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Witness: Kara A. O'Connor
Request from: Office of Consumer Counsel

Question:

(MEDICAL INSURANCE COSTS) Please refer to Exhibit CLP-EMPLOYEE-1, Table 13. Has the Company identified a cause for the general downward trend in medical insurance costs from 2017 through 2023 and the significantly upward trend from 2023 through 2026? If yes, please explain.

Response:

There are several factors that contributed to the general downward trend in medical insurance costs from 2017 through 2023, as well as the subsequent upward trend from 2023 through 2026.

The reduction in medical insurance costs observed from 2017 through 2023 resulted from a combination of Eversource-sponsored cost management initiatives and favorable market conditions. Key factors included:

- **Medical carrier change implemented in 2019.** Eversource transitioned to a new medical carrier (BCBSMA) in 2019, which provided access to more competitive provider discounts, enhanced care management programs, and improved network economics. These changes contributed to lower overall claim costs relative to prior years.

- **Migration toward Eversource's high-deductible health plan (Saver Plan).** Over time, due in large part to robust communication efforts from Eversource, employees increasingly elected Eversource's **high-deductible health plan (Saver Plan)** option. This gradual migration reduced plan costs through lower claims cost and increased member engagement in healthcare purchasing decisions.

- **Lower healthcare utilization during the COVID-19 pandemic.** Beginning in 2020, many elective procedures, preventive services, and non-urgent healthcare visits were postponed or canceled. This temporary reduction in utilization contributed to lower healthcare expenditures during portions of the 2020-2022 period.

- **Favorable claims experience.** Like all self-funded employers, annual costs are influenced by fluctuations in high-cost claimant activity, specialty drug utilization, and overall healthcare demand. Certain years within this period experienced relatively favorable claims results, contributing to lower aggregate costs.

The increase in medical insurance costs from 2023 through 2026 is attributable primarily to broader healthcare inflationary pressures and post-pandemic changes in healthcare utilization patterns affecting employers nationwide. Key factors include:

- **Rebound and normalization of healthcare utilization following the pandemic.** Healthcare services deferred during the pandemic increasingly returned to pre-pandemic levels, resulting in higher utilization across inpatient, outpatient, and physician services including behavioral health services.

- **General medical cost inflation.** Healthcare providers have experienced increasing labor, supply, and operating costs, which have translated into higher prices for medical services and corresponding increases in employer healthcare costs.

- **Growth in pharmacy spending.** Specialty medications, prescription drugs used to treat cancer, complex, chronic and rare conditions that require special handling, continue to represent a significant share of healthcare expenditures. Increased utilization and higher costs associated with specialty therapies have materially contributed to cost growth. Also, non-specialty prescription drugs saw growth in costly therapies, such as GLP-1 medications used to treat diabetes and obesity have increased significantly in recent years. These medications have substantially affected pharmacy and total healthcare spend.

- **Increased prevalence and intensity of high-cost claims.** The healthcare market has experienced growth in the frequency and severity of catastrophic claims, including complex cancer treatments, gene and cell therapies, neonatal care, and other advanced medical interventions.

In summary, the declining costs through 2023 were primarily driven by a combination of carrier and plan management initiatives, migration toward lower-cost plan options, and temporary pandemic-related utilization reductions. The upward trend beginning in 2023 is largely attributable to healthcare inflation, increased utilization, pharmacy cost growth, and other market-wide factors that have affected employer-sponsored healthcare plans broadly.