Coronavirus Advisory

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COVID-19: Potential Impact to 2020 Financial Performance for Private Insurers

COVID-19 is without a doubt one of the fastest-evolving global health crises in modern history, rivaling the Spanish flu pandemic of 1918. Amongst other things this situation puts strain on the finances of private insurance companies who bear risk for fully insured group and individual policies.

The ultimate effects on 2020 health spending in the United States are still unknown and depend on many factors including: how many people contract COVID-19 and of those the number with severe symptoms requiring hospitalization, whether new treatments are found in 2020, and whether actual constraints in the medical system such as limited number of beds and protective equipment cause some patients to be turned away. Although social distancing measures are being adopted, according to Johns Hopkins the number of COVID-19 cases in the United States is growing and will likely continue to grow. This increase will likely lead to more hospitalizations and higher hospital spending. If the majority of incidence of COVID-19 takes place in 2020, then much of the higher spending will take place in 2020.

What does this mean for private insurers for 2020? 2020 rates for fully insured products are locked in already and cannot be changed. Health spending for 2020 could be higher than predicted due to the COVID-19 outbreak, leading to insurers making less margin than their 2020 premium rates had accounted for. In addition, insurers may see lower revenues if employer groups and individuals are no longer able to afford to pay their premiums, leading to additional financial losses. Well capitalized insurers, that is, ones who have sufficient claim reserves, will be better prepared to weather the impact during 2020 than those who are not. Insurers build up reserves specifically for unforeseen incidents such as the current COVID-19 outbreak, and may elect to use those reserves to offset any losses incurred outside of what was expected in their 2020 pricing.

Insurers are currently developing 2021 fully insured premium rates. They typically use historical claims information available to them as a basis, plus they may make adjustments for events that they anticipate to happen in the upcoming year that would be different than what they have experienced prior. They will be making a determination as to the 2020 and potential 2021 impacts of COVID-19 claims to their needed premiums and will make adjustments based on the best available information. This includes their determination if they need to make any margin adjustments to replenish reserves used to offset losses incurred in 2020 as a result of the outbreak. If you are a fully insured entity, monitor communications from your insurer and their representatives for more information about how they plan on handling the future impact of COVID-19 claims in their 2021 pricing. In addition insurance regulators will likely monitor adjustments to future premiums for reasonableness. With uncertainty comes conservatism in insurer rate pricing, and the regulators will work with the insurers to make sure any adjustments are appropriately validated and supported by reasonable assumptions.