

FROM THE NAIC CONSUMER REPRESENTATIVES

To: Health Actuarial (B) Task Force
Eric King

Date: April 23, 2020

Re: Impact of COVID-19 on State Insurance Markets

As NAIC consumer representatives, we share your concerns about the impact of the COVID-19 pandemic on patients, insurers, the health care system, and the economy. The crisis has compromised the health, safety, and well-being of millions of Americans, and we are particularly concerned about those who have lost their jobs and may be uninsured at a moment when their health could be at grave risk.

This period of great uncertainty is affecting all NAIC stakeholders, and we are grateful to the members of the Health Actuarial (B) Task Force (HATF) for addressing the impact of COVID-19. To that end, we write to provide resources on projected costs of COVID-19 and two recommendations for the 2021 rate filing process.

Projected Costs of COVID-19

The costs of COVID-19 testing and treatment are expected to be billions of dollars, but there is extreme variation in estimates due to uncertainty about the extent of the crisis. Key factors include the severity of the outbreak, reduced costs as a result of many procedures and services being cancelled, pent-up demand for procedures in 2021, a transition to telehealth services, the cost of a future vaccine once developed, and longer-term effects on network dynamics. Although projections necessarily will be refined as more information becomes available, we hope this compilation of resources is helpful.

- [How Health Costs Might Change with COVID-19](#). The Kaiser Family Foundation estimates that about 15 percent of people infected by coronavirus could require hospitalization, with a smaller share needing invasive mechanical ventilation. Costs will vary by severity and payer, but hospitalization will cost about \$20,000, with treatment of the most severe cases costing up to \$88,000. The brief includes an extended discussion on how delayed or foregone care could offset some costs, with data on how elective procedures represent a substantial share of hospital spending.
- **Health Insurers Do Not Yet Feel the Impact of COVID-19.** Comprehensive data on insurer experience is not available. However, insurer perspectives are becoming clearer in media reports and earnings calls. In mid-March, several health insurance executives reported that insurers were [not yet concerned](#) that COVID-19 was going to dramatically increase medical claims and spending. Executives viewed the outbreak as an “extension of the flu season” and noted that leaders were “not expecting a material financial impact.” In a recent earnings call, UnitedHealth Group Inc. [“played down”](#) the effects of COVID-19 on its first quarter performance and announced that it will not adjust its guidance for the remainder of 2020.

A separate analysis from [S&P Global](#) found that health insurers are performing better than expected during the first quarter, due primarily to the deferral of elective or discretionary medical services. Although COVID-19 claims are expected to rise in the second quarter, especially in hard-hit regions of the country, the authors expect earnings to revert to normal for full-year 2020 and note that “the attack/infection rate through the majority of the first quarter doesn’t indicate a meaningful strain on medical claims.”

- [Potential Costs of COVID-19 Treatment for People With Employer Coverage.](#) Comparing the costs of COVID-19 treatment to pneumonia, the Kaiser Family Foundation estimates costs for people insured through a large employer’s private health plan. Hospitalization costs would range from \$20,000 to \$88,000, depending on severity and comorbidities. Treatment costs for Medicare and Medicaid will be lower due to lower provider reimbursement rates: average hospitalization costs would range from \$10,000 to \$40,000 under Medicare, depending on severity. The brief includes a discussion of the typical length of hospital stays associated with pneumonia and out-of-pocket costs for pneumonia admissions.
- [COVID-19 Cost Scenario Modeling: Estimating the Cost of COVID-19 Treatment for U.S. Private Insurers.](#) Wakely, on behalf of America’s Health Insurance Plans, estimates direct costs for COVID-19 testing and treatment may range from \$84 to \$139 billion in 2020 and \$28 to \$46 billion in 2021. The analysis assumes an infection rate of 20 percent and reflects costs for private insurers (commercial insurers, Medicaid managed care organizations, and Medicare Advantage plans). Different infection rates would yield dramatically different costs, ranging from a total of \$56 to \$556 billion. For the commercial group and non-group markets, costs could range from \$44.6 billion to \$438.5 billion over the next two years.
- [Covered California Releases the First National Projection of the Coronavirus Pandemic’s Cost to Millions of Americans with Employer or Individual Insurance Coverage.](#) Covered California expects the cost of COVID-19 treatment and testing costs to range from \$34 to \$251 billion for commercial insurers. These are one-year projected costs in the commercial market, with a premium impact that ranges from 2 percent to 21 percent if built into 2020 premiums. Covered California estimates that individual and employer premiums for 2021 could be 40 percent higher due to COVID-19 costs.
- [Morbidity Stress Test: How A Hypothetical Pandemic Could Affect U.S. Health Insurers.](#) S&P Global Ratings conducted a stress test for a hypothetical pandemic. Assuming a moderate morbidity, insurers would face a 3 to 4 percent increase in medical claims costs and medical loss ratios would be boosted to 88 to 89 percent. This, S&P concludes, would be manageable for most insurers. More severe morbidity, however, means insurers would face a 10 to 12 percent increase in medical claims costs, increasing medical loss ratios to 95 to 97 percent.
- [COVID-19: The Projected Economic Impact of the COVID-19 Pandemic on the U.S. Healthcare System.](#) Leveraging its database of private health care claim records, FAIR Health estimates that the total average charge per COVID-19 patient that requires a hospital stay will be more than \$73,000, with an average estimated allowed amount per commercially insured patient of \$38,000. Total charges for all hospitalized COVID-19 patients range from \$362 billion to \$1.45 trillion, with \$139 to

\$558 billion in estimated allowed amounts. This range varies based on the expected infection rate and the expectation that 4.9 million to 19.8 million people with COVID-19 may require hospitalization.

Recommendations for the 2021 Rate Filing Process

Our top priority is to ensure that as many consumers as possible continue to have access to affordable, comprehensive coverage and that insurance markets are stable. This is particularly true for the individual market, which may need to accommodate millions of new enrollees this year and next. We also acknowledge very real concerns about solvency in some states and that regulators must balance premium affordability with solvency. To best protect consumers as insurers develop 2021 rates, we urge HATF and state regulators to consider the two recommendations below and provide guidance to insurers in their states.

Recommendation #1: Instruct insurers to prepare multiple rate filings to reflect COVID-19 assumptions based on different degrees of severity

There is a high degree of uncertainty about what the future holds. As reflected in the data above, the impact of the COVID-19 pandemic on commercial insurers could vary significantly based on the ultimate infection rate, morbidity and mortality, geographic variation, the age of those most affected, long-term effects of the virus, and more. We recognize this uncertainty and the challenge that insurers and state regulators face in preparing and reviewing rates for 2021.

We are, however, concerned that consumers could face rate increases for 2021 that are out of sync with actual costs if a worst-case scenario does not materialize. Insurers may be especially prone to overprice their products in the individual market, where many enrollees receive subsidies and are relatively insulated from premium increases.

To address this uncertainty, we encourage HATF and state regulators to instruct insurers to file multiple rates with varying assumptions about the impact of COVID-19 in 2021. While rates are due this spring (when much information remains unknown), multiple filings—that reflect low, medium, and high levels of severity—would provide state regulators with the information to adjust rates as needed in the fall of 2020. These filings would also help regulators compare rate assumptions across insurers to ensure relatively consistent assumptions about COVID-19 costs and pent-up demand.

Multiple rate filings have been used before in response to uncertainty, including in 2017 to anticipate the potential elimination of cost-sharing reduction payments. HATF was instrumental as a forum during this time. During 2017, many state regulators instructed insurers to file dual rates: one rate reflected the assumption that cost-sharing reduction payments would be made and the other assumed that the payments would not be made. Having dual rate filings on hand allowed state insurance regulators and insurers to be nimble when the payments were eliminated in October 2017. Insurers were able to quickly and easily adjust their rates mere weeks before 2018 rates went live.

We believe the uncertainty here calls for similar advance planning and flexibility. Insurers should know more about their actual costs for 2020 later this year, and we should have better predictions about how widespread the pandemic will be by that time. Multi-rate filing will help ensure that all rates for 2021

are based on the strongest evidence available and informed assumptions that match real-time, real-world experience as much as possible.

We do not believe this approach will overly burden insurers because insurers are or should be running various rate scenarios already. In fact, we believe this more uniform approach will help insurers avoid mispricing relative to their competitors and ending up with large losses as a result.

Recommendation #2: Direct insurers to submit 2021 individual market rate filings that specify the projected amount of rate increase due to COVID-19

Uncertainty related to COVID-19 will likely contribute to higher premiums. However, we believe that consumers would be best served by greater transparency about how much rate impact insurers expect COVID-19 to have in 2021.

To address this concern, we urge HATF and state regulators to require insurers to clearly specify the projected amount of rate increase due to COVID-19. General statements or premium surcharges based on uncertainty provide insufficient information for regulators and the public to evaluate. The inclusion of specific information—ideally alongside assumptions about the COVID-19 infection rate, assumed morbidity rate, and other data—will also help insurers demonstrate to regulators that they are adequately preparing in response to the COVID-19 crisis.

Thank you for everything you are doing to protect consumers during this unprecedented crisis and in the midst of significant uncertainty and economic stress. If you have any further questions, please contact Justin Giovannelli (Justin.Giovannelli@georgetown.edu) or Sarah Lueck (lueck@cbpp.org).

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