BROWN & BROWN STOP LOSS SURVEY FOR COVID-19 EXPENSES

In April 2020, the Brown & Brown Stop Loss team contacted 13 of our preferred employer stop loss insurance companies, asking them to outline the effects of COVID-19 on the in-force 2020 stop loss polices and future renewals. The responses from the stop loss insurance carriers which were surveyed (the "Carriers Surveyed") are discussed below.

COVID-19 Impact on 2020 Medical Cost

Much remains to be learned about the COVID-19 infection, effective treatments, and long-term financial impact. Actuaries, underwriters, and economists use models to project the impact. There is considerable variation in projection by metropolitan service area, employer type, and enrollment. And while the old saying goes "all models are wrong, but some are useful", we believe the following are directionally sound.

In a recent report[1], Milliman estimated that overall 2020 employer medical spending will likely decline by 3% under the worst-case scenarios and by 26% in the best-case scenarios. Using mid-range assumptions including a second wave outbreak in 2020, Milliman projects 2020 spending may decrease by 22%. These finding echo a recent study by Willis Tower Watson. Updating their April study showing that costs may rise as much as 7% due to COVID-19 cost, the May study[2] by Willis Towers Watson estimated that COVID-19 may reduce employer health care costs by as much as 4% in 2020.

These projections assume that additional COVID-19 spending will be offset by cost savings that result from declining enrollment (due to layoffs) and the reduced utilization for routine, preventive, and acute care treatment foregone (and likely not repeated) and elective procedures deferred to a future date..

Impact of COVID-19 on 2020 Employer Stop Loss

Most of the underwriters from the Carriers Surveyed do not anticipate that COVID-19 will significantly increase 2020 specific recoveries. They

Key Findings

Employer stop loss underwriters do not expect that in force 2020 employer stop loss insurance coverage will be adversely affected by the unexpected COVID-19 expenses.

Nevertheless, as COVID-19 impacts covered services, benefit plans, and enrollments, employers and brokers must pay close attention to documenting these changes and notifying their stop loss insurers as required by their policies to ensure that the 2020 stop loss policies respond as expected.

Currently, stop loss underwriters do not expect increases in 2021 rates for specific excess or individual stop loss insurance, but they do anticipate that the rates, aggregate retention factors, and benefit limits may be adversely impacted.

Unlike larger employers, small group employers and/or those purchasing employer stop loss insurance with lower deductible and attachment points may experience some benefit from stop loss in 2020 but may be materially impacted by any 2021 increases.

[1] "Estimating the impact of COVID-19 on healthcare costs in 2020." Milliman experts Hayley Rogers, FSA MAAA, Doug Norris, FSA MAAA, and Matt Kramer, FSA, CERA, MAAA
[2] https://www.willistowerswatson.com/en-US/News/2020/05/covid-19-could-reduce-employer-health-care-costs-due-to-care-deferral-wtw-analysis-finds

caution that results will be determined by infection and hospitalization rates, employer group size, and selected deductibles. That said, they expect that only stop loss insurers with high concentrations of small group clients with low specific deductibles will be adversely affected.

They expect that while hospitalizations have been more frequent and the acuity and lengths of inpatient stays and post-acute care are more intensive than typical pneumonia and respiratory conditions, COVID-19 does not appear to generate a material number of catastrophic claims. According to FAIR Health, an independent nonprofit, the estimated billed charges for a 6-day hospital stay averages $73,300, while the amounts paid by insurers average $38,221. Reflecting the increased acuity and post-acute needs, Milliman suggests individual cases may cost up to $100,000 – still far less than $150,000, the most common specific deductible purchase by most self-funded employers.

Aggregate stop loss insurance also generally does not appear adversely affected, as overall medical and prescription drug spending is expected to decline in 2020. That said, while spending will likely decrease, employers may not see similar decreases per-employee-per-month, as any enrollment reduction will reduce the denominator in the calculation.

Obviously, the actual COVID-19 amounts recoverable under the stop loss policies specifically will depend upon a number of variables, including but not limited to policy language, individual and annual stop loss deductibles selected, the size of the group, the number of members admitted to the Intensive Care Unit (ICU), the number of members who receive mechanical ventilation, and the final lengths-of-stay.

Attention To Policy Details Critical To Maintaining Coverage

The Carriers Surveyed anticipate that employer stop loss policies will cover unexpected and unforeseen expenses as well as fees that arise from testing, medical treatment, or other claim-related activity that may be incurred and paid under the terms of the policy as long as those eligible expenses are included in the underwritten benefit plan. This includes expenses related to testing and treatment of COVID-19 including telemedicine.

All underwriters caution, however, that COVID-19 has generated numerous voluntary and required changes to covered services, benefit plans, and enrollments. Employers must pay close attention to documenting these changes and notifying their stop loss insurers as required by the policy in order to help ensure that the 2020 stop loss policies respond as expected. Consider the following:

- Notification of Changes
- Enrollment Changes
- Re-rating and Recalculations
- Cash Flow Impact
- Enrollment Impact on Minimum Premiums and Retentions
- Exclusion of Experimental and Non-U.S. Food and Drug Administration (FDA) Approved Treatments, Testing, and Immunizations
- Actively-At-Work Definitions
- Open Enrollment and Mid-Term Additions
- Experience Refunds, Dividends, and Profit Shares
- Notification of COVID-19 Positive Members

Notification of Changes

While most of the stop loss carriers surveyed have relaxed their own notification requirements and re-rating triggers, you should always refer to the provisions included in your stop loss policies for specific notification and recalculation provisions. For safety's sake, it is advised that written notice be provided to the employer stop loss insurer if their original benefit plan is amended for any of the situations listed below. This list is not exhaustive and it is also advisable to providing the stop loss insurer of any changes to the original benefit plan.

- To allow for mandated waivers of employee cost sharing associated with testing for COVID-19
- To waive employee cost-sharing for inpatient treatment and/or alter coverage for treatment by out-of-network providers
- To expand, extend, or alter original plan benefits
- If enrollment decreases due to furloughs, layoffs, and reductions-in-force due to COVID-19
- To continue coverage to employees insured through COBRA
- To waive or reduce timelines for all employees who are in a waiting period or for previously covered employees returning to work in order to provide them with coverage under the plan

Enrollment Changes

Changes in enrollment may require modification to plan documents and require advance notice to the stop loss insurer. Generally, the stop loss carriers reported they expect that new and former employees will be covered by the stop loss policy provided that the plan is amended to provide coverage for them, premium for them continues to be paid, and their claims are funded. This includes former employees continuing coverage through COBRA if COBRA premiums are paid and the employee remains covered under the plan. This generally applies whether COBRA premiums are paid by the employee or another party on the employee's behalf.

Employers will be required to provide proof of eligibility and coverage should reimbursement be sought for any of these members.

Re-rating and Recalculations

While modest decreases in enrollment due to COVID-19 will generally not trigger recalculation of rates, deductibles, or factors, larger enrollment decreases may result in re-rating. Refer to the provisions included in your stop loss policy.

Cash Flow Impact

The majority of the Carriers Surveyed have extended their standard payment grace periods to 60-days. Most panel insurers continue to honor Specific Advance Funding and Monthly Aggregate Accommodation but may alter these in the future. Employers should be aware of what their respective stop loss carrier is doing.

Enrollment Impact on Minimum Premiums and Retentions

Enrollment is expected to decline during 2020 as the result layoffs and furloughs. (The general thinking is that 2/3 of the individuals will transfer to Medicaid or remain uninsured.) These enrollment decreases will have 2 effects: employers will may not see a corresponding decrease in per-member cost as any savings would be amortized over a lower enrollment, and the lower enrollment will impact the calculation of aggregate per employee per month expense, aggregate retentions, and premiums. Client employers should be aware of any minimum premiums and/ or minimum aggregate retentions that may limit reductions for premiums and retention.

Exclusion of Experimental and Non-U.S. Food and Drug Administration (FDA) Approved Treatments, Testing, and Immunizations

All of the Carriers Surveyed reported that they will exclude coverage for experimental and/or non-FDA approved treatments and off-label use of pharmaceuticals. These exclusions may reduce reimbursement. If a drug or treatment is approved by the FDA to treat COVID-19, the stop loss insurers will generally provide coverage if the employer also amends its plan to approve these treatments.

To date, the FDA has granted "emergency expanded access" to inhaled nitric oxide delivery system for treating the novel coronavirus, emergency use of hydroxychloroquine sulfate and chloroquine sulfate, emergency use authorization for blood purification via therapeutic apheresis/plasmapheresis in those >18 years admitted to the ICU with confirmed or imminent respiratory failure, and numerous tests and testing kits. Employers should amend their plans to include these treatments.

Similar experimental treatments and immunizations, when approved by the FDA, are considered preventative care and costs associated are usually covered as eligible expenses under the stop loss policy if included in the benefit plan.

Actively-At-Work Definitions

Under some benefit plans and stop loss policies, furloughed employees or those working off-site or at home may not meet actively-at-work eligibility requirements. While most of the Carriers Surveyed follow the actively-at-work definition in the underlying plan document or employer eligibility guidelines, some have specific actively-at-work/actively-at-life provisions that they may waive upon receipt and review of updated disclosure data and potential re-rating. Refer to the specific stop loss policy for details.

Open Enrollment and Mid-Term Additions

Most of the panel insurers will honor special open enrollment periods or mid-year due to the COVID-19 pandemic only consistent with state and federal mandates.

Experience Refunds, Dividends, and Profit Shares

While eligibility for experience refunds, profit shares, and dividend programs are generally contingent upon future policy renewal with the incumbent stop loss insurer, employers may have a higher likelihood of earning these benefits on 2020 policies as the result of lower spending due to the deferral of routine and preventive care and the postponement of elective procedures. These potential benefits are contingent upon meeting certain criteria. They are neither quantifiable nor paid until well after the close of the 2020 stop loss policy. Consequently, they are not recognizable savings until results are known.

Notification of COVID-19 Positive Members

Among the Carriers Surveyed, only ULLICO Inc. requires notification of any current member testing positive for COVID-19. However, employers should always check their specific stop loss policy.

COVID-19 Impact on 2021 Stop Loss Renewal Rates

When asked how COVID-19 will impact 2021 rates, each of the Carriers Surveyed reported that it is too early to forecast the actual impact on 2021 and renewal rates. This is not unexpected. Given 60-day reporting lags, the majority of the COVID-19 expense in March, April, and May will only now become known. As expected, early March results have shown spending reductions consistent with the deferral of routine, preventative, and elective care.

The consensus is that they will adjust their normal annual inflation factors to reflect the expected incremental change from COVID-19.

It is standard practice for employer stop loss insurance rating manuals to be updated yearly to reflect annual medical inflation (i.e. increased unit cost, utilization, and treatment modalities). In June 2019, Pricewaterhouse Cooper's Health Research Institute (HRI)[3] reports that healthcare spending (medical and pharmaceutical) increased 5.7% annually for 2018 and 2019. The report issued prior to the COVID-19 pandemic, projects 2020's medical cost trend to be 6%.

(Note: Given the leverage effect of medical inflation excess of specific deductibles, a 6% annual inflationary increase yield between 13% and 15% increase in excess loss cost depending on specific deductible level. These expected losses are then marked-up (generally 20% to 30%) to include insurance company loads and produce manual premium rates. Some underwriters will further adjust these rates for the employer's loss experience.)

Given the lack of actual experience, similar historical precedent, and the fluidity of the situation, reliable estimation the impact of COVID-19 over the next 18 to 24 months may be difficult to do with any precision. Thus, underwriters will rely on limited 2020 claims experience and modeling to ultimately estimate the impact of COVID-19 on overall employer medical spending and ultimate stop loss rates. Depending on the likelihood, timing, and magnitude of a second wave of COVID-19 as well as demand for services that had been deferred, some of these models show excess spending increases in 2021.

The following are factors that will likely be considered: The portion of the expense reimbursed excess of the annual per person stop loss deductibles

- Full or partial recoupment of 2020 loss paid
- Run-in of payments for COVID-19 cases incurred in the 60-days of the prior policy period
- Employer's regional, industry, and actual infection rate and number of COVID positive members
- The potential cost of a second wave in testing, infections, immunizations, and treatments cost when the interventions are lifted and exposure increases
- Expected increase spending for behavioral health services and extended quarantine and post-acute care for discharged patients
- Likely increases in future unit cost due to medical inflation, supply chain limitations, and higher provide costs
- Pent-up demand and the cost of postponed routine and elective medical care once things begin to return to normal
- The potential higher acute care and treatment costs resulting from the delays in less costly early intervention, preventive care, and elective treatment

Considering these factors, the underwriters suggest that there may be an uptick in 2021 aggregate claims costs beyond the normal inflationary expectation. They indicate they will likely reflect these increases in by increasing minimum aggregate retention factors, reducing the availability of aggregate benefits, and modestly increasing aggregate stop loss rates.

Most underwriters suggest that they do not anticipate that COVID-19 will significantly increase 2020 specific

[3] https://www.pwc.com/us/en/industries/health-industries/assets/pwc-hri-behind-the-numbers-2020.pdf

recoveries or impact on the 2021 specific stop loss rating due to COVID-19.

As COVID-19 related expense matures over the next 90 days, we expect that underwriter will look more closely at aggregate stop loss rates than ever before. While underwriters report that there may be premium increases, they expect to retain or increase aggregate retention factors and reduce the available aggregate benefit limits. Employers purchasing aggregate stop loss with aggregate retention factors under 120% and/or requiring aggregate benefits greater than $2M, may face material change in coverage and cost.

Obviously, results will vary depending on employer size, industry, region, and stop loss coverage. Employers should model the potential impact of their program.

To try to minimize the impact of any increases, employers are advised to document and make available to underwriters the following information if requested:

- All COVID-19 related spending
- The monthly amounts paid by individual for those hospitalized with COVID-19 along with diagnosis and prognosis
- All policies, procedures, and activities taken consistent with CDC guidelines to minimize infection rates and ensure safe work environment

Finally, all employers should seek to add and improve the experience refunds, dividend, and profit-sharing provisions in the stop loss policies and attempt to remove the renewal eligibility requirement. If due to the uncertainties regarding future COVID-19 spending underwriters are unwilling to provide premium concessions, these provisions may offer some degree of premium reduction if the losses do not materialize. We recommend that all employers discuss these issues with their broker.

Summary

The COVID-19 situation is fluid. With attention to ongoing benefit plan amendments and proper notification, employers and brokers should expect their employer stop loss insurance will cover current and future COVID-19 related spending. The benefits available under these policies, however, will vary depending on group enrollment, individual stop loss deductibles, aggregate retention factors, and available aggregate benefit limits. Until current COVID-19 experience matures, the impact on renewal rates is uncertain. Employers and brokers can minimize any potential increases by aggressively marketing stop loss insurance, adding and strengthening experience refund provisions, and documenting COVID-19 spending experience and loss prevention initiatives.