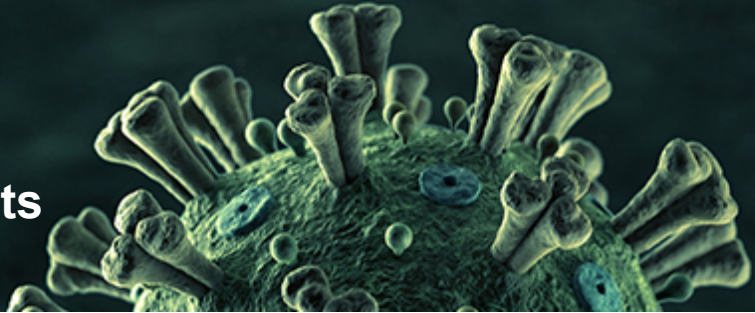




COVID-19 Latest Insights



COVID-19 Cost Impact Analysis from NFP's Actuarial Team – Part II

April 9, 2020

Employers across the country are adjusting to the “new normal” and making difficult decisions regarding furloughs, terminations and business continuation plans. Employer health plans, particularly self-funded medical and prescription drug plans, are impacting these decisions. Cost impact models and COVID-19 data are continuously being updated, but there are still many unknowns and any models available will be based on a variety of assumptions, producing a range of results.

As data continues to emerge, COVID-19 will impact each of the following calculations in different ways, particularly based on the timing of the reports. NFP Actuarial Services continues to monitor all developments and will refine this guidance as appropriate.

Covering Member Out-of-Pocket Costs Related to COVID-19

Many employers are considering the option to cover employee out-of-pocket expenses related to the testing and treatment of COVID-19. Currently, the financial impact of the decision is largely unknown, as cost and utilization data is still emerging (Hall, et al, 2020, p. 14).

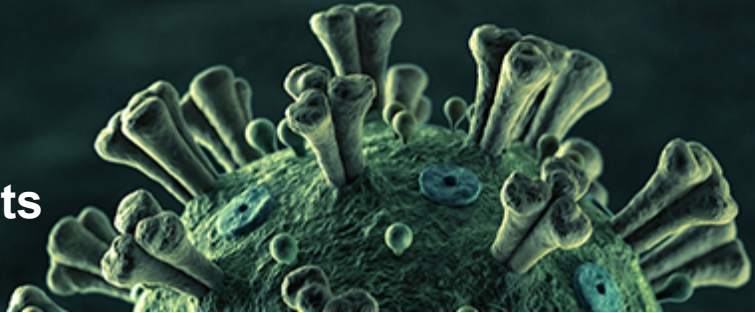
However, some carriers are beginning to release estimates so that employers can make informed decisions. BCBS of Minnesota released an FAQ on April 6 estimating the impact as 0.5% of the total plan cost (BCBS of MN FAQ). To help with claims processing, specific ICD codes have been established for COVID-19 related treatments, alleviating some concerns over non-COVID-19 related costs being lumped in with COVID-19 related costs (<https://www.who.int/classifications/icd/covid19/en/>). The risk of other services being included with COVID-19 costs remains, however, as it may be difficult for providers to discern which treatments are specifically COVID-19 related.

Regardless, considerations in determining the cost include: overall infection rate of member population, percentage of infected member population that result in hospitalizations, percent of hospitalizations that result in ICU stays, average cost per hospitalization treatment, average cost per ICU treatment, average cost per non-hospitalization, and portion of member cost sharing already met in the plan year. Each component will require a range of assumptions, which will produce a range of potential costs. On top of this, costs for each particular client will vary based on their demographics and comorbidities.

NFP is exploring multiple models to develop the best estimate possible for clients. In the interim, based on 2017 data, the average member out-of-pocket cost for an influenza or pneumonia hospitalization was \$1,121 in the group market (Davenport 2020). For an employer group of 1,000 members, assuming there is a 30% infection rate and 20% hospitalization rate, the cost of covering those member out-of-pocket costs would be \$67,260, or \$67.26 per member, per year.



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IBNR (Incurred but Not Reported) Calculations

COVID-19 has required administrators to adjust so that claims processors can work from home, which will likely lead to longer lags in claims adjudication and payment processing. However, there will be an offsetting factor in the outstanding IBNR liability as overall claims for the month of March will decrease due to elective medical procedures being postponed and non-emergent medical care being delayed. For medical IBNR calculations with valuation dates of March 31, 2020, ultimate IBNR liabilities are likely to be down from normal as the impact of delayed medical procedures will outweigh the impact of the increase in lag time of claim payment processing.

For prescription drug IBNR calculations with valuation dates of March 31, 2020, and later, claim utilization appears to be relatively normal. There may be an increase in mail order utilization, which will result in ultimate IBNR liabilities that are likely in line with historical calculations. Beyond the first quarter, claims processing for COVID-19 related claims will be longer than usual as adjudicators confirm the new ICD codes and also incorporate employer decisions to cover COVID-19 related claims without member cost-sharing. Although the claim lag will be longer, the impact of the postponement of elective procedures will still likely outweigh this claim lag in many regions.

2020 Budget Projections

For the remainder of 2020, self-funded plans will see cost savings from the delay of elective medical procedures, but offsetting increases in COVID-19 related claims. While elective services are delayed, employers should reserve those funds to pay for potential COVID-19 related claims and the eventual elective procedures. The timing of the release of the “stay at home” orders will have a significant impact on when the delayed elective procedures are performed. Additionally, hospital and outpatient facilities will face capacity issues in performing those services, which will cause some of these procedures to be pushed into 2021.

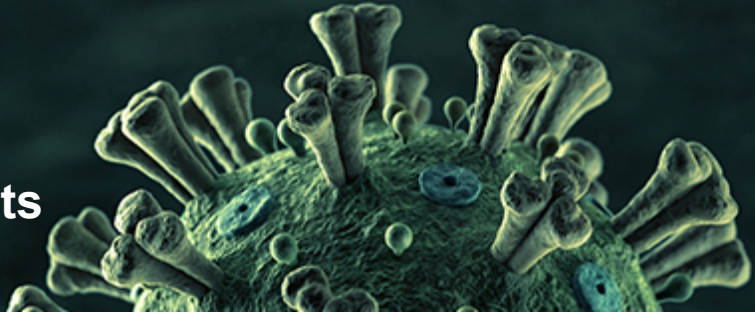
As stated earlier, the cost impact of COVID-19 is unknown and will vary by employer and region, but an estimate by Covered California released on March 22 stated the impact on 2020 premiums will be 2-21% of premium (Covered California 2020). However, Covered California appears to have applied the maximum cost of hospitalizations, \$72,000 (based on a 12-day length of stay), to all COVID-19 related hospitalizations, which would likely overstate the impact. With application of the temporary delay of elective medical procedures, the ultimate impact on 2020 budget projections is much more likely to be a single digit percentage increase. For employers that have had to furlough or terminate employees, it will be important to monitor changes in employee population demographics. If the terminated population are all younger employees, then the cost per remaining employee will likely increase.

Renewal Projections

Many employers renewing before August 1, 2020, are finalizing renewal decisions. Implicit conservatism should be used in determining expected claim projections for the renewal plan year. In addition, an explicit adjustment for COVID-19 related claim costs for the renewal plan year can be made. Since renewal year claim



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projections are meant to cover claims incurred during the renewal plan year, the plan must be mindful of the cost impact of COVID-19 during the specific plan year.

For example, a plan renewing on August 1, 2020, will not likely be able to assume a continued decrease in elective procedures as the “stay at home” orders are lifted. However, they will realize the cost of additional COVID-19 related claims, which are currently expected to be a range of potential costs based on the infection rate of the population and relative associated costs. In total, employers can expect these projections to be slightly higher than normal in order to cover the cost of COVID-19.

For 2021 plan year renewals, the cost impact of COVID-19 will be much easier to project. Historical claims used in developing projected claims in 2021 will need to be adjusted to account for the delay in medical procedures and the potential that pent up demand will be realized in 2021. The delay in medical procedures during the “stay at home” orders will also cause an increase in the severity of the underlying conditions for some patients, resulting in higher costs once those procedures are performed. Implicit conservatism can be utilized to account for these additional costs and an explicit adjustment should be made to account for the cost of the additional COVID-19 related costs.

Trends

The impact of COVID-19 on medical and prescription drug trends will be an interesting development to watch. If the ultimate vaccine or treatment for COVID-19 ends up being quite costly, then Rx trends may be similar to 2013, with near 15% trends. Temporary medical claims for the treatment of COVID-19 should be normalized, resulting in minimal impact on medical trend rates. As hospitals and providers suffer during the delay of elective procedures, there may be a necessary increase in underlying medical costs in order to keep hospitals and providers operational. The ultimate impact on medical trend will not be known until 2021.

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

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

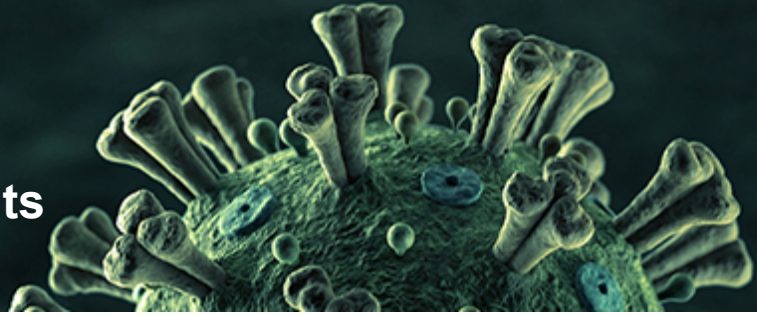
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This information has been provided as an informational resource for NFP clients and business partners. It is intended to provide general guidance, and is not intended to address specific risk scenarios. Regarding insurance coverage questions, each 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.