MILLIMAN RESEARCH REPORT

Implications of COVID-19 on health insurance

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Introduction

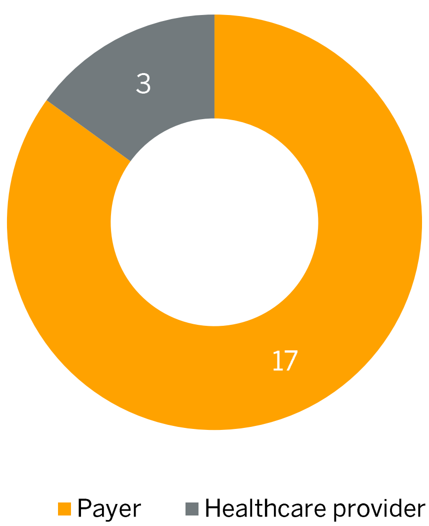
The COVID-19 pandemic has had vast and varying effects on the world, both on an individual basis and on the health insurance industry as a whole. Milliman maintains a firm commitment to supporting our diverse client base in navigating a dynamic healthcare delivery and financing sector. In aiding our clients through pandemic-related challenges, common themes emerged from our work, including how the pandemic impacted financial performance, actions payers and providers took to shore up their finances and prepare for future unknowns, and views of the future of vaccinations and testing.

To try to better understand the pervasiveness of these themes—separating the facts from the anecdotes—Milliman developed a survey about the impact of the COVID-19 pandemic on stakeholders in the health insurance industry. This report provides a summary of the information given by the 20 survey respondents in April 2021 concerning common payer subjects, including financial impacts, telemedicine, vaccines, claims, pharmacy benefits, membership and enrollment, staffing, regulatory guidance, and premium deficiency reserves. A diverse group of companies replied to the survey. We trust these results will prove useful to our clients as a common benchmark of efforts and emerging results related to the pandemic.

Organization type

The 20 participants in Milliman's COVID-19 Health Insurance Survey represent a diverse selection of payer organizations including a small subset of risk-bearing provider organizations.

FIGURE 1: COVID-19 SURVEY RESPONDENTS BY ORGANIZATION TYPE



Financial impact

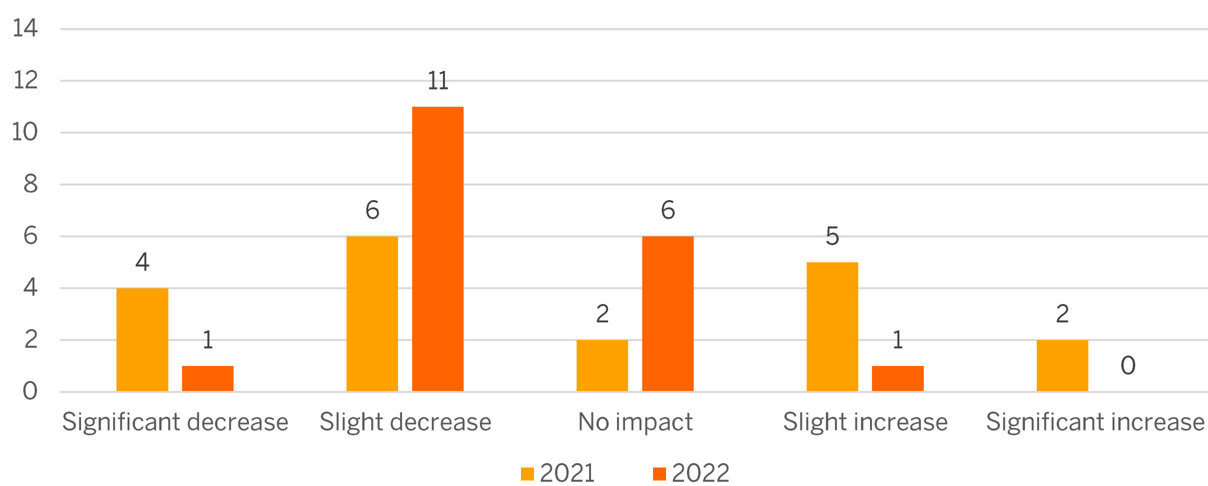
THE BOTTOM LINE – 2021 AND 2022

Just over half of survey respondents (52.7%) expect a decrease to their bottom lines in 2021 compared to pre-pandemic times. When prompted, participants noted multiple drivers of this expected decrease, some of which included the return to "traditional" pre-pandemic healthcare utilization levels and the cost of drugs and vaccines. The noted costs of drugs and vaccines include high-cost anticoagulants as well as ongoing COVID-19 testing, treatment, and vaccinations. However, it is also important to note that seven of those surveyed (36.8%) expect an increase to their bottom lines in 2021 due to residual lower-than-usual utilization rates.

For 2022, 12 respondents (63.2%) expected a decrease to their bottom lines though almost all 12 anticipated the decreases to be slight. Similar to 2021, respondents noted one of the biggest drivers of the expected impact to be the costs of ongoing COVID-19 testing, treatment, and vaccination. However, respondents also identified one of the other key cost drivers for 2022 as pent-up demand for elective procedures. Lastly, potentially lower risk scores leading to lower revenue was also cited as a possible reason for a lower bottom line in 2022. Despite these anticipated cost-driving components, six respondents expect no impact to their bottom lines in 2022.

Over the course of the pandemic, Milliman has been working to analyze the impact of deferred, eliminated, and returning care to assist clients with understanding the pandemic's impact on claims patterns and resulting impact to margin. One thing became clear in our work: although the aggregate results showed a significant pullback in utilization of services during the peak period of the lockdowns, different clients had quite varied experiences and expectations, as is reflected in our survey results.

FIGURE 2: EXPECTED IMPACT TO THE BOTTOM LINE FOR PLAN YEARS 2021 AND 2022



A shift to telemedicine

SHIFTS IN THE DELIVERY OF CARE

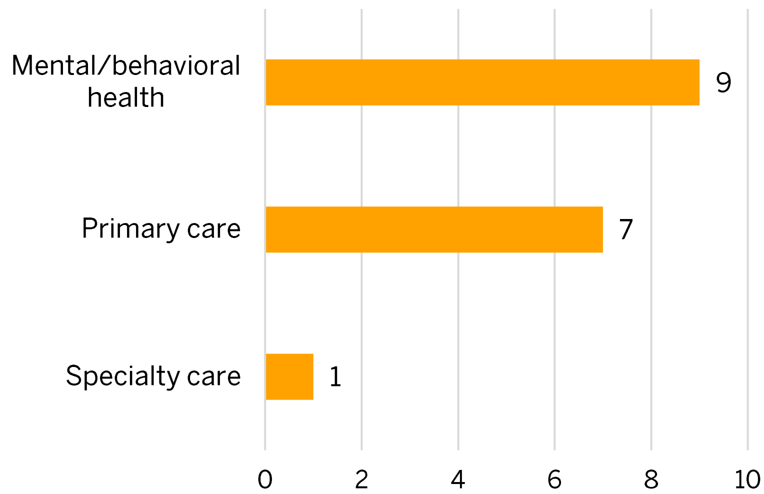
During the height of the COVID-19 pandemic, utilization of in-person healthcare services decreased significantly, and some declines remain today. While in-person utilization decreased during the pandemic, telemedicine use, including “virtual visits,” increased during this period. The survey asked respondents if they thought telemedicine and virtual visits would remain a significant component in the delivery of care after the pandemic is over. Almost all the 19 respondents (89.5%) predict that telemedicine and virtual visits will remain a significant component of care, representing perhaps one of the largest long-lasting impacts of the pandemic on healthcare delivery. It remains to be seen, however, whether the regulatory barriers to adoption of telehealth—which existed prior to the pandemic but were suspended during the public health emergency—will be reinstituted or relaxed.

Carriers estimated a permanent shift to telehealth going forward, especially in the behavioral health space.

USAGE OF TELEMEDICINE

Survey respondents were also asked which types of telemedicine care they expect to see the highest usage of in the coming years. Nine of the respondents (52.9%) expect that mental/behavioral health services will experience the highest usage of telemedicine, closely followed by primary care (41.2%). Only one carrier (5.9%) believed that specialty care will have the highest usage of telemedicine.

FIGURE 3: HIGHEST EXPECTED USAGE OF TELEMEDICINE BY TYPE OF CARE POST-COVID-19



On average, respondents predict 16.3% of the telemedicine care where they anticipated highest usage will permanently shift to that modality. That is, those who anticipated mental/behavioral health to have the highest usage of telemedicine expect 48.3% of those services will permanently shift to that modality in the years to come. For those who chose primary care, respondents expect around 20.0% to permanently shift.

Vaccines

PERCENTAGE VACCINATED

Vaccines for COVID-19 became widely available in 2021. Given ongoing availability of the vaccines, survey participants were asked to estimate the percentage of their members who will be fully vaccinated by the end of 2021. Fourteen carriers estimated 50.0% of their members will be fully vaccinated in that timeframe. At the time of publication in mid-July, the United States is on the cusp of achieving the 50% mark of people who are fully vaccinated. The results are highly variable by state and locality.

Claims

IMPACT ON NET CLAIMS

The pandemic has affected all aspects of the health insurance industry, though particularly claims. Milliman's survey requested estimates on the net impact of the COVID-19 pandemic on expected 2021 net claims (per member per month) for each line of business, including commercial group, commercial individual and/or Patient Protection and Affordable Care Act (ACA), Medicare Advantage, and Managed Medicaid. The cost impact considered factors such as treatment, testing, vaccines, and deferred or forgone care.

Results indicate that most carriers with commercial lines of business expect a 1% to 10% *increase* in claims in 2021 while most carriers with Managed Medicaid expect a 1% to 10% *decrease*. Meanwhile, Medicare Advantage carriers are split on the matter. The full breakdown of carrier responses by lines of business is shown in the Figure 4. One thing is clear from the results of the survey: 2020 claims payment pattern irregularities are viewed as a bump in the road in a way similar to natural disasters impacting regional claims patterns in the recent past. Although, the scope of the two matters differ (i.e., COVID-19 was a global matter whereas natural disasters tend to be localized), most carriers are comfortable with handling the net claims impact as efforts continue forward.

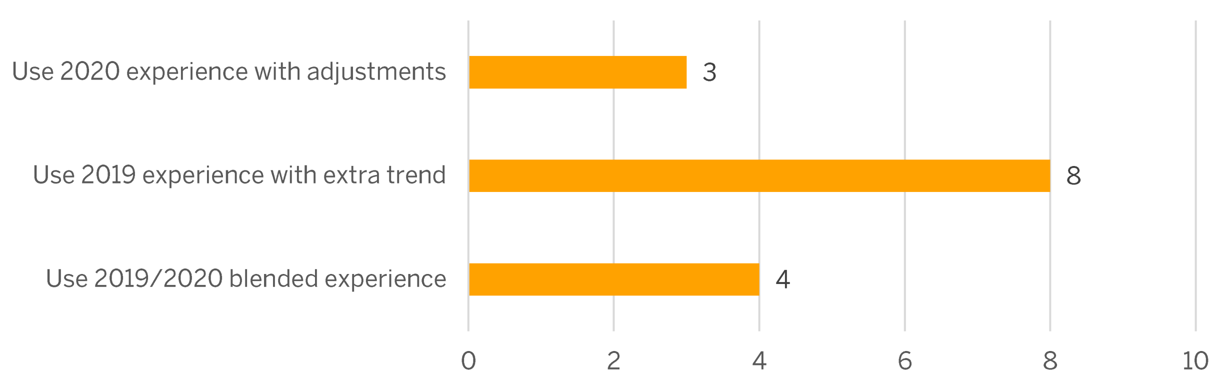
FIGURE 4: 2021 IMPACT ON NET CLAIMS BY LINE OF BUSINESS

Impact	Commercial Group	Commercial Individual/ACA	Medicare Advantage	Managed Medicaid
Greater than a 11% decrease	1	1	2	1
1% to 10% decrease	2	2	**4**	**5**
No impact	1	1	0	1
1% to 10% increase	**7**	**6**	**5**	1
Greater than a 11% increase	0	1	0	0

2022 RATE DEVELOPMENT

Carriers were asked how they are handling the 2020 claims experience for 2022 rate development. Carriers noted a mixture of methods, but eight out of 15 carriers (53.3%) will use 2019 experience with extra trending. The remainder were split between using 2020 experience with adjustments and 2019-2020 blended experience. Both the Centers for Medicare and Medicaid Services (CMS) for Medicare Advantage and the U.S. Department of Health and Human Services (HHS) for ACA plans have provided guidance on acceptable use of alternative base experience periods, such as 2019, for 2022 pricing.

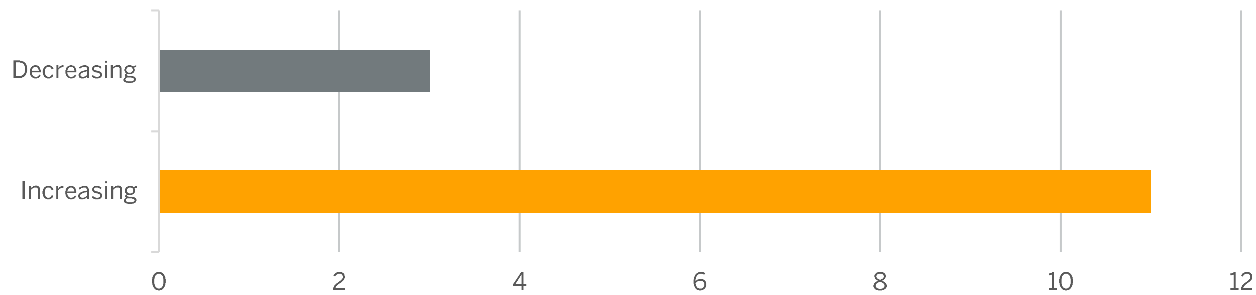
FIGURE 5: EXPECTED METHOD FOR 2022 RATE DEVELOPMENT



IMPACT ON INCURRED BUT NOT REPORTED CLAIM RESERVES

In the survey, carriers were asked whether the net impact of the COVID-19 pandemic was increasing or decreasing their incurred but not reported (IBNR) claims reserves. Of the 14 respondents, a majority (11 carriers, 78.6%) noted that the impact of COVID-19 increased their IBNR claims reserves. Appointed actuaries working on 2020 year-end opinions spent significant additional time assessing the impact the pandemic had on payment patterns as well as the potential impact of their completed 2020 costs to the extent that they were used for 2022 pricing.

FIGURE 6: IMPACT OF COVID-19 ON IBNR CLAIMS RESERVES

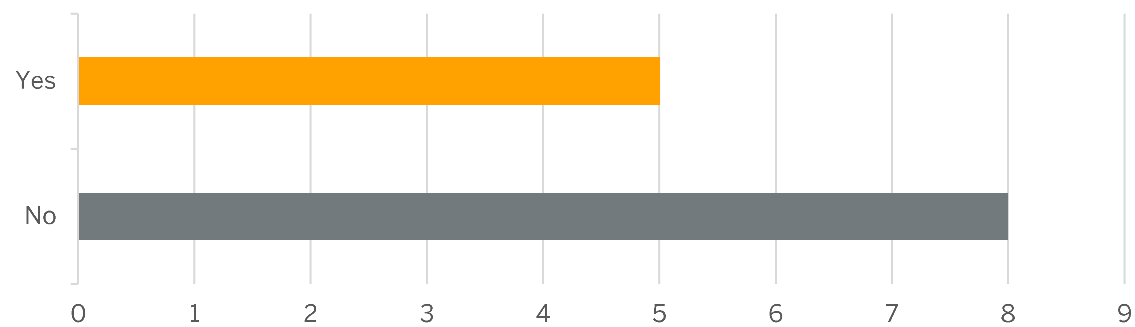


Premium deficiency reserves

BOOKING RESERVES

Eight of the 13 participants in the survey (61.5%) *did not* book a premium deficiency reserve at year-end 2020 as a result of the pandemic.

FIGURE 7: RESPONDENTS THAT BOOKED A PREMIUM DEFICIENCY RESERVE AT YEAR-END 2020

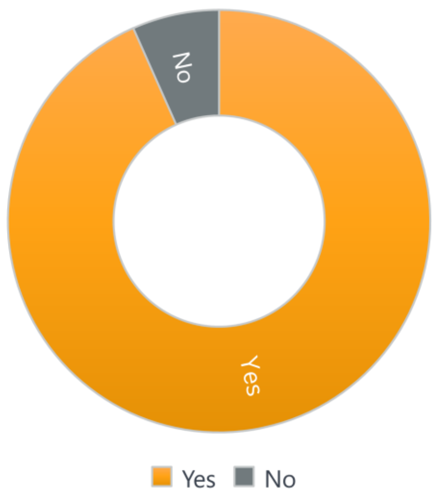


Pharmacy benefits

CHANGES TO POLICIES

At the start of the pandemic, many health plans altered policies to increase member access to pharmacy benefits (e.g., implemented 90-day fills at retail, removed prior authorization requirements, relaxed refill-too-soon edits). Overall, 14 out of 15 carriers indicated that their organizations implemented relaxed pharmacy benefits (93.3%). Ten of those 14 carriers (71.4%) said that these benefits currently remain in place.

FIGURE 8: RESPONDENTS THAT RELAXED PHARMARCY BENEFITS



Additionally, the 10 carriers with relaxed pharmacy benefits in place were asked how long they expected the current policies to be in place. Five expected the policies to remain in place until the end of the public health emergency while the other five said they are currently evaluating on-hand information. We expect the pharmacy landscape will be largely changed after COVID-19, with many members now used to and perhaps expecting relaxed rules to remain in place post-pandemic.

Membership and enrollment

IMPACT ON MEMBERSHIP AND ENROLLMENT

Overall carriers reported that the pandemic's impact on 2020 membership and enrollment varied by line of business. In general, commercial group and Medicare Advantage carriers expected no change in membership and enrollment, while commercial individual/ACA and Managed Medicaid expected an increase. Full results are shown in Figure 9.

FIGURE 9: 2020 IMPACT OF MEMBERSHIP AND ENROLLMENT BY LINE OF BUSINESS

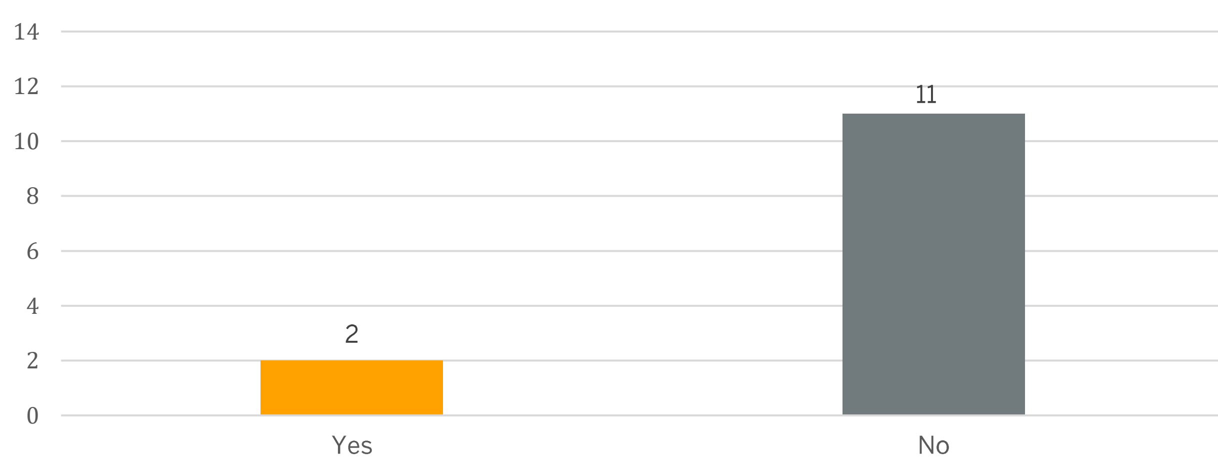
Impact	Commercial Group	Commercial Individual/ACA	Medicare Advantage	Managed Medicaid
Greater than 10% decrease	1	0	0	0
1% to 10% decrease	**3**	1	**3**	0
No change	**4**	**3**	**4**	0
1% to 10% increase	1	**5**	2	**3**
Greater than 10% increase	0	0	0	**3**

Staffing

EFFECT ON STAFFING LEVELS

Most respondents indicated that they did not reduce their staffing levels due to the impact of the pandemic (84.6%).

FIGURE 10: RESPONDENTS THAT REDUCED STAFFING LEVELS DUE TO COVID-19



Regulatory guidance

GUIDANCE FROM STATE DIVISIONS OF INSURANCE

Respondents were asked if they received regulatory guidance from state divisions of insurance or other regulators on how to handle COVID-19 cost impacts in rate development. No respondents indicated receiving such guidance. We note that subsequent to the survey there still was very little, if any, specific rating guidance provided by regulators across the country related to COVID-19.

Acknowledgments

The authors would like to acknowledge the exceptional work of Taylor Paitsel, Research Analyst, in the creation of this report.

The data in this report has been summarized for distribution. Some of the data presented in this report has been aggregated at the total market level. In addition, not all data points collected from the surveys may be shown in this summary report. It is possible that different reviewers of the data could produce different conclusions, particularly for certain market segments, than those that may be drawn from this summary report. As such, readers of this report should be cautious when interpreting the data and making decisions regarding specific results shared here.

In preparing this report, we relied upon data and other information provided by survey participants in the marketplace. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our report may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of this report.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Stuart Rachlin is a member of the American Academy of Actuaries and meets the qualification standards for performing the analyses documented in this report.

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