



Cost Impact of Covid-19 on Employer Sponsored Medical Plans

With the novel coronavirus on everyone's mind, priorities in business have shifted to the health and safety of employees, minimizing the spread of the virus, and business continuity planning.

Employers are also thinking ahead and asking what the financial impact of this pandemic will be on medical plan costs. This is especially true for businesses who self-fund their benefits, and also true for fully insured businesses who are concerned about a downstream impact to their renewals.

The cost impact is one area where we can provide what appears to be some good news. USI expects COVID-19 to have a nearly cost-neutral impact to benefit plans, nationally. In short, the cost impact of COVID-19 infection cases will be offset by elective medical care utilization that will be avoided or cancelled.

On the next page there's a summary of our findings¹ one for a sample group with 1,000 plan members over a 12-month period. Though this example shows a net savings from the COVID-19 impact, we expect the cost impact to be anywhere from zero to two percent unfavorable, depending on industry, geography, and company demographics. In other words, we don't expect any material mid-year adjustments required for self-insured plans and expect there to be minimal impact to renewals for our fully insured customers, given what we know today.

Assumptions & Cautions

The underpinnings of these findings include assumptions about:

- ▶ Expected infection rates
- ▶ The percentage of infected membership that will utilize hospital services versus getting a test and an office visit

- ▶ Average costs of a COVID-19
- ▶ Hospitalization
- ▶ Elective procedure cost and forfeiture rates

We're confident that these assumptions are reasonable and prudent, but actual results may be substantially more favorable or unfavorable than what we have modeled, depending on how our understanding of this disease changes, along with its downstream impact to healthcare costs.

It's also important to note that the financial impact of COVID-19 will not be limited to medical costs.

The economic recession for which COVID-19 has acted as a catalyst will lower certainty about employment, which will in turn increase rates of long-term disability. There are, of course, productivity losses as employees try to work from home with their families also at home, or while caring for loved ones who have fallen ill. Finally, employer groups that have a disproportionate share of workers over 60, or a large number of retirees, should expect to see a greater level of mortality and business disruption.

In Perspective

COVID-19 will create some incremental medical costs, but we expect those costs to be nearly or completely offset by the avoidance or cancellation of other planned elective procedures.

Modeling the cost for this year is something of a novel exercise. However, employers and their consulting brokers must be diligent about integrating the rapid knowledge growth around this disease with the assumptions behind their cost models so that we always have the best possible understanding of how this will affect finances.

Summary of Findings Sample

Covered Member Population **1,000**

| Infected Membership | Optimistic | Pessimistic |
|--|------------|-------------|
| Infection Rate | 20% | 45% |
| Infected Member Population | 200 | 450 |
| % of Infected that will Seek Treatment | 50% | 50% |
| Severe Cases; Hospitalizations | 1% | 2% |
| Average Cost Per Case | \$20,000 | \$25,000 |
| Cost (Rounded) | \$20,000 | \$113,000 |
| Less Severe; Office Visit + Testing | 99% | 98% |
| Average Cost Per Case | \$300 | \$400 |
| Cost (Rounded) | \$30,000 | \$88,000 |

A. Cost of Infected Membership **\$50,000** **\$201,000**

| Worried Members | Optimistic | Pessimistic |
|---|------------|-------------|
| Worried Members Seeking Treatment | 5% | 8% |
| Average Cost of the Test + Office Visit | \$300 | \$400 |

B. Cost of Worried Members **\$15,000** **\$32,000**

| Elective Procedure Avoidance | Optimistic | Pessimistic |
|--|------------|-------------|
| Healthcare Cost Per Member Per Month | \$300 | \$300 |
| % of Healthcare Costs that are Elective | 30% | 30% |
| Infection Rate + Worry Rate | 25% | 53% |
| Elective Procedures Cancelled Due to Infection/Worry | 50% | 25% |

C. Savings Due to Elective Procedure Avoidance **\$135,000** **\$143,000**

| | Optimistic | Pessimistic |
|-------------------------------|-------------------|-----------------|
| Additional Cost=A+B+C= | (\$70,000) | \$89,000 |
| Per Member Per Month | (\$5.83) | \$7.49 |

In the meantime, employers should be communicating a few important points with their employees that may reduce costs in the short-run:

Follow stay-at-home guidelines to avoid infection and to avoid spreading illness. If you suspect a COVID-19 infection, please follow the steps below:

- ▶ First, contact your doctor by phone or telehealth to discuss your symptoms. As an alternative, you may contact the 24-hour nurse line provided by your health plan. Your doctor will determine if you need an in-person visit, a COVID-19 test, or if your symptoms warrant an immediate visit to hospital.
- ▶ Follow [these guidelines](#) published by the CDC to prevent the spread of COVID-19.
- ▶ Remember, some who are infected with COVID-19 are able to recover at home while others will require hospitalization.
- ▶ Avoid the emergency room unless there is an actual emergency.

Our team of experienced consultants, actuaries, communications specialists, and medical professionals are here to help get you through this difficult and confusing time of stress about health and cost.

Reach out to a CohnReznick Benefits consultant to discuss how COVID-19 can be addressed in your greater benefits strategy.

¹Many of the assumptions in our analysis were reached with assistance from our carrier partners, in particular UnitedHealthcare.

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