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What If COVID-19 Lowers Health Claims?

There are early signs that the pandemic could reduce the overall morbidity costs.

By Allison Bell | April 09, 2020



(Credit: Shutterstock)

Some auto insurers' "Shelter in Place" premium rebates have raised the possibility that efforts to fight the COVID-19 pandemic sharply reduce claim costs for some life insurance and health insurance lines.

State and municipal agencies throughout much of the country have told people to stay at home as much as possible, and federal and state agencies have told health care providers to postpone as many elective procedures as possible, to reduce the risk that patients and health care workers will give each other severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) — the virus that causes COVID-19 pneumonia, heart inflammation and kidney damage — and to conserve ordinary personal protective equipment.

(Related: COVID-19 Could Cost Commercial Plans \$499 Billion: Fair Health (<https://www.thinkadvisor.com/2020/03/25/covid-19-could-cost-commercial-plans-499-billion-fair-health/>))

The U.S. Centers for Disease Control and Prevention (CDC) told dentists March 26, for example, that they should see patients only for emergency dental care, (<https://www.cdc.gov/coronavirus/2019-ncov/hcp/dental-settings.html>) and that they should “use the highest level of person protective equipment available.”

“If available, wear gloves, a gown, eye protection (e.g. goggles or a disposable/reusable face shield that covers the front and sides of the face), and an N95 or higher-level respirator during emergency dental care for patients without COVID-19,” the CDC told dentists.

The Patient Volume Impact

Some hospitals are treating many patients with COVID-19. In Jersey City, New Jersey, for example, Christ Hospital has reported that 133 of the 163 patients in the hospital Wednesday had COVID-19 or were people being tested for COVID-19. The number of patients with COVID-19 is up from none March 16.

But the total number of patients at Christ Hospital was up only modestly, from 136, on March 16.

Analysts at Moody's Investors Service have estimated that efforts to postpone elective procedures, to avoid spreading COVID-19 and to free up care resources for people with COVID-19, could cut many hospitals' revenue by about 40% during “shelter in place” months.

Sarasota Memorial Health Care System reported Friday that it was reducing some workers' hours and furloughing others due to a drastic drop in patient volumes and revenues due to pandemic disruption. At the Sarasota hospital, the number of hospital inpatients has been down 30% at the hospital and the number of surgery cases has been down 50%. Volume at urgent care centers has been down 66%.

Private Health Insurers and Provider Revenue

CDC national health expenditure reports (<https://www.cdc.gov/mmwr/volumes/69/wr/mm6915e3.htm>) show that private health insurers have been paying hospitals about \$45 billion per month for pre-COVID-19 care, doctors and clinics about \$28 billion per month, and dentists about \$5.5 billion per month, for a total of roughly \$78.5 billion going to providers per month.

Fair Health has predicted that, in its mildest COVID-19 impact scenario, COVID-19 could lead to about 4.9 million U.S. residents needing hospital care, with a total cost of \$125 billion for private health insurers, or about \$25,000 per hospitalized patient.

As of Wednesday, the CDC had recorded 427,460 laboratory-confirmed COVID-19 cases in the United States. National hospitalization figures aren't available. In New York City, which is home to 1 in 40 U.S. residents, about 20,000 people were in the hospital with COVID-19.

The impact of the pandemic appears to be much more in severe in New York City now than in most other communities.

If the current COVID-19 hospitalization rate for the country was about the same for the United States as for New York City, about half of those patients had private insurance, and the average COVID-19 claim was about \$25,000, then the United States could have about 800,000 people in the hospital with COVID-19, including 400,000 with private health insurance. Private health insurers could end up paying about \$10 billion for care for those patients.

The total number of patients with COVID-19 who flow through U.S. hospitals in a given month could be several times higher than the number of who are in the hospital with COVID-19 on a particular day, and that could affect total private health insurance COVID-19 spending per month.

If, for example, the total number of hospitalized, privately insured COVID-19 patients in a month is three times the number in the hospital on a given day, and 400,000 private insured people are in the hospital with COVID-19 today, then insurers might have to pay about \$30 billion for those enrollees' COVID-19 care for April.

If COVID-19 really does cut spending on ordinary claims about 40%, then health insurers could save about \$31 billion, or 40% of \$78.5 billion, on ordinary claim payments.

One key question for health insurers is whether the COVID-19-related reductions in use of ordinary care will end up increasing costs later in the year.

People miss dental cleanings in April, for example, may simply skip getting those cleanings, with no ill effects. The dental insurer would end up saving money for the year.

Some patients who miss cleanings scheduled for April could get the cleanings in June, without needing any extra care. The dental insurer in that scenario might end up with claims in line with the original assumptions.

But some patients who miss cleanings could end up needing more fillings, tooth extractions and implants. In that scenario, the dental insurer could end up with lower-than-expected claims for April but higher-than-expected claims for the year.

Similarly, COVID-19 could lead to billions of dollars in extra life insurance claims. But it could end up reducing death rates from some other causes, such as accidents.

Geographic and Line Differences

If COVID-19 hits some areas much harder than others, and has the greatest effect on claims for hospital care, it could end up having a much different effect on some products than others.

COVID-19 could lead to both increases in COVID-19 treatments costs and offsetting reductions in claims for other types of care for major medical insurance carriers in hard-hit areas.

COVID-19 could lead to reductions in claims for ordinary care, without a surge COVID-19 treatment costs, in areas that keep COVID-19 under control.

COVID-19 could also cause more pain for insurers that sell more major medical insurance and hospital indemnity insurance, while, possibly, slashing claim costs, at least temporarily, for blocks of dental insurance, critical illness insurance, and accident insurance.

The Auto Insurance Payback Indicator

One indicator of what the COVID-19 fight might be doing to insurance claims is the auto insurers' COVID-19 payback amounts.

Allstate is sending its personal auto insurance customers an amount equal to about 15% of the monthly premiums for April and May.

USAA is offering a 20% credit on two months of premiums.

— ***Read COVID-19 Deaths May Not Do Much to Life Insurers' Earnings: Securities Analyst*** (<https://www.thinkadvisor.com/2020/03/31/covid-19-deaths-may-not-do-much-to-life-insurers-earnings-securities-analyst/>), on ThinkAdvisor.

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