharmacy Coverage	43
Consumer-Directed Health Plans Summary	45
Consumer-Directed Health Plans—Manufacturer Implications	45
Employee Health Management	46
Employer Disease States and Conditions of Focus	46
Weight Loss Medication Coverage	48
Worksite-Based Health Clinics	49
Vaccines Offered at the Worksite	51
Employee Health Management Summary	52
Employee Health Management—Manufacturer Implications	52

Employer Health Coalitions	53
Coalition Disease States and Conditions of Focus	53
Coalition ACA Perspectives	55
Coalition Member Services	56
Coalition Group Healthcare Benefit Purchasing	58
Coalition Approach to PBM Exclusion Lists	62
Coalition Integration of Healthcare Data	64
Local Market Healthcare Initiatives	65
Value-Based Healthcare Initiatives	67
Employer Health Coalition Summary	68
Employer Health Coalition—Manufacturer Implications	68
Appendix	69

List of Figures

Figure 1	Employer Healthcare Benefit Approach for Active Employees and Dependents: 2017-2019	13
Figure 2	Employers' Preference for the Treatment of ACA Rules	14
Figure 3	Approach to Innovative Benefit Designs or Management Methods	15
Figure 4	Value-Focused Benefit Management Innovation	15
Figure 5	Specialties for Which Employer or Medical Plan Carrier Designates Centers of Excellence	16
Figure 6	Contracting Avenues for Value-Based Initiatives	16
Figure 7	Use of Risk-Based Payment Contract	17
Figure 8	Benefits Decision Cycle	18
Figure 9	Approach to Vendor Recommendations (PBMs, EBCs, Health Plans)	18
Figure 10	Employers Increasing Cost Sharing	19
Figure 11	Importance of Trends Impacting Pharmacy Benefit Management	21
Figure 12	Familiarity with the Health Transformation Alliance (HTA)	23
Figure 13	Current and Future Pharmacy Management Initiatives	24
Figure 14	Employers with Value-Based Benefit Design (VBBD)	25
Figure 15	Organization's Approach to the National Prescription Drug List (PDL)	25
Figure 16	Estimated Number of 2017 Medication Exclusions by PBM/Health Plan	27
Figure 17	Trends in Express Scripts and CVS Caremark Excluded Medications	28
Figure 18	PBMs with Excluded Medications by Select Therapeutic Areas	29
Figure 19	Employers' Approach to Coverage of Drugs on their PBM's or Health Plan's Exclusion List	30
Figure 20	Information Used to Evaluate Coverage of Excluded Medications	31
Figure 21	PBM Action when Employer Covers Medications on the Drug Exclusion List	31
Figure 22	Concerns Pertaining to Biologics	34
Figure 23	Initiatives to Manage Cost and Utilization of Biologics	35
Figure 24	Disease States for Which Employers Use a Biologics Preferred Drug List	36
Figure 25	Approach to Health Plan Management of Specialty Medications and Biologics that Fall Under Medical Benefit	36
Figure 26	Concern Pertaining to Biosimilars	37
Figure 27	Expected Impact of Biosimilars on Total Specialty Drug Spend	38
Figure 28	Benefits Management Approaches in Place for Biosimilars	38
Figure 29	Employers Offering CDHPs	40
Figure 30	Employer Approaches to CDHPs (2014–2017)	41
Figure 31	Percentage of Total Covered Lives Enrolled in CDHPs	41
Figure 32	Healthcare Accounts Linked with CDHPs	42
Figure 33	CDHP Rx Coverage	43
Figure 34	Factors of Importance for Determining Approach to Preventive Drugs in a Health Savings Account (HSA)	44
Figure 35	Importance of Disease States or Conditions to Employers	46
Figure 36	Employers Indicating Disease/Condition's Importance Has Significantly Increased Over the Last 12-18 Months	47

Figure 37	Coverage of Weight Loss Medications	48
Figure 38	Employer Worksite-Based Health Clinics	49
Figure 39	Party Responsible for Running Worksite-Based Clinics	49
Figure 40	Services Offered at Worksite-Based Health Clinics	50
Figure 41	Vaccinations Offered at the Worksite	51
Figure 42	Importance of Disease States or Conditions to Coalitions	53
Figure 43	Top Coalition Disease States of Interest for Receiving Information and Support from Manufacturers	54
Figure 44	Coalitions' Preference for the Treatment of ACA Rules.	55
Figure 45	Coalition Services Offered to Employer Members.	56
Figure 46	Top Coalition Services Used by Employer Members.	57
Figure 47	Coalitions Offering Group Pharmacy and Medical Benefit Purchasing.	58
Figure 48	Coalition Member Use of Group Purchasing for Pharmacy Benefits.	58
Figure 49	Coalitions' Approach to Vendor Recommendations (PBMs, Health Plans).	59
Figure 50	Coalition Analysis of Purchasing Members' Prescription Drug Utilization Data.	60
Figure 51	Portion of Employer Members that Deviate from Coalition-Defined Standard PBM Prescription Drug List	60
Figure 52	Employer Purchasing Members' Average Approach to PBM's National Prescription Drug List (PDL)	61
Figure 53	Portion of Employer Members that Deviate from Coalition-Defined Standard Pharmacy Utilization Management Tactics	61
Figure 54	Coalitions' Approach to Covering Drugs on their PBM's Exclusion List	62
Figure 55	PBM Action when Coalition Covers Medications on the Drug Exclusion List	63
Figure 56	Coalitions with a Data Warehouse to Collect, Integrate and/or Benchmark Employer Member Benefits Data	64
Figure 57	Data Elements Collected and Integrated via Data Warehouse	64
Figure 58	Trends Gaining Traction in Coalitions' Local Healthcare Markets in 2017.	65
Figure 59	Healthcare Quality and Cost Data, Tools and Information Offered by Coalitions	66
Figure 60	Value-Based Initiatives Actively Supported by Coalitions.	67

List of Appendix Figures

Figure A1	Breakdown of Research Participants	71
Figure A2	Employer Research Participants	72
Figure A3	Coalition Research Participants	73

EMI 2017

Market Overview & Trends Report

Introduction

The Market Overview & Trends Report is in its thirteenth year of studying the progression of key employer and coalition health management trends and providing a forward-looking perspective on emerging dynamics. As a core installment of Benfield-Gallagher's Employer Market Intelligence (EMI) Service, the objective of this research is to report on issues that impact employer decision making and benefit design, especially as it relates to coverage of pharmaceutical products.

This primary research includes results from a study of 101 jumbo employers (5,000+ employees) and 31 leading health coalitions. Insights are also included from 15 interviews with employer benefit decision makers and health coalition leaders (see Figure A1). The report focuses on current and future market developments including:

- **NEW!** Longitudinal Outlook of Employer Benefit Actions
- **NEW!** Perspectives on Repealing/Replacing Facets of ACA
- Value-Focused Benefit Management Innovation
- Direct & Risk-Based Contracting for Healthcare Benefits
- Benefits Decision Cycle
- Approach to Vendor Recommendations
- Trends Impacting Pharmacy Benefit Management
- **NEW!** Familiarity with the Health Transformation Alliance
- PBM Exclusion Lists
- Biologics Management
- **NEW!** Biosimilars
- Consumerism & CDHPs
- HSA & HRA Rx Coverage
- Disease States of Importance
- Worksite Health Clinics
- Employer Health Coalitions & Group Benefits Purchasing

Clients utilize this report for employer strategy development, market assessment, product/service alignment, and to better understand the demands being placed on health plans by their employer customers. Findings can be applied to showcase product value using research and outcomes data of importance to employers and coalitions.

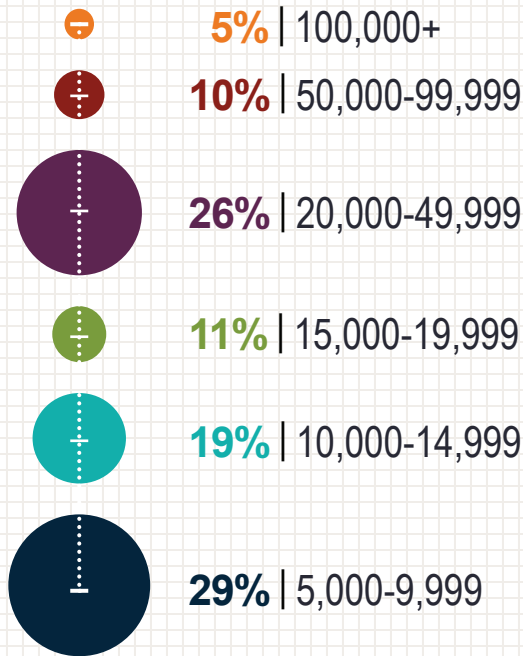
Manufacturers that have account management, outcomes research or medical liaison resources focused directly on employers and coalitions will find this report critical for understanding and successfully working with their customers.

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

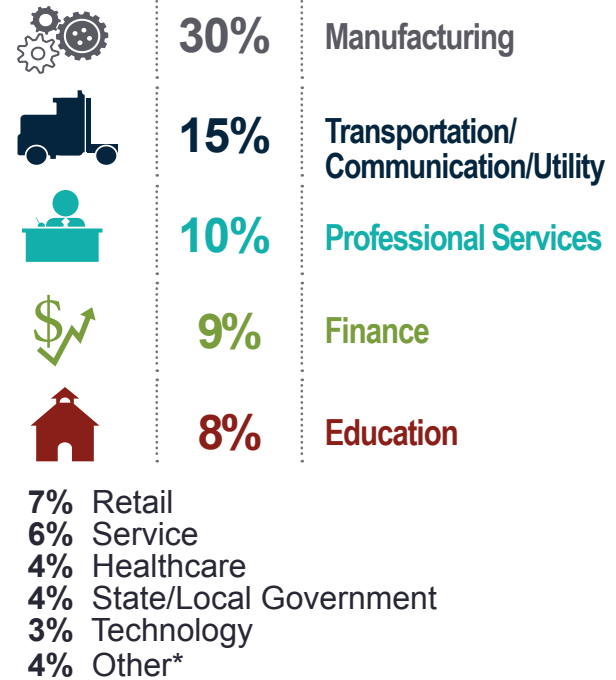
Employer Participant Panel

101 SURVEYS | 8 INTERVIEWS | 4.2 MILLION COVERED U.S. LIVES

PARTICIPANTS BY NUMBER OF U.S. EMPLOYEES



INDUSTRY

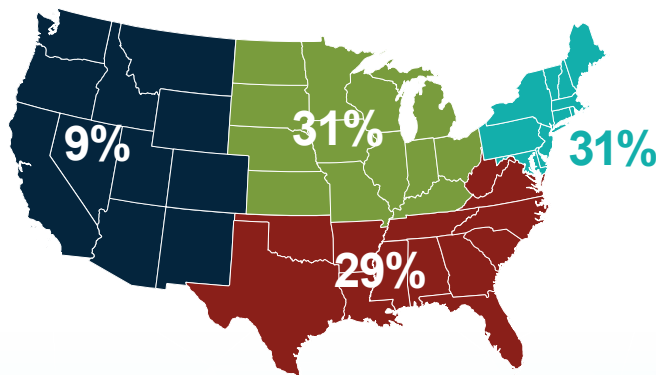


*Other includes: Construction; Entertainment; Warehousing/Baking; Media

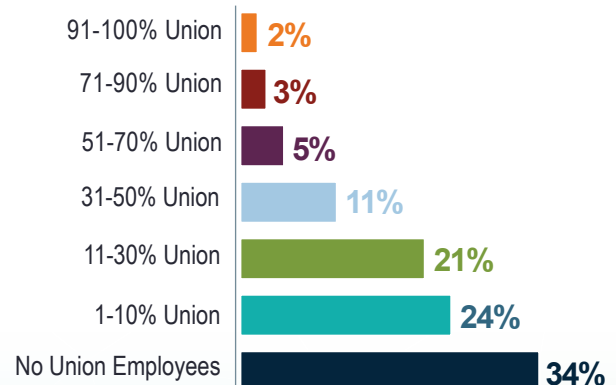
EMPLOYER RESPONDENT ORGANIZATIONAL POSITION



GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS



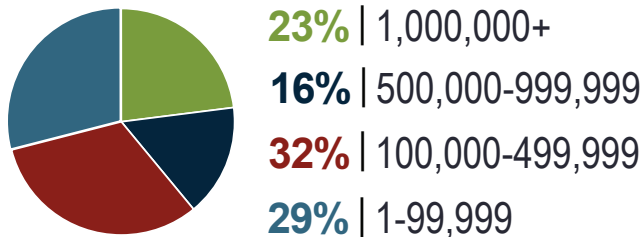
PERCENT OF ACTIVE EMPLOYEES IN A UNION



Coalition Participant Panel

31 SURVEYS | 7 INTERVIEWS | 22.9 MILLION MEMBER LIVES

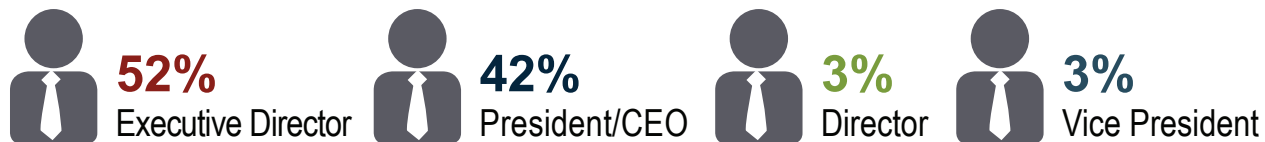
MEMBER LIVES REPRESENTED BY COALITION PARTICIPANTS



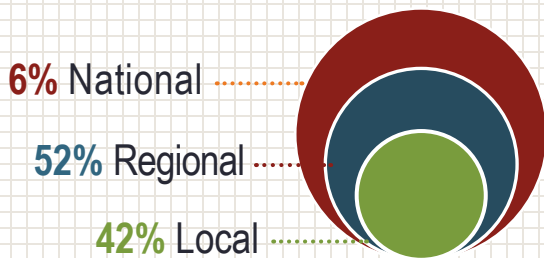
COALITION GROUP BENEFIT PURCHASING



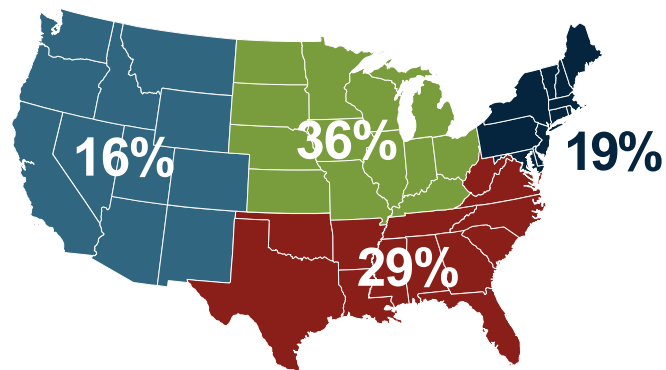
COALITION RESPONDENT ORGANIZATIONAL POSITION



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.

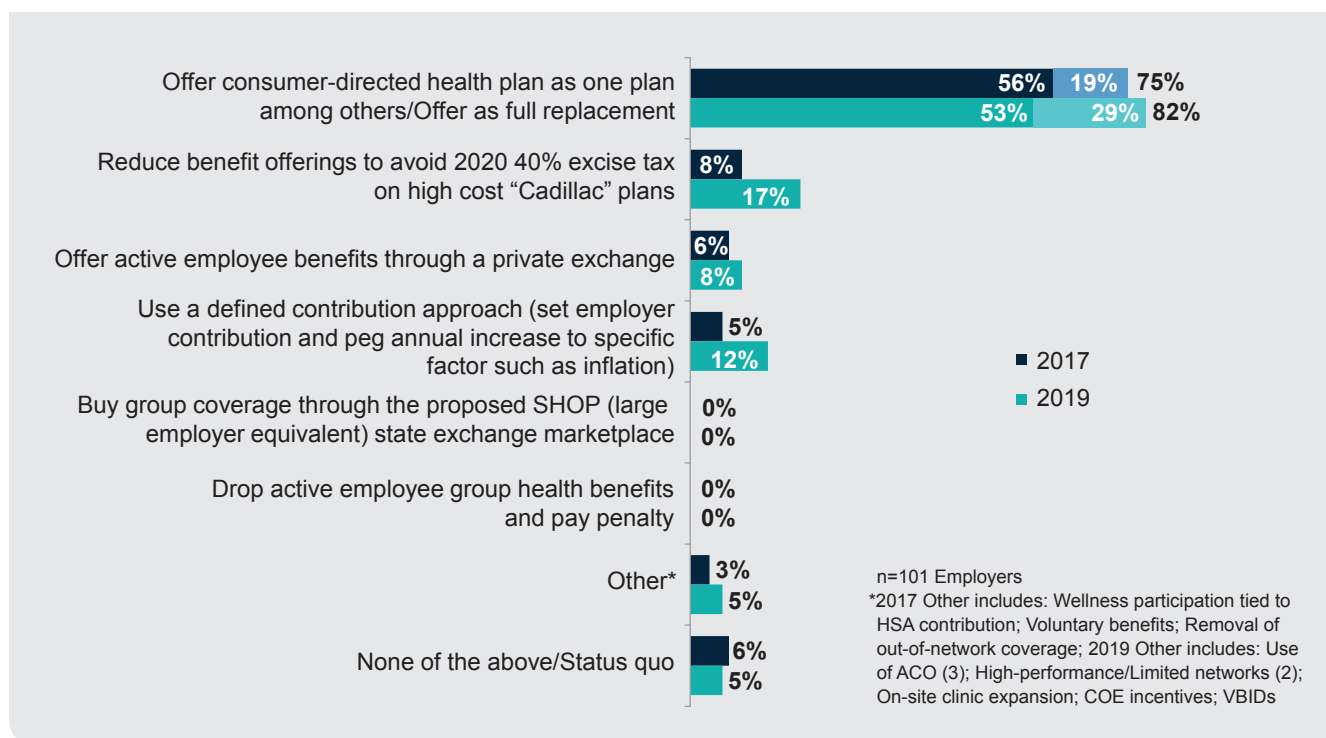
Health Benefit Strategy

This section details employer approaches to health benefits strategy and decision making, Affordable Care Act (ACA) perspectives, value-based initiatives, healthcare provider contracting and use of Centers of Excellence.

Approach to Active Employee Healthcare Benefits

When asked about healthcare benefits for active employees and dependents in the current year (2017) and in two years (2019), consumer-directed health plans (CDHPs) dominate with notable growth in a full replacement approach by 2019 (see page 40 for more on CDHPs). Seventeen percent of employers expect that they will reduce benefit offerings to avoid the Cadillac tax as the 2020 implementation year approaches. This percentage is less than half of what it was just two years ago (2015) when 39% of respondents indicated that they planned benefit reductions in advance of the 2018 implementation date. This may be explained by interviewed employer optimism that the Cadillac tax will be repealed. Notably, interest in private exchanges has fizzled, and employer-sponsored healthcare remains relevant with no employer anticipating dropping healthcare benefits altogether through 2019 (Figure 1).

Figure 1: Employer Healthcare Benefit Approach for Active Employees and Dependents: 2017-2019



“The culture here is paternalistic and so entrenched on the idea that good employers should be the conduit for health insurance. I don’t ever see us being in a position where we would exit the healthcare space and pass out vouchers, even if the marketplace was functioning well and very mature.”

– Benefits Director, Employer

“I honestly think the Cadillac tax was dead in the water no matter who won the election.”

– Chief Medical Officer, Employer

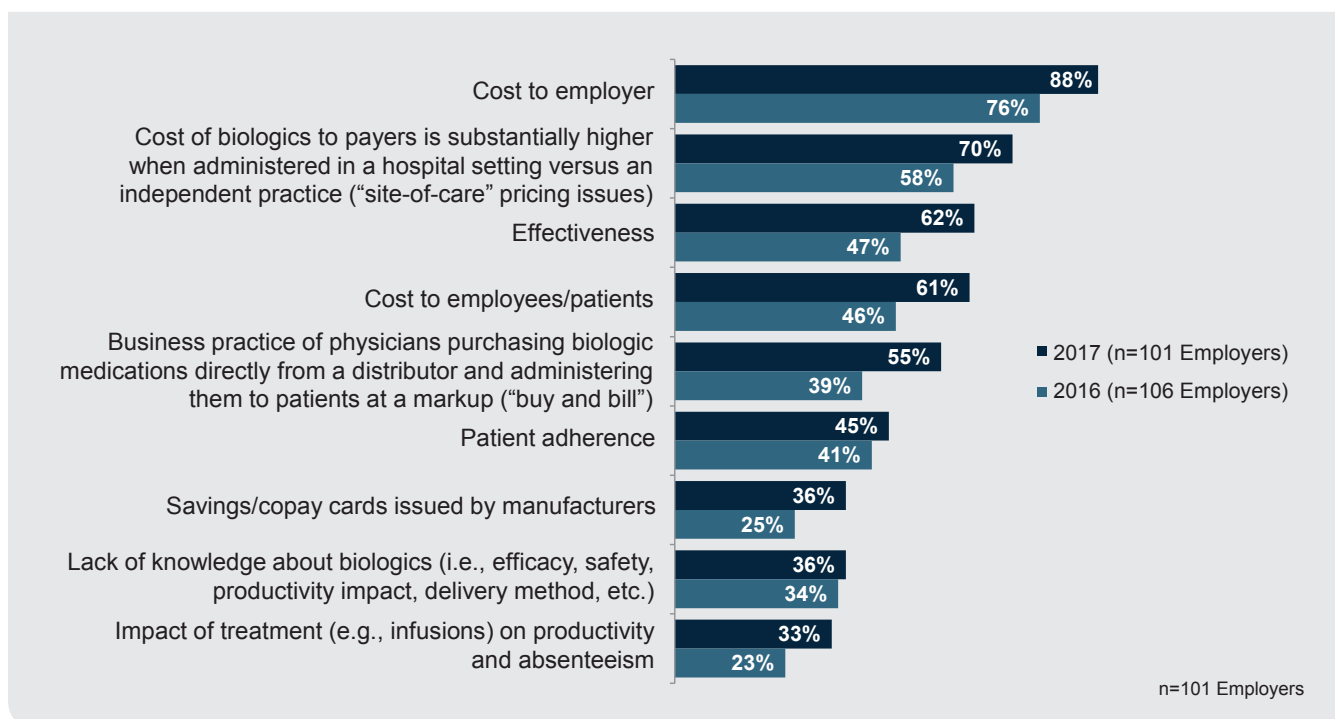
Biologics & Biosimilars

This section outlines employer concerns and initiatives for managing the growing cost and utilization of biologics and specialty medications. New this year, the second half of this section features biosimilars, including employer perspectives and management approaches.

Biologics Concerns & Management Initiatives

The cost of biologics to employers remains respondents' top concern by a large margin (Figure 22). Seven in ten respondents are highly concerned with site-of-care pricing issues (up from 58% in 2016), followed by concerns around biologics' effectiveness (62%, up from 47% in 2016). Notably, there was an increase over last year's research in the percentage of employers expressing high concern for every category.

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



"Specialty is a big concern because of the growth of the number of drugs, utilization and the number of disease states they treat. It's now around 40% of our spend and will be 50% within the next couple years. We have the best clinical programs available for our membership and we're setting the best criteria we can for utilization."

– Assistant Director of Benefits, Employer

"We want people to have the medications at a reasonable cost. What is reasonable? We've kept a flat copay versus coinsurance that we think is unaffordable but it's becoming more and more difficult."

– VP of Global Health, Employer

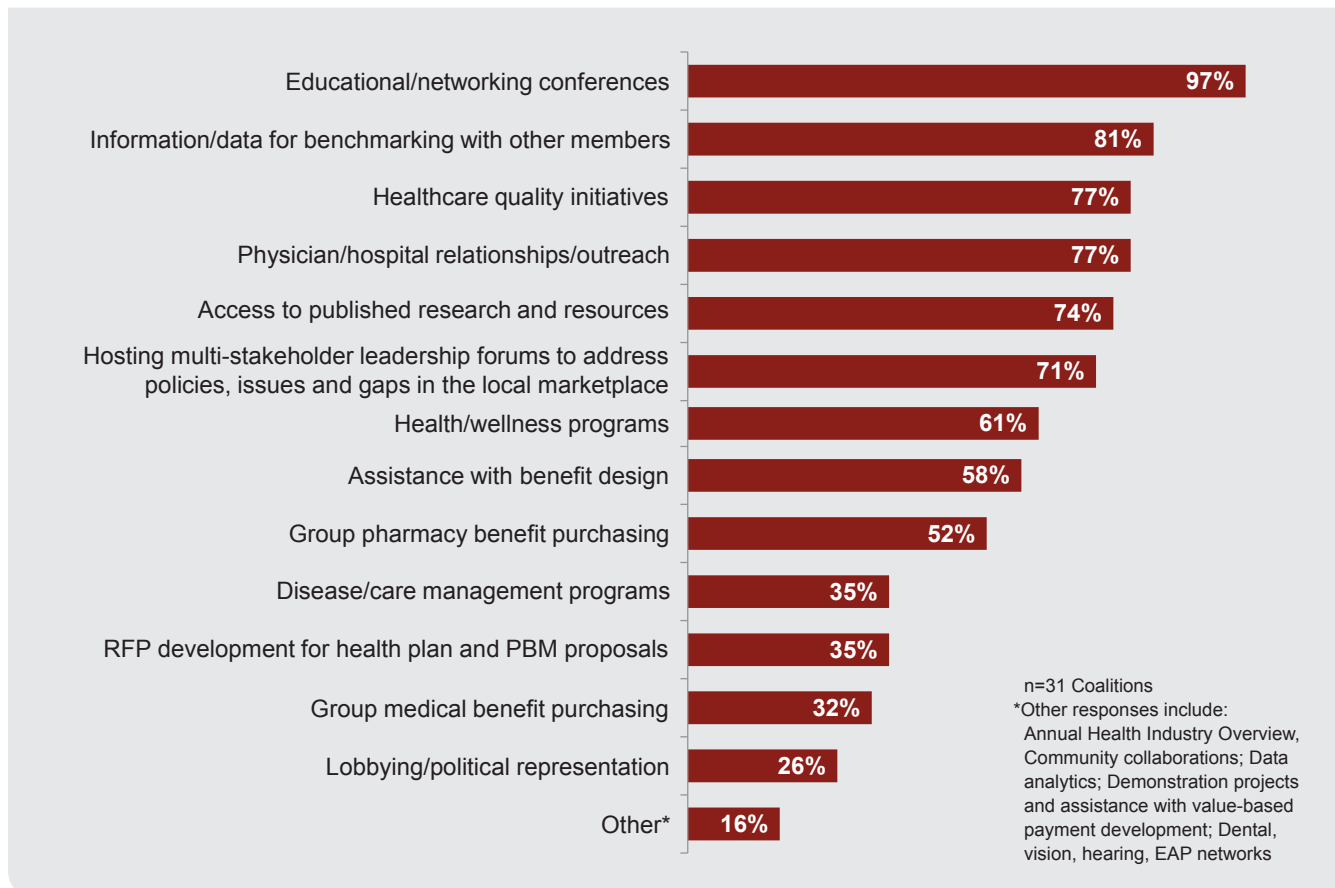
"We have cost assistance built in to limit employee out-of-pocket costs where there's no substitute for a really expensive biological medication."

– Benefits Manager, Employer

Coalition Member Services

Coalitions offer a variety of services, driven by the needs and priorities of employer members and local market dynamics (Figure 45). Nearly all coalitions hold educational and networking conferences (97%). Four in five (81%) provide member benchmarking information and 77% provide access to healthcare quality initiatives and work with physician and/or hospital groups. Service offerings of notable decline this year were disease/care management programs (35% vs. 54% in 2016) and assistance with benefit design (58% vs. 71% in 2016).

Figure 45: Coalition Services Offered to Employer Members



“As we bring on new members, we do an assessment with them of their benefit design and how they approach issues like transparency and value-based benefit design. If they aren’t there with it, we pair them up with one of our employers who can mentor them and give them advice.”

– President & CEO, Coalition

“We are doing less disease state management, but still focus on best practices for population health management.”

– President & CEO, Coalition

“Forming the coalition was specifically for pushing greater transparency on the hospital front using LeapFrog, and we’ll expand our agenda from there. It remains a cornerstone for us as customers are demanding more from the healthcare system. They want to push the market, they’re interested in change.”

– President & CEO, Coalition



Benfield

ARTHUR J. GALLAGHER & CO.

20 Allen Avenue, Suite 345
St. Louis, MO 63119-2304

o 314.968.0011

f 314.968.1199

www.benfieldresearch.com

www.benfield.com