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SUMMER 2019

EMI

Employer Market Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

Gallagher

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EMI 2019
Market Overview & Trends Report

Introduction

The 2019 *Employer Market Trends* report is part of the Employer Market Intelligence (EMI) syndicated research service. This year marks fifteen years of tracking, studying and predicting employer health management challenges and activity. While the quest for value in healthcare purchasing has been ongoing, the pain points and potential solutions have evolved, as has the content of this Trends report. In fact, this year's report includes several new data points as well as three special features.

Special Features:

1. Value-Focused Rx Contracting Models (page 48)
2. Copay Accumulator Adjustment Programs (page 62)
3. Value-Focused Healthcare Management Approaches (page 93)

Findings in this report were collected via a comprehensive online survey of benefits decision makers at 107 jumbo employer organizations (5,000+ employees) and leaders of 32 employer health coalitions. In-depth telephonic interviews were also conducted with a subset of respondents. Additional details on the research panel can be found on page 7.

REPORT SECTIONS

I. Why Employers?

II. Executive Summary

III. Employer Activation Examples

IV. Employer Segmentation

V. Pharmacy Benefit Management & Trends
- » NEW! Use of an Advisor for Pharmacy Benefit Design
- » Tactics to Manage Rx Cost & Utilization
- » NEW! Interest in Receiving Manufacturer Information & Resources
- » NEW! Pharmacy Purchasing Collectives
- » Value-Based Benefit/Insurance Design
- » Formulary & Exclusion List Approach
- » NEW! Point-of-Sale Rebates

VI. Biologics and Biosimilars
- » Concerns & Management Initiatives

VII. Employee Health Management
- » Importance of Managing Disease States
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- » NEW! Behavioral Health Management
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- » Value-Focused Health Management

VIII. Employer Health Coalitions
- » NEW! Coalition Targeting
- » Initiatives & Priorities
- » Group Pharmacy Benefit Purchasing
- » NEW! Interest in Manufacturer Support

It's our aim to produce actionable data. Thus Segmentation is a core component of this report. In addition to the full section found on pages 26-36, insights are included throughout the report in an effort to characterize and distinguish employer types and targets. Further, each report section concludes with a summary and set of implications for biopharmaceutical manufacturers.

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

107 SURVEYS | **8** INTERVIEWS | **3.6 MILLION** COVERED U.S. LIVES

PARTICIPANTS BY NUMBER OF U.S. EMPLOYEES

- 9% | 100,000+
- 9% | 50,000-99,999
- 25% | 20,000-49,999
- 12% | 15,000-19,999
- 13% | 10,000-14,999
- 32% | 5,000-9,999

INDUSTRY

- 31% Manufacturing
- 14% Business Services
- 12% Healthcare
- 8% Education
- 7% Retail
- 6% Financial Services

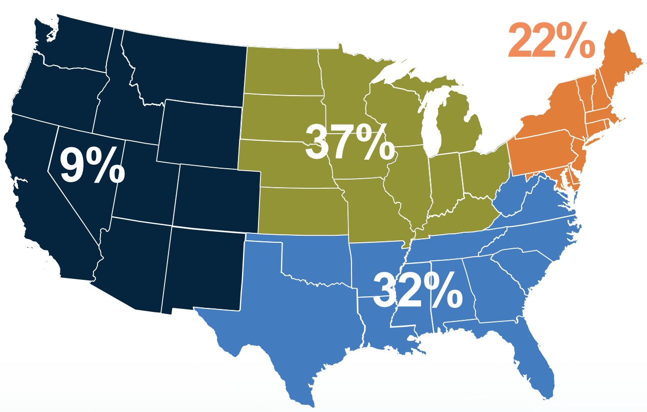
4% Hospitality/Restaurant/Entertainment
4% Transportation
3% Construction
3% Technology
2% Energy
7% Other*

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

EMPLOYER RESPONDENT ORGANIZATIONAL POSITION

- 39% Director of Benefits
- 24% Benefits Manager
- 21% VP of Benefits
- 10% Corporate Med. Dir
- 6% Benefits Analyst

GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS



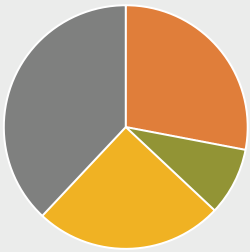
PERCENT OF ACTIVE EMPLOYEES IN A UNION

100% Union	0%
81-99% Union	6%
61-80% Union	3%
41-60% Union	13%
21-40% Union	11%
1-20% Union	35%
No Union Employees	32%

Coalition Participant Panel

32 SURVEYS | 4 INTERVIEWS | 33.4 MILLION MEMBER LIVES

MEMBER LIVES REPRESENTED BY COALITION PARTICIPANTS



28% | 1,000,000+
9% | 500,000-999,999
25% | 100,000-499,999
38% | 1-99,999

COALITION GROUP BENEFIT PURCHASING

Rx 47% Provide Group Rx Benefit Purchasing

25% Provide Group Medical Benefit Purchasing

COALITION RESPONDENT ORGANIZATIONAL POSITION

50% Executive Director

38% President/CEO

6% Vice President

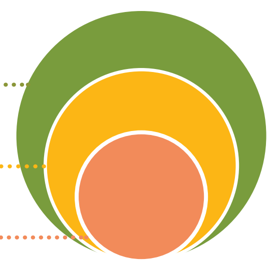
6% Director

SCOPE OF COALITION MEMBERSHIP & ACTIVITY

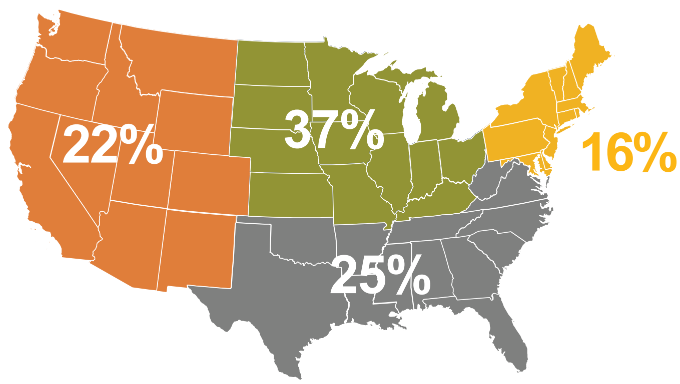
13% National

34% Regional

53% Local



GEOGRAPHICAL BREAKDOWN OF COALITION LOCATIONS



See Appendix Figures A5 and A6 for a full list of employer and coalition participants.

Pharmacy Benefit Management & Trends

This section covers a wide variety of pharmacy-related topics and trends important to employers. Decision making influences and influencers are explored, followed by a new section on pharmacy purchasing collectives, also known as pharmacy purchasing coalitions or collaboratives. Then, pharmacy benefit design initiatives are identified, including a special feature on value-based pharmacy purchasing models that are gaining traction in the market. The section wraps up with a look at year-over-year employee cost share trends, an overview of point-of-sale (POS) rebate developments, a summary and manufacturer implications.

Trends Impacting Pharmacy Benefit Management

When asked about their top pharmacy benefit management challenges, employers respond with familiar topics, indicating how knotty and difficult these established challenges are to address (Figure 7).

Interestingly, respondents' ranking of top pharmacy impact trends in 2019 remain the same as 2018. The cost of specialty medications, particularly biologics, is the trend employers rate as the most highly important (73%). In fact, this has been in the number one spot for six consecutive years. The consumerism movement (67%) and PBM transparency (64%) round out the top three trends and they've also been in the top three for several years now.

Among the trends with the largest increases, pointing towards a reemergence in the emphasis employers place on these issues, are addressing employee compliance and adherence with prescribed medications (54% vs. 44% in 2018) and exclusionary drug lists (36% vs. 27% in 2018). Copay accumulator adjustment programs debuted on the list as the lowest ranked trend with 29% viewing them as highly important (see page 62 for more on this topic).

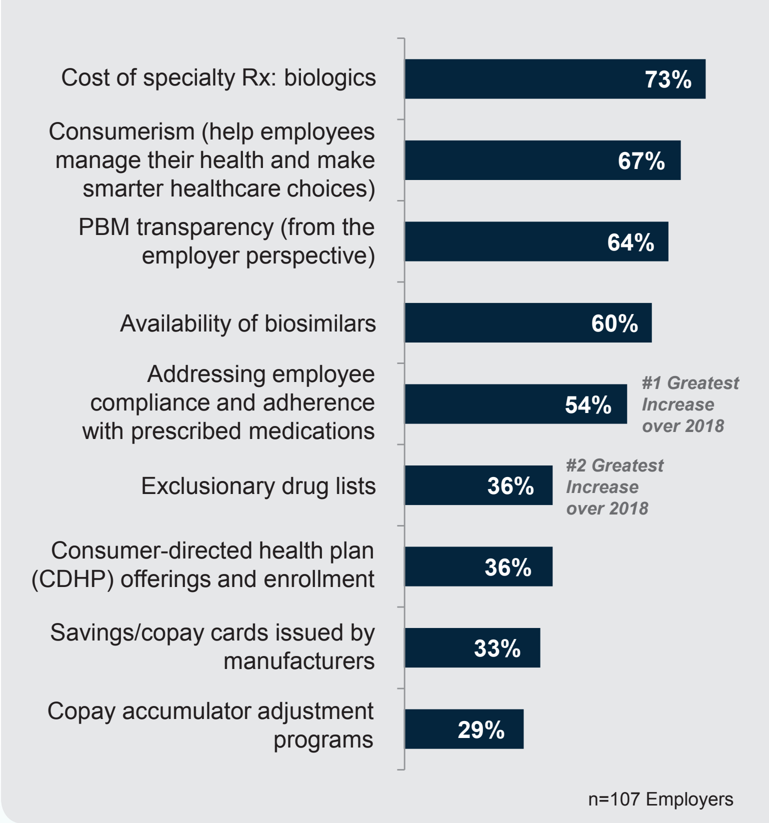
"We're really trying to manage whatever cost we can because specialty medications make up such a huge component of our spend. We mandate that folks access specialty medications through our PBM… otherwise the medications aren't covered. We have prior authorization in place for whichever drugs would require it."

– Manager of Health and Group Benefits, Employer

"We have a very robust advocacy program that points people towards all of our other benefits in a navigator role. Then their health assistant helps to guide them through the healthcare system and fight back on bills and helps people understand benefit levels. They talk to them about unit cost, expected cost out-of-pocket, and quality metrics so that both cost and quality are an important part of a broader conversation on seeking out the proper care at the proper level with the proper docs."

– Director of Benefits, Employer

Figure 7: Importance of Trends Impacting Pharmacy Benefit Management *(percentage rating highly important)*



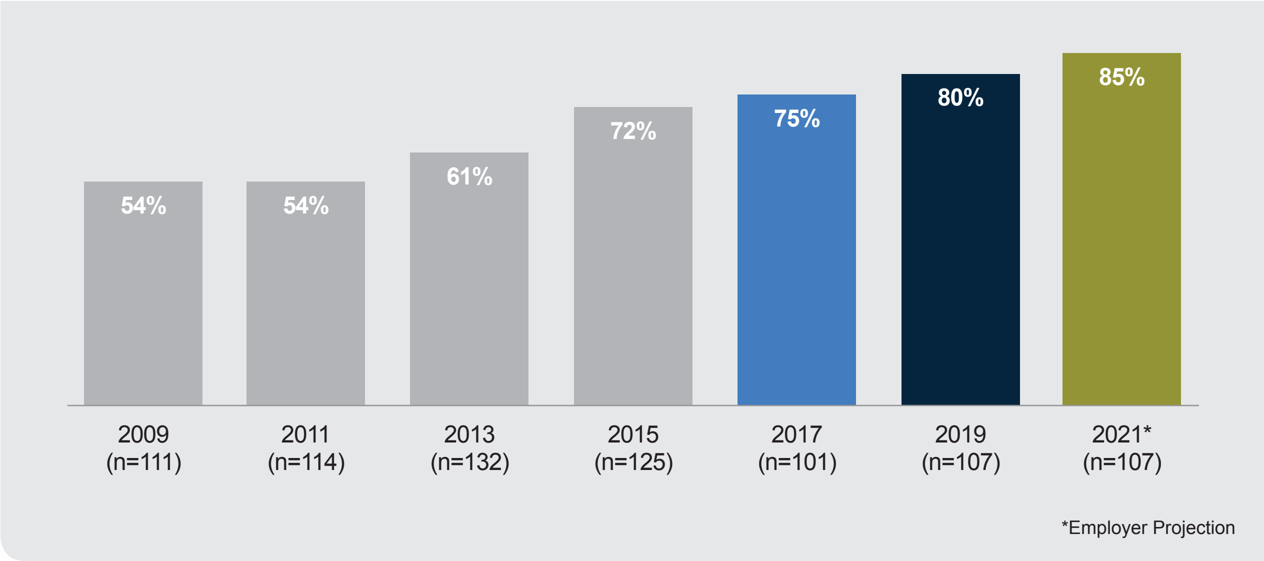
Consumer-Directed Health Plans (CDHPS)

A high-deductible health plan (HDHP) paired with a health savings account (HSA) or health reimbursement arrangement (HRA) is known as a consumer-directed health plan (CDHP). Compared to other plan types, these plans are often less expensive for employers and many use a portion of the savings to subsidize the cost for employees through contributions to the paired health spending account.

CDHP OFFERING & ENROLLMENT

This year's research shows continued growth in employers offering CDHPs. In 2009 and 2011, just over half of jumbo employers were offering a CDHP (54%), a number that grew to 75% by 2017 (Figure 46). At present, 80% of employers are providing a CDHP either as an option or as full-replacement. This is expected to rise five percentage points over the next two years, reaching 85%. The impact of high deductibles on patient affordability is of concern to some employers—both those that have implemented a CDHP and those that have opted against it.

Figure 46: Employers Offering CDHPs



"We don't have full replacement, but we have most of our employees in a HDHP with an HSA. We did talk about going full replacement, but several years ago we said 'Why bother?' We keep adding people every year. Some people want to continue to be in the PPO. Why force them out? They're actually paying for their bad experience, so let them pay."

– Executive Director of Global Benefits, Employer

Not offering CDHP: *"The problem with the consumer-directed plan is you get no benefits whatsoever except for preventive until you meet the deductible. You're putting people in a really tough position. People are not going to take their meds. They're just not going to be compliant and I listen to all these benefit managers and one minute they're talking to me about how much money they spend on wellness and the next minute they tell me how successful they are at getting people into their consumer-directed plan where the people get no medications until they meet a $3,000 deductible. Don't they see the dichotomy here?"*

– Vice President of Benefits, Employer

SPECIAL FEATURE

Value-Focused Healthcare Management Approaches

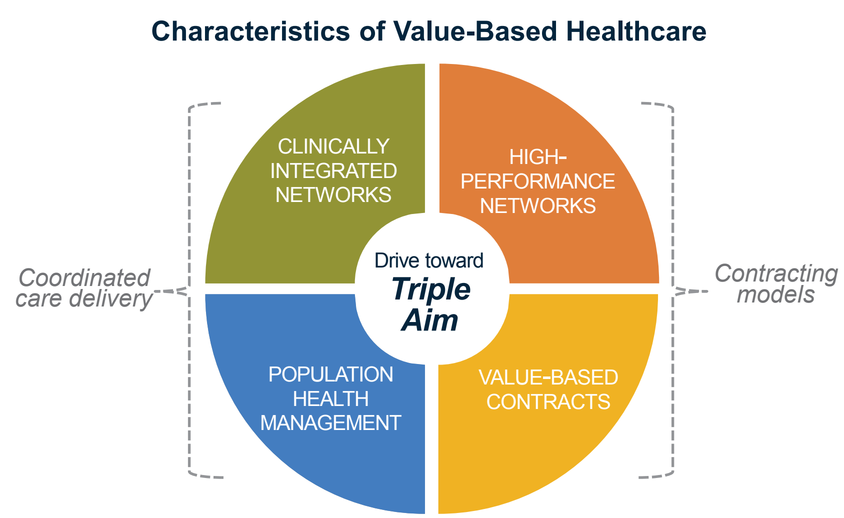
There is increasing recognition among employers that healthcare is not a commodity, and this fundamental acknowledgement of variation in provider quality is driving interest and adoption of value-based healthcare purchasing. Value-based purchasing aims to put the right tools in place to incentivize providers to achieve better outcomes, and to get employees to superior providers.

There are four common value-based approaches to healthcare management that can occur independent of each other, but are often combined:

- Clinically integrated networks
- Population health management
- High-performance networks
- Value-based contracts

The ultimate goal of each approach is to achieve the Triple Aim Objective of reduced cost, improved health outcomes and improved patient experience (Figure 54).

Figure 54: Primer on Value-Based Healthcare Purchasing



Employer Health Coalitions

Employer health coalitions ("coalitions") are defined as organizations made up of employer members and other healthcare stakeholders in a market area that provide education, resources and services in an effort to maximize the value of healthcare dollars spent. Coalitions provide a forum to develop and implement market-driven solutions to healthcare quality and cost challenges facing employers.

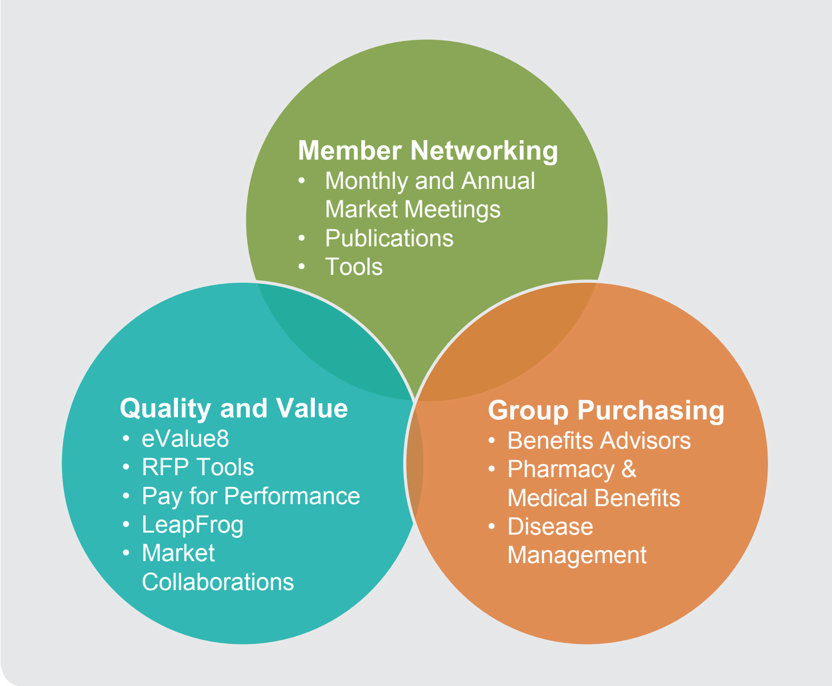
The findings in this section begin with an overview of the role coalitions play in the employer market paired with a framework for manufacturer collaboration. Details on local trends and value-focused initiatives is provided followed by an overview of coalition involvement in pharmacy benefit design and group purchasing. Next to last is coalition interest in information and resources provided by external stakeholders, concluding with a summary and implications for biopharmaceutical manufacturers.

Core Function of Coalitions & Framework for Collaboration

Fundamentally, coalitions carry out their mission in three distinct areas:

- Facilitating member networking through regular publications, roundtables and flagship annual meetings
- Driving quality and value by supporting members in RFPs, and bolstering efforts like eValue8, LeapFrog and other evidence-based healthcare performance measures
- Offering group purchasing to leverage the collective buying power of their members for services like medical and pharmacy benefits (Figure 57)

Figure 57: Employer Health Coalitions Leverage their Core Functions to Improve Local/Regional Healthcare



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