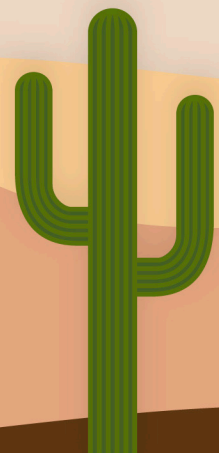


20
24



Health Leadership Conference



NHC Member Organizations as Employers
*Maximizing Value: Strategic Insights into Total Rewards
Programs for CEO and Board Chairs*



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Lockton Companies

Empowering Leadership through Total Rewards Optimization



What got us here: big picture

2020-2021

Return to office, hybrid flexibility, recruiting/retention reduction in med/Rx costs



COST PRESSURES CONTINUE

- High-cost claims continue to grow in cost and prevalence
- Pharmacy cost increases due to specialty Rx, new market drugs, biosimilars, gene/cell therapies & cancer drugs
- Ongoing supply chain shortages/delays and ongoing worker shortage in healthcare industry

2022-2023

Cost pressures, economy concern, inflation, increase in employee expectations



SHIFT IN EMPLOYEE EXPECTATIONS

- Affordability concerns
- Greater need for personalization and flexibility
- Growing demand for mental health support & well-being
- Virtual experience

2024 & beyond

Inflation & employer costs for labor projected to moderate, prioritization of employee satisfaction, affordability concerns, impact of generative AI

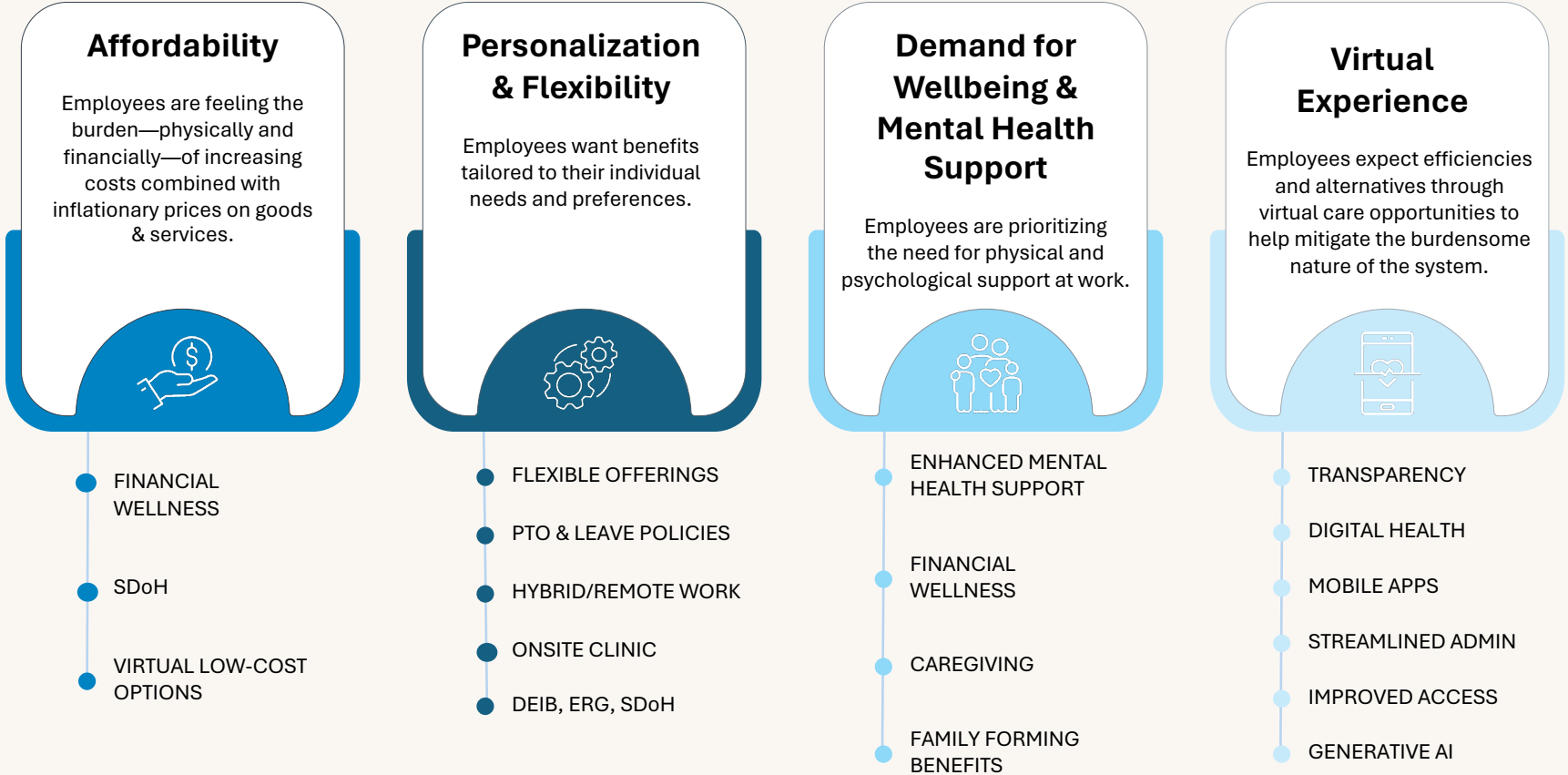


EMPLOYERS LOOK FOR INNOVATIVE SOLUTIONS

- **Program optimization:** TPA, Navigation, High Performing Network, ICHRA, Reference Based Pricing, Stop Loss Captives
- **Employee experience & engagement:** generative AI, financial wellness, caregiving, family forming support, enhanced mental health, enhanced leave policies, hybrid/remote work



Shift in employee expectations



Total rewards landscape

Compensation

Inflation and pay transparency are creating **bolder employees** who are not afraid to ask for raises

Nearly one-third of workers say they will look for a new job if they don't get a raise¹

Salaries expected to increase in 2024 but will be **more measured** than last few volatile years¹

Flexibility in compensation structure is critical:

- Define mix of pay (base versus bonus)
- Salary structures by job family
- Increasing midpoints to the **60th percentile**

Executive compensation continues to be scrutinized

Incentives will reach further down into the organization

Total rewards

Flexible work still matters as 62% of workers will stay in a flexible job rather than accept a higher paying position with rigid in-office requirements

Especially true for GenZ (74%) and working parents (68%)¹

Career development is a critical component of employee experience & total rewards package

Career management and internal mobility will be in HR's top 5 priorities for 2024²

As labor force participation rate declines, **retaining talent** will be even more important than attracting talent in 2024

Lockton's total rewards practice has surveyed over 50,000 employees since 2021. The **top 5 most important rewards** are base pay, paid time off, retirement benefits, company paid holidays, and sick leave. Career development is closely behind at #6.



Elephant in the Room....Healthcare Costs



Headwinds

High claims

Over the past four years, million-dollar claims increased 45%. Cancer accounted for top two (solid organ, blood), while number of cancer claimants grew by 39% from 2018-2021¹.

MARKET RESPONSE:

- Care management
- Centers of Excellence
- Second Opinion
- Prevention/wellness

Pharmacy trends

Lockton Rx trend 10.5% due to specialty Rx, brand Rx, gene/cell therapies, cancer & GLP-1s.

MARKET RESPONSE

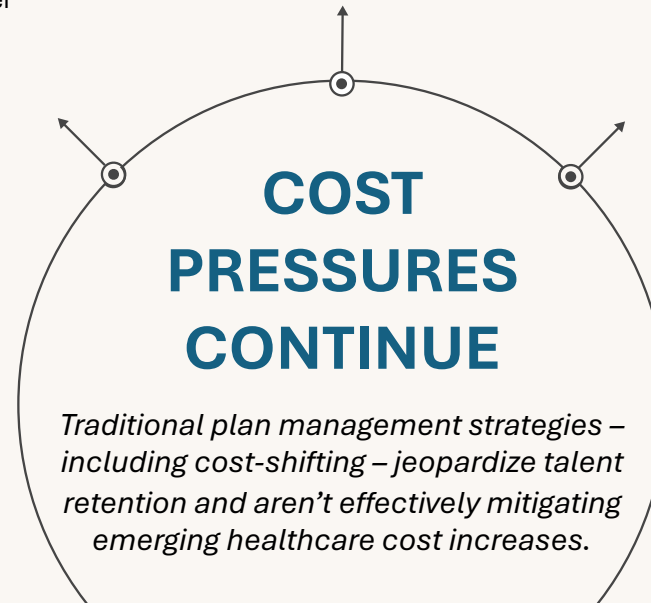
- Clinical management/drug appropriateness
 - Site of care
- Elimination of waste/optimizing therapy
 - Leveraging pharma-funding
 - Pharmacogenomics
- Transparency legislation & new pricing models

Care access

Ongoing supply chain shortages and delays are impacting costs, along with the unavailability of skilled, less-skilled workers. Plus, consumers feel the system is difficult to navigate.

MARKET RESPONSE:

- Navigation
- Drugstore Disruptors
- Digital Resources
- Point Solutions
- Generative AI



High claims = Stop loss market trends

Cost drivers

High-cost claims

6% of a population drives 35. % of plan spend

Healthcare inflation is driven by price increases, not utilization (think new medical and Rx technologies)

High-cost claimants are made up of cancers, kidney failure, sepsis, complex newborns and hemophilia with the cost of cancer being nearly 4x higher than the next costliest category

Delayed/missed screenings are causing more late-stage cancers

Million-dollar claims

In the past 4 years, million-dollar claims have increased 45%, increasing 15% last year

The most common conditions were cancer, congenital anomalies (conditions present at birth) and sepsis

2/3 of claimants were age 40 or older

Specialty drugs/ gene therapy

Specialty medicines, especially injectables, are the fastest growing driver of high-cost claimants

The top three high-cost injectable drugs, making up 22% of the total injectable drug spend, were all related to cancer treatment

Lockton Infolock® reporting shows a 131% increase on average PMPM for gene therapy drugs between 2019 and 2021

Gene therapies are being developed to treat a growing number of conditions with some treatments exceeding \$2M

Carrier / vendor landscape

Carrier markets harden

Carriers prepare for an increase in overall claims due to the rising cost and exposure

Carriers continue to remain selective with the risk in which they are willing to provide proposal responses

Federal COBRA and delayed special enrollment extensions may cause carriers to exclude/laser termed members and be more selective in issuing and rating proposals due to unknown risk



Pharmacy – The New Frontier

GOVERNMENT

Legislation on rebates, cost, reimbursement and transparency

Supreme Court ruling in favor of Arkansas has led to additional state laws

State laws attempting to remove ERISA preemption

10th circuit has ruled Oklahoma law has ERISA preemption. Expect more lawsuits

SPECIALTY

2% of members drive over 50% of cost

Gene therapy products cost in the millions per patient

Rare disease drugs >\$100K per year

Pharma coupon funding

More specialty generics and biosimilars

Contracting strategies may not provide the right management

MARKET DYNAMICS

Big 3” have 75% of market

Group purchasing organizations (GPO) arrangements

PBM/carrier selected impact options

Specialty carve out becoming more prevalent

Pharma consolidation and impact to pipeline

Drug Trends to Watch

DIABETES

- New therapies replacing older, cheaper drugs
- New clinical guidelines increasing brand utilization
- GLP also used for weight loss; 25% of utilization does not correspond with diabetes diagnosis

OBESITY

- GLP drugs are being rebranded for weight loss
- Cost run approximately \$1,200 a month
- Over 40% of plans cover medication for weight loss, but those not covering it may have utilization under diabetes

MIGRAINE

- New therapies replacing older, cheaper drugs
- Chronic use

INFLAMMATORY

- Increased utilization and inflation
- Highest DTC advertising spend category
- Multiple biosimilars for Humira

HEMOPHILIA

- Two new gene therapies, \$3M-\$4M
- Ultra low member use: 30,000 in U.S.



Gene therapy - what it means to employers

Gene therapy encompasses altering a person's genetic code, aiming to address genetic defects. Initial hopes of a single treatment yielding a cure have not materialized consistently in real-world scenarios. While some gene therapies offer improved treatment options, they often come at exorbitant costs, despite uncertainties regarding their long-term effectiveness. Certain therapies necessitate continuous usage. Cellular and gene therapies involve modifying patient cells to target diseases, with cellular therapies showing more promising durability. Presently, there are over twenty FDA-approved gene and cell therapies available, each reflecting significant price points.

Drug/Disease	Incidence	Drug cost (AWP)
Luxturna: Biallelic RPE65 mutation- associated retinal dystrophy	1,000-2,000 patients in U.S.	\$425,000 per eye
Zolgensma: Type 1 spinal muscular atrophy (SMA)	1 out of every 10,000 births each year	\$2.1 million
Zynteglo: Beta thalassemia	1,500 prospective patients in the US	\$2.8 million
Skysona: Early, active cerebral adrenoleukodystrophy (CALD)	40 cases per year in the US	\$3 million
Hemgenix: Hemophilia B (Factor IX deficiency)	1 in 25,000 male births	\$4.2 million
Elevidys (Duchenne muscular dystrophy)	6 out of 100,000	\$3.2 million
Roctavian (Hemophilia A)	12 per 100,000 males	\$2.9 million
Vyjuvek (Dystrophic Epidermolysis Bullosa)	3.3 per 1,000,000 in U.S.	\$300,000-\$900,000 per year
Casgevy (Sickle Cell)	100k in U.S.	\$2.2 million
Lyfgenia (Sickle Cell)	100k in U.S.	\$3.1 million



Gene therapy- what it means to employers

Cellular (Care T-cell) Therapy	Incidence	Drug cost (AWP)
Kymriah: ALL and non-Hodgkin lymphoma, refractory B-cell lymphoma	Rare	\$447K-\$570K
Yescarta: Large B-cell non-Hodgkin lymphoma, follicular lymphoma	Rare	\$478K
Tecartus: Relapsed mantle cell lymphoma, ALL	Ultra-rare	\$478K
Breyanzi: Non-Hodgkin lymphoma	Rare	\$492K
Abecma: Multiple myeloma	Rare	\$503K
Carvykti: Multiple myeloma	Rare	\$500K
Adstiladrin: High-grade BCG-unresponsive non-muscle invasive bladder cancer	Rare	\$290K
Imlygic: Melanoma	Rare	\$65K
Lantidra: Treatment refractory type 1 diabetes	Rare	\$300K
Provenge: Advanced prostate cancer	Ultra-rare	\$65K
Rethymic: Congenital athymia	Ultra-rare	\$2.7M








C-Suite - what role do you play?



Total rewards strategy- stakeholder alignment



Multi-year strategic roadmap

BENEFITS	2023/24	YEAR 1 (2024/25)	YEAR 2 (2025/26)	YEAR 3 (2026/27)
Medical 	<ul style="list-style-type: none"> Self-funded HDHP, EPO and PPO with Carrier A 	<ul style="list-style-type: none"> Explore navigation vendors Market medical ASO contract to TPAs to partner with navigation 	<ul style="list-style-type: none"> Consider narrow networks and/or high-performance networks Consider value-based plan design 	<ul style="list-style-type: none"> Monitor performance and utilization Evaluate care management Explore variable copay plans (Surest, Simple Pay) and virtual first health plans
Pharmacy 	<ul style="list-style-type: none"> Rx Benefits 	<ul style="list-style-type: none"> Review current contract, plan performance and utilization Market to Omnia and other recommended Rx coalitions 	<ul style="list-style-type: none"> Evaluate clinical programs to help manage Rx spend Evaluate specialty copay coupon optimization program 	<ul style="list-style-type: none"> Monitor performance and utilization Continue to evaluate clinical programs
Ancillary 	<ul style="list-style-type: none"> Carrier A dental PPO Carrier A vision PPO Carrier B life/AD&D (basic & voluntary) Carrier B STD and LTD Carrier B Whole Life 	<ul style="list-style-type: none"> Market stop loss Enhance vision plan Review current contracts, plan performance and utilization Evaluate effectiveness of programs to increase engagement 	<ul style="list-style-type: none"> Market stop loss Market all necessary ancillary plans to ensure best possible network, terms and rates/fees Consolidate and optimize where possible 	<ul style="list-style-type: none"> Market stop loss Evaluate {CLIENT} absence management programs Monitor performance and utilization Optimize where possible
Population health 	<ul style="list-style-type: none"> Review Carrier A embedded wellbeing and condition management program options Evaluate current program engagement against targeted goals 	<ul style="list-style-type: none"> Discovery meeting to understand population health and wellbeing priorities Develop comprehensive population health and wellbeing strategy 	<ul style="list-style-type: none"> InfoLock deep dive Evaluate need for any additional specialty point solutions to address cost drivers Evaluate enhanced behavioral health programs 	<ul style="list-style-type: none"> Review clinical and utilization data from Infoclock Clinical audit of chronic condition programs
Employee experience 	<ul style="list-style-type: none"> Benefit Guides Ben. Admin portal Open Enrollment mtgs Financial wellbeing EAP 	<ul style="list-style-type: none"> Develop communication strategy Dedicated benefits website Total rewards statements Lifestyle accounts Evaluate EAP 	<ul style="list-style-type: none"> EE engagement survey Refine communication strategy 	<ul style="list-style-type: none"> Refine communication strategy Year-round communication



Final thoughts and takeaways:

What should the CEO/Board Chair know/do when it comes to their total rewards programs:

1. Know the landscape and how it relates to your business objectives.
2. Align strategic business objectives and total rewards philosophy – stakeholder alignment.
3. Stay informed about competitive compensation and benefits trends and benchmarks.
4. Champion transparency and effective communication regarding total rewards programs to employees.
5. Annual review and evaluation of total rewards programs for effectiveness and relevance to your business objectives.



Questions?

