Gallagher

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SUMMER 2021

EMI

Employer Market Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

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Table of Contents

List of Figures

List of Appendix Figures

EMI 2021
Employer Market Trends Report

Introduction

Gallagher Research & Insights' seventeenth annual *Employer Market Trends Report* tracks the influence of jumbo employers as healthcare purchasers and studies their role in driving healthcare innovation. As part of the Employer Market Intelligence (EMI) Service, this report examines topics that influence employer benefit design and decision making with a focus on pharmacy benefit management and its impact on biopharma manufacturers.

This primary research was collected via an online survey of benefits decision makers at 98 jumbo employer organizations (5,000+ employees) and leaders of 30 employer health coalitions. Insights were also collected from 12 in-depth interviews with survey respondents. Additional details on the research panel can be found on pages 7-8.

This report is leveraged by biopharma, digital health and diagnostics companies to better understand the employer market and form a strategic approach to drive change and activation among large employers. Each section covers detailed data findings and related trends, verbatims that give a first-hand perspective into employer and coalition viewpoints, and a set of manufacturer implications.

NEW TOPICS IN THE 2021 TRENDS REPORT:

Jumbo Employers:

- Features on innovation in the employer arena: Amazon Care, Employer Health Innovation Roundtable (EHIR) and Health Transformation Alliance (HTA)
- Degree of data integration *(current and planned)*
- Approach to data integration *(internal, health vendor, advisor, data warehouse)*
- Disease additions: Chronic Kidney Disease, HIV
- Impact of COVID-19:
  - Focus on mental health and channels for new or expanded mental or behavioral health offerings *(HP, EAP, behavioral health vendor, onsite clinic)*
  - Telehealth utilization
  - Approach to vaccine
  - COVID-related impact on services offered at worksite clinics *(anti-body testing, increase in utilization, etc.)*

Employer Health Coalitions:

- Access to a database of health claims, population health and/or social determinants of health
- Plans to add data elements to a data warehouse in the next 2 years
- Group pharmacy purchasing coalitions' approach to PBM standard formulary/drug list
- Coalition vaccination group purchasing *(influenza, travel, COVID-19, etc.)*
- COVID-19 resources provided to employer members
- Disease additions: Chronic Kidney Disease, HIV
- Propensity to recommend Copay Accumulator Adjustment & Copay Maximizer Programs to employer members

Contact Sarah Daley at sarah_daley@ajg.com for questions about this report and the EMI Service, or to set up a presentation of findings.

Employer Participant Panel

98 SURVEYS | **8** INTERVIEWS | **5.2 MILLION** COVERED U.S. LIVES

PARTICIPANTS BY NUMBER OF U.S. EMPLOYEES

- 6% | 100,000+
- 14% | 50,000-99,999
- 24% | 20,000-49,999
- 13% | 15,000-19,999
- 13% | 10,000-14,999
- 30% | 5,000-9,999

INDUSTRY

- 26% Manufacturing
- 16% Healthcare
- 11% Business Services
- 10% Education
- 7% Retail
- 7% Transporation
- 7% Financial Services

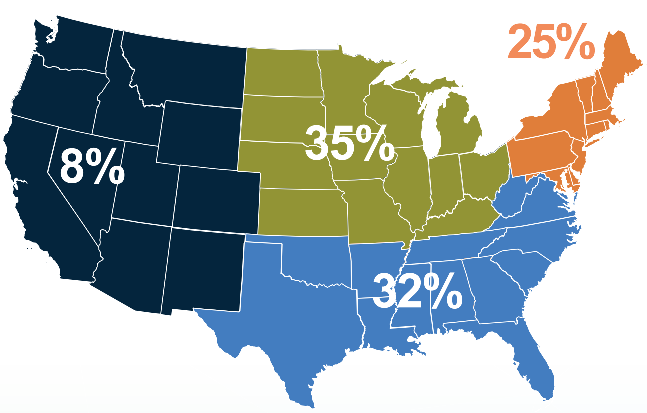
3% Energy
2% Construction
2% Public Entity
2% Technology
2% Union
5% Other*

*Other includes: Agriculture, Communications, Hospitality/Entertainment, Religious Inst.

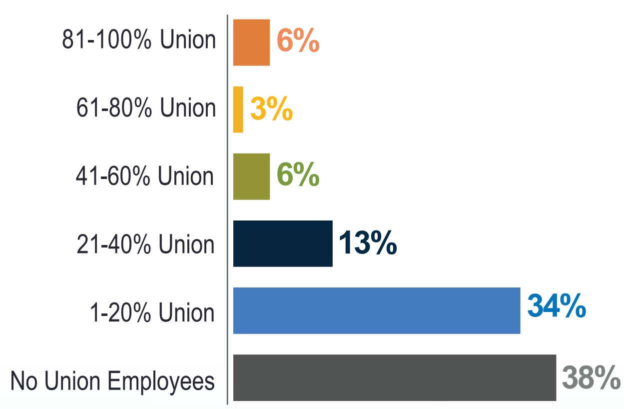
EMPLOYER RESPONDENT ORGANIZATIONAL POSITION

- 47% Director of Benefits
- 22% Benefits Manager
- 20% VP of Benefits
- 8% Corporate Med. Dir
- 3% Benefits Analyst

GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS



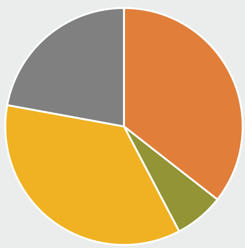
PERCENT OF ACTIVE EMPLOYEES IN A UNION



Coalition Participant Panel

30 SURVEYS | **4** INTERVIEWS | **37.8 MILLION** MEMBER LIVES

MEMBER LIVES REPRESENTED BY COALITION PARTICIPANTS



- 37% | 1,000,000+
- 3% | 500,000-999,999
- 37% | 100,000-499,999
- 23% | 1-99,999

COALITION GROUP BENEFIT PURCHASING

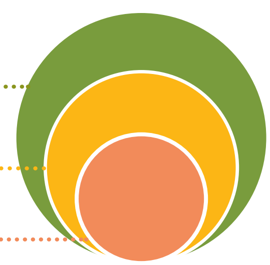
- 46% | Provide Group Rx Benefit Purchasing
- 20% | Provide Group Medical Benefit Purchasing

COALITION RESPONDENT ORGANIZATIONAL POSITION

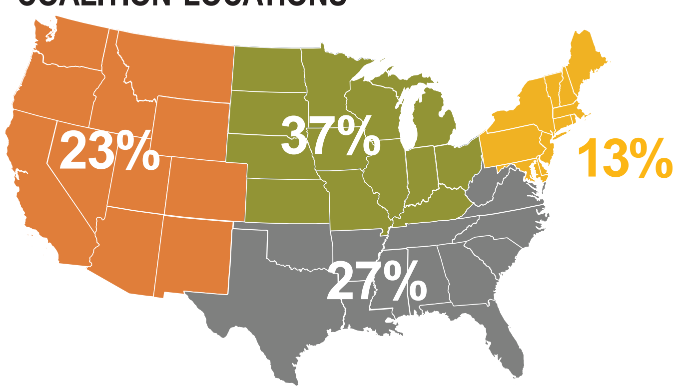
- 50% President/CEO
- 33% Executive Director
- 14% Director
- 3% Vice President

SCOPE OF COALITION MEMBERSHIP & ACTIVITY

- 23% National
- 47% Regional
- 30% Local



GEOGRAPHICAL BREAKDOWN OF COALITION LOCATIONS



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

Employer Segmentation

SEGMENTATION OVERVIEW

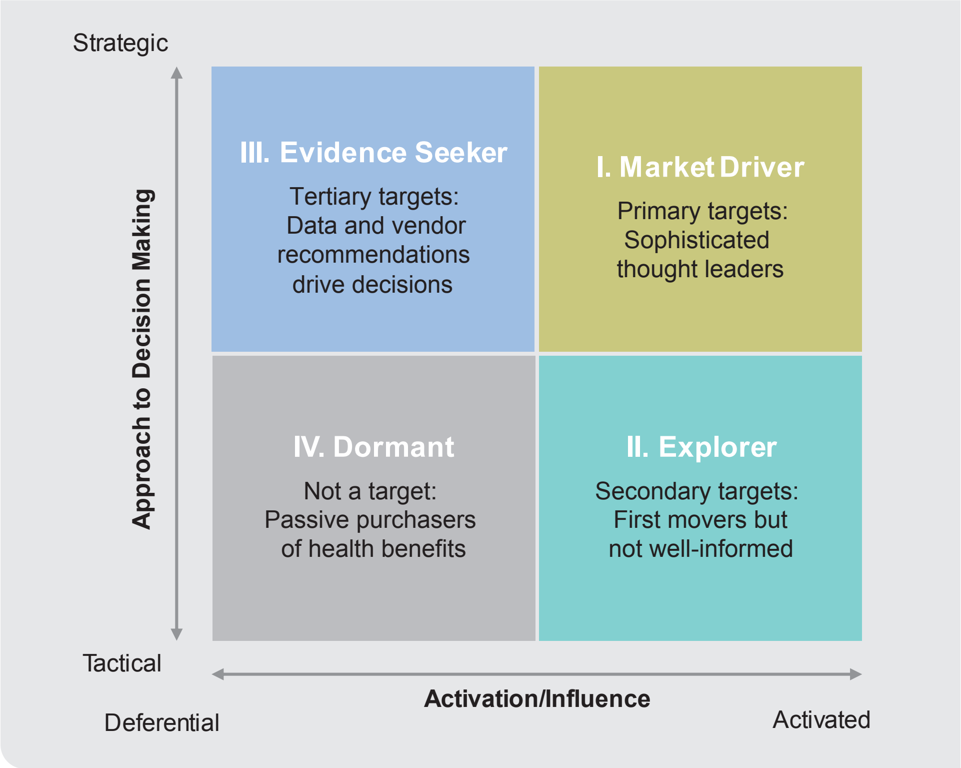
Gallagher Research & Insights' Proprietary Segmentation Model is a Tool to Better Understand and Predict Employer Behavior

GRI's Segmentation model allows manufacturers to invest their targeting, engagement and collaboration efforts in employers who are most likely to take action and have influence in the broader market. In practice, manufacturers utilize the model in a variety of ways, ranging from evaluating the employer market to informing strategy development to targeting employers for engagement through non-personal promotion.

The model emphasizes two central dimensions of employer behavior:

- Willingness to take action to implement solutions (x-axis), and
- Level of strategy in decision making (y-axis).

Figure 1: Overview of Employer Segments



The Most Activated Employers (x-axis)…

- Have independent processes for evaluating vendor partner recommendations
- Are less reliant on benchmarking data, and are among the first to try a new approach
- Have a record of pushing back against recommendations made by vendors (health plan or PBM)

The Most Strategic Employers (y-axis)…

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

Many Employers Reduce Employee Cost Share for Specialty or Branded Medications through their Value-Based Insurance Design

Value-based insurance design for pharmacy management is projected to gain substantial traction with employers in the next two years (+20% percentage points by 2023). However, due to the ongoing distraction of the COVID-19 crisis, adoption of new initiatives may have a longer runway. For the time being, 35% of employers currently have VBID in place, a demonstration of measured but steady growth from 24% in 2017.

Most commonly, employers with VBID for pharmacy benefits move generic medications to the lowest tier (50%, +7 percentage points from 2020), and in some cases make them free (29%, -11 percentage points from 2020). Many employers also place specialty (38%) or branded (32%) medications on a reduced tier that lowers qualifying employees' copay/coinsurance amounts. VBID usually includes a component of employee action such as ongoing interaction with a care manager or participation in a wellness program.

"We have a $0 copay for insulin and diabetes supplies. Participants are responsible for 100% of cost above generic or preferred brand name."

– Director of Benefits, Employer

Figure 10: Employers with Value-Based Benefit/ Insurance Design (VBBD/VBID) for Pharmacy Benefits

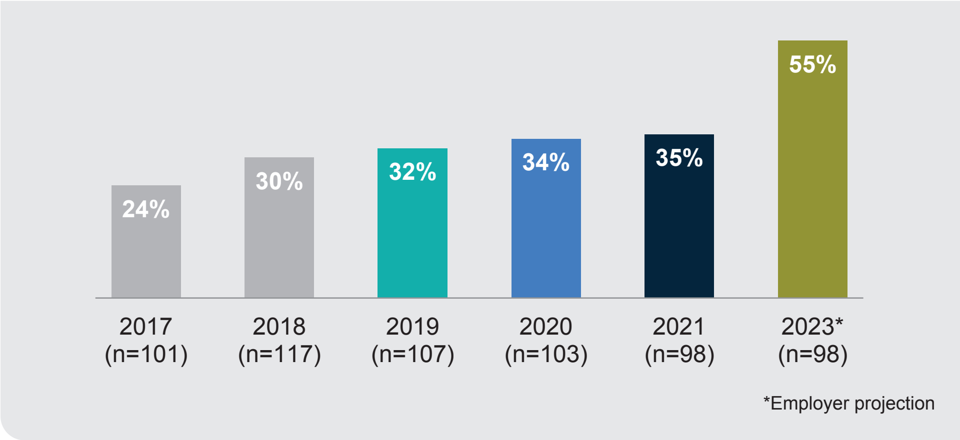
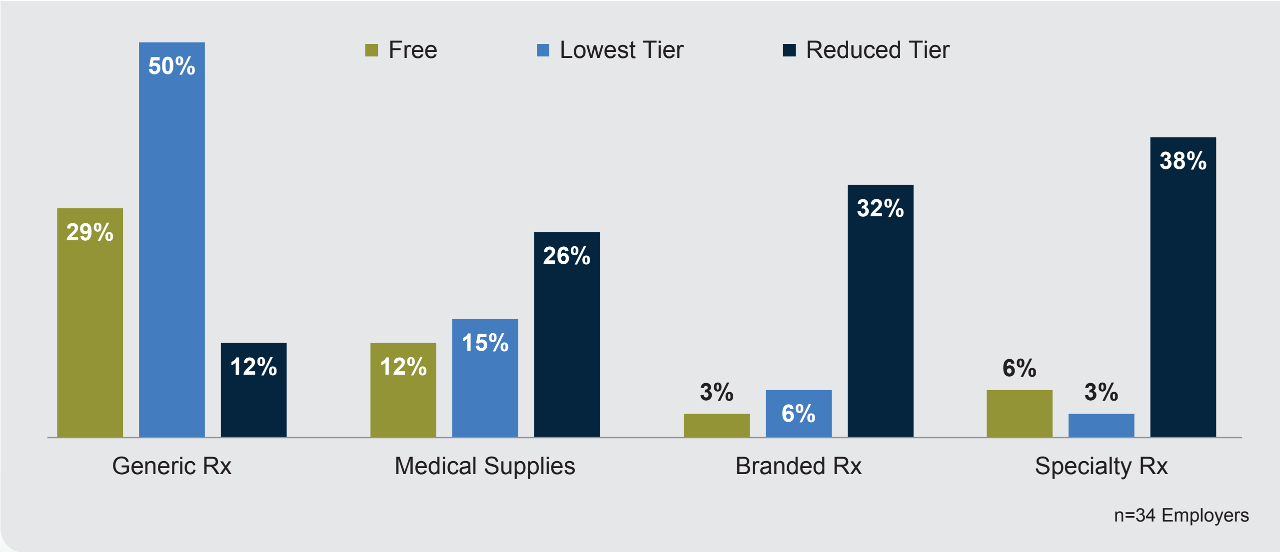


Figure 11: Employer Approach to VBBD/VBID for Pharmacy Benefits
(among employers with VBBD/VBID for Rx in place)



Employers Play a Support Role in COVID-19 Vaccination Education and Accessibility, but Largely Avoid Driving Action

Supporting patients' mental and physical health in the current stressful and uncertain environment is paramount, as are questions around the pandemic's effect on benefit design and budgets over the next few years. This section examines how employers are approaching the COVID-19 vaccine and mental health offerings.

As vaccination availability became a reality, most employers (81%) focused on communicating to employees the important role the vaccine plays in overall population health. Over six in ten employers (68%) are bringing the vaccine to the worksite to ease accessibility and convenience. Half of employers are keeping employees informed on eligibility and availability of vaccination access as this is evolving quickly. There is a measure of hesitancy among employers in taking hard and fast measures to incentivize (21%) or require vaccines (16%), as well as to offer paid time off to receive it (15%).

COVID-19 Amplifies Employer Focus on Mental Health, Spotlighting an Important Dimension of Employee Wellbeing

In the wake of COVID-19, the drive to provide quality mental health resources intensified. Ninety-one percent (91%) of respondents report an increase in their attention to mental health within the organization, 46% of which reported a significantly increased focus. Over three-fourths of employers (78%) took action, adding mental/behavioral health offerings. A majority (58%) expanded their offerings through an EAP vendor. Some chose to expand offerings through their health plan (34%), behavioral health vendor (23%) or onsite clinic (11%). Approaches to benefit design surrounding mental health may differ among employers, but many cite positive feedback from employees who have taken advantage of these benefits. Many employers remain committed to communicating availability of mental health resources to employees, aiming to drive utilization and provide support for employees in need.

78%

of employers added a mental/behavioral health offering in the last 12 months

"We're going to strongly encourage, but not require vaccinations. We have some people who aren't going to be comfortable coming back into the office unless everybody's been vaccinated, but that's not something we're going to tackle."

– SVP Global HR, Employer

"[In light of the pandemic] we reinforced programs that we have in place through our Employee Assistance Program. We adopted flexible work policies. We also put in a program for reduced hours and offered an unpaid leave arrangement for certain individuals. We didn't have a lot of take up on it, but those that did appreciated it. As the pandemic wore on, people got used to the new normal and adjusted."

– Director of Rewards, Employer

"We've definitely improved our communications regarding our mental health benefits, and we've added different services for people leaders, our executive leaders, and our employees around resiliency and managing employees with mental health stress."

– Retirement & Healthcare Leader, Employer

Figure 39: Approach to COVID-19 Vaccine

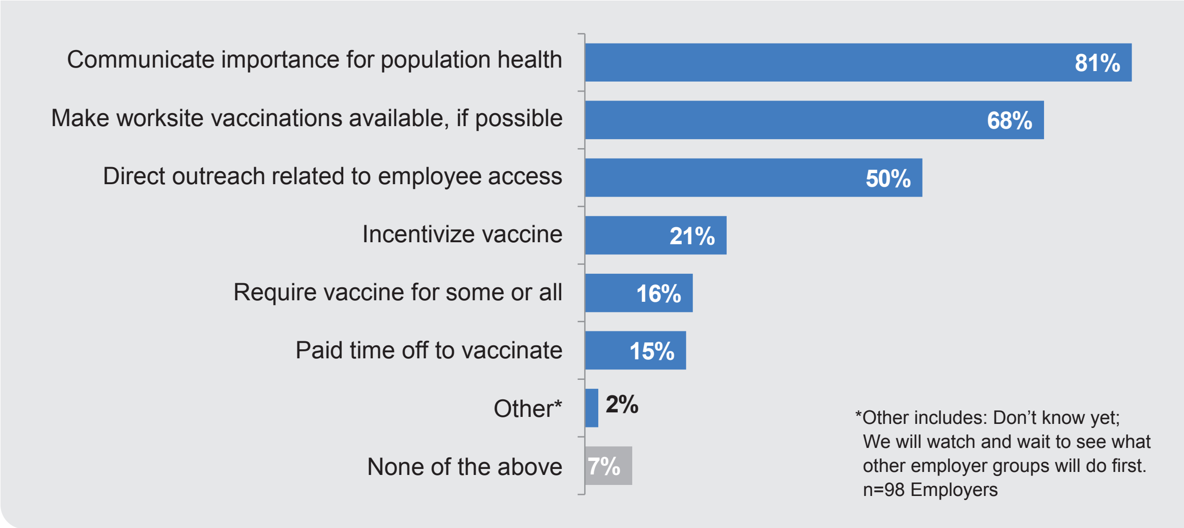


Figure 40: COVID-19 Impact on Employers' Focus on Mental Health

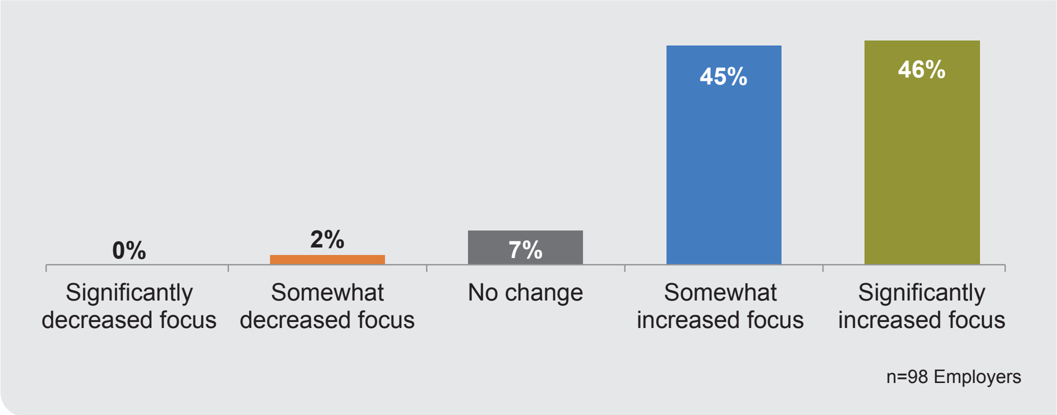
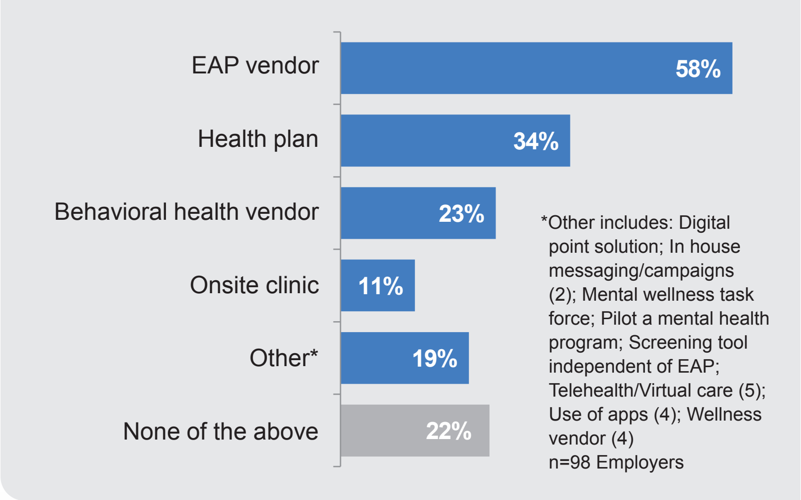


Figure 41: Employer Expansion of Mental/Behavioral Health within the Last 12 Months



Segmentation

Rx Benefits

Health Management

Coalitions

Transparency is Top Priority as Coalitions Look to Support Members in Offering Higher Value and Superior Quality Care

Nine in ten coalitions report quality and price transparency initiatives have garnered significant or moderate traction in their local markets. As such, two-thirds (67%) promote both pricing and quality transparency by providing tools and education such as total cost of care calculators.

Greater transparency is a key driver for achieving better value in healthcare purchasing. Actively supporting use of high quality providers (via high performance networks and Centers of Excellence) is surveyed as coalitions' top value-focused initiative (70%). Many employers are taking healthcare quality into their own hands and offering worksite clinics. In fact, 90% of coalitions report increased traction around worksite clinics in their local market.

WORKSITE CLINIC TRACTION

51%
Employers Offering Worksite Clinic

90%
Coalitions Reporting Clinics Have Gained Traction in their Local Market

"We've been able to demonstrate that the value of a coalition is creating transparency. We did a joint replacement report, and we're asking our members, 'Are you thinking about how you might use it with your networks? Have you compared it against your Centers of Excellence for orthopedic surgery?"

– Executive Director, Coalition

The first alliance of its kind between a national employer organization and a regional coalition, **The Purchaser Business Group on Health** (PBGH) and **The Colorado Purchasing Alliance** (TCPA), jointly identify centers of excellence and establishes direct provider contracting relationships only with facilities and their associated physicians that meet national quality standards at competitive prices.

- Contract directly with centers of excellence for select condition categories, including orthopedics, pregnancy and mental health
- Physician practices and physician-governed organizations engaged to manage chronic disease more effectively

Source: National and Regional Employer Groups Partner in Colorado to Jointly Contract with High-Quality Health Care Providers, Centers of Excellence > PBGH

The Pandemic Put a Pin in Many Coalitions' Quality and Value-Focused Efforts, but Plans to Resume Activity Are Strong

Traction reported for initiatives across the board was notably subdued last year, with the exception of price transparency. COVID-19-related distractions certainly had an impact, but interviewed coalitions expressed the aim of recapturing employer attention by mid-2021.

"We have found that our members are all consumed, and they have COVID fatigue. Most employers made very few changes in the past year. We pivoted to provide our members with info on what's coming and a heads-up of different things in the marketplace related to the pandemic. We're trying to position ourselves so when they emerge at the end of COVID they'll be able to start thinking about what they're going to do for their strategies and their plan."

– President & CEO, Coalition

As coalitions look ahead and anticipate future offerings, 40% plan to develop systems that measure the total cost of care for specific treatments. If those numbers come to fruition, 67% of coalitions could be measuring total treatment cost for certain conditions by 2023. These efforts could be pivotal to achieving the overarching goal of improved price transparency.

The next largest area of anticipated growth is payment reform to reward providers for delivering greater value (+27 percentage points by 2023). Currently, half of coalitions are actively promoting these changes by encouraging bundled payments and/or provider agreements that include shared savings for delivering certain outcomes.

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