

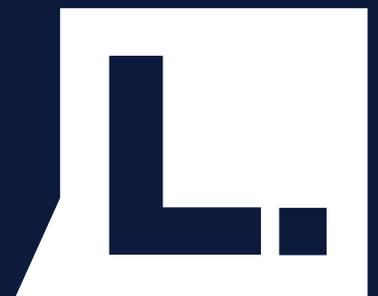
How Do We Project Healthcare Claims Now?

A Review & Summary of the Milliman Report

May 2020

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Volume 1





Milliman Report Estimates the Impact of COVID-19

The recently released Milliman [white paper](#) titled, “Estimating the impact of COVID-19 on healthcare costs in 2020,” provides important insights into the impact of COVID-19 on healthcare costs across the country. The report looks at 18 different scenarios across the three primary healthcare payment models of commercial insurance (think Blues, Aetna, United Healthcare), Medicare and Medicaid. For the purposes of this summary we will focus our attention primarily on the commercial payers and the employer-sponsored model.

Three Factors Impacting Healthcare Claims

The **first** factor identified in the Milliman report is the change in enrollments in commercial, employer-sponsored plans. As businesses have ground to a halt, many have been forced to lay off all or a significant amount of their employees; nationally nearly 30 million people have filed for unemployment compensation. Many of these individuals receive benefits via their employer, and though COBRA is an option, many will end up seeking other lower cost options via ACA exchanges or their spouse’s employer’s plan. To put it simply, these reductions in enrollment mean a reduction in medical services and/or a reduction in insurance premiums.

Three Factors Impacting Claims

Changes in Plan Enrollment
COVID-19 Testing & Treatment
Deferment of Elective Procedures

The **second** factor driving claims cost is the cost of COVID-19 testing and treatment itself. The cost of treatment can be significant; however, outbreaks to-date tend to be localized. This means that the high costs of treatment will not be present in all communities or geographical areas; and therefore, not all businesses will see significant corresponding cost. Of course, for employers who live in so-called “hot spots” and or industries that have been particularly hard-hit by the virus – the impact of treatment on healthcare costs may be significant. Geographic proximity to large populations and social distancing while at work are critical factors in determining impact for each employer.

The **third** and most dramatic potential factor is the elimination or deferment of elective (and in some cases non-elective) procedures. Since medical procedures are not localized like viral outbreaks the result has been large decreases in revenue for providers in lesser hit areas. This has resulted in many care providers being forced to lay off staff. This is especially true for independently owned primary care practices and specialty practices. This reduction in volume will account for significant cost *decreases* in the short-term – and Milliman is suggesting this decrease will stay for the next 12 months – for employer-sponsored plans.



These three factors will be critical in determining the impact to each businesses' healthcare costs. The core challenge in predicting over all costs is that the underlying variability in infection rate. We don't know the duration of the pandemic. Will it resurface as businesses begin to reopen after the initial slowing of the spread? Will there be a second wave in the Fall or Winter months? The Milliman Report acknowledges these complicating questions and limits its analysis to 2020 – not beyond.

How Do We Project Healthcare Claims Now?

The analyses provided in the Milliman report guide specific adjustments to the models we use to do regular claims analysis and budgeting for employers of all sizes. Here are the important adjustments we are making to give businesses a clearer picture of what their claims cost forecast looks like moving forward.

Three Model Adjustments

Change Enrollments

Integrate Regional Treatment Trends

Estimate Specific Treatment Costs

First, claims costs are a direct function of employee count. Therefore, the first adjustment we make is to take existing claims data and trend it out over the course of the year and adjust employee counts to match what the business projects they will be.

The **second** adjustment we will make is to account for the regional trends in medical procedure deferments. Using the Metropolitan Statistical Area (MSA) models from the Milliman Report, we can apply the appropriate regional trends in medical cost reductions to the business in order to anticipate impacts to their specific claim projections. For example, the MSA models predict that Eastern

Pennsylvania and New Jersey are expected to have less medical cost reductions than most of Pennsylvania due to higher infection rates among the population.

The **third** adjustment we are making to our projection models is to account for COVID-19 treatment costs. Overall, these costs will have a relatively small impact when looking at the national or regional level; however, these impacts can be significant for smaller self-funded employer-sponsored plans. For these groups, it is critical that they understand their particular risk factors. Do they have a large number of employees working together, or are they spread out? What percentage of their population have higher risk factors such as diabetes and heart disease? Why are these kinds of questions relevant? Here's why:

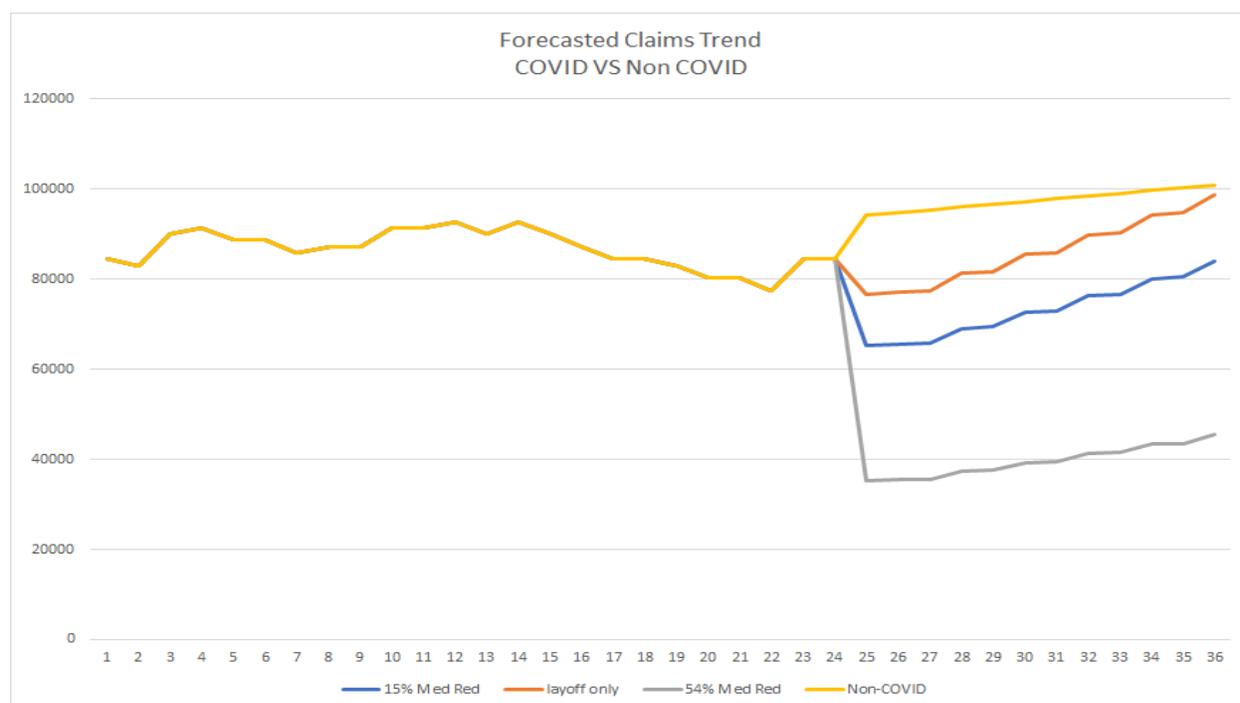
Treatment costs for acute COVID-19 cases are estimated to cost \$40,000 to \$50,000. Businesses that have large populations of employees working in close proximity to one another, with high



rates of underlying risk factors, are at much greater risk that an outbreak in their company will carry substantial medical claims cost.

Example 36-month COVID-19 Claim Impact

To demonstrate the adjustments we are making to how we do claims analyses and projections, here is an example that shows medical costs for a business over a 36-month period – with and without the impact of COVID-19. In Chart 1 below, Month 24 is the start of COVID-19 impact. The gold line is a cost trend line in a non-pandemic year. The orange line represents some layoffs with anticipated gradual rehiring over the next 12 months. The blue and gray lines build in the high and low medical cost impacts due to deferred treatments for Southeastern Pennsylvania based on the MSA models from the report.



Conclusion

During the initial outbreak, it appeared reasonable to expect that medical costs nationwide would sky-rocket as we raced to fight the disease. However, the impact of the factors detailed here have produced a trend in the opposite direction – resulting in lower costs to many self-funded employer-sponsored health plans in the short term. This is good news for many businesses that are struggling financially in the current economic downturn. However, there is still significant uncertainty about the length and severity of the COVID-19 pandemic. Therefore, we will continue to work closely with businesses to understand the impact of the COVID-19 pandemic on their people and their medical claims cost over the next 3, 6, 12, and 18 months.

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