



## COVID-19 Impact on Self-Funded, Employer-Sponsored Health Plans

In late 2019, a new strain of coronavirus (COVID-19) emerged in China. With the number of cases and deaths rapidly growing in the United States and around the world, the World Health Organization declared a pandemic on March 11, 2020. This has created unprecedented changes and challenges for employers, employees, and healthcare systems across the globe.

This report will focus on the impact of the COVID-19 pandemic on self-funded, employer-sponsored health plans. Information is rapidly changing each day, and Marsh & McLennan Agency (MMA) will endeavor to keep clients and colleagues abreast of the changes as the situation evolves.

While it is still too early to assess the cost impact of the COVID-19 pandemic on health plans, MMA expects the following:

- Utilization may increase for diagnostic laboratory, telemedicine, and mental health services
- Utilization may decrease for elective and non-emergent services during the pandemic
- Inpatient utilization may increase if covered employees and/or dependents are hospitalized with severe symptoms associated with COVID-19
- Pharmacy utilization may increase due to early prescription refills and potential COVID-19 treatments
- Ancillary coverage utilization like dental and vision may decrease this spring as patients defer routine visits to the dentist and optometrist

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HEALTH PLANS.

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When weighing the current and future cost impact to health plans, factors such as pent-up demand, demographic risk, geographic risk, headcount changes and government risk mitigation efforts should be considered.

Lastly, it is essential that employers maintain an updated plan document to reflect plan design changes in response to the COVID-19 pandemic. Employers must then review their individual and aggregate stop-loss coverage to ensure that attachment factors and premium rates are unchanged following COVID-19 related plan changes, to confirm eligibility for employees on leave, and to understand the financial protections of stop-loss coverage.

## Impact to Self-Funded, Employer-Sponsored Health Plan Utilization

The COVID-19 pandemic will affect health plans in the United States now and in the future. The extent of the financial impact to health plans is unknown as new data is emerging each day, and MMA is closely monitoring the situation. Below are a number of important utilization categories to consider during the pandemic for employers offering health plans.

### DIAGNOSTIC LABORATORY

Since the federal government mandated health plans waive member cost sharing associated with COVID-19 testing, 2020 diagnostic laboratory utilization is likely to increase. While the COVID-19 tests are relatively inexpensive (\$50-150), health plans may see an uptick in costs as the number of people tested ramps up.

### TELEMEDICINE

Telemedicine utilization has been historically low due to low consumer awareness and higher comfort with traditional care methods. Nationwide, just 10% of healthcare consumers have used telemedicine services. As healthcare systems rapidly expand capacity for telemedicine, MMA expects telemedicine utilization may increase substantially in 2020. Many routine visits and non-urgent health concerns have already switched from in-person to phone and video visits, and this will likely continue until the pandemic is controlled.

### MENTAL HEALTH

Mental health services utilization may increase as individuals cope with difficult social, economic, and health situations. In addition, some mental healthcare providers are also converting appointments from in-person to phone or video.

### ELECTIVE AND NON-EMERGENT PROCEDURES

In order to preserve resources for a potential, and in some places present, surge of critically ill patients, many hospitals and health systems are canceling or postponing elective and non-emergent procedures. This also enables compliance with social distancing, since fewer healthy individuals are traveling to medical facilities that may be caring for patients with COVID-19.

### INPATIENT HOSPITAL

Inpatient utilization may increase as more individuals are hospitalized with severe and critical illness due to COVID-19. The nationwide average cost per day for a hospital stay is \$4,000 – \$5,000.

### PHARMACY

While there are no FDA-approved therapeutics or drugs to treat, cure, or prevent COVID-19 at this time, clinical trials with experimental drugs are underway across the globe. With the anticipated surge in inpatient hospitalizations, the use of and cost for supportive therapies may increase. Mail order prescriptions and early prescription refills may also increase as individuals self-isolate to avoid going to brick-and-mortar pharmacies.

## Other Considerations

In addition, other important items to consider when weighing the financial impact of COVID-19 include:

### PENT-UP DEMAND

Pent-up demand may occur after the virus runs its course. Individuals who deferred elective and non-emergent services may reengage with the healthcare system later in 2020 or 2021, in addition to those who are seeking care along usual time horizons.

### DEMOGRAPHIC RISK

Thus far, epidemiologic studies have consistently shown that populations with older (age 60+) individuals and individuals with pre-existing conditions are at a higher risk of developing severe symptoms, complications, and potential death from COVID-19. Employers with health plans covering greater concentrations of older individuals and individuals with pre-existing conditions are at higher risk of increased health plan costs.

### GEOGRAPHIC RISK

Travel history and geographic prevalence of an employee population may impact health plan costs. Employers with employees traveling to high risk, COVID-19 areas or to countries with large concentrations of COVID-19 cases face a higher risk of an increase in health plan costs.

### HEADCOUNT CHANGES

The economic consequences of COVID-19 are significant, and a number of employers are laying off or furloughing employees due to reductions in revenue. Employers should consider that claims volatility increases on a health plan when the number of covered employees decreases, and should evaluate fully-insured premium equivalent estimates, IBNR, adverse selection due to increased COBRA enrollment, stop-loss insurance, and funding strategies as appropriate.

### GOVERNMENT RISK MITIGATION EFFORTS

The impact of social distancing and other local, regional, and national government risk mitigation strategies will affect the rate of the infection spreading throughout the US, and thus health plan costs.

### DENTAL & VISION

Similar to medical elective and non-emergent procedures, routine preventative visits such as teeth cleanings and eye exams will be deferred, which will likely lead to increased major procedures in the future.

## Individual and Aggregate Stop-Loss Coverage

For many health plans, employers choose to purchase individual (ISL) and aggregate (ASL) stop-loss coverage to protect the health plans against catastrophic losses. ISL coverage protects employers from large catastrophic claims generated by individual employees or dependents, and ASL coverage protects employers from eligible claims for the entire group that exceed the annual aggregate liability limit (often 120% or 125% of expected claims).

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MMA is closely monitoring the COVID-19 impact to stop-loss insurance markets, and thus far, stop-loss carriers have been quick to respond to the pandemic. Several carriers have already put in place measures to honor current policy aggregate factors and/or premiums amidst plan changes associated with COVID-19, such as:

- Waiving deductible and/or out-of-pocket charges for COVID-19 testing and telemedicine visits
- Waiving prior-authorization requirements on diagnostic testing or treatment of COVID-19 that may otherwise be applied
- Paying for out-of-network COVID-19 testing as in-network COVID-19 testing, if access for in-network COVID-19 testing is unavailable
- Allowing early refills for prescription medication

Stop-loss carriers are also responding to eligibility inquiries regarding employees on leave or furloughed during the pandemic. In general, stop-loss carriers will not decline a stop-loss reimbursement so long as the employee is otherwise eligible under the plan document and the policyholder continues to pay full premium. If the plan document currently does not allow eligibility for employees on leave or furloughed, stop-loss carriers are also allowing retroactive plan document amendments to eligibility provisions.

Looking forward, the pandemic's impact on individual stop-loss renewals will depend on the number of individuals hospitalized for an extended period with severe systems from the virus. Aggregate stop-loss attachment factor rating will depend on the overall population morbidity impact from COVID-19.

## In Closing

With COVID-19 evolving daily, MMA's Actuarial & Underwriting team will endeavor to remain abreast of current trends and suggesting the most effective cost containment strategies based on your underlying plan utilization patterns.

For employers managing self-funded, employer-sponsored health plans, here are action items MMA recommends as next steps:

- Estimate the impact of COVID-19 on your health plan using MMA's proprietary COVID-19 Financial Impact Model
- Collaborate with your medical carrier or TPA to understand and evaluate any cost projections
- Adjust your medical plan budget as appropriate, and IBNR if needed
- Monitor emerging information and experience
- Review individual and aggregate stop-loss coverage provisions and renewal forecasts
- Communicate with the stop-loss carrier regarding mid-year changes to the plan document associated with COVID-19 treatment and testing to ensure no mid-year change to employer stop-loss attachment factors and/or premiums
- Confirm that the stop-loss carrier will not decline a stop loss reimbursement if a policyholder allows employees to take an extended leave or places them on furlough due to COVID-19

## Appendix: References

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A subsidiary of Marsh & McLennan Companies, the largest risk management firm in the United States, Marsh & McLennan Agency (MMA) specializes in delivering superior employee health & benefits and risk management solutions to the middle market. With over 6,000 colleagues in more than 120 office locations, MMA is one of the largest brokerage agencies in the U.S.

MMA offers a high touch service model delivered by local insurance professionals. With an awareness and recognition of the middle market's unique culture and service needs, MMA develops customized strategies based on local market conditions.

Our local team works with you to understand your business and can tap into the national and global resources of Marsh & McLennan Companies to provide first-to-market strategies, industry specialization, analytical tools, and underwriting leverage to help you effectively and proactively meet your business objectives.

## About Our COVID-19 Financial Impact Model

Created by MMA's national actuarial practice, the model analyzes benchmark data, statistics from organizations, such as the CDC, and member level census data to create a custom financial projection of current and future COVID-19-related medical and prescription drug expenses. Insight into these costs will be instrumental in helping companies make informed decisions around layoffs and furloughs, budget reforecasting, and overall impact to the bottom line.

The modeling tool will measure the financial impacts resulting from increased admissions related to COVID-19 diagnoses and treatment, increased telehealth use, and short-term delays in non-emergency procedures, along with other factors. MMA clients will have priority access to the modeling tool.

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