

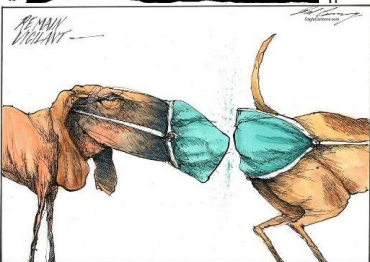
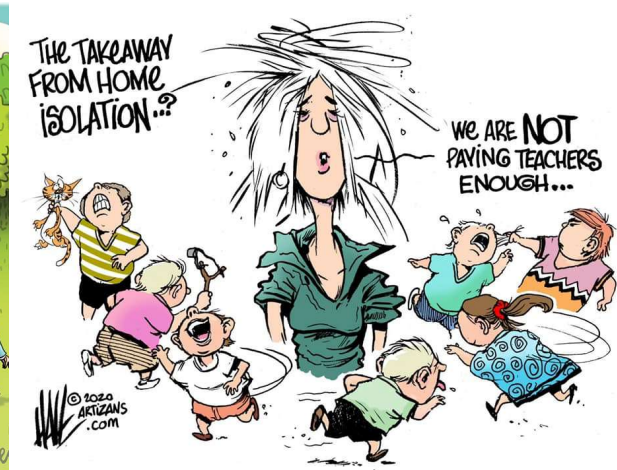
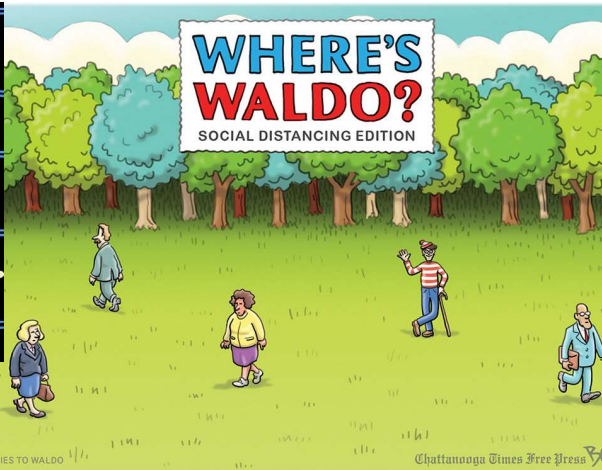
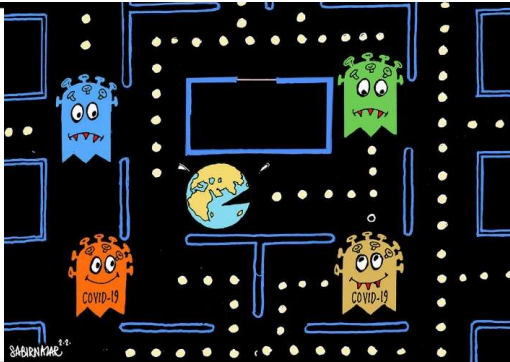
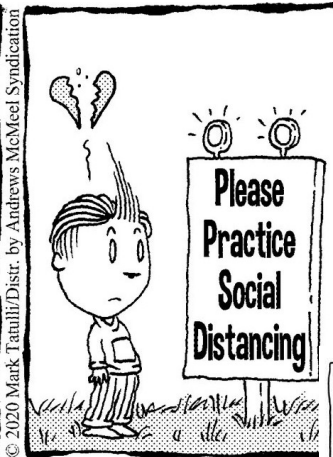
Considerations for COVID-19

Analyzing, Reserving, Pricing, and Capital & Surplus from a Health Insurer's Perspective

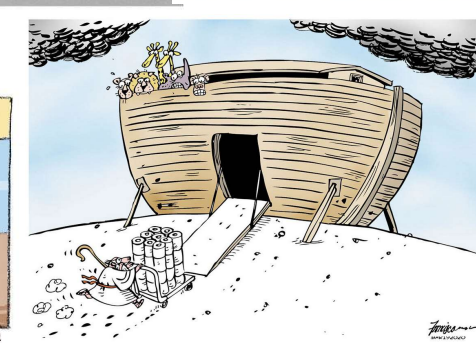
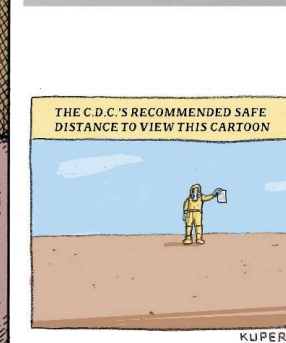
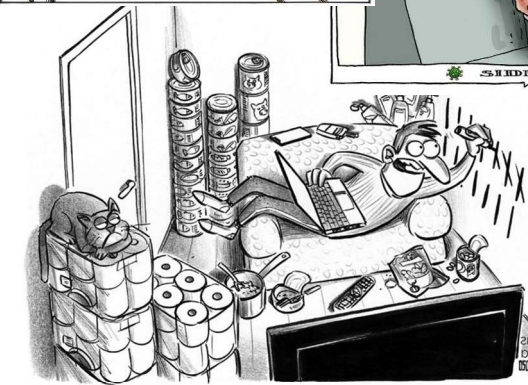
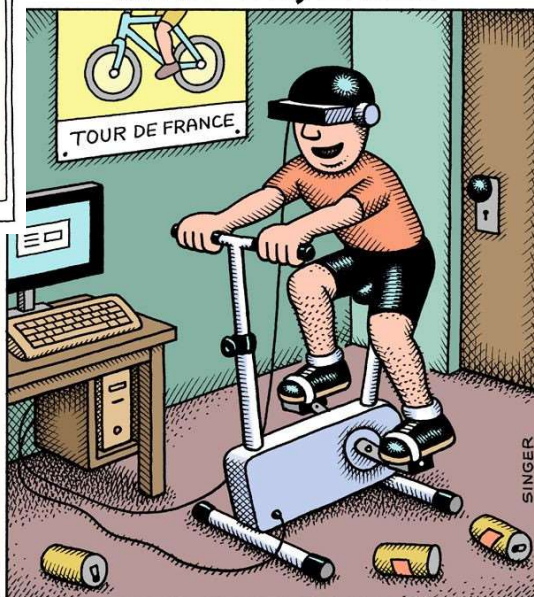
Haitham Aly, ASA, MAAA
Phil Ellenberg
David Hayes, FSA, MAAA

NOVEMBER 19, 2020





BIKE TO WORK DAY MAY 15, 2020



Outline

**Utilization and
claim cost analysis**



**Changes in
liabilities**



**2021 and 2022
pricing
adjustments**



**Capital and
surplus
requirements**



Utilization and claim cost

Deferred and Returned Utilization



Lockdown start and end dates



Non-deferrals



Strength of lockdown



Returned dates



Acute deferrals



Shape of return curve

Metrics



Utilization per 1,000

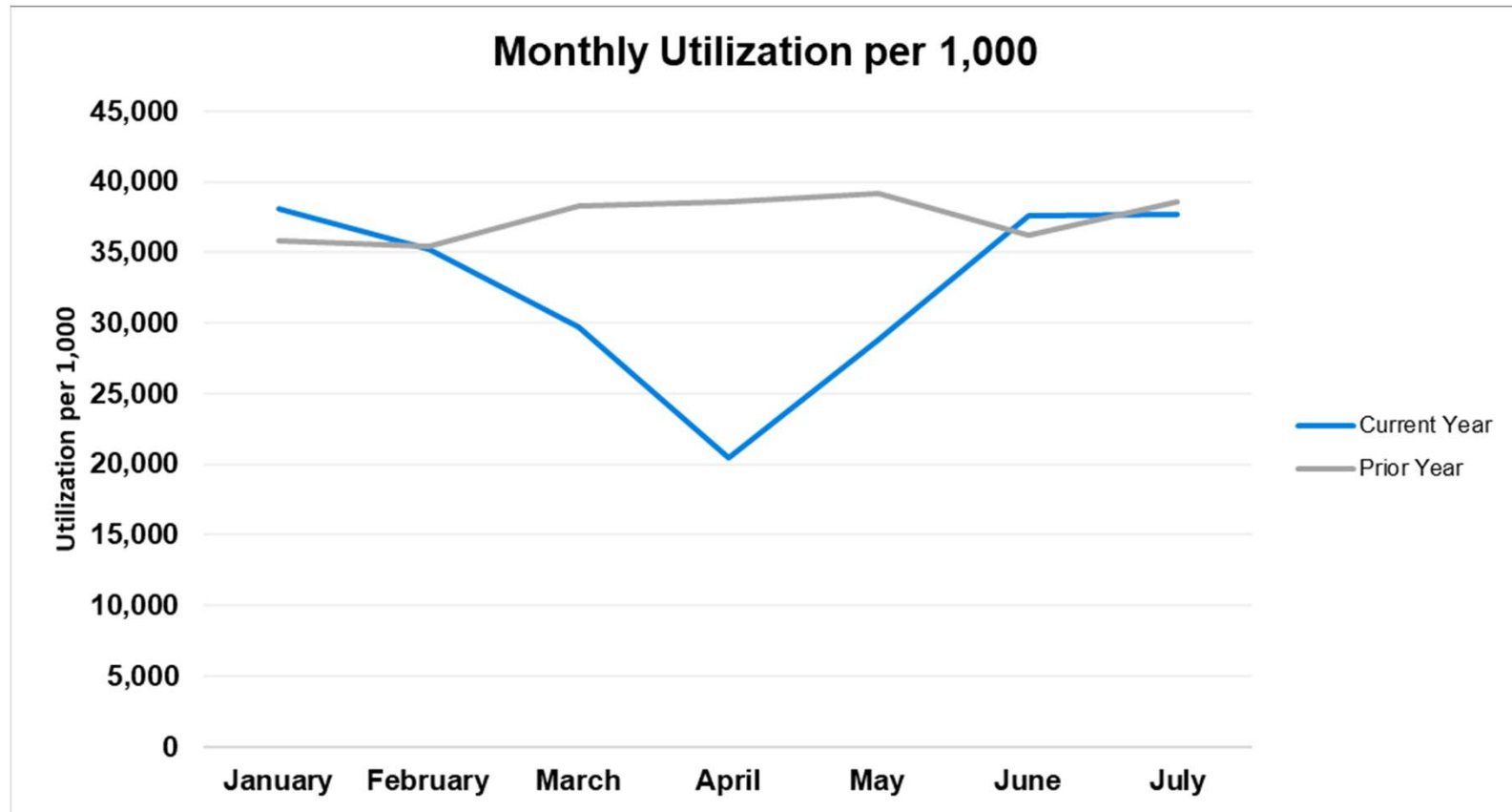


Allowed PMPM

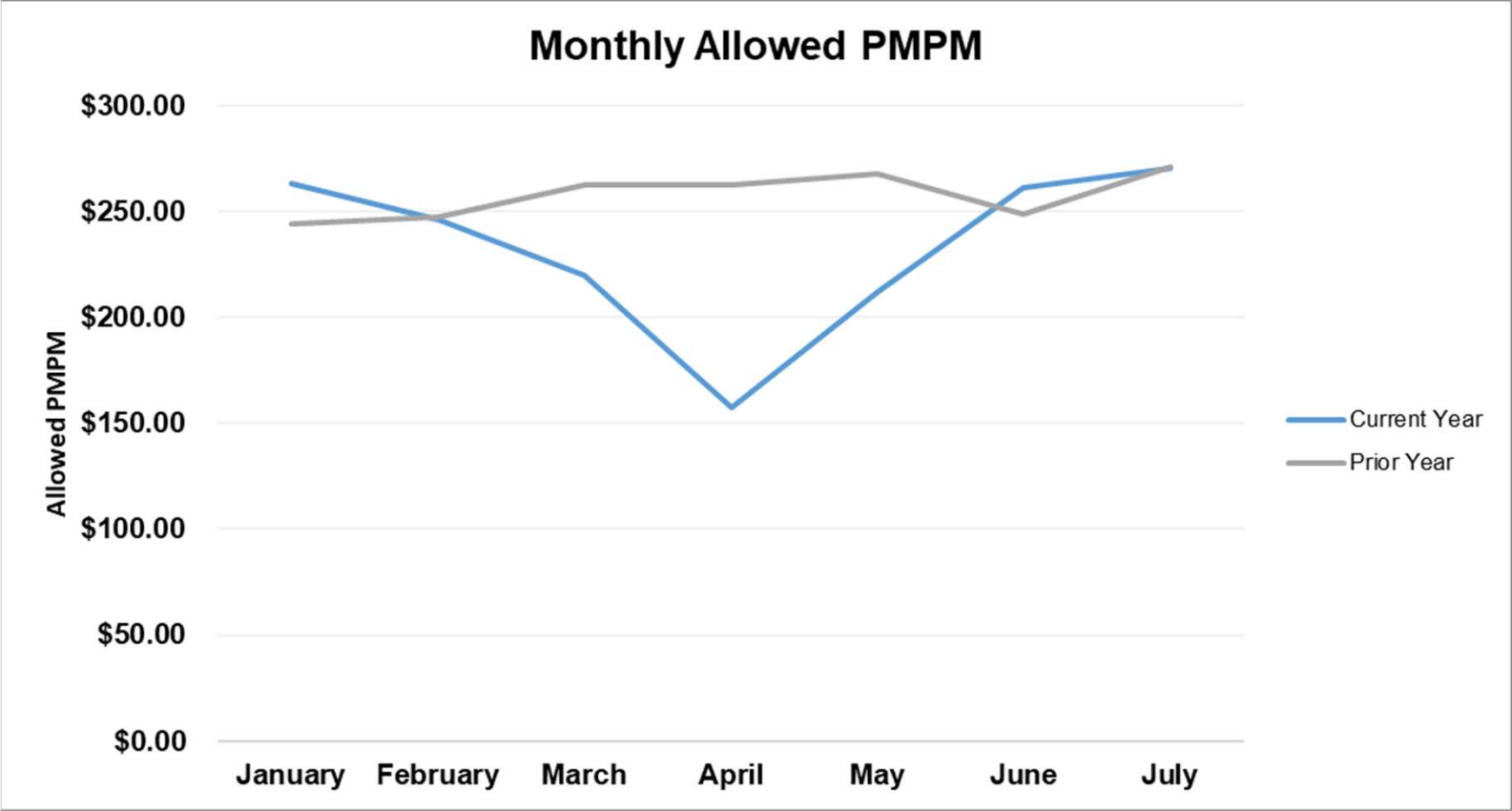


Unit cost

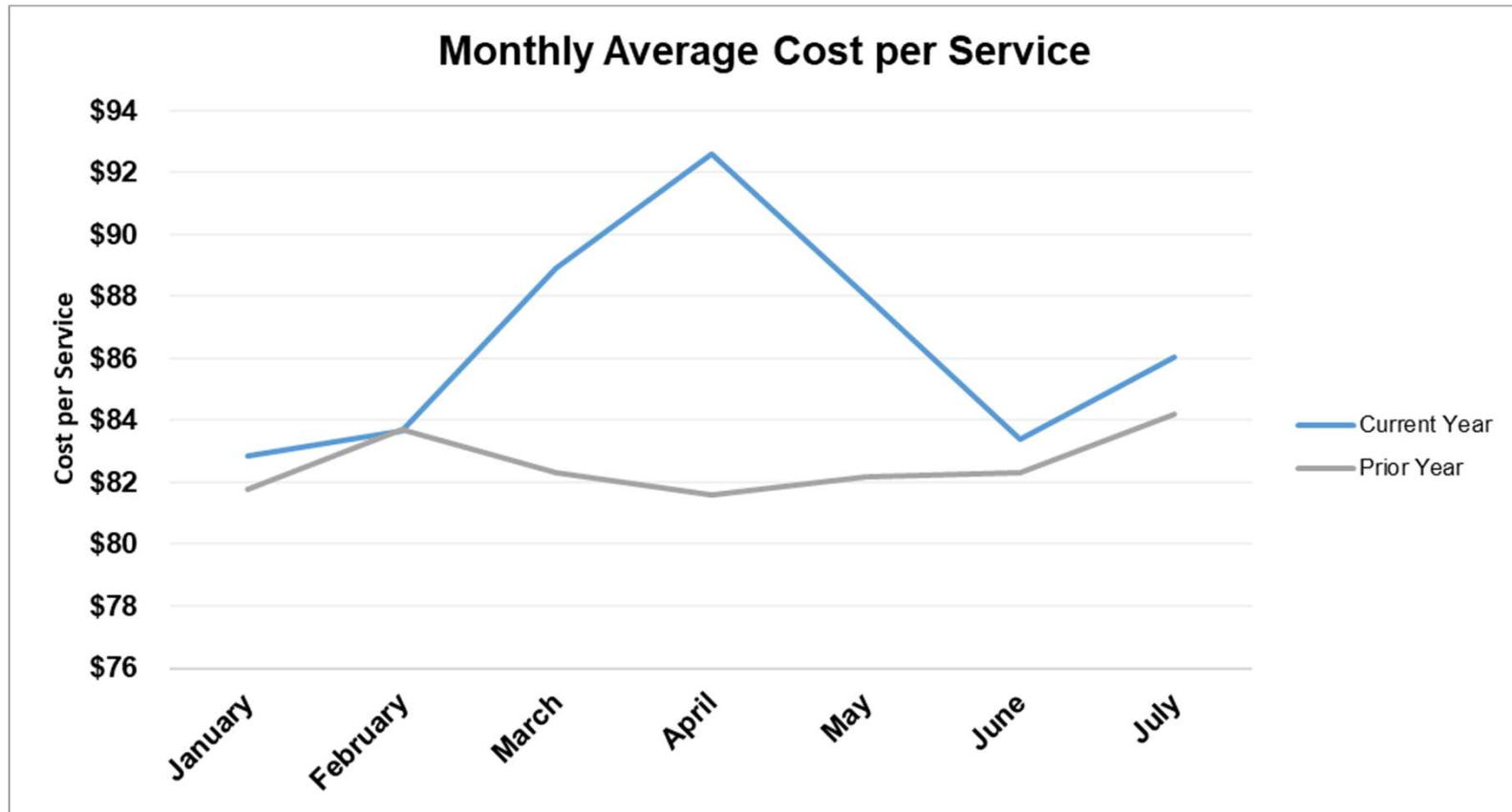
Utilization per 1,000



Allowed PMPM



Unit cost



Service Category Drilldowns

Inpatient



Major Diagnostic
Category (MDC)

Diagnosis-Related Group
(DRG)

Outpatient



Revenue Codes

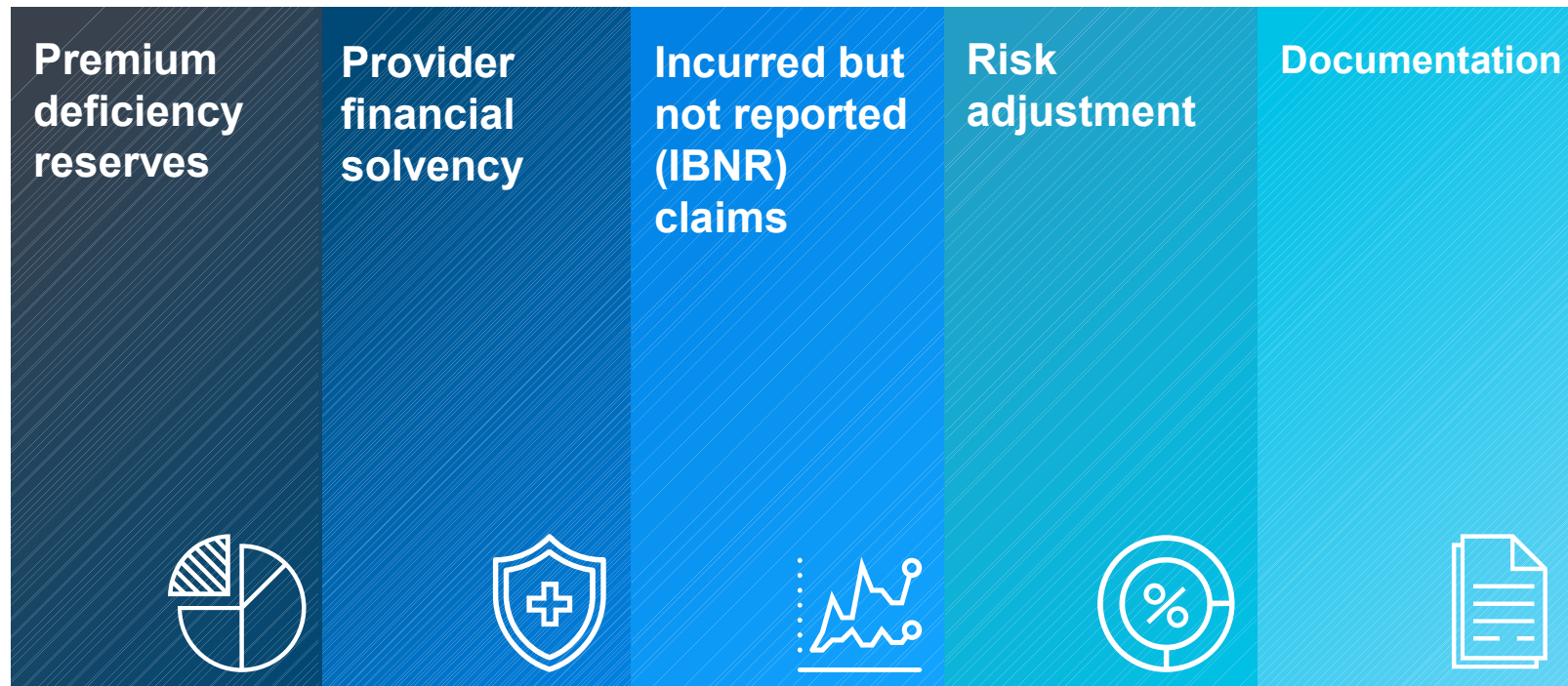
Inpatient



CPT/HCPCS Codes

Changes in liabilities

Year-End Liabilities



Premium Deficiency Reserves

Premium revenue



Assumptions with respect to COVID-19

In hindsight, what would be different

Current expectations for COVID-19 in the coming year



Waves

Vaccines

Deferred care

Competitive pressures



New regulations

Risk Adjustment

Provider Financial Solvency

- **ASOP 42**
 - Must consider **financial solvency** of **providers** with **risk arrangements**
- **COVID-19**
 - Many **providers** experienced a **sudden drop in revenue**
 - For most, normal revenue stream **has not returned**
 - Some **carriers advance revenue** to **providers**
- **Additional reserves**
- Account for **outstanding funds** on **financials**

IBNR

- Development is commonly based on **repeating** of **previous patterns**
- **COVID-19** caused many different types of **disruptions** in the **healthcare system**
 - Drop in claims due to **utilization**
 - Higher claims due to **live-threatening events**
 - Slowing of **claims payments**
 - Membership **changes/fluctuations**



How will you adjust?

Risk Adjustment



Affordable Care Act (ACA)



Medicare Advantage



Risk arrangements

Documentation

**Degree of
uncertainty**



**Provision for
adverse deviation
(PAD) / Margins**



**Interaction
between financial
statement items**



Data sources



2022 Rate Filing and Pricing Considerations



2020 Experience

- Seek **Regulatory Guidance**
- **Multi-Year Experience** Periods
- **Adjustments to 2020 Experience**
 - How to **adjust** months impacted
 - **Seasonality**
 - **Service Category Experience** Studies
- Additional Considerations



Setting Assumptions



Explicit COVID-19 Costs



Hospitalizations due to COVID-19



Costs of Diagnostic Testing



Impact of Deferred or Avoided Care



Impact of Pent-up Demand



Vaccine Timeline, Cost & Efficacy

Economic Conditions



Unemployment rates



Affordability and
access to care



Regional
characteristics



Political
pressure



Consumer
spending

Capital and surplus

Basic Questions

What is **Surplus**?

How does **surplus** compare to **reserves**?

What is the relationship between **Risk-Based Capital (RBC)** and **surplus**?

Why Must Insurers Maintain Adequate Surplus

- **Regulatory Requirements**
- **Maintain Business Viability**
- **Fund New Initiatives**
 - Developing new **products**
 - Entering new **markets**
 - Invest in new **technology**
 - **Care management** and **wellness initiatives**
 - **Compliance** with new **regulatory requirements**

Risks and Contingencies Addressed by Surplus



A stylized illustration of a diverse crowd of people, all wearing blue face masks. The people are depicted in various poses and colors, representing a multicultural group. The background is dark, and the overall tone is somber and protective.

Questions

Sources

- <https://www.politico.com/cartoons/2020/03/26/cartoonists-around-the-world-take-on-a-global-pandemic-000141?slide=17>
- <https://www.jatinverma.org/worsening-economic-conditions>

Thank you



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