Brown & Brown

EMPLOYEE BENEFITS

2024 Healthcare Cost Outlook

Drivers & Trend Insights

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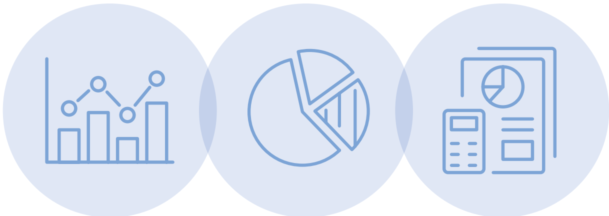
Principal

As we head into the final months of 2023, large employers have been grappling with historically high increases to their 2024 healthcare budgets. The residual impact from the pandemic and broad macroeconomic forces have combined to push cost estimates above historic annual trends.

Employers expect their healthcare costs to increase an average of 5.5% for 2024 after accounting for changes to their plan offerings (including plan design changes and types of plans being offered), according to results from a recent Brown & Brown analysis of large employers. If no changes were made to plan offerings, employers would have expected an increase of 6.8%.

Other industry sources are projecting similar increases for 2024:

- The Centers for Medicare and Medicaid Services (CMS)[1] have projected annual cost increases per enrollee of 6.8% in 2023 and 2024 before stabilizing to 5.1% for 2025 through 2031.
- Business Group on Health[2] members are expecting a 6.0% increase in costs for 2024 after plan changes (6.9% before plan changes).



As employers have seen their spending on claims return to or even exceed pre-pandemic levels, they will need to look beyond the 'usual suspects' (e.g., stable increases for unit costs/utilization and population aging) and focus on new and evolving cost drivers. These include more acute price inflation brought on by provider losses sustained during the pandemic, a robust drug pipeline, emerging therapies for cancers and other complex diseases and the increasing number of large claimants.

[1] Centers for Medicare & Medicaid Services, Office of the Actuary

[2] Business Group on Health, "2024 Large Employer Health Care Strategy Survey"

A Closer Look at Four Key Cost Drivers for Employers

1 Broader Economic Environment (Inflation & Labor Market)

Healthcare providers continue to experience significant financial challenges driven by decreases in revenue, intense staffing shortages and rising expenses for supplies, equipment and drugs.[3,4] Providers will look to offset losses through additional federal funding, as well as by negotiating new contracts with insurers.

While broader inflation markers have been trending downward over the past several months, medical inflation tends to lag by as much as 12 months. Because many provider contracts renew on three-year cycles, provider reimbursements have not kept pace with elevated operating expenses, such as increased costs for labor and supplies. We began to see the initial impact of these contract renewals in 2023 and expect it to continue into 2024 and 2025. Elevated costs for services will likely drive increases in costs for employers as a result of these renegotiated contracts.

Employer Actions to Consider:

- *Continue to review cost management strategies*
  - » *Reevaluate how well current health benefit programs are working today and what changes (if any) are necessary – including plan design, network strategy and clinical programs.*
- *Proactively establish a realistic budget*
  - » *Be proactive when planning for higher-than-expected future costs and engage financial colleagues early in the process to manage expectations and set pricing assumptions accordingly.*
- *Manage Request For Proposal activity closely*
  - » *Have conversations with prospective bidders on their network and contracting efforts and negotiate meaningful performance guarantees around their management of claims spend– including a trend guarantee, where carriers commit to managing claims within a certain threshold on a per-member basis.*

[3] *Wall Street Journal*

[4] *Advisory Group*

2 Prescription Drugs – GLP-1 and Biosimilars

While drugs for treating diabetes and obesity have existed for years, recent advances have brought on new classes of drugs with greater efficacy and reduced side effects. As a result, adoption has grown significantly in 2023 – partially driven by social media influencers and direct-to-consumer marketing.

- GLP-1 drugs like Ozempic® and Wegovy® can cost more than $11,000 annually per patient.[5]
- Quarterly prescriptions for those drugs increased 300% between early 2020 and the end of 2022.[6]
- Roughly 1.7% of Americans have been prescribed a weight loss medication in 2023, up forty times the amount in 2018.[7]
- Recent studies have suggested that GLP-1 drugs can also improve other cardiovascular risk factors, which could lead to the ongoing expansion of treatment indications for these drugs. As a result, financial analysts have doubled their market projection for GLP-1 drugs over the next ten years.

Biosimilars are biologic medications nearly identical to an existing biologic medication already approved by the FDA and have no clinically meaningful differences from the existing product. As a result, biosimilars development can increase patient access and lower costs for plan sponsors – sometimes between 15%-35% lower.[8] Most plans' highest-cost medication is typically Humira® and several biosimilars are in development and expected to be approved in 2024. Employers will have an opportunity to drive savings and offset increased costs elsewhere by shifting utilization to these biosimilars.

Employer Actions to Consider:

- *Review current coverage and consider additional measures to limit access to GLP-1 medications as demand continues to increase, such as additional prior authorization requiring a primary diagnosis of diabetes or a higher Body Mass Index (BMI)*
- *Check Pharmacy Benefit Manager contracts to understand the impact related to biosimilars.*
- *Evaluate plan formulary and plan designs to include incentives for usage of biosimilars to help realize the lowest net costs.*

3 Emerging Gene & Cellular Therapies

Per the FDA, gene therapy is a technique that modifies a person's genes to treat or cure disease. While gene therapies have the potential to cure serious diseases, their price tags can be astronomical. The Institute for Clinical and Economic Review (ICER) suggests the average cost of a gene therapy is between $1 million and $2 million per dose – and can be as high as $3.5 million per dose.[9]

Utilization of these treatments is quite rare, and when appropriate for a patient, they are administered on a one-time basis. Many patients who may benefit from gene therapy are already persistent high-cost claimants, so there is a potential to mitigate long-term treatment costs with a one-time treatment. There are no guarantees, however, and it is important for plan sponsors to understand the short-term cost implications and budget volatility risk.

Employer Actions to Consider:

- *Request carriers to provide advance notification of a high-priced therapy coming to market.*
- *Work with carriers to understand current plan exposure via eligible member claims for emerging products.*
- *Monitor drug spend administered under the medical benefit and require full transparency on price, discount and/or rebate negotiations related to these therapies.*
- *Consider stop-loss coverage focused on extremely high-cost treatments such as gene therapy.*

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[5] Peterson-KFF Health System Tracker

[6] Trilliant Health

[7] Epic Research

[8] Remedy Analytics, "Focus On: Biosimilars"

[9] Cell and Gene Therapy Manufacturing Costs Limiting Access

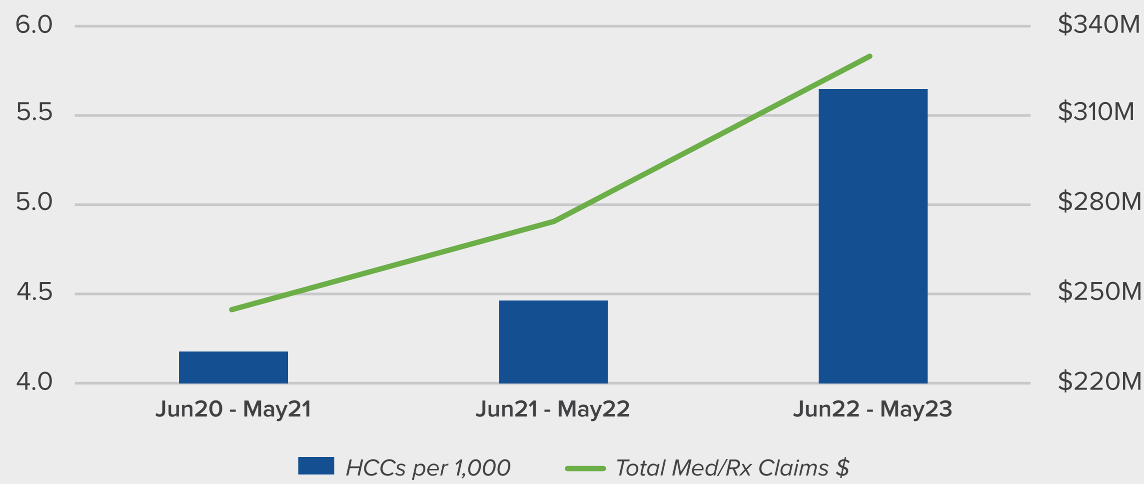
4 Increasing Volume of Large Claimants

Many employers have seen an increase in the volume of large claimants in 2023 – not necessarily truly catastrophic claimants, but those that would not reach typical stop-loss thresholds. While large claimants have been steadily increasing over time, there was a dramatic increase in late 2022 into 2023 – the number of claimants incurring $150,000 (per 1,000 members) increased by over 25%.[10] Interestingly, the severity of these claimants did not change; their average cost per claimant remained relatively stable over this same time. The increased volume of large claimants has been primarily driven by unit cost, such as elevated costs for specialty drugs and medical procedures.

Employer Actions to Consider:

- *Request carriers provide ongoing notifications of high-cost claimant activity as early as possible in the claims adjudication process.*
- *Review current case management strategy with carriers and identify opportunities for enhancement.*
- *Reevaluate current stop-loss coverage to determine the most appropriate specific deductible for your organization's risk appetite.*
- *Consider expanding Centers of Excellence to treat specific complex diseases to improve outcomes and cost efficiency.*

High Cost Claimants ($150,000+)



Source: Brown & Brown Claims Data Warehouse

Medical plan sponsors should expect to encounter challenging financial headwinds over the next few years – from currently-known and not-yet-known sources. By taking proactive action and working with carriers, pharmacy benefit managers and advisors, employers can position themselves to manage these four and other emerging risks within their broader health plan strategy. Employers should push their vendor partners to share more data on a timelier basis to help better forecast emerging cost drivers, monitor and actively manage the four areas described above, and course-correct where needed.

[10] *Brown & Brown Claims Data Warehouse*

About the Author

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Kevin Baker is a Principal with Brown & Brown. He has deep experience in group benefits, both in the commercial and government areas, which includes technical specialty in the pricing and design of employee and retiree health care programs. Kevin has consulted with a wide variety of customers, including Fortune 100 companies, health systems and colleges/universities. He is a Fellow of the Society of Actuaries (FSA), Member of the American Academy of Actuaries (MAAA) and Fellow of the Conference of Consulting Actuaries (FCA).

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