

IMPORTANT COVID-19 UPDATE

THE POTENTIAL BENEFIT PLAN COSTS OF THE CORONAVIRUS FOR EMPLOYERS AND PLAN SPONSORS

By Joseph M. DiBella, Managing Director, EVP, Conner Strong & Buckelew & Daniel J. Dotzert, FSA, Vice President and Consulting Actuary, Conner Strong & Buckelew

Over the last several weeks, employers and plan sponsors have experienced a level of disruption and uncertainty not seen before. The near complete shutdown of the U.S. economy for health and safety reasons may later be compounded by an increase in healthcare spending due to the virus. While cost data is still largely incomplete, we are beginning to get a sense of the possible impact. This update compiles the current facts as we know them at this time.

Test Cost

The range of testing continues to be between \$50 and \$100 per test. In addition, there is usually a physician or ER visit affiliated with the test for additional cost of \$50 to \$3,000. With the passage of the first and second federal coronavirus bills, tests and related costs must be paid in full by employers and plan sponsors without any member cost share like copays or coinsurance. As testing increases, so too will employer and plan sponsor costs in this area. However, since the test costs are generally small this is not expected to have a material impact on plan costs.

Delays and Skipped Care

It is likely self-funded employers and plan sponsors will see a near term reduction in gross claim costs for much of March, April and likely May. Elective services have largely been halted or slowed down dramatically across the nation. In general, the vast majority of health care services unrelated to the coronavirus are simply not being performed. In many cases, providers are not starting new patients with chronic conditions on treatment such as chemotherapy, and many patients are choosing to stay home and skip treatments. In some instances, the care will simply be pushed out until later in the year. In other instances, the care may be skipped all together. There will certainly be an uptick in utilization once the current shutdown dissipates. However, for the near term, claim costs will go down or flatten for many self-funded health plans. That said, for any particular employer, catastrophic claimants and the impact of claim lag may outweigh the downturn in cost. Office visits now being performed through tele-health at a much lower per visit cost will also help reduce plan expenses. It remains to be seen what percentage of care, for example procedures and diagnostic tests, may be skipped completely, but this will have an impact on costs for the immediate term.

Hospital Admissions = Largest Driver of Cost

The largest driver of costs for employers and plan sponsors will be hospital admissions for the very ill, generally those that need a ventilator. Per the CDC, these admissions have been between 10 and 14 days on average. The CDC has also reported that approximately 20% of those with the coronavirus will need to be hospitalized, and of them, 25% will fall into the “very ill” category. Actuarial reports and various technical studies issued to date have offered a wide range of overall cost estimates. A report from the State of California’s health exchange reported an average hospital stay for the very ill of \$72,000 per episode. The same report opined that the overall cost impact of the coronavirus could be between 4% and 40%. FAIR, a claims data aggregator, suggested costs may be between \$20,000 to \$40,000 per hospital for the very ill while the Kaiser Foundation reported a likely cost of \$20,000 per hospital stay. Using an estimate generally consistent with the Kaiser and FAIR cost models against current US trends, note the following:

Estimated Hospital Costs

- Current number of confirmed cases in U.S.: 465,000
- Estimated number to be hospitalized: 93,000 (20%)
- Estimated number hospitalized deemed seriously ill: 23,250 (25%)
- \$30,000 estimated cost per seriously ill hospitalization: \$697.5 million in hospitalization costs
- \$5,000 estimated cost per non seriously ill admission: \$348.8 million in hospitalization costs
- TOTAL Hospital Costs: \$1.05 billion (based on current infection and hospital rates)

The cost will clearly vary by geography. For example, employers and plan sponsors with concentrations in the greater NY, NJ and Southeastern PA area will have greater utilization and cost in contrast to groups in other parts of the country where infection rates are less. Furthermore, it is important to note that costs will also vary by industry. For example, exposure and incident rates will be much higher in the health care sector in contrast to professional services firms. Finally, it is also worth noting that a large percentage of the impacted population is made up of senior Americans who may be retired and not covered under an employer's plan.

Impact of Waiving Member Cost Sharing

Federal action requires employers and plan sponsors to waive member cost sharing for testing and preventive care related to the coronavirus. In addition, most major commercial insurers have gone further and waived all member cost sharing for coronavirus care, such as coinsurance and deductibles for hospital care. While this may be a financial help for patients, this cost will simply be passed back to fully insured plans by way of larger increases going forward. Simply put, employers and plan sponsors will foot the bill for the additional cost sharing waivers. There is no credible data yet to predict the impact of these additional waivers, but it could be significant. Self-funded employers and plan sponsors are not obligated to expand the waiving of member cost sharing, and thus far, most have opted not to do so based on the sheer unknown.

Value of Tele-Medicine

One positive byproduct of this event has been the interest in tele-health and its potential to favorably impact health plans costs. The cost of tele-health is far less than usual fee for service care, and data shows that these visits are generally effective, and in many cases don't require subsequent in-person care. Employers and plan sponsors with well-defined tele-health programs will likely benefit from the use of such services. Post pandemic, it is likely such programs will become more mainstream as individuals are gaining comfort with this type of care.

Rx Costs and a Possible Vaccine

The cost of pharmacy related to the pandemic is largely unknown at this time. Unlike outpatient and physical care, access to prescriptions remains widespread. Large pharmacy chains are providing home delivery at no cost and many patients were already receiving prescriptions via mail order. The key unknown will be calculating the cost of a vaccine. Various reports suggest that a vaccine is a year or more away, however, the industry needs to prepare for this cost and what will be a large vaccination rate. For comparison purposes, the cost of the flu shot ranges from \$5 to \$50 depending on where one gets the vaccine.



Insured vs. Self-Insured Cost Impact

Generally, self-funded plans perform more favorably for employers and plan sponsors. In this instance, self-funded employers will benefit from the cash flow savings related to the drop in utilization named above while insured plans continue to pay a set premium regardless of utilization. Plus, self-funded plans have more control over waiving member cost sharing. Finally, it is likely that some insurers will look to make up losses from government exchanges, Medicare and Medicaid plans that may be more adversely impacted by the coronavirus. A logical place to make up for these losses will be from insured commercial plans. While all group plans will be impacted by the coronavirus, it stands to reason that insured plans may bear more of the brunt.

Early Conclusions

It is still too early to project a firm cost impact for all group plans. For self-funded groups renewing in the near term, a 1.5% to 2% additional trend add-on factor may be a responsible margin to begin including to project costs for the next twelve months. For self-funded employers with calendar year plans, it's possible that coronavirus costs will have been incurred prior to the projection period. The actual long term impact on health care costs remains unknown. However, it is reasonable to assume that fully insured carriers will look to make up some of their losses by assessing additional fees to fully insured group plans. While self-funded plans will not be immune to the impact of the coronavirus, in the end they only pay for what they actually consume. Conner Strong & Buckelew is evaluating all of these conditions and considering appropriate adjustments to trends and margins to protect group plans.

As more reliable data becomes available we will share further updates and analysis. For now, we hope this analysis offers a balanced picture of the likely conditions that will impact employers and plan sponsors.

Please visit our [COVID-19 Resource Center](#) for all updates issued by Conner Strong & Buckelew related to the coronavirus.

