

March 27, 2024

Mr. Paul Makowski  
Chief Benefits Analyst, Employee Benefits Division  
City of Los Angeles  
200 N Spring Street, Room 867  
Los Angeles, CA 90012

RE: Healthcare Trends and Cost Management for Employers in 2024

Hello Paul:

With the imminent renewals from your carrier partners pending, we wanted to provide you with an overview of healthcare trends in the marketplace and cost management. This memo spotlights the significant impact of technological advancements, such as telemedicine, and the growing importance of mental and behavioral health, personalized medicine, the strategic use of off-label drugs and increasing pharmacy costs. Additionally, we address the economic challenges posed by inflation and the effects of legislation (enacted and pending) on healthcare costs.

## **Introduction**

Today's healthcare sector is experiencing a period of intense transformation, driven by swift technological progress and shifts in care delivery models. Employers, especially those in partnerships with closed-model health systems like Kaiser and Anthem HMO programs, face the dual challenge of adapting to these changes while effectively managing healthcare benefits and costs for the rapidly changing needs of the populations they serve.

As we navigate through an age where healthcare costs rise alongside technological and patient care advancements, employers must reassess their healthcare strategies. By providing a comprehensive overview of current healthcare trends and their implications for cost management, we hope you will gain some insights that can help the City of Los Angeles set program priorities and balance high-quality care with financially efficient programs.

## **Telemedicine and Technological Advancements**

Telemedicine has revolutionized healthcare delivery, providing accessible and efficient medical care, especially in remote or underserved areas. With increasing patient demands for care, health systems can provide more access by partnering with Telemedicine providers. Not only can new firms provide a basic physician or nurse consultation for common health issues, but they can also address musculoskeletal conditions and provide behavioral health counseling.

The integration of health AI and machine learning into healthcare enables predictive analytics, enhancing early disease diagnosis and treatment accuracy. Cell phones are the latest health tool for tracking diet, moods, heart rate, height, weight, and other personal information that can easily be monitored and shared with one's personal physician. . This shift towards more personalized, patient-centric care has also facilitated remote monitoring, improving patient engagement and continuous care for chronic conditions, thereby reducing hospital readmissions and associated costs.

Moreover, the proliferation of health apps and wearable devices has allowed for real-time health monitoring of healthy habits and activities, which empowers patients to manage their health proactively. For example, apps that monitor sleep will track breathing, snoring, and even the impact of sounds and loud noises within a specified environment. These technological advancements have not only improved patient outcomes but have also streamlined healthcare processes, making them more efficient and cost-effective. The continued evolution of digital healthcare promises to introduce innovative solutions that further enhance care quality and accessibility.

### **Mental and Behavioral Health Focus**

The increasing emphasis on mental and behavioral health in the workplace reflects a broader understanding of its impact on overall employee productivity and organizational health.

It is estimated that 1 in 5 Americans were already struggling with a mental health before the COVID-19 pandemic, which only exacerbated demand for mental health services. Across the country, rates of depression among adults hit a high in 2023, suicides hit an all-time high in 2022, and emergency department visits for children's mental health conditions have surged over the past several years. This is also consistent with what we see in the City of Los Angeles' medical utilization for both Kaiser and Anthem.

In response, employers are expanding mental health benefits and creating comprehensive programs to support employee well-being, recognizing the importance of early intervention and ongoing support. This shift towards a more integrated approach to mental health is fostering environments where employees feel supported in managing stress, anxiety, and other areas of mental health.

The expansion of mental and behavioral health services also signifies a societal shift towards recognizing the importance of mental well-being. Employers are now seeing the direct correlation between mental health and workplace performance, leading to investments in mental health initiatives that contribute to a more resilient and productive workforce.

### **Personalized Medicine and Innovative Treatments**

The move towards personalized medicine, with its emphasis on genetic, environmental, and lifestyle factors, represents a significant shift in healthcare, offering more effective and efficient treatment options. The exploration of off-label drug use within this personalized framework has the potential to expand treatment options for a variety of conditions, offering new hope for patients with limited conventional therapies.

Advancements in fields like gene therapy and regenerative medicine are part of this trend, providing potential cures for previously untreatable diseases. These innovations in personalized medicine not only promise to improve patient care but also to reduce long-term healthcare costs, highlighting the need for healthcare systems to adapt to these evolving treatment modalities.

### **Chronic Disease and Value-Based Care Approaches**

Chronic disease management is moving towards a more proactive and preventive model, with value-based care at the forefront, emphasizing health outcomes over service volume. This approach encourages healthcare providers to focus on early intervention, regular monitoring, and personalized care plans that aim to improve long-term health outcomes and reduce overall healthcare costs.

The integration of technology, such as telehealth and remote monitoring, supports these care models by providing continuous care and management for chronic conditions. Employers are recognizing the benefits of these models, which can lead to lower healthcare costs, improved employee health, and reduced absenteeism, underscoring the shift towards more sustainable and efficient healthcare delivery systems.

### **Economic Considerations and Cost Management**

The economic landscape, characterized by inflation and rising healthcare costs, is compelling employers and healthcare providers to explore innovative cost management strategies. The focus on cost-effective healthcare delivery models, like telemedicine and value-based care, is growing, aiming to reduce unnecessary expenditures while maintaining high standards of care.

#### Inflation

Inflation and its ramifications across the healthcare landscape are the main factors driving spending in 2024.

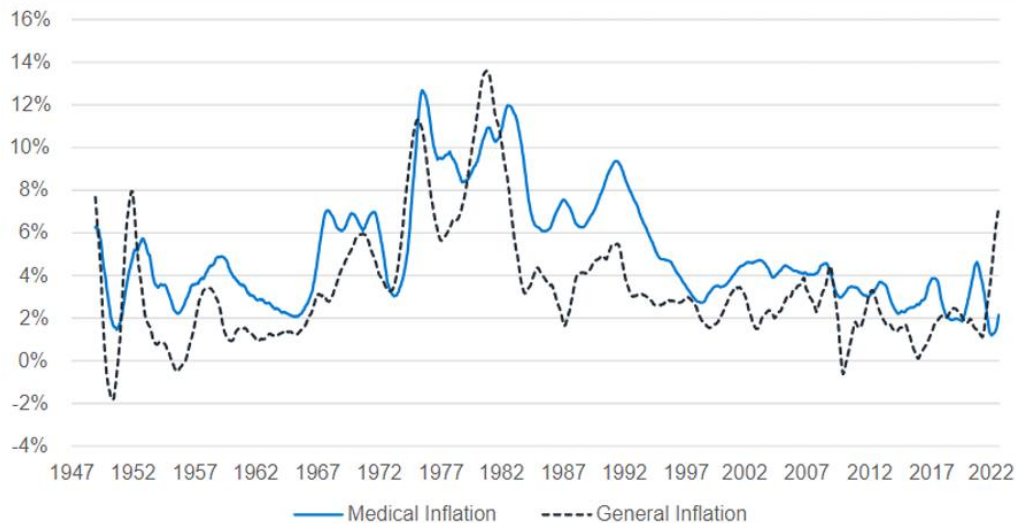
#### **Inflationary impacts on healthcare providers:**

- Hospitals and physicians are expected to seek higher rate increases (potentially also at a higher frequency) in contract negotiations.
- Workforce shortages and physician consolidation can further amplify the effect.
- Provider “burnout” and increased patient demand are expected to keep the pressure up on clinical workforces across the industry.

#### **Increasing cost of pharmaceuticals:**

- Plans are experiencing inflationary pressure from the rising median price of new drugs, as well as the increasing price of existing drugs.
- Accelerated approvals of new cell and gene therapies – pharmacy trends are not expected to slow in 2024.

# Annual medical vs general inflation



Employers are considering alternative funding arrangements and leveraging data analytics and AI to optimize healthcare spending, identifying cost-saving opportunities, and make informed decisions regarding health benefits. The financial sustainability of healthcare plans is becoming increasingly important, driving a strategic approach to benefit design and healthcare management.

## Enacted and Pending Legislation

Much like economic factors, healthcare plans are dealing with the ever-changing landscape of compliance with enacted legislation and preparing for pending legislation both on that national stage and for those specific to California. Healthcare plans and employers alike are hard-pressed to stay in front of notice and reporting requirements that have come with recently passed legislation. A few notable ones include:

- CAA 2021 Prohibition on Gag Clauses and Attestation Requirement - Under CAA 2021, group health plans are prohibited from entering a contract that would preclude the plan from:
  - disclosing provider-specific cost or quality-of-care information or data through a consumer-engagement tool or other means, to referring providers, the plan sponsor, enrollees, or individuals eligible to become enrollees;
  - electronically accessing de-identified claims information (in accordance with HIPAA, GINA and the ADEA); and
  - sharing this information with a business associate.

These rules apply to all plans — self-funded or fully insured, large or small group. They also require plans to annually attest to the federal government that they are in compliance.

- Mental Health Parity - Mental health parity continues to be a high priority for the regulatory agencies tasked with enforcing the law. On July 25, 2023, the U.S. Department of Labor (DOL), U.S. Department of Health and Human Services (HHS), and the U.S. Department of Treasury (together, the three agencies) issued proposed updates to regulations under the Mental Health Parity and Addiction Equity Act (MHPAEA) and a technical release outlining a potential approach to determining the types of data that plans will have to compile to demonstrate MHPAEA compliance for non-quantitative treatment limitations (NQTLs). Concurrently, the three agencies released a report to Congress and a [Fact Sheet](#) summarizing recent MHPAEA enforcement efforts.
- AB 2200 California Guaranteed Health Care for All Act – PENDING Otherwise known as Single-Payer Health Care has been introduced yet again and would enact a framework of governance, benefits, program standards, and health care cost controls. There are a lot of layers to this concept and a lot to ‘unpack’ should this move forward. However, the proposed legislation is looking to eliminate out of pocket costs for plans, eliminate ‘networks’, and reduce Prescription drug costs. The Healthy California for All Commission estimates a single-payer healthcare system would cost the State over \$500 billion annually.
- Updated COVID-19 Vaccines Approved - On September 11, 2023, the Food and Drug Administration (FDA) approved updated COVID-19 vaccines manufactured by Pfizer and Moderna. One day later, the Center for Disease Control and Prevention’s Advisory Committee on Immunization Practices (ACIP) recommended the new versions for everyone older than one year.

Under the ACA, the vaccine and its administration will continue to be provided at no cost to people enrolled in non-grandfathered plans who are vaccinated by an in-network provider. However, the vaccines are no longer free to plans. The Pfizer vaccine costs plans \$115 per dose and the Moderna vaccine costs \$128 per dose.

- California AB 2028 PENDING – Introduced in 2024, California AB 2028 would require a health care service plan or health insurer that issues, sells, renews, or offers a specialized dental service plan to comply with a minimum MLR of 85% and provide a specified rebate to an enrollee or insured.

## Pharmacy Costs

In 2024, one of the most pressing challenges in healthcare cost management is the escalating cost of pharmacy benefits, making it a crucial trend for employers and healthcare plan providers. Pharmacy Benefit Managers (PBMs) are at the center of this trend, as they play a pivotal role in negotiating drug prices. The rising cost of prescription drugs are driven by numerous factors, including the introduction of high-priced specialty medications, increasing prices of generic drugs, and the complex dynamics of drug pricing negotiations. Employers are particularly concerned about these trends, as they directly affect the sustainability of their healthcare plans and financial well-being of their employees.

## Conclusion

Employers must proactively engage with health plan providers, advocate for comprehensive healthcare solutions, and emphasize preventive and holistic care. Utilizing data and technology will inform healthcare benefits decisions, while educating employees about their healthcare options will foster better health outcomes and cost savings. This engagement is crucial for crafting healthcare benefits that are not only cost-effective but also responsive to the changing healthcare landscape and employee expectations. Additionally, fostering a culture of health within the organization can amplify the benefits of any healthcare strategy, leading to a healthier, more engaged, and productive workforce.

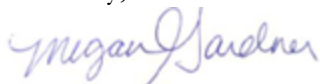
Managing pharmacy costs remains a significant challenge for employers in 2024 and beyond. By understanding the role of Pharmacy Benefit Managers (PBMs) and the trends in pharmacy spending, employers can develop more effective strategies to control costs while ensuring that employees have access to necessary medications.

We are seeing employers employ a variety of strategies to help mitigate the higher cost healthcare environment. These include, but are not limited to, the following: introduction of consumer driven health plans or high deductible health plans (HDHPs); participating contract arrangements; exploration and use of Captives; pharmacy 'carve outs'; stronger positioning and emphasis on mental health and employee assistance plan; incentivized waivers; incentivized premium structures; use of Health Reimbursement Accounts (HRA) and/or Health Savings Accounts (HSAs); and plan and claims audits (self-funded plans). On the carrier side, we are seeing the shift to virtual care delivery, telehealth/telemedicine which was accelerated during the COVID-19 pandemic; reimaged wellness programs; and a '360' approach to Chronic Condition management and programs.

By staying informed and adaptable, employers can navigate the complexities of healthcare management, ensuring that their strategies are sustainable and aligned with both their business objectives and their employees' well-being. In doing so, they not only enhance the health and satisfaction of their workforce but also position their organizations for long-term success in an ever-changing healthcare environment.

As a matter of perspective, we are including a copy of our quarterly Benefits trends report for 2<sup>nd</sup> Quarter of 2024. This provides a multi-carrier, vertical, and geographic look at the renewals that are coming in for Medical, Dental, and Vision plans across the state of California.

Sincerely,



Megan Gardner  
Vice President

Attachment: 2<sup>nd</sup> Quarter Benefit Trend Report

*Keenan*

# Keenan

Insurance Trends Report  
2nd Quarter 2024 (Apr - Jun)

## CARRIER TREND

CARRIER	HMO		PPO		POS		Prescription Drugs		Dental		Vision
	North	South	North	South	North	South	Rx-PPO	Rx-HMO	PPO	DHMO	
Aetna	7.90%	7.20%	7.90%	7.20%	7.90%	7.20%	9.50%	9.50%	4.5%	3.5%	2.5%
Anthem	6.3%		9.6%		9.7%		Rx-PPO 13.9%	Rx-HMO 13.6%	PPO 3.0%	Dental Net 3.0%	3.0%
Blue Shield	6.40%		8.00%		6.40%		8% - 9%				
Cigna	8.0%		8.0%		8.0%		8.4%		PPO 5.0%	DHMO 4.0%	3.0%
Health Net	8.3%		10.4%		9.4%		11.0%		PPO 4.0%	DHMO 3.5%	4.5%
Kaiser <sup>1,2,3</sup>	North 13.5% - 15.5%	South 10.5% - 12.5%					North 8.6%	South 8.6%			
Sutter Health Plus <sup>2</sup>	North 6.8%						North 6.8%				
Western Health Advantage <sup>2</sup>	North 7.0%						North 15.0%				
Delta Dental									Premier 4.0% - 5.0%	PPO 5.0%	
VSP <sup>2</sup>											5.0%
EYEMED <sup>2</sup>											2.0 - 3.0%
Express Scripts & Empi/Rx							Schools 12.5%	HealthCare 10.9%			

## KEENAN'S SELF INSURED TREND

CARRIER	HMO - N/A	PPO	POS	PRESCRIPTION DRUGS	Dental	Vision
Anthem		Schools/Munis: 9.0% - 10.0% HealthCare: 6.8% - 7.6%		Schools/Munis: 9.0% - 10.0% HealthCare: 9.9%	Schools/Munis: 4.0% - 5.0% HealthCare: 4.5% - 5.0%	Schools/Munis: 3.5% HealthCare 2.8%
Blue Shield		Schools/Munis: 9.0% - 10.0% HealthCare: 6.8% - 7.6%		Schools/Munis: 9.0% - 10.0% HealthCare: 9.9%	Schools/Munis: 4.0% - 5.0% HealthCare: 4.5% - 5.0%	Schools/Munis: 3.5% HealthCare 2.8%
Cigna		Schools/Munis: 9.0% - 10.0% HealthCare: 6.8% - 7.6%		Schools/Munis: 9.0% - 10.0% HealthCare: 9.9%	Schools/Munis: 4.0% - 5.0% HealthCare: 4.5% - 5.0%	Schools/Munis: 3.5% HealthCare 2.8%
Health Net					Schools/Munis: 4.0% - 5.0% HealthCare: 4.5% - 5.0%	Schools/Munis: 3.5% HealthCare 2.8%
Delta Dental					Schools/Munis: 5.0% HealthCare: 4.5% - 5.0%	
VSP						Schools/Munis: 3.5% HealthCare 2.8%
EYEMED						Schools/Munis: 3.5% HealthCare 2.8%

Trends are applicable for North and South except where noted.

<sup>1</sup> Kaiser's numbers represent the Average Commercial Rate (ACR) Increases for 2024 not the medical or pharmacy trends. The organizational goal is for most commercial groups to have an ACR in these ranges. It's important to note that not every group will see the average increase. Group specific increases vary based on claims experience, benefit plan, demographic profile and change of the group, renewal month, number of enrolled members and other factors.

<sup>2</sup> Trends are set annually for these carriers not quarterly.

<sup>3</sup> Kaiser's quarterly trend data is a blended Cap & Non-Cap trend. However, on the renewal calculation exhibits only Non-Cap Trend is used, so trend factors may differ.

Note: Trends above are not for small groups. Those trends may vary. - Trends above apply to all industries (Schools, HealthCare and Municipalities)

Note: UHC has decided not to participate in our trend report.. If their position changes we will add them to the report.