Medical Cost Trend:
Behind the Numbers 2016

PwC Health Research Institute
Although the health spending growth rate is slowing, it still continues to be a disproportionately large part of the US economy.

Year-over-year growth in national health expenditures adjusted for inflation and % of total GDP.

As cost-sharing increases, consumers forego care

Average employer insurance deductible vs. percentage of consumers foregoing care

Source: PwC 2015 Health and Well-being Touchstone survey, Gallup Poll, and PwC HRI consumer surveys

PwC Health Research Institute
**Inpatient care volume on a rapid decline**

Changes in hospital inpatient and outpatient utilization

Source: American Hospital Association 2013 data and HRI analysis

PwC Health Research Institute
Most employers indicate ACA is not a major cost driver

Percentage of US employers that responded that the following ACA components have had a significant financial effect on their business

- **36%** Reporting and compliance requirements
- **31%** Excise tax on high-cost plans (Cadillac Tax)
- **25%** Additional fees and taxes (PCORI and reinsurance)
- **24%** Large employer reporting for employer shared responsibility
- **16%** Reporting of minimum essential coverage
- **4%** Free rider $2,000 penalty per FTE

Source: PwC 2015 Health and Well-being Touchstone survey
**Healthcare spending growth rate for 2016 is 6.5%**

HRI’s projected medical cost trend over the years

**Employers offering only high-deductible plans**

Percentage of US employers that have already implemented high-deductible plans as the only option offered to their members

The percentage of employers offering only high-deductible plans for employees has nearly doubled since 2012.

Source: PwC 2015 Health and Well-being Touchstone survey
Cost-shifting pushes consumers to become more conscientious about their healthcare choices

Percentage of consumers with employer-based insurance who took the following actions in the last 12 months due to cost of care

- **28%** Skipped seeing a doctor
- **28%** Asked for a generic prescription instead of a brand prescription
- **24%** Skipped prescription medicine or took less medication than prescribed
- **20%** Skipped seeing a specialist (such as an OB/GYN, dermatologist, orthopedic surgeon)
- **18%** Skipped follow-up care (such as going to physical therapy sessions recommended by a doctor)
- **16%** Delayed or skipped a procedure or treatment

Source: PwC Health Research Institute 2015 consumer survey
Consumers with employer-based insurance are seeking more affordable options

- Asked about an alternative treatment because of costs: 38%
- None: 62%
**Diabetes management shows greater savings with the use of virtual care**

Illustrative comparison of annual diabetes costs for in-person treatment vs. virtual care in US

<table>
<thead>
<tr>
<th></th>
<th>Base Case (No Virtual)</th>
<th>Virtual Care</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Utilization per 100,000 individuals</td>
<td>Costs per 100,000 individuals ($ Millions)</td>
<td>Utilization per 100,000 individuals</td>
</tr>
<tr>
<td>Hospital inpatient days</td>
<td>193,011</td>
<td>$622 M</td>
<td>173,710</td>
</tr>
<tr>
<td>Physician office visits</td>
<td>792,697</td>
<td>$158 M</td>
<td>673,792</td>
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<tr>
<td>Virtual visits</td>
<td>–</td>
<td>–</td>
<td>294,035</td>
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<tr>
<td>ER visits</td>
<td>69,256</td>
<td>$71 M</td>
<td>62,330</td>
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<tr>
<td>Hospital outpatient visits</td>
<td>79,160</td>
<td>$57 M</td>
<td>75,584</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>19,178</strong></td>
<td><strong>$908 M</strong></td>
<td><strong>16,241</strong></td>
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</tbody>
</table>

Source: PwC Health Research Institute analysis
New health advisers are guiding consumers to affordable care

Spendwell Health, Inc.
SpendWell e-commerce site:
• **What is it?** An online marketplace that allows consumers to purchase routine care at known prices by creating bundled health treatments and services that are easily priced by providers and consumed by shoppers
• **How does it work?** Providers select their services and prices and are no longer required to verify eligibility, benefits, or reconcile claims and remittances, and are paid in real-time, making the process a true e-commerce transaction
• **Results**–The marketplace simplifies health care purchasing which results in savings of 9-20% below health insurance negotiated fees

Comcast Corporation
Accolade:
• **What is it?** A high-touch concierge service that provides consultative support to 95% of employees who have claims
• **How does it work?** Very popular and highly utilized service that helps employees find the most cost-effective providers through the use of various tools (such as Castlight and second-opinion tools) and partnerships (such as MD Anderson)
• **Results**–In the past 5 years, utilization and readmissions have steadily decreased

Fallon Health
Fallon SmartShopper tool:
• **What is it?** A tool that ranks providers based on procedure codes and geography, and lists increasing financial incentives (for example, $90, $100, $125) for employees
• **How does it work?** Employees receive financial incentives towards a treatment if they choose a preferred facility
• **Results**–Increased savings overall and high satisfaction rates among employees who have used the service

Commonwealth of Kentucky, Kentucky Employee’s Health Plan
Vitals SmartShopper:
• **What is it?** Vitals SmartShopper team conducts specific outreach to members slated for certain procedures (such as MRIs, colonoscopies, ultrasounds) and offers alternative facilities
• **How does it work?** Both consumers and employers are offered savings for using alternative locations
• **Results**–Radiology outreach program had 85% success rate in ensuring employee chose preferred facility when outreach was conducted and they were offered alternative locations to conduct MRI

Honeywell International, Inc.
Surgery Decision Support:
• **What is it?** A tool that provides employees resources for weighing options when surgery is needed for knee, hip, back, or hysterectomy; bariatric surgery will also be added in 2015
• **How does it work?** $1000 penalty implemented for those who pursue surgery but do not go through the program
• **Results**–In 2013, employee participation jumped to 92% from an extremely low number the previous year

Source: PwC Health Research Institute research
Specialty drug approvals continue to race ahead

Specialty drug approvals have surpassed traditional drugs in the past five years, and based on the FDA pipeline this trend will continue.

### 2016 Estimated sales for top 7 of 700 specialty drugs are $9 Billion

- **Viekira Pak** (Hepatitis C) $3B
- **lumacaftor plus ivacaftor** (Cystic fibrosis) $2B
- **Opdivo** (Melanoma) $1.8B
- **Praluent** (Hypercholesterolemia) $1.3B
- **Ibrance** (Breast cancer) $0.8B
- **Evolocumab** (Hypercholesterolemia /Hyperlipidemia) $0.3B
- **Cosentyx** (Psoriasis and psoriatic arthritis) $0.2B

Source: PwC Health Research Institute research based on data from the FDA, Express Scripts, Catamaran, and Thomson Reuters
Health organizations are concerned about data breaches

What is the number of security incidents detected in the past 12 months?
- 0 or none: 15.00%
- 1-9: 43.75%
- 10-49: 12.50%
- 50 or more: 28.75%

What is your organization’s total information security budget for 2014?
- $49,999 or less: 3.61%
- $50,000 - $99,999: 4.82%
- $100,000 - $999,999: 28.91%
- $1 million - $9.9 million: 28.92%
- $1 million or more: 33.73%

When compared with last year, security spending over the next 12 months will?
- Increase: 62.19%
- Stay the same: 25.61%
- Decrease: 12.20%
- 0 or none: 15.00%
- 1-9: 43.75%
- 10-49: 12.50%
- 50 or more: 28.75%

Source: PwC Global State of Information Security Survey 2015
Providers have strong incentives to spend now on cyber security to avoid high costs of future breaches

Estimated costs of major breach

$200 per patient record

Preventive costs:
$8 per patient record

Prevention
- Risk assessment and management
- Security controls
- Monitoring and detection
- Forensics and insurance

Post-breach
- HIPAA fines
- Legal fees
- Lost business due to reputational damage
- Customer restitutions and credit monitoring services

Source: PwC Health Research Institute analysis