Gallagher

Insurance | Risk Management | Consulting

SUMMER 2022

EMI

Employer Market Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

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EMI 2022
Employer Market Trends Report

Introduction

Gallagher Research & Insights' eighteenth annual Employer Market Trends report examines the role of jumbo employers in the ever-changing health benefits landscape. This report is a core deliverable within the Employer Market Intelligence (EMI) syndicated research service which monitors topics influencing benefit design actions and decision making with a focus on pharmacy management and its impact on biopharmaceutical manufacturers.

This primary research includes results from an online study of 97 jumbo employers (5,000+ employees) and 30 employer health coalitions. Interviews were conducted with 8 employer benefit executives and 3 health coalition leaders (see Figure A1).

This report is leveraged by biopharmaceutical, digital health and diagnostic companies to assess the employer market and formulate a strategic approach to product/service alignment. Each section covers data findings, year-over-year trends, verbatims that provide a first-hand perspective into employer and coalition viewpoints, and a set of manufacturer implications.

KEY REPORT TOPICS:

- Employer Segmentation
- Pharmacy Benefit Management & Trends
- Biologics & Biosimilars
- Employee Health & Healthcare Management
- Employer Health Coalitions *(Offerings, Interests, Group Rx Purchasing, etc.)*

NEW TOPICS IN THE 2022 TRENDS REPORT:

Jumbo Employers:

- Degree to which data is used to track and measure the impact of health programs
- Newly added diseases of importance, productivity impact, and onsite clinic focus:
  - Allergy, Anxiety, Pneumonia
  - Importance of providing information for: Recommended adult and pediatric vaccines/immunizations, preventive cancer screenings and mental health screenings
- Satisfaction with outcomes of mental/behavioral health services
- Top reasons for accepting the PBM's formulary without changes
- Use of newly added specialty pharmacy management tactics & related effectiveness for:
  - Second specialty tiers
  - Carve out of specialty from the PBM to a specialty Rx vendor
  - Alternative funding vendor that assists in finding available foundation dollars to lower member cost
  - Utilization/risk management carve-out vendors
- Factors influencing decision to implement a copay accumulator adjustment program
- Benefits coverage for technology-driven services:
  - Genomic or genetic testing
  - Medical telehealth
  - Telemental/behavioral health
  - Mental wellness apps
  - Prescription Digital Therapeutics (PDTs)
  - Diabetes disease management

Employer Health Coalitions:

- Degree to which organization integrates data to inform members' benefit decision making
- Newly added diseases of importance for member resources and interest in biopharma support:
  - Allergy, Anxiety, Pneumonia
- Traction in local market around strategies to manage specialty medications
- Offering of preventive care education for members *(e.g., recommended adult and pediatric vaccines/immunizations, preventive cancer screenings and mental health screenings)*

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

97 SURVEYS | **8** INTERVIEWS | **4.7 MILLION** COVERED U.S. LIVES

PARTICIPANTS BY NUMBER OF U.S. EMPLOYEES

- 6% | 100,000+
- 14% | 50,000-99,999
- 31% | 20,000-49,999
- 6% | 15,000-19,999
- 8% | 10,000-14,999
- 35% | 5,000-9,999

INDUSTRY

22%	Manufacturing
20%	Healthcare
12%	Education
10%	Business Services
7%	Financial Services
7%	Transporation

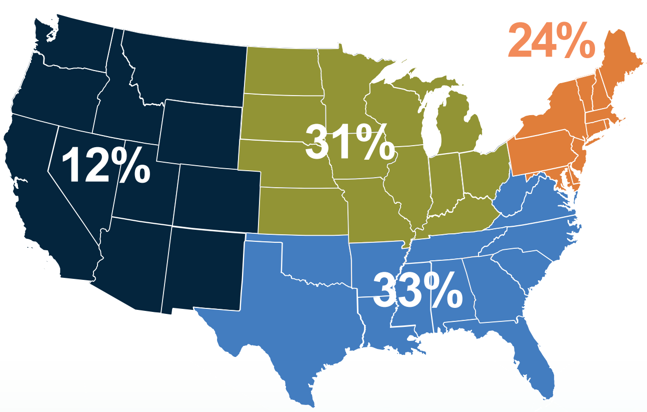
4% Hospitality/Restaurant/Entertainment
4% Technology
3% Communications
3% Retail
2% Public Entity
2% Union
4% Other*

*Other includes: Construction, Energy, Engineering, Real Estate

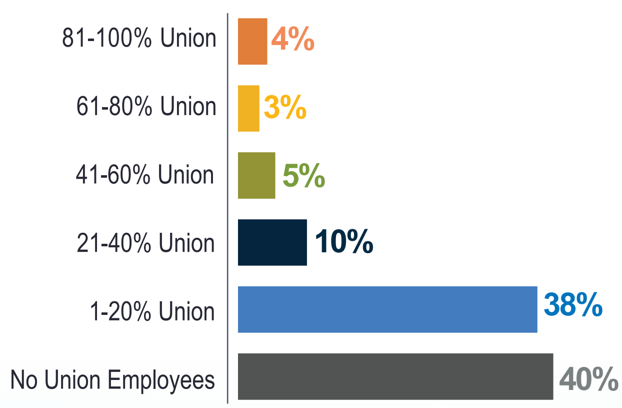
EMPLOYER RESPONDENT ORGANIZATIONAL POSITION

- **53%** Director of Benefits
- **19%** VP of Benefits
- **17%** Benefits Manager
- **6%** Benefits Analyst
- **5%** Corporate Med. Dir

GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS



PERCENT OF ACTIVE EMPLOYEES IN A UNION



Coalition Participant Panel

30 SURVEYS | 3 INTERVIEWS | 37.8 MILLION MEMBER LIVES

MEMBER LIVES REPRESENTED BY COALITION PARTICIPANTS

33% | 1,000,000+
17% | 500,000-999,999
17% | 100,000-499,999
33% | 1-99,999

COALITION GROUP BENEFIT PURCHASING

Rx 43% Provide Group Rx Benefit Purchasing

10% Provide Group Medical Benefit Purchasing

COALITION RESPONDENT ORGANIZATIONAL POSITION

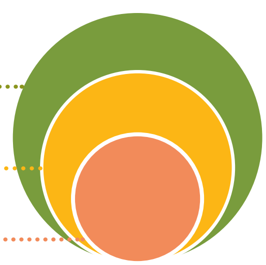
47% President/CEO

37% Executive Director

10% Director

6% Vice President

SCOPE OF COALITION MEMBERSHIP & ACTIVITY

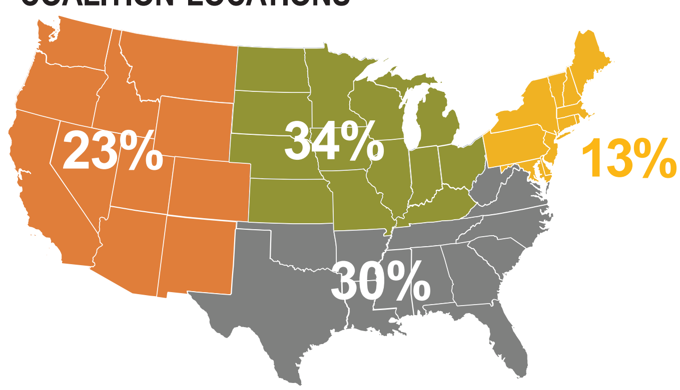


17% National

40% Regional

43% 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 Effectively Target Employers and Offer Resources of Value

Gallagher Research & Insights' (GRI) segmentation model was developed in recognition that employers vary widely in their benefit design activation and approach to decision making. This tool helps biopharma manufacturers invest their targeting, engagement and collaboration efforts with employers that are most willing to take action and have influence in the broader market. An effective employer engagement strategy should not be one-size-fits-all and instead account for the varying employer "personalities" classified in the segmentation model.

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)

Employer placement is determined by responses to a series of survey questions relevant to each axis.

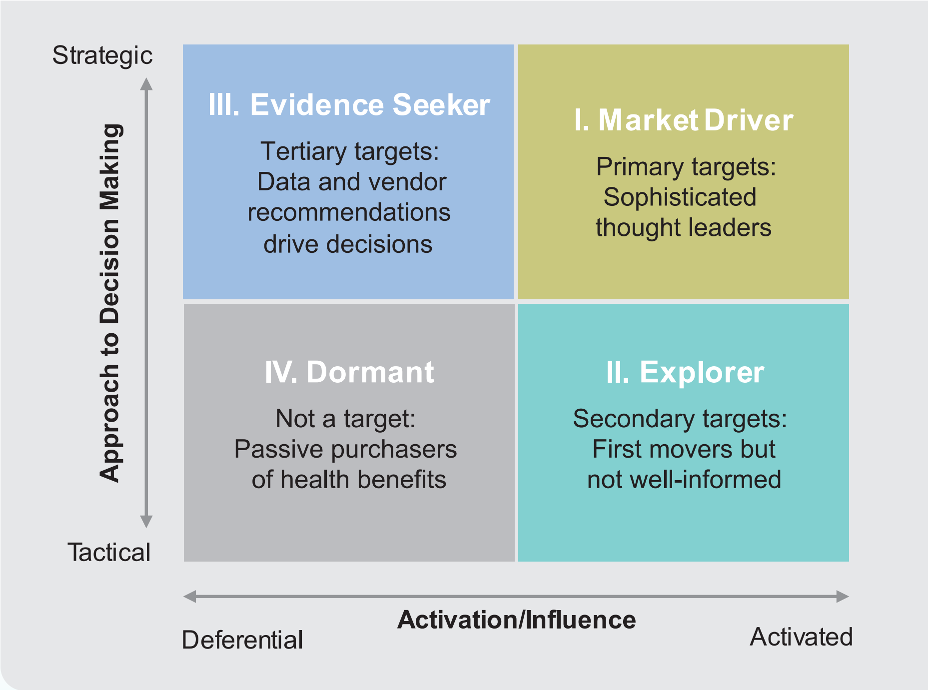
The Most Activated Employers (x-axis)…

- Have independent processes for evaluating vendor partner recommendations
- Proactively seek out, create and implement novel approaches
- Employ sophisticated benefit management approaches, such as alternative pharmacy contracting, VBBD and a customized formulary

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, data-driven decisions

Figure 1: Overview of Employer Segments

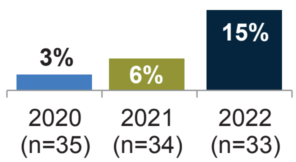


While Predominantly Applied to Generic Medications, a Growing Number of Employers are Applying VBBD to Brand and Specialty Medications

For the last five years, the portion of employers deploying value-based benefit design (VBBD) for medications that treat high cost, chronic conditions has remained relatively stable (30-34% since 2018). An additional and sizeable segment intend to implement VBBD within two years (+18 points by 2024). Most commonly, 61% of employers with VBBD in place have moved generic medications to the lowest formulary tier and 24% offer them for free.

Trends in application of VBBD for brand and specialty medications are particularly noteworthy. Moving branded products to a reduced tier (39%) or the lowest tier (9%) both increased (+7 and +3 points. respectively). Notably, 15% of employers offer certain specialty medications for free, more than double last year's results (+9 points). Also doubling in size is the percent of employers that have moved specialty medications to the lowest tier (6%, +3pts). These findings represent significant gains for employee access and adherence among a typically high cost category of medications.

Employers Offering Free Specialty Medications via their VBBD



"A major change we made in the last year is the movement to a $0 copay for specialty medications. Our motivation is compliance and adherence."

– Benefits Director, Employer

"We recently added a zero dollar copay for certain maintenance medications."

– Benefits Director, Employer

"We reduced copays for certain diabetes, substance abuse and other medications to eliminate cost barriers and non-adherence."

– Healthcare Director, Employer

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

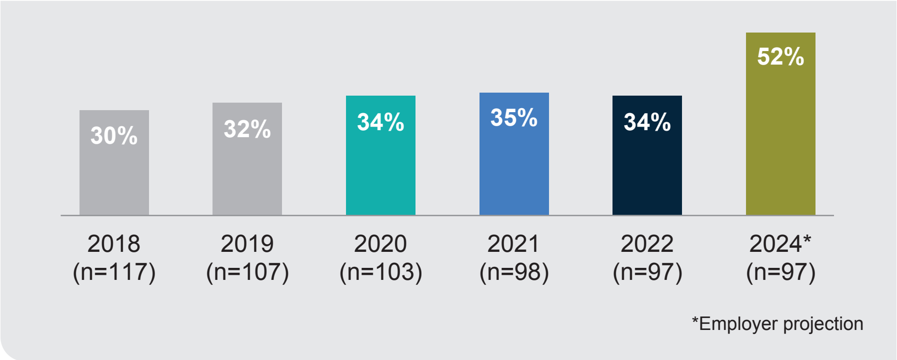
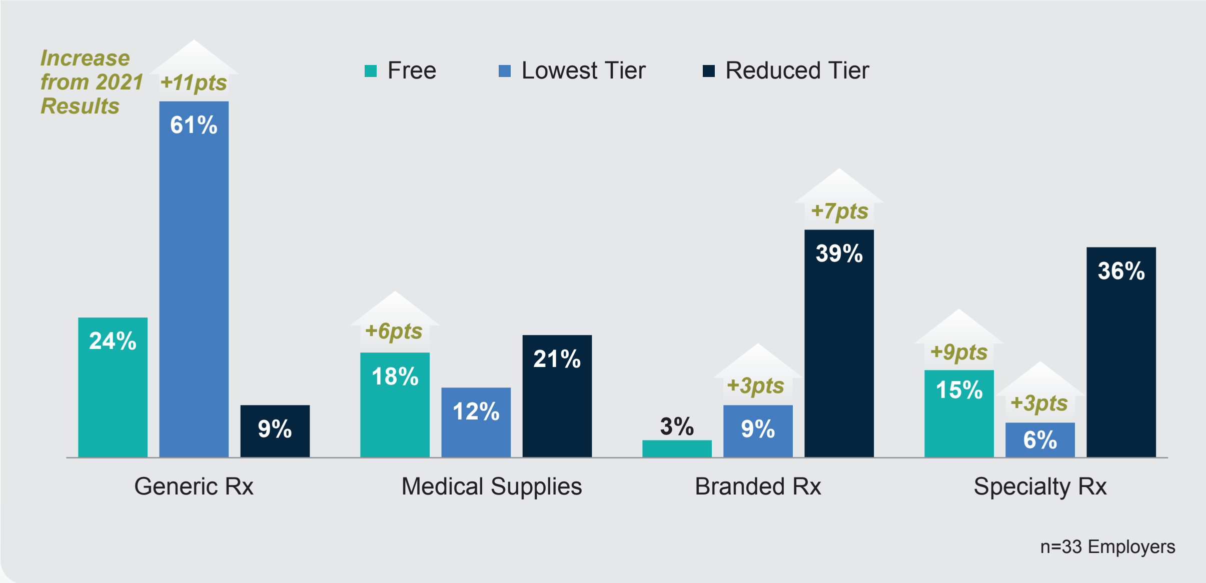


Figure 11: Employer Approach to VBBD/VBID for Pharmacy Benefits
(among employers with VBBD/VBID for Rx in place)



Data is Vital to Measuring the ROI of Benefit Programs for More Than One-Quarter of Employers

Twenty-eight percent of respondents report significant use of data to track the impact of their benefit programs. In many cases this involves synchronization of data feeds from multiple vendors and point solution providers in addition to what their health plan and PBM are supplying. This segment of "significant use" employers are more likely to use a specialized data warehouse vendor (56% versus 46 % of total respondents).

Two-thirds of employers are using data to measure the effect of their programs to a moderate degree (67%). Just 5% report minimal use of data in determining their programs' impact. Follow-up interviews reveal that these employers may be in the early stages of establishing a data warehouse, or are facing challenges such as a merger/acquisition, staffing shortages or barriers quantifying results due to a dispersed workforce.

"I'm getting daily feeds from CVS into a data warehouse. That's traditionally unheard of. If you can get it monthly, you're lucky. We also require that our smaller point solutions—diabetes and second opinion vendors—are also integrating data into the data warehouse so I can measure the effectiveness of our programs."

– Senior Director, Employee Health, Employer

Figure 35: Degree of Data Integration for Planning, Measurement and Management of Medical & Pharmacy Benefit Decision Making

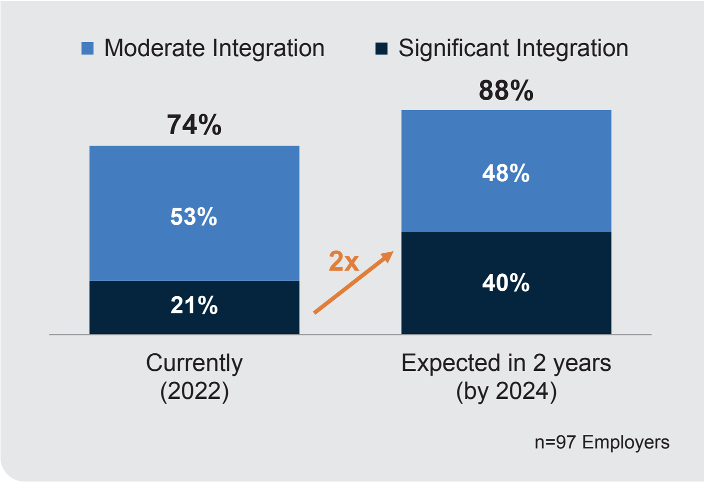


Figure 36: Employer Approach to Data Integration *(select all that apply)*

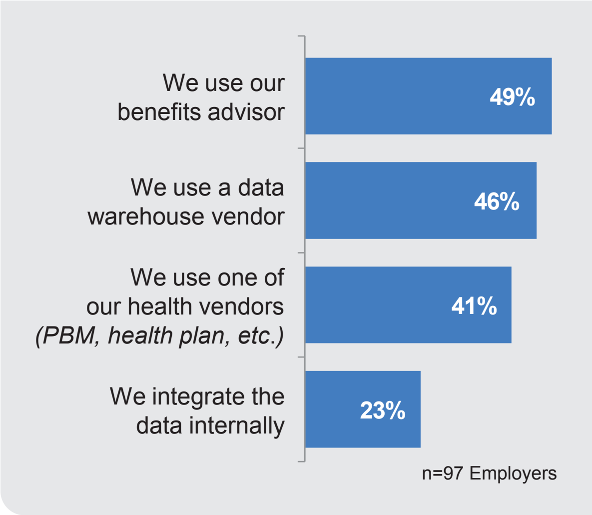
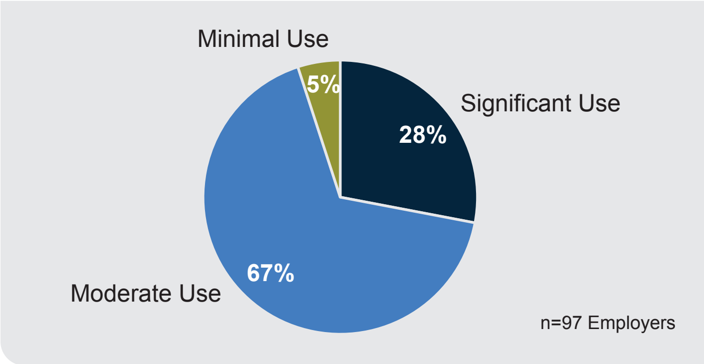


Figure 37: Degree to Which Organizations Use Data to Track and Measure the Impact of Health and Benefit Management Programs



Transparency and High Value Care are Top Priorities as Coalitions Facilitate and Advocate for Improved Quality of Care

The vast majority of coalitions report that price and/or quality transparency are gaining significant or moderate traction in their local market (93%, +4 percentage points from 2021). As such, approximately seven in ten actively promote quality data transparency (73%) and price and cost data transparency (67%). Efforts are wide ranging, and include synthesizing publicly available reports, generating new reports, educating employers and encouraging providers and health plan stakeholders to more openly share their cost and quality data.

"We have been generating reports at the hospital and physician levels on quality and cost (as data are available) of high-volume and high-cost procedures and conditions. We also provide a lot of education on value-based benefits and purchasing. However, it's up to each employer to decide what they will do, if anything."

– President and CEO, Coalition

93%
of coalitions report that price and quality transparency is gaining significant or moderate traction in their local market.

Most Coalitions Report that Management of Specialty Medications is a Top Priority across their Local Market

Management of specialty spend is particularly challenging as employers balance rising treatment cost and utilization with the quality of life and potentially lifesaving benefit it can have on complex and serious medical conditions. In fact, 93% of coalitions report that related management strategies have garnered moderate or significant traction. New solutions, such as alternative funding and specialty carve-outs, are emerging and coalitions play an important role in making their members aware of the options and potential consequences—positive or negative.

See page 40 for more on employer specialty management strategies.

Coalitions are Keenly Focused on Improving Healthcare Value and Providing Opportunities for Members to Engage in the Effort

Seven in ten (70%) coalitions support benefit design solutions that encourage employee use of high-value therapies and services, such as free or reduced cost medications or wrap around support. More than half (57%) are actively promoting the use of healthcare providers that deliver superior quality and value. This includes coalescing and disseminating cost and quality data, and providing education and solutions such as high performance narrow networks and Centers of Excellence. Relatedly, half are also offering payment reform solutions that reflect provider value, including upside/downside risk and shared savings within an episode of care.

"We are developing a clinically integrated network for purchase by employers in 2023. Primary care is the foundation, integrated with behavioral health and specialist referrals based on best-in-class with negotiated episodes of care."

– Executive Director, Coalition

70%
of coalitions support benefit design solutions that encourage employee use of high-value therapies and services.

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