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Insurance | Risk Management | Consulting

SUMMER 2020

EMI | Employer Market Intelligence

EMPLOYER MARKET TRENDS

A private ongoing, multiclient study.

Gallagher Research & Insights, St. Louis, MO 63131

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EMI 2020
Market Overview & Trends Report

Introduction

The 2020 *Employer Market Trends* report is part of the Employer Market Intelligence (EMI) syndicated research service. For sixteen years, this report has tracked and studied the influence of jumbo employer purchasers on access to medications, products and services, and the role they play in driving innovative healthcare solutions.

This primary research was collected via an online survey of benefits decision makers at 103 jumbo employer organizations (5,000+ employees) and leaders of 28 employer health coalitions. Insights were also collected from in-depth interviews with a subset of respondents. Additional details on the research panel can be found on page 9.

While this research was conducted prior to the onset of the COVID-19 pandemic, benefits were established for 2020 and are expected to largely stay in place through the end of the year. Gallagher is tracking employer COVID-19 response efforts and related decision making. Pulse survey results can be found at https://www.ajg.com/us/coronavirus-covid-19-pandemic/.

2020 EMPLOYER MARKET TRENDS REPORT TOPICS:

I. Why Employers?

II. Executive Summary

III. Employer Segmentation

IV. Pharmacy Benefit Management & Trends
- Trends in Pharmacy Benefit Design
- Group Rx Purchasing Collectives
- VBBD/VBID for Pharmacy Benefits
- Formulary & Exclusion List Approach
- NEW! Degree of Formulary Restriction
- NEW! PBM Contract/RFP Allowances
- NEW! Formulary Modifications Applied
- NEW! Identification of Low-Value vs. High-Value Medications and Services
- Alternate Rx Contracting Agreements

V. Biologics and Biosimilars
- Concerns & Management Initiatives
- NEW! Most Effective Management Initiatives
- Copay Accumulator Adjustment/Maximizer Programs
- NEW! Barriers to Biosimilar Cost Savings
- Biosimilar Benefit Management

VI. Employee Health Management
- Disease States of Importance
- NEW! Top Conditions Impacting Productivity
- Behavioral Health Management
- Worksite Health Clinics
- Value-Focused Healthcare Initiatives
- NEW! Risk Sharing, Bundled Payments and Inclusion of Rx Costs
- Consumer-Directed Health Plans
- NEW! HSA Preventive Coverage Expansion

VII. Employer Health Coalitions
- Initiatives & Priorities
- Coalition Tiering
- Group Pharmacy Benefit Purchasing
- NEW! Cancer-Specific Information Provided to Employers
- NEW! Interest in Manufacturer Support

Biopharmaceutical manufacturers use this report to better understand the employer market and form a strategic approach to drive change and activation among large employers. Each section provides details and trending data, as well as verbatims that provide a first-hand perspective into employer and coalition viewpoints. A summary and set of implications for biopharmaceutical manufacturers is provided at the conclusion of each section.

Contact Sarah Daley at 314-656-2384 or sarah_daley@ajg.com for questions about this report and the EMI Service, or to set up a presentation of findings.

Employer Participant Panel

103 SURVEYS | **8** INTERVIEWS | **5.8 MILLION** COVERED U.S. LIVES

PARTICIPANTS BY NUMBER OF U.S. EMPLOYEES

6% | 100,000+

12% | 50,000-99,999

27% | 20,000-49,999

12% | 15,000-19,999

15% | 10,000-14,999

28% | 5,000-9,999

INDUSTRY

28% Manufacturing

14% Business Services

12% Healthcare

12% Education

8% Retail

8% Transporation

5% Financial Services
2% Hospitality/Restaurant/Entertainment
2% Construction
2% Technology
1% Energy
6% Other*

*Other includes: Agriculture; Communications; Media; Public Entity; Religious Institution

EMPLOYER RESPONDENT ORGANIZATIONAL POSITION

44% Director of Benefits

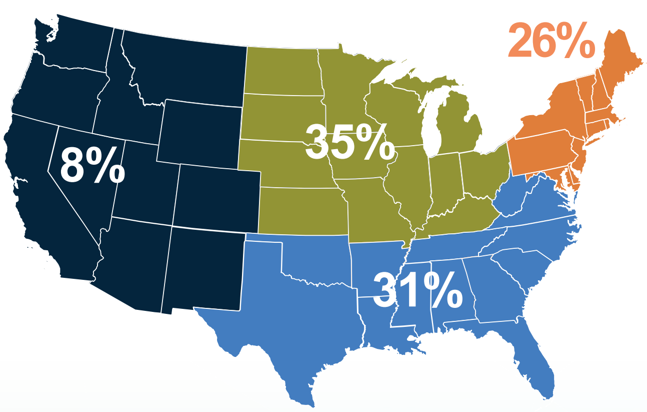
29% Benefits Manager

15% VP of Benefits

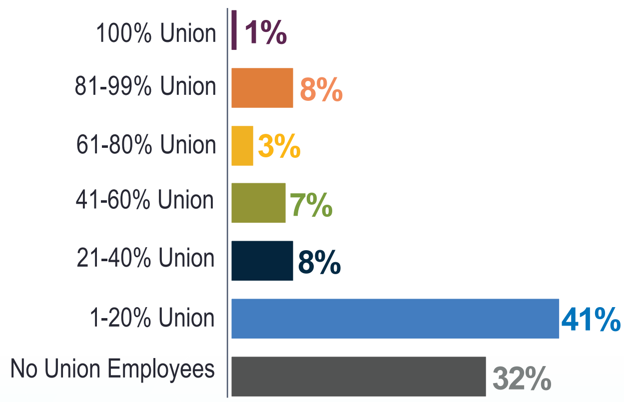
8% Corporate Med. Dir

4% Benefits Analyst

GEOGRAPHICAL BREAKDOWN OF EMPLOYER HEADQUARTERS



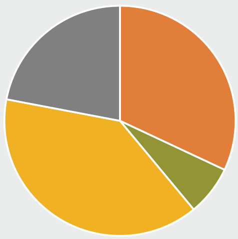
PERCENT OF ACTIVE EMPLOYEES IN A UNION



Coalition Participant Panel

28 SURVEYS | 3 INTERVIEWS | 20.1 MILLION MEMBER LIVES

MEMBER LIVES REPRESENTED BY COALITION PARTICIPANTS



32% | 1,000,000+
7% | 500,000-999,999
39% | 100,000-499,999
22% | 1-99,999

COALITION GROUP BENEFIT PURCHASING

42% Provide Group Rx Benefit Purchasing

18% Provide Group Medical Benefit Purchasing

COALITION RESPONDENT ORGANIZATIONAL POSITION

46% Executive Director

46% President/CEO

4% Vice President

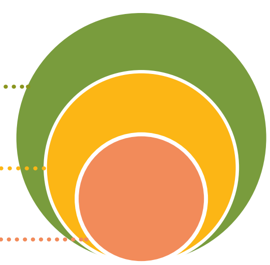
4% Director

SCOPE OF COALITION MEMBERSHIP & ACTIVITY

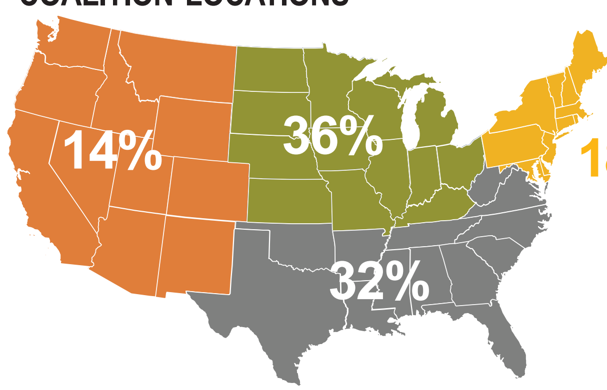
17% National

52% Regional

31% Local



GEOGRAPHICAL BREAKDOWN OF COALITION LOCATIONS



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

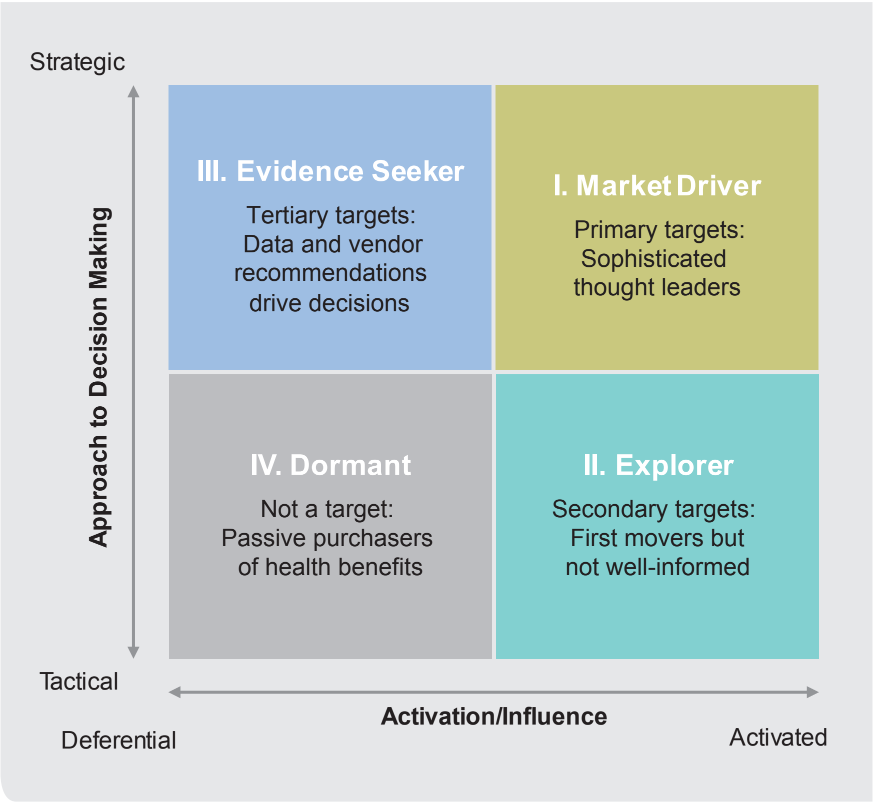
Employer Segmentation

Gallagher Research & Insights' proprietary segmentation model is a tool that can be used to better understand and predict employer behavior. It allows manufacturers to focus their targeting, engagement and collaboration efforts towards 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

PHARMACY CHANGES FOR 2020

When employers reflected via a survey write-in response on major pharmacy changes for 2020, responses largely included switching vendors, utilization tactics, more innovative examples of preventive drug list adjustments, formulary customization, participation in group purchasing plans and biosimilar adoption tactics.

"We manage our formulary, so we are consistently adding, removing and writing new PAs for our drug list."

– Global Health Strategy Manager, Employer

"We created a list of "high value preventive drugs" (i.e., preferred insulin) which we heavily subsidized and added into all medical options (PPO, EPO and HSA-eligible HDHP) to make compliance with chronic condition treatments affordable on a first dollar basis."

– VP, Health & Wellness, Employer

"We are pushing biosimilar use, with a main barrier of biosimilar coverage residing under the medical plans and not the PBM."

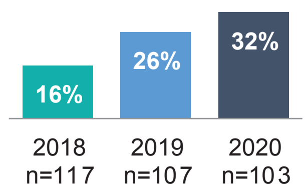
– Corporate Medical Director, Employer

Employer Perspectives on Prescription Drug Formulary & Exclusion Lists

Seven in ten employers strongly agree that if presented with compelling evidence, they would be willing to make a formulary change (Figure 14). One-third indicate receiving clinical evidence to support making individualized drug decisions and evaluations, double the proportion just two years ago (see callout). A sizable 44% of employers want to better understand how formulary decisions are made while 39% indicate they trust their PBM's expertise and rely on their drug coverage recommendations. Just 14% note reluctance to make formularies or exclusion drug list changes due to financial penalties.

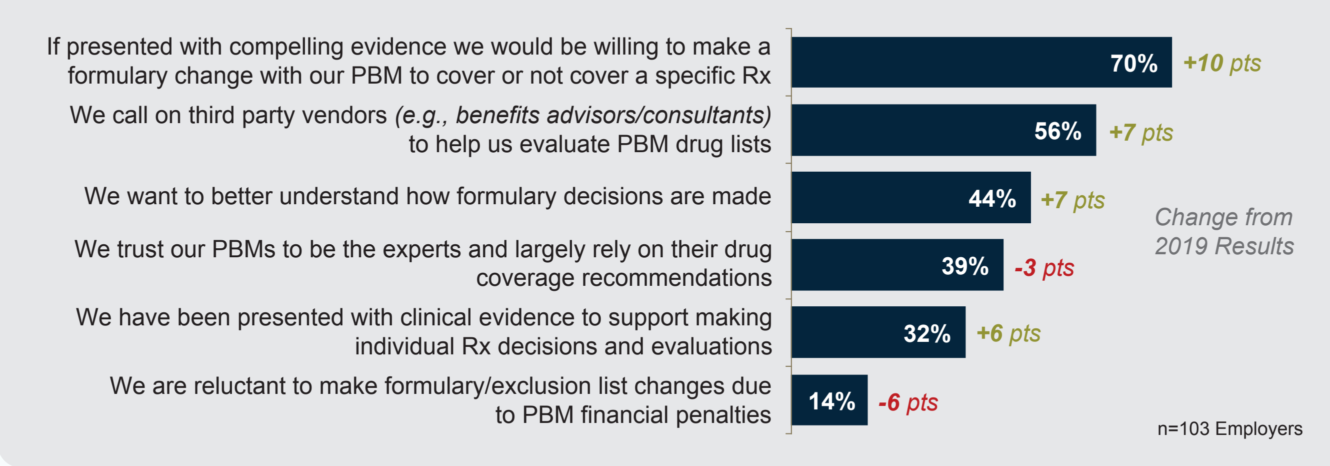
Employers increasingly receive clinical evidence to support individual Rx decisions

3-Year Trend



This year, the percentage of employers willing to make changes and evaluate drug lists rose as did those seeking greater insights around formulary decision making and evidence. Downward trends were recorded only for PBM trust and reluctance to make changes to formularies due to penalties.

Figure 14: Employer Perspectives on PBM's National Formulary and Exclusion Lists
(percentage strongly agreeing)



Employer Worksite Clinics

Worksite health clinics provide employers the opportunity to broaden and customize readily available healthcare services and contribute to the overall health of employee populations. Additionally, these clinics allow employers to take a hands-on approach when it comes to monitoring and managing both the quality and cost of the healthcare they provide.

On the whole, 43% of surveyed employers currently offer at least one worksite clinic option (onsite and/or near site), and that is expected to increase by fifteen percentage points by 2022 (Figure 49).

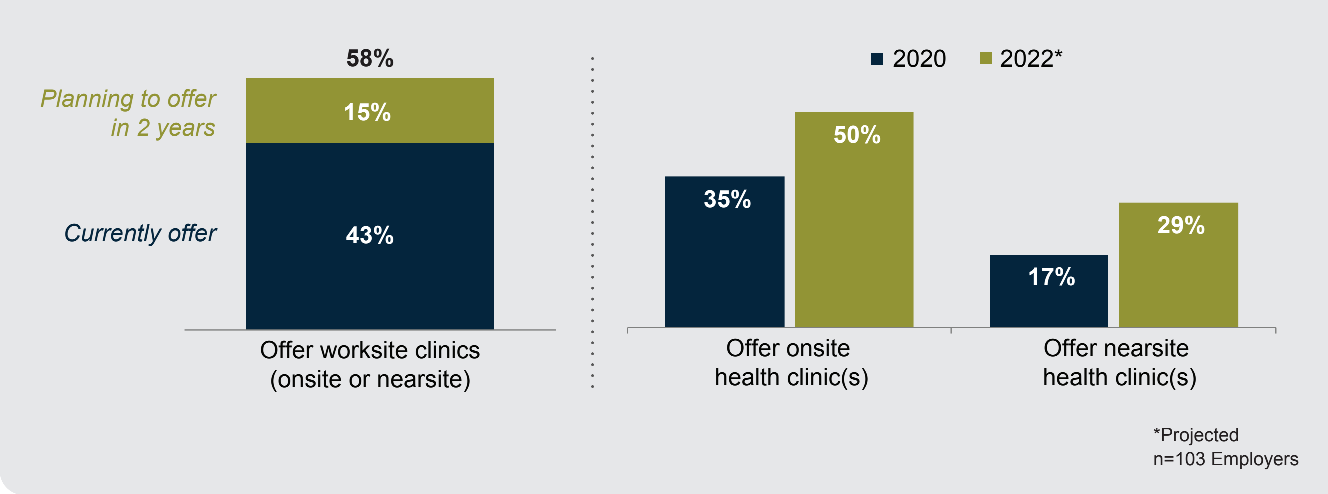
Just over one-third of employers (35%) currently offer an onsite health clinic in at least one of their work locations, and nearly half anticipate doing so by 2022. A nearsite clinic model is utilized by 17% of respondents, whereby a clinic is located in close proximity to an employer. The nearsite clinic often provides services to employees in multiple locations at the same organization, or to multiple organizations in the area. By 2022, 29% of employers expect to have a nearsite clinic in place.

Market Drivers Lead Other Segments in Worksite Clinic Offerings

- *49% Offer Onsite Clinic vs. 35% Overall*
- *32% Offer Nearsite Clinic vs. 17% Overall*
- *41% Offer Pharmacies vs. 22% Overall*

See page 18 for Segmentation details.

Figure 49: Employer Worksite Health Clinics



"Take Jackson, Mississippi, where both access and quality of care is low. Even though we don't have as many employees in that location, we are slated to put a worksite clinic there because they're our employees and they're getting poor care. This is more than just a density play. It is about driving change in our local markets."

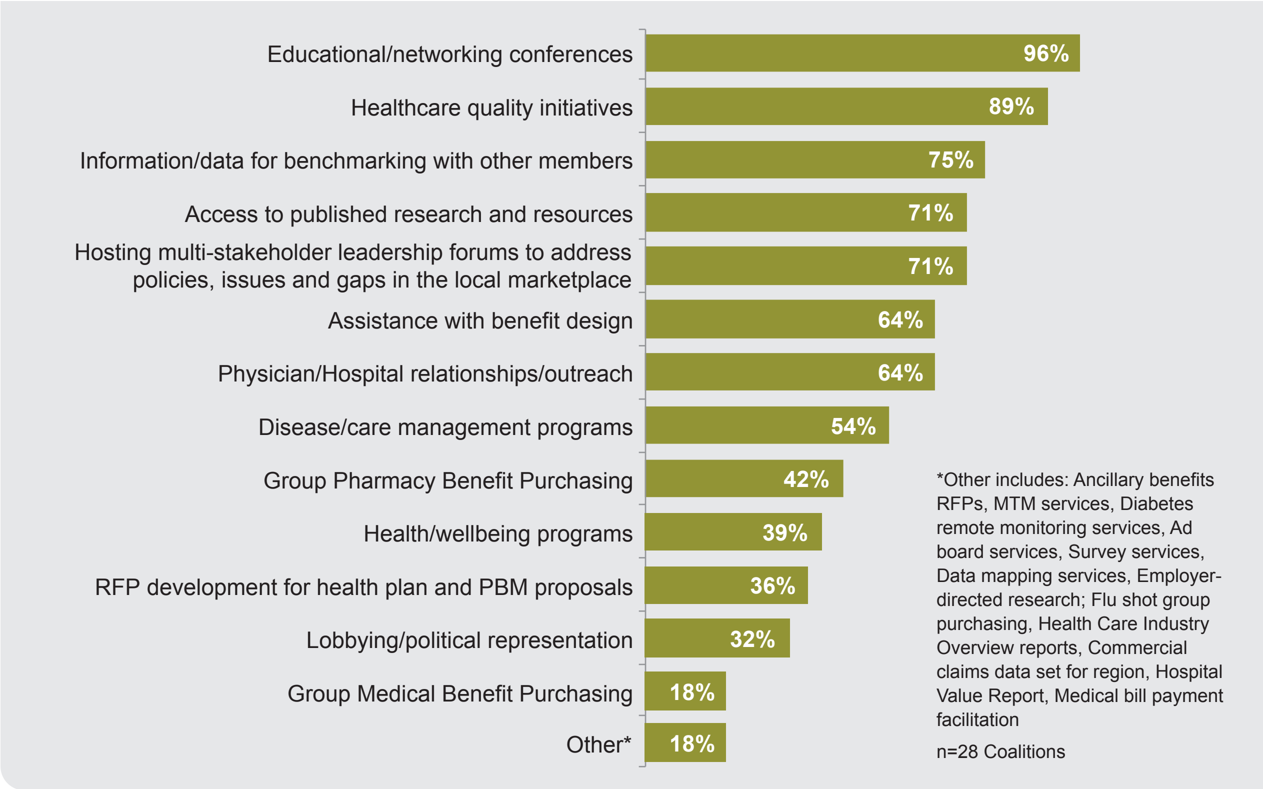
– SVP Total Rewards, Employer

Coalition Member Services

Coalitions strive to provide members with services that align with current member priorities, and also anticipate and plan for future needs. Educational and networking conferences are a fundamental service offered by nearly all responding coalitions (Figure 73). Healthcare quality initiatives are offered by 89% of coalitions, up from just 66% of respondents a year ago. This growth underscores the increasing recognition that quality varies and can lead to unnecessary costs and poor health outcomes.

As conveners of employers and other healthcare stakeholders, 75% of coalitions provide valuable benchmarking data, an increase of six percentage points from 2019. This data can be national, regional or both and is often curated via a coalition-owned data warehouse. As member interests shift and different pressure points are addressed or newly manifest, coalition services evolve to meet these changing needs.

Figure 73: Coalition Services Offered to Employer Members



"Creating value and better outcomes is not just one thing. There is a place for a primary care strategy and a worksite clinic strategy as well as a payment reform and value-based insurance design strategy, a Centers of Excellence strategy, etc. We're trying to keep all of those messages out in front of the employers, and we recognize that the employers all have different populations, different needs. What works in one market or population won't work in another."

– President & CEO, Coalition

"The next big focus is going to be specialty drugs, the fastest growing part of the industry. There's a lot of games being played. We have found a particular PBM consultant that can, predominantly focusing on specialty pharmacies, take the average per member per month pharmacy cost north of $100 per member per month and reduce that to around $50 PMPM. We want the middlemen to make a reasonable return. We think the returns they're making right now are excessive"

– President & CEO, Coalition

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