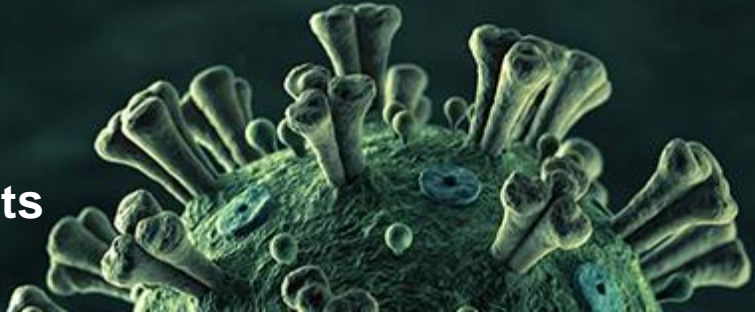




COVID-19 Latest Insights



The Cost Impact of COVID-19 for Employers – Part I Medical and Prescription Drug Plan Considerations

March 27, 2020

During these unprecedented times, the demand for information and insight is high. NFP's Actuarial Services team is receiving numerous questions about the impact of COVID-19 on medical and prescription drug plan costs for both self-funded and fully insured clients.

Any models that proclaim to produce the expected cost impact of COVID-19 are premature at this moment. The Society of Actuaries brief, issued on March 16, stated: "Data on the cost and utilization of treatment for individuals who are diagnosed with COVID-19 still appears to be emerging" (Hall, 2020, p. 7). Any models that generate expected costs will be based on numerous assumptions, including: cost of testing, cost of treatments, infection rate, comorbidity rates of those infected, and cure/vaccine development. In general, actuarial costs are the product of incidence rates and average size, and data is not sufficient at this time to develop appropriate assumptions for either of those items.

COVID-19 will certainly impact medical and prescription drug costs for years to come. For the remainder of 2020, clients are advised to use implicit conservatism when performing any projection calculations. NFP Actuarial Services will continue to monitor all developments and refine this guidance as appropriate.

Although the actual cost impact is unknown, and will not be known with any certainty for many months, clients and consultants should be aware of these considerations:

Cost of Testing

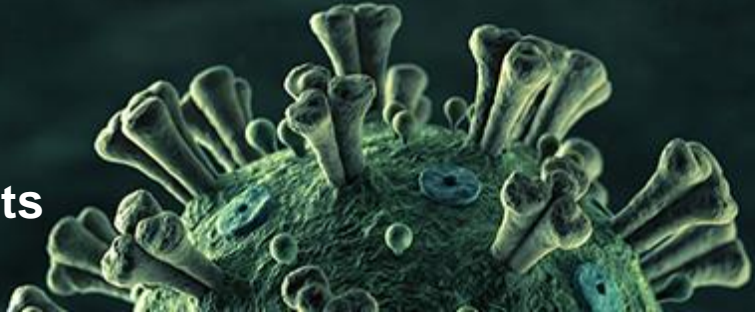
The Federal Government has stated that the costs of testing for COVID-19 will be covered by health plans (self-funded and fully insured). Although the cost of the test itself is relatively small, there will be an increase in frequency as more tests become available. Additionally, the costs will vary depending on where members receive testing – drive through testing centers and PCPs on the low end and going to the emergency room on the high end. Overall, the impact of the cost of testing will likely be minimal to the plan.

Cost of Treatment

Data on the cost of treatment for COVID-19 is still emerging and since there is no cure for the virus, treatment costs are related to the symptoms. Ultimate treatment costs will vary and be highly dependent on comorbidity factors. Additionally, the vast majority of cases will be treated with very little plan impact outside of minor prescriptions and office visit related costs. However, for those patients that are hospitalized, historical costs of pneumonia treatments have been used as a proxy for the cost of COVID-19 treatment. In 2018, the average cost of a hospitalized patient with pneumonia and major complications or comorbidities was \$20,292, whereas a patient with no complications or



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comorbidities had an average cost of \$9,763 (Rae, et al., 2020). Since the costs of hospitalizations can be \$5,000-\$15,000 per day, the ultimate impact on plans can be more expensive than historical pneumonia cases. In the meantime, plans can evaluate their current demographics and evaluate the prevalence of comorbidity factors such as: cardiovascular disease, liver disease, kidney disease, malignant tumors, asthma or those with compromised immunities. Plans with above average prevalence of these conditions will be at greater risk and should prepare for a more significant cost impact.

Delay of Other Procedures

On March 19, the CDC recommended that all non-essential, non-life saving procedures be postponed until further notice. The delay of procedures has two impacts: 1) a decrease in immediate plan costs (although this will be offset by the increase in COVID-19 treatments), 2) an increase in plan costs in future months. To the extent that plans experience a decrease in expenses in the immediate months due to the delay of procedures, it would be prudent to set aside a reserve for the future increase in costs as those delayed procedures are performed. It is important to note that some conditions may resolve themselves as patients discover alternative treatment options in the interim, but the economic impact of COVID-19 may limit patients' ability to pay for the procedures they had scheduled previously. Once the impact of COVID-19 settles and the medical system is able to resume normal operations, the pent up demand may still exceed the system's ability to meet that demand. This will result in a prolonged delay of procedures throughout the rest of 2020 and likely into 2021. Ultimately, conservatism should be used in any future projections as the impact is unknown. Although the focus of this paper is on medical and prescription drug plans, it is important to note that the CDC recommendation to delay all non-essential procedures also extends to dental plans, which could ultimately impact medical and prescription drug plans depending on the length of the delay.

Impact on Stop Loss Premiums

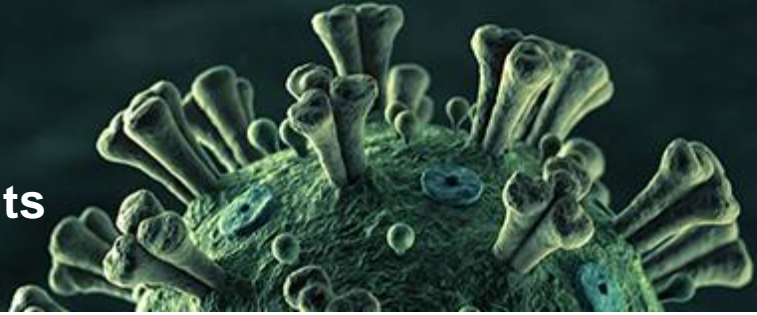
COVID-19 cases are not likely to be associated with claims with dollar amounts in the hundreds of thousands. However, there will certainly be COVID-19 claims greater than specific deductibles that are lower than \$100,000. This will impact stop loss premiums for everyone, as carriers will set renewal premiums to maintain profit expectations of their respective companies. Aggregate stop loss could potentially be impacted depending on the severity of the increase in plan costs due to COVID-19. However, with the offset of the delay of non-essential procedures, aggregate stop loss claims may not occur in 2020. It is possible that there may not be enough information readily available for aggregate stop loss carriers to set expected premiums appropriately for 2021, resulting in potential aggregate stop loss claims and resulting premium increases in 2022.

Other Considerations

Employers can expect an increase in workers' compensation claims and disability claims, as they would in any other economic downturn, in addition to virus-related claims. For those that are self-funding their disability coverage, this will certainly impact the plan costs. For those employers offering a high deductible health plan (HDHP), it is



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important to note that the IRS published a notice clarifying that testing and treatment of COVID-19 without a deductible, or with a deductible below the minimum deductible for an HDHP does not jeopardize the status of the favorable tax treatment of individuals covered under the HDHP (IRS Notice 2020-15). Finally, mental health utilization is likely to increase through the remainder of 2020.

For additional information, the Society of Actuaries and American Academy of Actuaries have published their own web pages on the impact of COVID-19 with dedicated information for actuaries:

<https://www.soa.org/resources/research-reports/2020/impact-coronavirus/>

<https://www.actuary.org/coronavirus>

If you have additional questions, please contact your NFP advisor.

For more information on how NFP is helping to prepare employers during COVID-19, [visit our Latest Insights page](#).

References

Hall, D. (2020, March 16). Society of Actuaries Research Brief: Impact of COVID-19. Retrieved March 18, 2020, from <https://www.soa.org/globalassets/assets/files/resources/research-report/2020/2020-covid-19-research-brief-03-16.pdf>

IRS. (n.d.). High deductible health plans and expenses related to COVID-19. Retrieved March 20, 2020, from <https://www.irs.gov/pub/irs-drop/n-20-15.pdf>

Rae, M., Claxton, G., Kurani, N., McDermott, D., & Cox, C. (2020, March 13). Potential costs of coronavirus treatment for people with employer coverage. Retrieved March 23, 2020, from <https://www.healthsystemtracker.org/brief/potential-costs-of-coronavirus-treatment-for-people-with-employer-coverage/>

This information has been provided as an informational resource for NFP clients and business partners. It is intended to provide general guidance, and is not intended to address specific risk scenarios. Regarding insurance coverage questions, each specific policy must be reviewed in its entirety to determine the extent, if any, of coverage available for the impact of the Coronavirus. If you have questions, please reach out to your NFP contact.