QBE

Taming Healthcare Spending

Can we fix the fundamentally broken U.S. healthcare system?

Featuring Tara Krauss
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Healthcare spending in the United States is one of the largest burdens on employers and employees alike. In fact, spending on healthcare coverage is the biggest employee-related expense for U.S. employers, the Society for Human Resource Management has found.

The United States spends the most on healthcare out of all countries in the Organization for Economic Cooperation and Development, an average of $12,555 per capita in 2022, according to an OECD study. That is more than one and a half times as much as the next-highest nation, Switzerland, at $8,049 per capita. More than 41% of adults in the United States have some form of medical debt in 2024, according to the Kaiser Family Foundation.

Two main factors generally contribute to healthcare spending levels: cost and utilization. The OECD study reveals that, despite spending almost twice the OECD average of $6,414 per capita on healthcare, U.S. utilization rates tend to be slightly lower than those of the other countries in the organization, which suggests the primary driver for the United States' sky-high healthcare spending is the cost of services.

A number of other variables are impacting U.S. healthcare costs, including the COVID-19 pandemic, says Tara Krauss, QBE North America's head of accident and health. "As it relates to the healthcare system, we had a mass exodus of nurses and staff who decided to either retire early or change fields due to the stress factors that were involved in managing the pandemic. Hospitals and provider systems ultimately had to — and continue to — pay more for nurses and other staff."

Krauss also thinks staffing issues are interacting with another phenomenon: direct-to-consumer pharmaceutical advertising (DTCPA). "We're one of only two countries that allow DTCPA," Krauss says—the other country being New Zealand. "And that's grown every year for the past 15 years." Indeed, according to a report from the Food and Drug Administration, spending on DTCPA rose from $2.87 billion in 2007 to $4.58 billion in 2022.

Added to the staffing shortage and advertising trends is the primary care crisis in the United States, further inflating drug costs, Krauss believes. The American Association of Medical Colleges predicts a national shortfall of primary care physicians of 37,000 to over 100,000 in the next decade.

"A multitude of patients have very little time to meet with their primary care physician," Krauss says. "And people are sitting down at night to watch their favorite sitcom. They're getting a myriad of advertisements for all these drugs that will help make their lives better—so they come in with what they think they want. That is driving expenses up, because doctors are limited with the time they're allocated to spend with patients and are thus more likely to just write the prescription rather than talk about more cost-effective alternative options."

Pharmaceuticals themselves are also getting more expensive to manufacture. "The cost to produce rare drugs, like orphan drugs or gene therapy, has obviously increased at the manufacturer level," Krauss says. "Given these are rare conditions, in order to make a profit once they've come up with an effective treatment or cure, the cost can be astronomical."

Internal QBE research also shows a consistent uptick in medical claims since the pandemic. "Cancer claims are increasing at an alarming rate," Krauss says, citing QBE data showing an increase from 15 cancer claims per 10,000 employees in 2020 to 25 per 10,000 in 2022. "Obviously, a lot of the specialty drugs that drive pharmaceutical spend are tied to cancer. There are comorbidity diseases: metabolic, obesity, diabetes, heart disease, cardiac disease. We saw an increase in all of this post pandemic, but it hasn't really slowed."

For Krauss, all of this highlights that the healthcare system is fundamentally broken. "We are a nation that is one of the sickest out of all industrialized nations, which is incongruent with the advanced healthcare system that we have. It's built today as more of a 'sick system' than a 'well system.' Everyone from the top of the food chain down, except for the patients and employers burdened by the costs, are incented based on sickness. We need a paradigm shift in this country to fix the problem."

PBM TRANSPARENCY

Krauss believes the government has a responsibility to rein in costs. Besides restricting DTCPA, one unusually bipartisan legislative effort of which Krauss is "100% supportive" is pharmacy benefit manager transparency. PBMs are administrative intermediaries between insurance providers and pharmaceutical manufacturers that determine the list of drugs a patient (served by that insurance provider) can access (via the formulary), and they negotiate discounts paid to the PBM by the manufacturer in exchange for placement on that formulary (rebates). They also process claims and perform drug utilization reviews.

"There are three players that dominate [the PBM] market, and they control nearly 80% of it," Krauss states, referring to Caremark, Express Scripts, and Optum Rx. "They naturally are going to favor more expensive drugs that yield higher rebates than low-cost drugs. But the problem with those rebates—and that's what a lot of these bills are trying to get at—is the rebates don't go to who they should go to. They're not going to the independent pharmacy, they're not going to the employer group, and they're certainly not going to the employees."

The PBM Transparency Act of 2023, introduced in the Senate in January 2023 and reported out of committee in December of that year, is particularly promising, according to Krauss. The bill would ban spread pricing, the PBM practice of charging health insurance providers more than what the PBM paid a pharmacy for a particular drug and then pocketing the difference. It would also

prohibit "PBMs from arbitrarily, unfairly, or deceptively (1) clawing back reimbursement payments or (2) increasing fees or lowering reimbursements to pharmacies to offset changes to federally funded health plans."

The House passed a bill with similar restrictions on PBMs in December 2023, the Lower Costs, More Transparency Act. However, it remains unclear if the Senate and House will come together in 2024 to finalize some form of PBM regulation, especially given the upcoming election.

WHAT CAN EMPLOYERS DO?

Employers also can take steps to reduce costs. "My first suggestion: consider a self-funded plan," Krauss says. "They will have more ability to choose point solutions wisely and reduce expenses than in a traditional, fully insured plan."

Along those lines, for Krauss, a crucial advantage of the self-funded plan is employer access to the PBM. "Many of the big medical carriers out there also own the PBM," Krauss explains—Caremark, Express Scripts, and Optum Rx are all owned by health insurers (CVS Health, Cigna, and UnitedHealth, respectively). "So when an employer group goes to one of those carriers, it's all bundled up, and they're unable to really see what's driving their costs. It's an all-inclusive, one-stop shop. To a lot of employers, that might be the easy button, but it shouldn't be assumed it will be the most cost-effective option for them." In a self-funded plan, Krauss says, employers have more transparency into their costs, since they have more flexibility in choosing transparent point solutions, including the PBM, thus enabling more cost-effective decision-making.

Employers can also get more customized direction from their brokers with a self-funded, unbundled plan, Krauss says. "In a bundled arrangement or fully insured arrangement, employers don't often get access to their claims data. It's really hard for a broker to advise a group on where they can save money if they have limited transparency on their medical reporting. In a self-funded environment, it's easier to drill into what's driving those costs and ultimately how they can transform or make change."

Besides deploying a self-funded insurance plan, Krauss also puts forward some simpler solutions employers can implement. "The other thing I would tell an employer to focus on is work to address the root cause of wellness," she says. "With approximately 75% of healthcare expenses now driven by preventable disease, employers really need to help support their employees in their journey to wellness. The employer can offer free meditation classes, stress management, or

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create an environment where you are encouraged to step away and go for a lunch walk or take a meeting with a colleague while out for a walk together. When you have an event internally, what are you providing for snacks? Is it soda, candy bars, cookies, and pastries? Or are you putting out protein bars and smoothies?

"If you can build a health-conscious environment into the workplace culture, that's going to support the overall approach that the employees take to their health. We spend more time with our employers than we do with our own families, and you're influenced by the people that you spend time with," explains Krauss.

A COUNTRY OF CONVENIENCE

In many ways, these problems with healthcare costs all trace back to the United States having more of a "sick system," Krauss says, deprioritizing holistic preventive healthcare in favor of treating sickness. That system is exacerbated by many peoples' lifestyle, she adds. "The United States leads in television watching. On average, we watch four and a half hours of TV a day. It's a very sedentary lifestyle, and that is driving disease. We are a country of convenience."

Countries like Costa Rica, Denmark, and Italy (which spends about a third of what the United States does on healthcare at $4,291 per capita) are all examples of countries with lifestyles Krauss believes the United States should emulate. As an example, she describes how the elderly in those countries can walk or even bike to local markets to buy organic food. On top of that, citizens in the other OECD countries work less. "We as U.S. citizens work round the clock," Krauss says. "That's driving stress—and stress is a huge contributor to our health."

Krauss isn't saying we can get to where these other countries are overnight. But the U.S. government and employers have opportunities to start pushing the country in that direction, like government education and the employer culture-change toward wellness, she says. A paradigm shift always starts with a single step.

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