# Balancing Cost and Care:

## 3 Key Considerations for Cost Optimization in 2024

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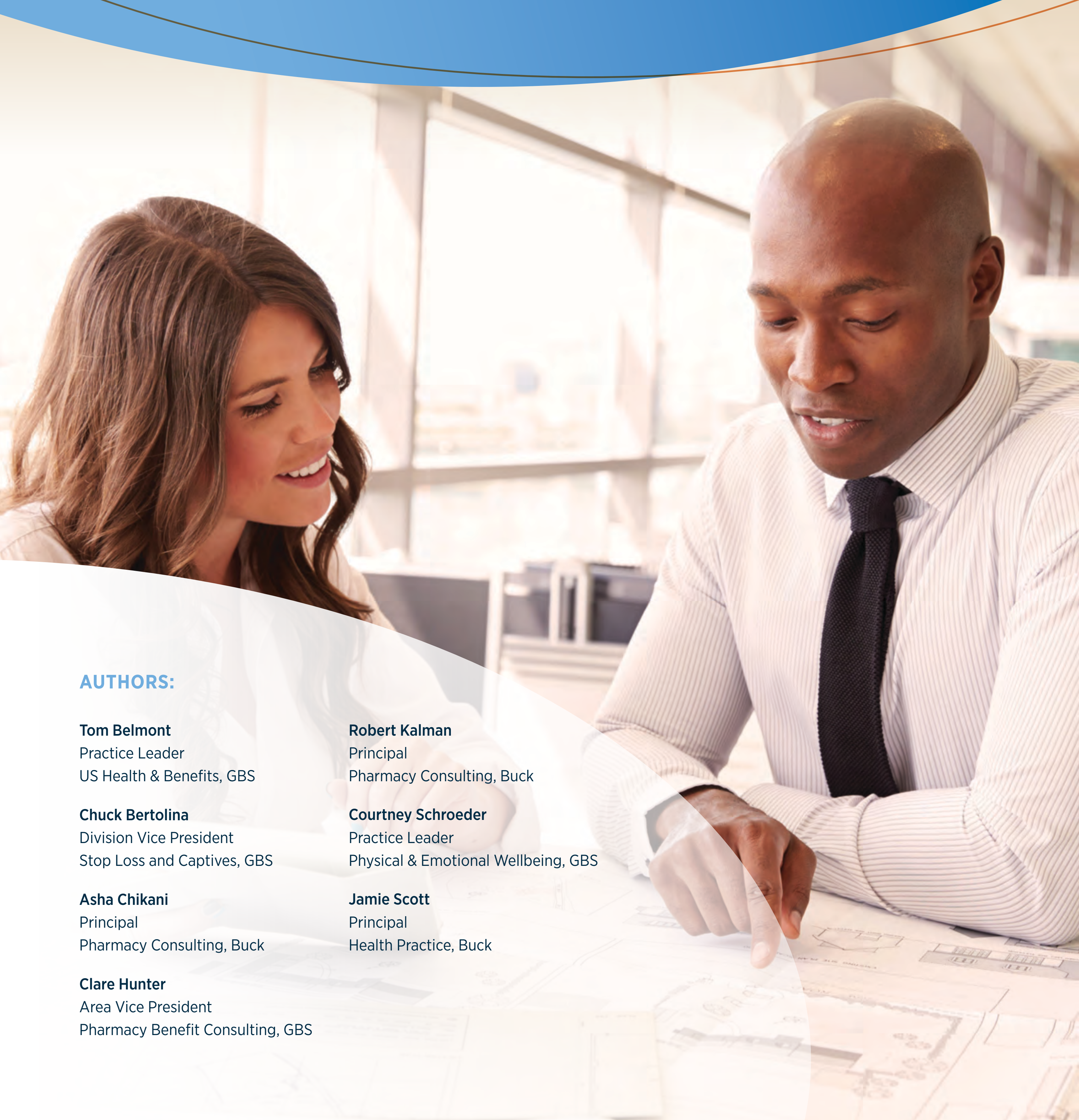


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Top priorities for employers in 2024 are retaining talent, growing revenue and sales, and attracting talent.[1] To achieve these goals, employers are turning toward comprehensive total rewards strategies informed by data-driven insights. Such strategies enable customization of benefit solutions tailored to the unique needs of their workforce, fostering a supportive environment while managing costs and risks. Central to this approach is prioritizing **preventative care**, which not only enhances employees' quality of life but minimizes preventable adverse medical events. However, amidst these opportunities lie challenges, particularly concerning the coverage and promotion of better health outcomes associated with the use of **weight-loss medications** (WLMs), specifically GLP-1s.

Additionally, with the anticipated rise in high-dollar claims, employers must fortify their financial resilience through well-structured **stop-loss** insurance programs. By utilizing a data-driven approach, employers can effectively navigate cost challenges and emerge with a strategy that focuses on employee wellbeing without compromising quality of life.

## 1 Prioritizing Prevention: Employer Initiatives to Promote Preventative Care

Preventative care plays a vital role in identifying health risks early, yet it's often underutilized in the workplace. Many companies are refocusing on helping employees "get back to the basics" in the form of encouraging preventative screenings and physical exams like mammograms, colonoscopies, dental and vision checkups, and more targeted screenings for conditions like high blood pressure and diabetes.[2]

### Employee wellbeing and organizational success

Robust wellbeing programs emphasize the importance of individual health for organizational success, leading to healthier, happier employees and reduced healthcare costs. Evidence shows that every $1 increase in primary care spending produces $13 in savings. Early identification of risk through preventative screenings and regular physician visits can reduce exposure to more costly chronic conditions or potentially avoid an acute occurrence such as a heart attack.[3] Identifying elevated glucose levels early enables lifestyle changes rather than medication regimens, potentially avoiding complications like chronic kidney disease, which cost about $12,000 per person in 2022.[4]

### Cost containment and analysis

Data-driven decision-making is essential for evaluating the success of preventative care campaigns, which require comprehensive evaluation of claims data and engagement metrics from various wellbeing initiatives. This includes a dashboard updated with claims information from the health plan, engagement and progress reporting provided by point solutions, and other metrics from traditional wellbeing vendors to ensure that partners are working in collaboration to holistically support the health of the whole person and connecting the dots between solutions to maximize health outcomes.

The potential utilization and spend of WLMs are high. About 40% of US adults are defined as obese with a body mass index (BMI) of at least 30, and an estimated 30% are considered overweight because their BMI registers from 25 to just under 30.[6] Others may seek to shed unwanted pounds strictly for cosmetic reasons. A poll shows that 45% of US adults are interested in taking a prescription medication for weight loss.[7]

### Importance of personalization

A personalized approach to preventative care can lead to early intervention and, ultimately, overall cost containment. Communications about relevant resources deployed to targeted audiences in a time-sensitive manner are most likely to have an impact on the long-term health of the employee and ultimately result in a positive effect on the bottom line.

**Key takeaways**

- Early identification of health risks through preventative screenings and regular physician visits can reduce exposure to costly chronic conditions or acute occurrences, which can lead to significant savings in healthcare costs.
- Employer wellbeing programs should focus on preventative care to address rising healthcare costs.
- Data integration and personalized communication are critical for enhancing the impact of preventative care campaigns and ultimately impact ROI.

## 2 From Coverage to Cost Management: Employers Adapt to the Impact of Weight-Loss Medications

The landscape of employer-provided pharmacy benefits is rapidly evolving, presenting a unique set of challenges and opportunities for cost optimization in 2024. Of particular note is the emergence of a new class of medications — weight-loss medications (WLMs), or anti-obesity medications — that are reshaping how employers approach healthcare coverage. These medications offer promising solutions for addressing the pervasive issue of obesity in the United States. With obesity being intricately linked to costly comorbid conditions such as fatty liver disease, kidney and heart disease, or nonalcoholic steatohepatitis (NASH), the effective management of WLM coverage becomes not only a matter of cost containment but also a strategic investment in long-term employee health and wellbeing.

### GLP-1s: Navigating the new frontier

Employers are facing new challenges in providing attractive and sustainable pharmacy benefits to their employees. With WLMs at the forefront of this conversation, GLP-1/GIP agonist drugs like Wegovy and Zepbound represent some of the most notable medications in this new frontier. While these medications offer potential benefits, they also raise concerns for employers. Given the widespread prevalence of obesity in the US, and its association with diabetes, heart disease, hypertension, and cancer, there is a significant impact on medical and pharmacy plan costs as well as employer disability claims.

New WLMs are among the top non-specialty drug trend drivers for 2024, with their impact expected to increase due to several factors, including the cost and increased utilization of these medications. Typically, the gross cost of these medications ranges from $1,200 to $1,500 per 30-day supply before member cost share and rebates.[5] With current demand exceeding supply, pharmaceutical companies are expanding manufacturing facilities to meet the growing need. Despite their high monthly cost per patient, employers can anticipate health benefit savings over time as weight reduces comorbidities and improves overall population health.

While these savings may take years to fully materialize, the immediate impact of WLMs on the cost of pharmacy benefit plans is significant.

### Employer strategies for WLMs

Employers have grappled with striking the delicate balance between providing reasonable access to WLM coverage and achieving sustainability while effectively managing costs. The optimal design strategy for WLM benefits depends on the unique characteristics of employee and dependent populations. Based on that analysis and their overall benefit design philosophies and values, some employers will provide coverage for WLMs, while others will decline the opportunity, at least for the time being.

Historically, many employers excluded weight loss treatments from coverage due to their perceived cosmetic or lifestyle nature. However, with the emergence of GLP-1/GIPs and growing clinical evidence, weight reduction is increasingly recognized as an avenue to achieve overall risk reduction and decrease in medical costs, better employee productivity, and improved quality of life.

Employers seeking a strategic and holistic approach to covering WLMs can develop a fact-based understanding of the advantages and disadvantages of covering these medications, and who has the opportunity to be covered. Utilization management criteria, such as BMI thresholds and participation in employer-sponsored wellbeing initiatives that focus on diet and lifestyle changes, can help control costs and ensure appropriate utilization. Without such controls, costs and utilization could skyrocket.

Once a strategy has been put in place, targeted employee communications can have considerable influence on the results and the use of the medications — ultimately impacting cost. Additionally, employers should ensure alignment between pharmacy benefit management (PBM) contract terms and utilization management approaches to avoid reduced rebates.

#### Key takeaways

- FDA approval of WLMs is driving up costs in employer-sponsored pharmacy benefit plans, with demand exceeding the supply.
- Employers must evaluate the advantages and disadvantages of covering WLMs, including their cost and the criteria for member qualification and ongoing treatment. Additionally, they should adopt a utilization management strategy to promote lifestyle change that increases long-term health of employees.
- The impact of GLP-1s goes beyond weight loss. Understanding that these medications may also address other serious conditions could help reduce employer costs and should be a point for consideration.

In 2022, the No. 1 diagnosis associated with stop-loss reimbursements was malignant neoplasm cancer. The average cost for cancer treatment is $153,400 and has been as high as $2.4 million.[8]

## 3 Stop-Loss Trends: Understanding the Impact and Optimizing Risk Management in the Face of High-Cost Claims

Employers today face many growing challenges as they relate to high-cost claims. The emergence of WLMs stands out as a significant catalyst for potential stop-loss claims, underscoring the importance of proactive strategies such as preventative care in safeguarding overall health. However, amidst these concerns, another pressing risk looms: the rapid advancement of cell and gene therapy.

### Cost risk for gene therapy

While these cell and gene therapy treatments may seem costly at the start, they offer long-term benefits compared to the ongoing management of conditions. Yes, the cost of these therapies can be high, but it's important to remember that gene therapies often replace existing treatment costs. To accurately compare costs, both total treatment expenses with and without gene therapy need consideration. Many factors contribute to the overall cost of gene therapy. The MSRP of the therapy is important, but administration and its associated facility charges, including the ongoing cost of care, also determine financial liability.

Employers, brokers, and stop-loss carriers must collaborate to manage, mitigate, and strategize on the risk of these costs and prepare for how they will impact policyholder renewals and the industry.

### Impact of cancer on healthcare costs

While cell and gene therapies are on the rise, many employers continue to face increasing healthcare costs attributed to cancer treatment. Cancer remains a leading cause of death, second only to heart disease, underscoring the importance of prevention, early detection, and treatment strategies. Cancer is the top diagnosis for stop-loss reimbursement.[8] Lifestyle factors like tobacco and alcohol use, HPV infection, obesity, and physical inactivity contribute to many cancers. Prevention is key not only for employee wellbeing and organizational success, but also to reduce cancer risks and other chronic diseases that contribute to the rising costs and higher dollar stop-loss claims.

Early cancer detection improves patient outcomes and lowers treatment costs. Localized cancer diagnosis has a much higher survival rate and requires less intensive and costly treatments compared to advanced-stage cancer.[9]

Putting in place innovative strategies to manage expenses while ensuring access to high-quality cancer care for employees requires a multifaceted approach that includes preventative care with an emphasis on early detection, access to affordable treatment options, and comprehensive support for patients and caregivers. Employers play a pivotal role in promoting employee wellness, facilitating cancer screenings, and advocating for cost-effective cancer care solutions to mitigate the impact of cancer.

### Stop-loss strategies

When evaluating stop-loss as a cost optimization strategy, employers need to ask several key questions. It's vital to annually assess the stop-loss deductible level to gauge risk tolerance and cash flow. Factors such as changes in the company's financial status or fluctuations in healthcare costs should be taken into account. Cash flow is an important consideration when assessing the deductible and stop-loss arrangements, whether carved-in, carved-out, or with advanced funding provisions. Carved-in stop-loss may offer more immediate reimbursement with higher premiums; carved-out stop-loss might have lower premiums but slower reimbursement. Ignoring the leveraged trend in stop-loss and not adjusting your deductible periodically could inflate stop-loss premiums over time. Employers should review and adjust their deductible levels periodically to counter trend increases.

#### Key questions for evaluation

- What percentage of total healthcare spend is related to stop-loss premium?
- How often do claims exceed the stop-loss deductible each year?
- When was the last adjustment made to the stop-loss deductible?
- Is there a need for aggregate coverage to protect against unexpected increases in total costs?

Employers may also consider introducing an aggregating specific deductible involving a dollar-for-dollar trade-off. However, they must carefully weigh the potential benefits against increased financial exposure.

### Optimization of captives

Captives are another means of optimizing your health plan. They offer a way to balance risk transfer, business objectives, and long-term cost management. By participating in a captive, employers can customize their risk management strategies to align with their specific business goals while also controlling long-term healthcare costs. Captives bring employers several benefits, including buying power, risk spreading, and potential returns based on performance.

**Benefits of captives include:**

- Spreading risk across a larger population for more stable premiums and reduced volatility
- Leveraging collective purchasing power for better rates when pooling resources with other members
- Potential returns on investment for members when the captive performs well

Joining a captive usually requires collateral and a commitment period. Employers should evaluate those factors carefully. They may also require cost containment programs, which can have a financial impact. Understanding how returns are calculated and distributed within the captive structure is crucial for making informed decisions.

### Cost containment strategies

As treatments continue to evolve, employers, manufacturers, third-party vendors such as administrators, pharmacy benefit managers, and stop-loss carriers also work to develop cost containment strategies. Some include identifying the right form of treatment based on the person's genetic makeup (pharmacogenomics), performance guarantees, payment plans, utilization/case management for high-cost treatments, carve-out solutions, and ultimately stop-loss protection. Specific to cell and gene therapy, each carrier handles it differently, so employers need an informed partner to navigate the market's different underwriting philosophies and evaluate their specific risk tolerance.

#### Key takeaways

- Employers should review their stop-loss deductible and overall policy structure annually and consider adjusting the deductible every few years to keep up with trends. If an employer doesn't have stop-loss, it may be a good time to evaluate gene therapy programs in the marketplace to manage the potential exposure.
- Monitor claims utilization for high-risk diagnosis to identify potential cell and gene therapy candidates.
- Prevention is critical for managing the rising cost of care and identifying cancer early, leading to better outcomes.

## HOW CAN GALLAGHER HELP?

As employers consider cost optimization and plan their strategies, Gallagher can be a strategic partner to optimize investments in health benefits. Gallagher believes in a data-driven approach to effectively navigate challenges and cultivate a healthier, more engaged workforce. The Gallagher team will assist you in designing, implementing, and managing a cost-effective benefits program that aims to reduce costs through both core and supplemental benefits.

Contact your Gallagher consultant to start the conversation on cost optimization. Don't have a Gallagher consultant?

**Click here to get started.**

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