Anticipating the Impact of COVID-19 on

Health Care Premiums

The current stage of the COVID-19 pandemic has employers scrambling to continue or restart their business operations while also protecting the health and safety of their employees. At the same time, many business owners may be looking to the future and wondering what impact this virus will have on insurance premiums.

MY BENEFIT ADVISOR

At My Benefit Advisor (MBA), we understand that there are many significant issues facing business owners today as a result of the unprecedented COVID-19 virus outbreak. As we continue to operate in a fully functional manner, we invite you to utilize our experienced team of consultants, advisors, communication specialists and technology professionals to guide you through this complex and stressful period, especially in matters focused on health, insurance and associated costs. As always…you can count on us.

PERSPECTIVE

The novel coronavirus we now know as COVID-19 first emerged during the fall of 2019. Quickly spreading throughout the world, it has spared virtually no country as millions have fallen ill and over 400,000 people have died.

In March of 2020, with leaders focusing their efforts on attempts to reduce the spread and save lives, towns and cities issued “stay at home” orders, forcing many businesses to sharply reduce operations or shut down completely.

The economic impact resulting from the pandemic has been unprecedented. Millions of people have filed for unemployment and many of the shuttered businesses may never open their doors again. Even for those companies lucky enough to survive this period, there will likely be many significant obstacles to regaining their former levels of revenue and productivity in the months and years ahead.

COVID-19's Impact on Insurance Premiums: Factors Affecting the Forecast

Few would argue that the COVID-19 virus hasn't had a major impact on the US health system. As the virus continues to spread and more people get sick, health care costs will continue to rise… perhaps dramatically.

At the same time, mostly the result of widespread "shelter in place" orders in towns and cities throughout our country, the numbers of cases and deaths, although high, were lower than they could have been without these efforts. In some locales, temporary medical facilities that were set up earlier in the pandemic were dismantled as many hospitals never quite reached their expected levels of patient load.

The experts are quick to point out, however, that relaxing the containment efforts too quickly could unleash a second wave of contagion. On top of that, concerns of a second wave, potentially coinciding with the traditional flu season, could once again overwhelm our nation's healthcare system. Many experts predict it will be likely spill into 2021 as well, since any expected vaccine is not likely to arrive until sometime later in next year.

Virtually every business owner has been impacted to varying degrees by this virus, simplistically falling into one of three categories:

- "Essential businesses" that have been able to remain fully operational to a large extent
- Those that were forced to operate in a reduced capacity, downsizing in many instances by providing limited production and/or services,
- The least fortunate…those who shut down operations completely (many of whom may find it difficult to re-emerge after the crisis)

Of course, the are many serious concerns facing all businesses as a result of this crisis, but it is the purpose of this paper to explore one in particular… the impact of COVID-19 on health insurance premiums.

While there is much to discuss regarding this topic, it would be futile at this point to venture a guess as to the pandemic's precise impact on premiums. There is, however, enough evidence to suggest it could be significant. Instead, in this paper, we'll take a brief look at several of pandemic related factors that will have an influence on premiums going forward.

How is the Insurance Industry Likely to Fare as We Emerge From This Crisis?

Although the insurance industry in general is prepared for major loss events, the severity and extent of this pandemic will be a first occurrence for many contemporary insurance carriers. The resultant financial impacts on carriers coupled with the expected premium increases will require some time to determine.

Individual carriers will be affected differently too, based on the specific demographics of their insured populations. The number of COVID-19 cases and deaths vary greatly from region to region and carriers with a large concentration of members in virus hotspots like the northeast, for instance, will incur utilization far greater than those with a majority of their insureds located in minimally impacted regions of the country.

Additionally, insurance carriers are impacted in more ways than through the increase of claim payouts. They are employers too and are dealing with many of the same extra expenses other businesses are confronted with as a result of the pandemic. Added cybersecurity costs, outlays for equipment and software to facilitate their employees alternative work arrangements, etc. will all complicate their financial picture. Even the downturn in equity markets will affect the expected level of return on their investment portfolio.

Yet, there also may be some offsetting positive influences that develop as a result of the crisis, such as the more widespread use of tele-health services. In addition to providing access to care with lower costs, on a long-term basis this development could allow healthcare providers to extend their reach to more remote or less affluent groups of people to expand access to care and improve overall population well-being.

It is also important to remember that carriers are required to carry specified levels of claim reserves and utilize reinsurance to protect against unexpected losses, both key elements to provide some degree of stability in times like this.

Pandemic-Related Factors Affecting Future Health Insurance Premiums

- **The extent of virus-related claim costs**
- **Length of the pandemic**
- **Delayed premium payments and coverage cancellations**
- **Number of elective procedures delayed due to virus**
- **Impact of increased use of tele-health services**
- **Whether insurance carriers will need to dip into their reserves and/or receive any federal assistance**

Gauging the Extent of Virus-Related Claim Costs

Although there have been virus outbreaks that have occurred periodically around the world and there have been warning signs of a more large-scale pandemic occurring at some point, few people could have specifically detailed the advent and severity of this healthcare crisis. As the impacts of COVID-19 continue to unfold, the magnitude of virus-related claim costs will continue to increase.

Health care utilization has risen dramatically as a result of the pandemic and the increased payouts by insurance companies are due to a variety of factors:

The Number of Individuals Infected

At the time of this writing, over 2 million cases have been confirmed in the United States. Although most of those infected are either asymptomatic or can recover through stay-at-home treatment, many of the more severe cases required hospitalization. A large percentage of all hospitalizations were reported to be in New York, the state most impacted by the virus. New Jersey, California, Illinois and Massachusetts round out the top five most impacted states. Social distancing has helped contain the spread of the virus to some extent, but those at high risk with co-morbidity factors or living in close quarters such as in cities, nursing homes and prisons have accounted for a larger percentage of those infected.

Higher Cost of Care and Services Provided

Unfortunately, although most individuals infected by the virus do not require hospitalization, those that do typically require treatment in the intensive care unit. There, patients utilize a setting with greater numbers of staff, more specialization in staff skill levels, highly complex medical apparatus and more intricate medical procedures. Naturally, care costs for those filling beds in the ICU are extremely expensive, with the added cost-factor that many COVID patients require lengthy stays there.

Expansion of Coverage and Reduction of Out-of-Pocket Expenses for Virus Related Services

Several measures enacted as a result of the virus have been directed at providing greater access to care and reducing the financial hardship incurred as a result of the pandemic but conversely, creating added expenses to carriers. The following represent a sample:

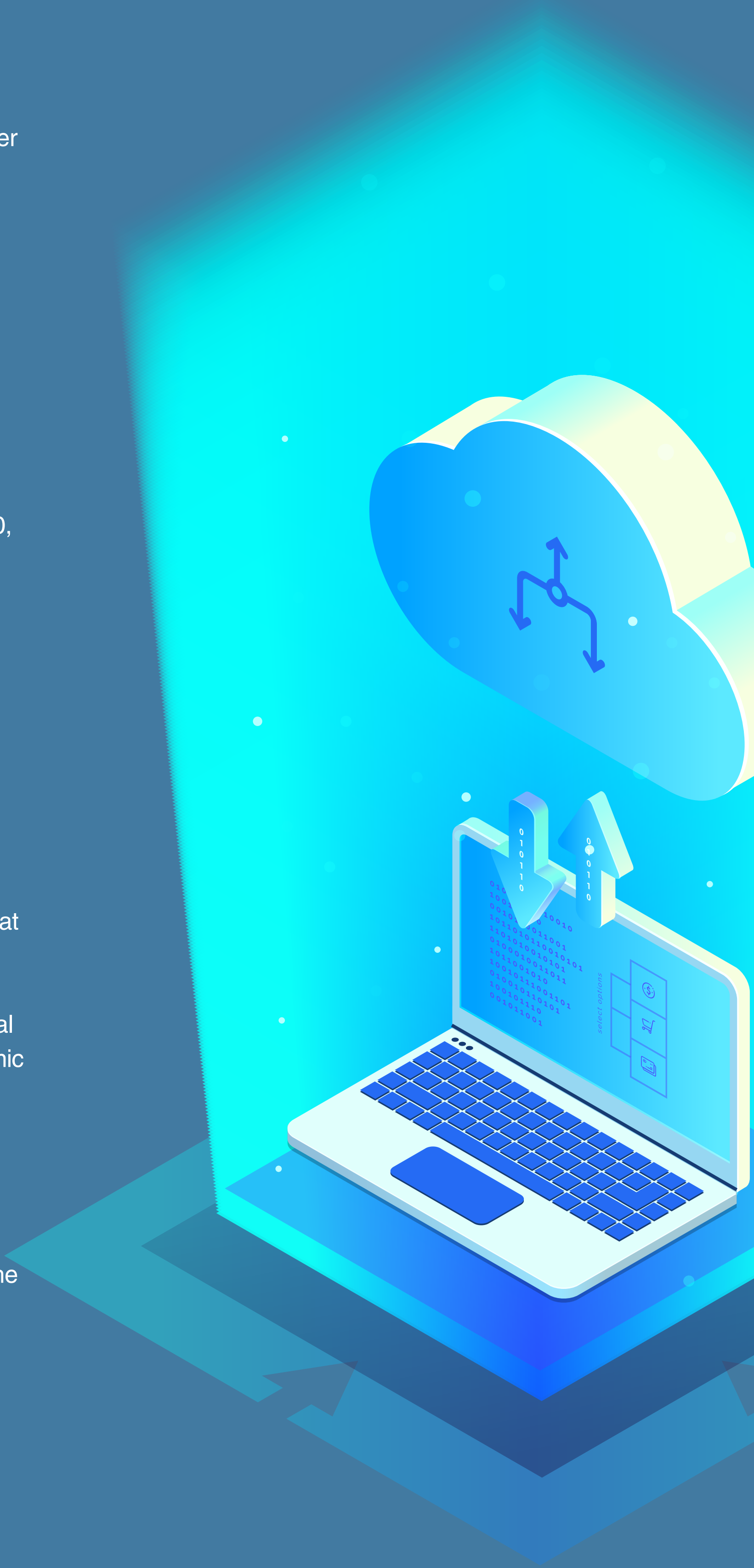
- **Notice 2020-15** allows health plans to reduce or eliminate cost sharing for COVID-19 testing and treatment
- **The Families First Coronavirus Response Act** enabling first dollar coverage for telehealth services for COVID-19 care
- **The CARES (Coronavirus Aid, Relief and Economic Security) Act** further extending coverage to any in-person visits for COVID-19 testing or screening, allowing all (not just COVID related) telehealth services to be covered on a pre-deductible basis until the end of 2021, while additionally mandating that all plans cover future COVID-19 vaccines without cost-sharing

How Long Will the Pandemic Last?

Perhaps the most significant factor in determining the future direction of health insurance premiums is whether the utilization of virus-related claims is substantially mitigated by the end of 2020.

This is because when filing for renewal premiums, insurance carriers are not legally permitted to increase rates for a future period to make up for the losses incurred in a prior year (with one caveat, which will be discussed in a later section of this paper). Future rates must be calculated based on the expected claims utilization for the year in which rates are being developed. If the pandemic is largely contained to 2020, in theory there would be minimum effect from the virus on next year's premiums.

> “Until successful treatments for the virus are discovered and a vaccine developed …impacts on health insurance premiums will continue.



Of course, the opposite is also true. If carriers expect that utilization of claims due to the pandemic will spill over into 2021, they can add the projected claim dollars into their rate filings. Based on the consensus of professional medical opinion at this time, the true end of the pandemic will most likely occur only once we have developed a vaccine, which is projected to be sometime in 2021.

Social distancing may help flatten the so-called curve, but we are most likely headed for another round of the pandemic during the next fall and winter months and the same medical experts warn that if the virus coincides with the yearly flu season, medical services could be strained once again.

In short, until successful treatments for the virus are discovered and a vaccine developed, the pandemic is unlikely to fade and adverse impacts on our health insurance premiums will continue.

To What Extent Will Premium Payments be Delayed and Insurance Coverage Cancelled?

There are a couple of issues to consider regarding delayed payment of premiums and coverage cancellations. Let's take a look at each one separately.

Delays of Premium Payments

The pandemic has closed many businesses and reduced staff in those that have been allowed to remain open. With the loss of revenue, many of these companies may find it difficult to continue meeting expenses, including insurance premiums. Likewise, many individuals have been furloughed and vast, unprecedented numbers of Americans have filed for unemployment. As a result, many states have issued legislation allowing individuals and businesses to temporarily delay the payment of their premiums for a specified period of time, commonly 30 or 60 days (subject to certain terms and conditions). Even outside the extended grace periods, many individuals and businesses may seek to delay payment of premiums due to financial hardship.

Of course, all of these delays in premium payments will likely have a significant impact on insurance carriers by reducing premium income during a period of time when their claim payment levels are increasing drastically due to the pandemic.

Cancellations

In spite of the provisions helping businesses to retain employees in the recently passed **Coronavirus Aid, Relieve and Economic Security Act** and the passage of other acts seeking to financially assist both invididuals and businesses, most insurance companies are expecting an increased level of coverage cancellations as a result of the generally poor economic conditions caused by the pandemic.

States only now are beginning to reopen and little is known as to how many businesses will recover and how many will remain shuttered. That many individuals and businesses will cancel their coverage is a given…what is not known is how great the number of cancellations will be.

How Many Elective Procedures Are Put Off?

People throughout the country have been delaying elective surgeries during the pandemic primarily for two reasons:

1. **Preservation of Resources.** Anticipating a surge in COVID-19 cases requiring hospital treatment, providers began postponing non-essential services starting in March, 2020 in an effort to free up hospital beds, personal protective equipment (PPE), ventilators and professional staff so virus patients can be accomodated and receive proper care.

2. **Fear of Contracting the Virus.** Many people are fearful about visiting a facility where the presence of the contagion could increase their own personal risk of infection.

Surgeries falling into the “elective” category can include procedures that are still urgent and can’t be postponed for very long without jeopardizing the patient’s outcome. Certain cancer or heart operations may belong to this category. A delay in these cases can cause symptoms to worsen and pain to intensify.

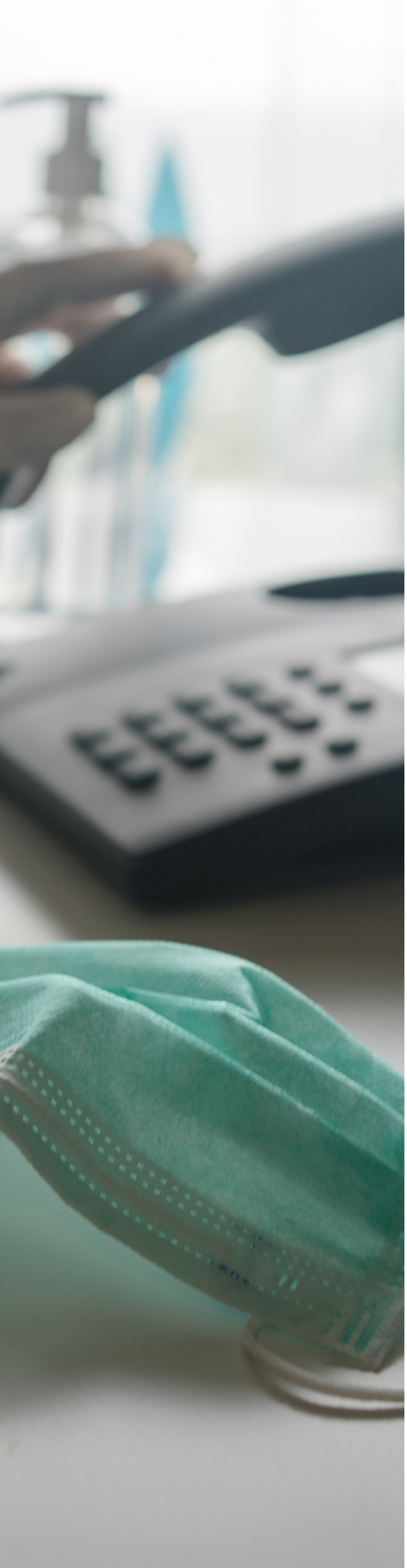
Others, like joint replacements, for instance, could be delayed for a longer period of time without a great risk to the individual.

There are two major considerations when viewing the impact these delays will have on future insurance premiums: whether the delay in treatment extends into 2021 and whether the delay causes a deterioration in the patient’s condition.

If elective surgeries are simply pushed back a few months and completed this year, the impact on next year’s premiums would be minimal. More likely however, even if elective surgeries resume shortly, the backlog of procedures would likely carrier over into 2021 and cause carriers to factor the anticipated costs into next year’s rate filings.

If delays in surgery cause many individual’s conditions to worsen and require more extensive treatment, these costs can also necessitate that carriers factor in the higher expenses into next year’s premiums.

The reality of these delayed elective surgeries is that they have the potential to impact next year’s health insurance rates but until more data is in, it would be difficult to calculate the degree of impact.



Expanded Use of Tele-Health Services

During this pandemic, in an effort to control the spread of the virus, many patients were instructed to connect with their provider via electronic means instead of physically visiting the hospital, clinic or physician's office. Although telehealth services have been gaining in popularity in recent years, never before has it experienced such a surge in use and acceptance.

Through these electronic means, the physician is able to consult with and view (with a video connection) the patient in an effort to diagnosis potential health issues. Up to recently, most people have been familiar with digital thermometers, blood pressure monitors and glucose readers. Now, however, there are many more hi-tech diagnostic personal diagnostic tools available to the average consumer to further aid in the transmission of health data to the patient's provider.

Tools such as electronic stethoscopes allow the live streaming of critical information including oxygen levels, pulse, heart sounds and EKG readings that allow a physician to virtually examine cardiac and pulmonary health as if they were physically standing next to the patient. There are also remote devices with camera and scope for ear, vision and skin conditions.

The benefits of telemedicine are significant. By consulting with a physician from the privacy of an individual's home via telephone, tablet or other electronic means, safety is maintained for both the patient(s) and healthcare provider(s). Additionally, efficiency of care is increased, patients are more apt to get the care they require, and physicians can expand their patient base. Finally, the cost of seeing a patient utilizing tele-health services at least in theory should be more cost-effective than an in-person visit.

Very importantly in a crisis like this one, the use of tele-health eases the burden on hospitals and hospital beds by redirecting less severe cases to receive care in their home.

Insurance Company Issues: Reserves and Federal Assistance

Claim Reserves

It was mentioned previously that insurance carriers would not be able to raise premiums for 2021 to cover losses incurred in 2020. There is however, one caveat. The carriers would be permitted to factor in extra money into requested premiums for 2021 if they are forced to dip into their reserves to cover 2020 expenses.

Insurance carriers, when developing their rate filings, base their calculation in general on the following factors:

- projected claims utilization
- retention costs (the cost of doing business, such as salaries, postage, equipment, etc.)
- projected medical inflation trends, and
- money to fund an adequate claim reserve

Although most insurance carriers are generally able to absorb small variations in actual expenses (often as much as a 3 or 4% increase, for instance), more substantial increases would force them to dip into their reserve funds.

Since carriers set their premiums for 2020 somewhere in the middle of 2019 when COVID-19 was unknown to the world, they couldn't have anticipated the virus at the time of these filings or extent of utilization that would result from virus-related expenses. Additionally, many carriers announced that they would be waiving copayments, deductibles and other out-of-pocket expenses that were due to COVID-19. All of these factors could impact their need to pull from their reserve fund.

Federal Assistance

Any federal funding that is provided to carriers has the potential to offset carrier claim losses and soften the impact on insurance premiums. Although insurers were not aided by any bailout monies in the early COVID-19 stimulus bills passed by Congress, they continue to press for help.

Washington has a clear incentive to act…the last thing they want now would be for insurers to be financially impacted to the degree they raise premiums sharply or begin to pull out of hard-hit markets.

My Benefit Advisor: We Are Here to Help

We're Providing Business Solutions To Help You Through The COVID-19 Outbreak.

As the pandemic continues to impact individuals and businesses throughout our country, My Benefit Advisor (MBA) has focused its efforts on providing clients with a vast array of resources to assist them through an unprecedented and difficult period. Through dedicated and knowledgeable staff, in-house team of legal and compliance advisors and an unparalleled level of technology and partnerships with the nation's leading insurance service carriers and service vendors, we can provide innovative client-specific solutions to help you with all your insurance and human resource needs.

Our Account Managers and their support team are available to assist you with your benefit program in any way necessary. Our business continuity plan and technical resources enable our employees to work remotely with full access to our systems and information to ensure we can support your business. The COVID-19 situation is a challenging time for all of us and we want you to know that our team is ready and here to help.

Experience Makes The Difference

When confronted with a difficult situation, experience counts. At MBA, our staff is trained to provide thoughtful and effective solutions to complex problems. We'll discuss specific COVID-19 related impacts in detail, analyze available data and outline a path to resolution. Ultimately upon approval of the plan, we'll facilitate implementation and utilize targeted employee communication to assist widespread understanding and acceptance of the strategy.

Best-In-Class Resources

As a leader in the field of employee benefits, you can count on MBA to deliver top-notch, professional guidance on COVID-19 as it relates to insurance and human resource matters. In addition to the resources mentioned above, our portfolio also includes:

- A Benefit Service Center…open and available to assist your employees with any benefit related questions
- Individual health insurance and Medicare experts to help in situations where group benefits may not be a good fit
- A Voluntary Benefits Division for rounding out an employer paid benefit portfolio
- Webcasts, Compliance Bulletins and Legislative Updates, all designed to assist business leaders keep up with the latest information on COVID-19 and other critical insurance-related information

Our team thrives on helping businesses achieve success… contact us and let us prove our value to you.

MY BENEFIT ADVISOR

About My Benefit Advisor

My Benefit Advisor (MBA) is an employee benefits platform designed to guide employers through the complexity of planning, communicating and managing a successful employee benefits program.

To learn more about My Benefit Advisor, visit us online at

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