



Sequoia Insights

Employer 2021 Healthcare Cost Considerations Resulting from COVID-19

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Introduction

Among the many financial consequences of the COVID-19 pandemic, there will likely be a meaningful impact on 2021 health plan costs. As the pandemic continues to unfold, there are many variables to consider. It will be crucial that companies who have a self-funded medical plan monitor and revise projected costs as additional data presents itself.

Companies will need to ask themselves:

How will the COVID-19 pandemic impact my 2021 healthcare costs?

In our April 2020 Sequoia COVID-19 Survey Insights Overview, 30% of companies expected COVID-19 to have an impact on healthcare costs in 2020/ 2021. Over half of those companies expected the increase to be greater than 5%.¹

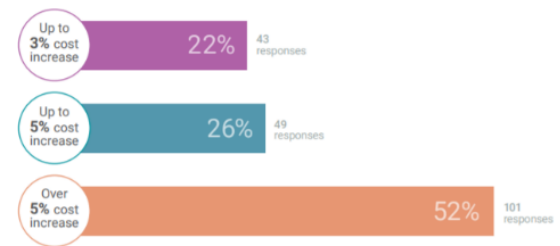
Consider the following factors for your COVID-19 healthcare cost projections:

- Testing costs
- Treatment costs
- Deferral and rebound of elective cost procedures and fewer accidents
- Mental health impact and productivity loss
- Unemployment and COBRA factors

Are you anticipating COVID-19 to have an impact on your company healthcare costs in 2020/2021?
634 responses



If yes, what do you think the impact may be?
193 responses



Source: Sequoia COVID-19 Survey Insights²

Testing Costs

A recent estimate shows an expected cost of \$51 per COVID-19 test but may range between \$50-\$100.³ Good public policy dictates that we should eliminate as many barriers as possible to testing. Companies like Amazon are paving the way to provide regular, global testing for all employees⁴. We can expect these strategic goals to make its way to other companies as they think about re-entry into the workplace.

¹ IBID

² [Sequoia COVID-19 Survey Insights Overview](#)

³ <https://www.bloomberg.com/news/articles/2020-03-15/coronavirus-tests-from-labcop-quest-will-cost-50-to-100>

⁴ <https://www.bloomberg.com/news/articles/2020-04-16/amazon-s-jeff-bezos-wants-to-test-all-employees-for-covid-19>

Treatment Costs

Some studies show that the average cost to treat a hospitalized patient with the virus is \$38,221.⁵ However, it has been estimated that 50% of individuals who contract COVID-19 either do not have symptoms or have a mild case and do not seek medical care; only 15-20% will need to be hospitalized.⁶ There are several factors to consider when projecting treatment costs for COVID-19, including:

Severity of COVID-19 Presentation

As mentioned above, COVID-19 presents itself in many ways. Many individuals may be asymptomatic, but others are found in critical care. The cost of COVID-19 per infected patient can range from \$0 to over \$200,000. In most cases, we don't expect hospitalization costs at high enough levels to significantly impact specific stop loss premiums for large self-funded companies.⁷

COST ESTIMATES OF DIFFERENT COVID-19 DISEASE STATES

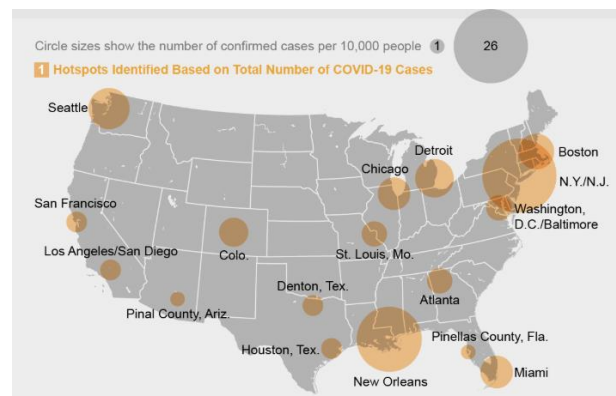
Total Treatment Cost	Asymptomatic	Mild	Moderate	Severe	Critical	Deceased
Low Estimate	\$0	\$0	\$100	\$4,000	\$63,000	\$100
Mid Estimate	\$100	\$200	\$200	\$30,000	\$143,000	\$102,000
High Estimate	\$300	\$300	\$600	\$57,000	\$242,000	\$172,000

Source: SOA.org⁸

Location Factors

While cost of care has always varied significantly based on geography, New York City has become the epicenter of the virus. More and more hotspots are appearing, especially when you look at confirmed cases based on the size of the population in that geography. Because COVID-19 is primarily transmitted by respiratory droplets, population density has a significant role in infection rates.⁹

States are now mulling plans to reopen economies. Final decisions on re-entry will be made by each state's governor. Areas that are too aggressive on re-entry may suffer second waves of COVID-19 impacts.



Source: Scientific American¹⁰

⁵ <https://s3.amazonaws.com/media2.fairhealth.org/brief/asset/COVID-19%20-%20The%20Projected%20Economic%20Impact%20of%20the%20COVID-19%20Pandemic%20on%20the%20US%20Healthcare%20System.pdf>

⁶ ibid

⁷ <https://nyhart.com/News/Article/164>

⁸ <https://www.soa.org/resources/research-reports/2020/covid-19-cost-commercial/>

⁹ https://www.cdc.gov/mmwr/volumes/69/wr/mm6915e4.htm?s_cid=mm6915e4_x

¹⁰ <https://www.scientificamerican.com/article/map-reveals-hidden-u-s-hotspots-of-coronavirus-infection/>

Age/Sex Factors

Patterns have shown that older individuals, presumably with more underlying health conditions, need more intense hospitalization and care to manage COVID-19 infection and there is a higher rate of mortality.

COVID-19 HOPITALIZATION RATES FOR DIFFERENT AGE COHORTS

Age Cohort	Under 10	10-19	20-29	30-39	40-49	50-59	60-69	70-79	80+
Hospitalization Rate	0.1%	1.0%	1.0%	3.4%	4.3%	8.2%	11.8%	16.6%	18.4%
Mortality Rate	0.0%	0.0%	0.0%	0.0%	0.2%	0.6%	2.0%	4.3%	7.8%

Source: SOA.org¹¹

In one of the first clinical reports describing cases in China, findings showed that among 40,000 cases there was a 2.8% fatality rate for men compared with only 1.7% for women.¹² Italy showed another study where 80% of 1,500 ICU COVID-19 patients were men.¹³ In New York City, men are making up 56% of the cases and 61% of the deaths.¹⁴ For populations with more males, potentially consider a higher expected infection rate.

Other Risk Factors

People of all ages with underlying medical conditions, particularly if not well controlled, are at a higher risk of COVID-19 complications¹⁵. Conditions such as:

- People with chronic lung disease or moderate to severe asthma
- People with diabetes
- People who have serious heart conditions
- People who are immunocompromised due to factors like:
 - Cancer treatment
 - Smoking
 - Bone marrow or organ transplantation
 - Immune deficiencies
 - Poorly controlled HIV or AIDS
 - Prolonged use of corticosteroids and other immune-weakening medications
- People with severe obesity (body mass index [BMI] of 40 or higher)
- People with chronic kidney disease undergoing dialysis
- People with liver disease

Companies with populations that have greater prevalence related to these underlying medical conditions may have more severe disease states due to COVID-19. It is important to look at clinical utilization data to assess the potential impact.

¹¹ <https://www.soa.org/resources/research-reports/2020/covid-19-cost-commercial/>

¹² <https://www.npr.org/2020/04/08/830205897/scientists-want-to-know-why-more-men-than-women-are-apparently-dying-of-covid-19>

¹³ *ibid*

¹⁴ <https://www.cnn.com/2020/03/25/almost-half-new-york-citys-coronavirus-patients-are-under-45.html>

¹⁵ <https://www.cdc.gov/coronavirus/2019-ncov/need-extra-precautions/groups-at-higher-risk.html>

Future Costs

To date, there are no specific vaccines or medicines for COVID-19. Treatments are under investigation and will be tested through clinical trials. Large clinical trials on patients take time but are the only way to determine whether these treatments are effective and safe.

We are hearing promising developments with: Remdesivir (developed to block infection with related coronaviruses and even Ebola), Lopinavir/ritonavir (used against viruses like HIV and used to treat multiple sclerosis), and Chloroquine and hydroxychloroquine (used to treat malaria and lupus).¹⁶

Manufacturing costs for these drugs are low cost and most have already been produced in mass. This is good news for future treatments before a vaccine is developed.

Estimated manufacturing costs are shown below.

DRUG (CHEMICAL NAME)	COST PER TREATMENT (US\$)
Remdesivir	\$9
Favipiravir	\$20
Lopinavir/ritonavir	\$4
Hydroxychloroquine	\$1
Chloroquine	\$0.30
Azithromycin	\$1.40
Sofosbuvir/daclatasvir	\$5
Pirfenidone	\$31
Tocilizumab	n/a

Source: Bloomberg News¹⁷

Elective/Non-Urgent Procedure Deferrals & Accident Reductions

Increases in COVID-19 testing and treatment cost could be offset in part by short term reductions in elective services, non-urgent procedures, and fewer accidents. The Centers for Medicare and Medicaid Services (CMS) recommended all elective surgeries and nonessential medical, surgical, and dental procedures be delayed during the COVID-19 outbreak.¹⁸ The duration and severity which elective procedures are deferred will depend on many factors including: provider capacity, region (COVID-19 “front line” states such as CA, NY, WA), supply of personal protective equipment, staffing, COVID-19 testing capability, impact of social distancing measures, and more.

As fewer motorists are on the road and many states have ‘stay at home’ orders, we can expect fewer accidents which should also help medical claim costs. State Farm has seen about a 35% decline in miles driven by policyholders since states began implementing stay-at-home directives.¹⁹

When ‘stay at home’ orders are loosened, we will eventually see a rebound for pent-up demand. Moreover, we may see some ‘at-risk’ individuals experience deterioration due to limited access and prolonging appropriate medical care. This might drive overall costs higher for these individuals.

¹⁶ <https://www.sciencealert.com/these-drugs-are-being-tested-to-stop-covid-19-how-do-they-work>

¹⁷ <https://www.bloomberg.com/news/articles/2020-04-10/potential-coronavirus-drugs-may-cost-as-little-as-1-study-says>

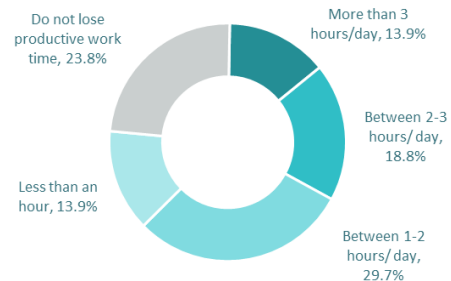
¹⁸ <https://www.cms.gov/files/document/cms-non-emergent-elective-medical-recommendations.pdf>

¹⁹ <https://www.chicagotribune.com/coronavirus/ct-state-farm-returning-2-billion-20200409-635ovhuenrd5ddrn3zraciypk4-story.html>

Mental Health Impact & Productivity Loss

Although it's too early to tell the official effects of the COVID-19 on mental health, it is anticipated that COVID-19 will have a meaningful impact. A recent study showed that for every demographic, including individuals over the age of 55, 69% of workers claimed this was the most stressful time of their career (beyond other major events like the September 11 terror attacks and the 2008 Great Recession). In the same study, 62% of workers reported losing at least one hour of productivity a day due to COVID-19 related stress.²⁰

Hours of Productive Work Time Lost Each Day as a Result of COVID-19 Pandemic-related Stress



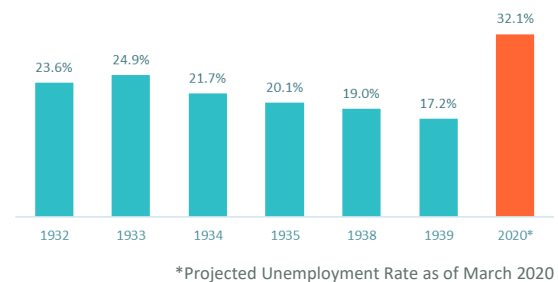
Source: Ginger COVID-19 Report²¹

The good news is that we are already seeing companies like Starbucks, PwC, Target and SoFi enhance their mental health benefit programs.²² Additionally, we are already seeing a meaningful impact in acceptance and utilization of virtual care, something companies have been struggling to get adoption.

Unemployment and COBRA Factors

Some are anticipating 2020 to yield the highest unemployment rate in the US since the Great Depression.²³ With less people on company-sponsored plans, this will potentially lower the total healthcare cost spent. However, it's a double-edged sword. Medicaid, state insurance exchanges are places where individuals may enroll in affordable healthcare coverage if they qualify for it. Nonetheless, individuals like to keep the healthcare coverage they have, *especially* in a health pandemic.

Predicted Unemployment Higher Than The Great Depression
Highest Unemployment Rates in History



Source: Statista²⁴

There is discussion around government subsidization of COBRA premiums for workers who lose their job or are furloughed. The government subsidized 65% of the cost of COBRA as part of an economic stimulus package in 2008 during the last recession. Time will tell how this plays out.

²⁰ Ginger COVID-19: Four Radical Changes in U.S. Worker Mental Health Needs, April 2020

²¹ ibid

²² <https://www.businessinsider.com/companies-offering-more-mental-health-benefits-amid-coronavirus-2020-4>

²³ <https://www.cnbc.com/2020/03/30/coronavirus-job-losses-could-total-47-million-unemployment-rate-of-32percent-fed-says.html>

²⁴ <https://www.statista.com/chart/21329/highest-unemployment-rates-ever/>

Other Considerations

In reaction to the pandemic, many Pharmacy benefit managers (PBMs) have relaxed potential barriers to care to ensure adequate supply and access to medications for members. These are provisions that sponsors had intentionally built into their programs to manage cost and care. More time and additional data will show us if these strategies will add cost for plan sponsors or increase drug trend.²⁵

The COVID-19 pandemic is also leading the way for widespread acceptance in telemedicine. Telemedicine is more convenient and generally less expensive than an average primary care office visit. Many states have taken action to remove policy barriers to telehealth utilization and insurers and companies are seeing a huge spike in utilization. As telemedicine providers evolve to meet the demand, telemedicine is here to stay.

For dental and vision care, we expect a significant decrease in utilization while 'stay at home' orders are effective. When orders are lifted, estimates show that medium/low severity services would resume at 70% of pre-pandemic levels.²⁶

Summary

The range of possible healthcare cost impact for 2021 could vary ten-fold depending on the severity, duration, and economic ripple effects of the pandemic. There will be some offset from reduced elective procedures and fewer accidents. This offset will uptick when the pent-up demand is released. Mental health and other economic factors will have an impact, but we will have to wait and see how far and how deep COVID-19 cuts before we can accurately predict how this will impact healthcare costs.

According to a new report prepared for America's Health Insurance Plans (AHIP), the cost to US health insurers of the COVID-19 pandemic could be anywhere between \$56 billion and \$556 billion in 2020 and 2021 combined, depending on infection rates.²⁷ Fully-insured carriers will soon need to make determinations on premiums for 2021 with very limited information. Likewise, self-funded programs will be faced with similar decisions. In the meantime, it's important to have estimated cost projections and iterate on them throughout the next several months when additional data and corresponding trends unfold.

Now is the time to make sure your healthcare programs are doing more to support your company's critical path. Sequoia is here to help you define and maintain a smart, cost-effective strategy that balances what is best for your business with what is best for your people. At Sequoia, we will work with you on cost-savings strategies to mitigate your cost impacts due to COVID-19.

Up Next

Sequoia Insights: Strategies for Cost Mitigation Due to COVID-19 Impact

Virtual Webinar Series, [The Grove Sessions:](#)

[Optimizing a Self-Funded Healthcare Program in Our New World](#)

May 5th at 8:30 AM PDT

²⁵ <https://us.milliman.com/en/insight/How-the-pharmacy-benefit-industry-is-reacting-to-a-pandemic>

²⁶ <https://milliman-cdn.azureedge.net/-/media/milliman/pdfs/articles/covid-19-impact-dental-utilization.ashx>

²⁷ <https://www.ahip.org/wp-content/uploads/AHIP-COVID-19-Modeling.pdf>