PRISM
Public Risk Innovation,
Solutions, and Management

October 18th, 2023

To: PRISMHealth Program Members

From: Gina Dean, CEO

Re: Healthcare Market Update

Similar to the Property & Casualty markets, the PRISMHealth program is bracing for the largest increase in industry health insurance costs in over a decade. With many members struggling with recruitments and retention, many will be forced to pass costs on to employees who are already struggling with inflation outpacing their household income. This update will outline key factors driving costs throughout the healthcare industry and also, include how the PRISMHealth program is managing healthcare inflation.

What's Driving Healthcare Costs Higher?

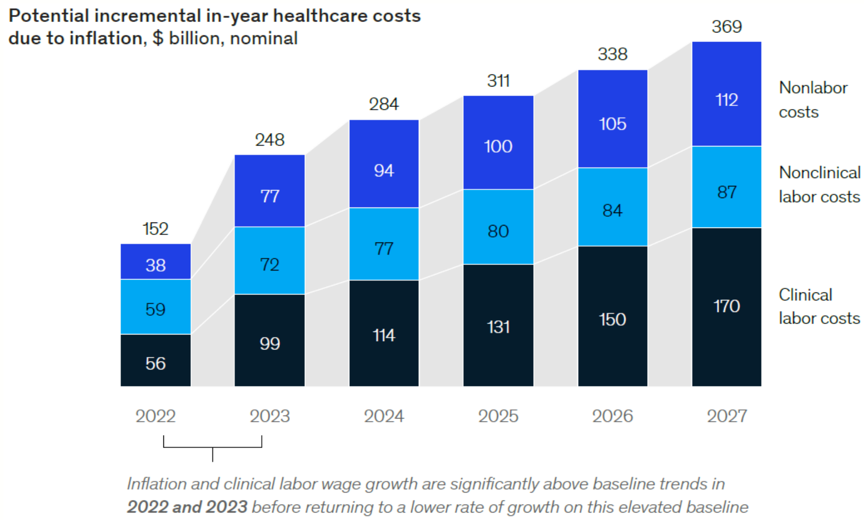
As with many goods and services that we purchase in the economy, there are many factors that influence the cost that we pay as a consumer and healthcare and health insurance are no different. Below is a summary of the key factors driving increased costs today and into the future.

Provider Turmoil – Labor Shortage

COVID was extraordinarily disruptive for healthcare systems and providers of all kinds. Healthcare supply input costs spiked in late 2020 and 2021 during the COVID-19 crisis; labor costs per adjusted hospital discharge grew 25 percent between 2019 and 2022, closely followed by pharmaceuticals at 21 percent, supplies at 18 percent, and services at 16 percent.[1] While these costs have moderated in 2023, they continue to be above the norm; in particular, growth in labor cost remains high.

Labor Shortages have plagued providers over the last 3 years. Pandemic related retirements and job changes exacerbated an already existing nursing shortage. Hospitals hired traveling nurses at a premium; as an example, Sharp Health system spent $18 million in 2019 and $97 million in 2022 on traveling nurses/clinicians. UCSD Medical Center is another example, with their spend on wages increasing over 30% from $980 million in 2019 to $1.3 billion in 2022. Overall, labor shortages and working conditions during COVID have driven labor costs up significantly. Many providers were forced to provide significant wage increases to employees to battle attrition and avoid potential strikes. A clinical labor shortage will be a significant contributor to the projected increase in healthcare costs over the next five years.

Providers' ability to pass on their higher cost of doing business is governed by contracting life cycles and negotiation with insurance carrier networks. As a result, many providers lost a significant amount of money over the last few years with Kaiser being the best example, posting a $4.5 billion loss for 2022. Given this contracting life cycle, providers are actively trying to raise their reimbursement rates with insurance carriers, in some cases asking insurance carriers for 20-25% increases relative to what they are getting paid today. We expect that it will take one to three years for incremental costs associated with these price increases to flow from providers to payers in the form of higher claim costs and ultimately higher insurance premiums.



Source: McKinsey analysis in partnership with Oxford Economics; expert input

Delay of Care – Late Diagnosis

Many people chose or were forced to delay care during COVID and many-faced delays of getting care well into 2021 and 2022. This deferred care is impacting the healthcare system in a variety of ways including a decrease in annual preventive care visits, lower rates of early detection of cancer and other critical diagnoses as well as increased incidences of depression, anxiety, and alcohol abuse. This has led to later stage discovery of cancer, unmanaged chronic disease, higher severity of conditions and ultimately more costly treatment and care for patients.

Large Claims Frequency and Severity

Million-dollar claims are becoming increasingly common, both because of new treatment options becoming available and the rising cost of care. During the past four years, Sun Life, a major Stop Loss Insurance Carrier, saw a 45% increase in the number of million-dollar claims, from 109 claims per million covered members to 158 claims per million covered members. There was a 15% increase in million-dollar claims from 2021 to 2022 alone. While many employers transfer risk to Stop Loss Carriers for these large claims, the increased frequency of these claims is driving up the cost of Stop Loss insurance which ultimately contributes to the overall cost of health insurance for employers.

Specialty Drugs

Pharmaceutical costs continue to increase as manufacturers have raised prices and brought new, high-cost drugs to market. Much of the increase in cost has been driven by specialty drugs and biologics in autoimmune, oncology therapies and diabetes drugs. These oncology cancer treatments include the transfusion and infusion of human cells to replace or repair damaged tissue and/or cells and range from $400K to $500K per treatment. Several gene therapies have been approved over the past few years for rare diseases and conditions that cost anywhere from $1 million to $5 million per single dose of treatment. New diabetes drugs like Ozempic and Mounjaro cost approx. $13K -$15K a year and have been popularized by celebrities for off label use for weight loss. As a result, utilization has spiked across the marketplace; Pharmacy Benefit Managers (PBM) are seeing a 36% increase in utilization and an increase in PMPM (per member per month) costs of 29%. These are just a few examples of the rising pressure increased development and FDA approval of specialty medications will continue to put on healthcare costs.

Marketplace Impact

As a result of the factors mentioned above, we are seeing higher than average increases in Medical and Pharmacy claim costs and corresponding health insurance premium increases. Kaiser increases have ranged between 10% and 25% for many employers this year. Large purchasing pools like CalPERS and PRISM saw increases range between high single digits and 15%. And major insurance carriers delivered average renewals for their pooled segment (employers with 100 to 250 employees) ranging from approximately 12% on the low end to 45% on the high end for poorly performing employers.

PRISMHealth: Managing a Hard Market

PRISMHealth is not immune to the cost trends described in this report. The two most recent renewals are indicative of these pressures with an average increase for 2024 of 12.3%, following 2023's increase of 8.9%. That said, the PRISMHealth pooled renewals are still favorable, with a ten-year annual rate of change of 5.5%.

Looking forward, the PRISMHealth Program will continue to offer more cost containment tools to mitigate some of the factors driving healthcare costs up across the nation. PRISM's self-insured structure is the most efficient way to pay for healthcare, with no carrier profit margin and reduced taxes and fees relative to fully insured products. PRISMHealth leverages the volume of the program (over $650M in premiums) and rebates from drug manufacturers to achieve program administrative fees significantly lower than the marketplace. PRISM's unique risk-sharing and blended renewal methodology reduces the premium volatility that many employers are subject to in the direct marketplace.

PRISMHealth program will continue to incorporate unique benefit offerings that reduce the cost of surgeries via Centers of Excellence, as well as impactable chronic health conditions for individual members living with diabetes, musculoskeletal injuries, and chronic pain.

PRISMHealth has also added a new plan offering, Navigator PPO, to help simplify and improve the healthcare experience for employees and their families. The solution helps patients navigate an ever-complex healthcare system and enables an intersection – in the moment care is being sought – to direct patients to higher quality, lower cost providers. The Navigator PPO also helps direct patients to embedded disease management programs and second opinion services, which also aligns with a reduction in overall costs while still improving their experience – think of this as a patient advocate.

What Should Members Do?

There are several steps that can/should be taken during these turbulent times.

- First, communicate the state of the market to all your stakeholders so there is an understanding that this is an industry-wide problem. PRISM and Alliant are happy to participate on conference calls or attend meetings to assist with this communication if needed.
- Continue to educate your employees and their families on the available PRISMHealth services and programs to driver higher awareness and participation.
- Consider the Navigator PPO plan offering.
- Anticipate future healthcare cost increases. While the PRISMHealth Program continues to outpace overall healthcare inflation, costs will rise in the future under the current market pressures.

As noted above, the collective financial strength, expertise and resources continue to make PRISMHealth the best solution even, and perhaps especially, through these hard market conditions, which is why we say, now is the best time to be part of a pool.