

The preliminary reported impact of COVID-19 on ACA premiums

A look at the impact of COVID-19 on proposed 2021 ACA market premiums in six states and D.C.

Dane Hansen, FSA, MAAA
 Andrew Bochner, FSA, MAAA
 Emily DeAngelis



Expected costs related to COVID-19 in 2021 may increase or decrease health insurance premiums in the Patient Protection and Affordable Care Act (ACA) commercial markets. When setting premiums for 2021, health insurers will consider a variety of factors related to COVID-19, including the acute treatment and vaccination for COVID-19, changes in access and demand for healthcare, lasting impacts on population health, economic impacts on enrollment and utilization of care, disruptions to provider networks, and other operational impacts.¹

The National Association of Insurance Commissioners (NAIC) has released a template to assist state regulators in their reviews of 2021 premium impact assumptions for COVID-19. The template outlines pricing considerations such as COVID-19 treatment and testing; additional telehealth services and the replacement of in-person services by telehealth; other conditions and care caused by COVID-19; pent-up demand resulting from delayed 2020 services; 2021 delayed/canceled services; population movements in and out of the ACA market; and new vaccines or treatments.²

As of June 15, 2020, six states and the District of Columbia (D.C.) have publicly released preliminary ACA premium rates for 2021. This paper examines the reported impact of COVID-19 on these rates. Based on these preliminary filings, we found that health insurers assumed that

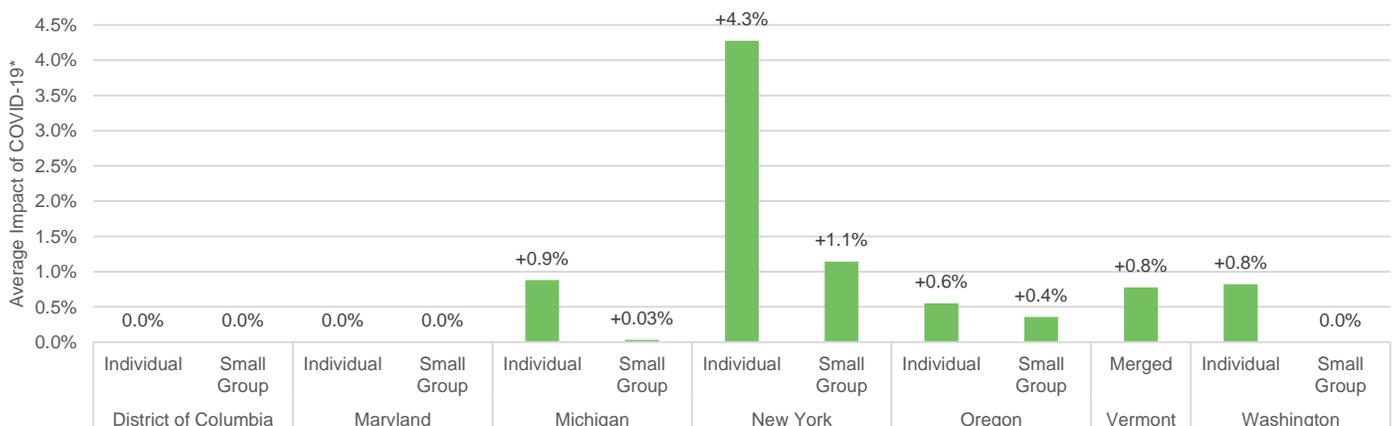
COVID-19 would increase premiums by an average of 0% to 4.3% for 2021, depending on the state and market. However, many regulators have already indicated they will allow additional adjustments after the original filings, and health insurers have noted that they will continue to monitor the pandemic and may adjust 2021 premiums as new information becomes available.

The minimal average adjustment to 2021 premiums may be a result of large cost reductions insurers are experiencing in 2020 as elective procedures are postponed and patients shy away from nonemergency care. For instance, since the medical loss ratio (MLR) calculation used for determining premium rebates is based on a three-year average, insurers may reduce the level of conservatism when setting their 2021 premiums if they are anticipating paying out MLR rebates because of lower-than-expected claims in 2020.^{3,4}

Preliminary reported COVID-19 premium increases are minor for 2021

The preliminary impact insurers have built into their 2021 premiums for COVID-19 varies by state and market. Figure 1 illustrates the average insurer-assumed impact on 2021 premiums attributed to COVID-19 by state

FIGURE 1: MARKET SUMMARY OF THE REPORTED IMPACT OF COVID-19 ON PRELIMINARY 2021 ACA PREMIUM RATES



* Average impact based on the insurer-assumed premium impact of COVID-19 weighted based on 2020 enrollment by health insurer, excluding new insurers and insurers that did not publicly quantify a rate impact due to COVID-19 in their rate filing materials.

¹ Milton-Hall, J., Murawski, T., & Norris, D. (May 5, 2020). COVID 19: Considerations for commercial health insurance rates in 2021 and beyond. Milliman White Paper. Retrieved June 15, 2020, from <https://us.milliman.com/en/insight/covid19-considerations-for-commercial-health-insurance-rates-in-2021-and-beyond>.

² Health Actuarial (B) Task Force. (May 27, 2020). ACA 2021 COVID-19 Rate Review Guideline. Retrieved June 15, 2020, from https://content.naic.org/cmte_b_ha_tf.htm.

³ American Academy of Actuaries. (June 2020). Drivers of 2021 Health Insurance Premium Changes: The Effects of COVID-19. Retrieved June 22, 2020, from <https://www.actuary.org/node/13629>.

⁴ Mathews, A.W. (June 4, 2020). Health Insurers Offer Premium Discounts. The Wall Street Journal. Retrieved June 15, 2020, from <https://www.wsj.com/amp/articles/health-insurers-offer-premium-discounts-11591263002>.

and market, weighted by 2020 enrollment by health insurer within each market. The highest average market increase ascribed to COVID-19 is New York's individual market, where an insurer with high enrollment included an impact of over 8%. No insurer across any of the markets assumed a premium decrease due to COVID-19.

Of the 13 markets we reviewed, four have no premium impact attributed to COVID-19, indicating that the filings did not include any explicit adjustments to premiums for COVID-19 for any of the insurers in these markets. Because we relied on 2020 enrollment to develop our weighted averages, insurers that are new to the market are excluded from these averages. In Maryland, for example, Figures 1 and 2 indicate a 0.0% average impact because all renewing insurers assumed no impact, but one new insurer entering the individual market assumed a 2% impact to premium and is not reflected in Figures 1 or 2.

Insurers submitting rate filings in both the individual and small group markets within a state tended to assume similar impacts for COVID-19 on both their individual and small group premium rates. Differences shown in Figure 1 between a state's individual and small group markets are largely due to differing insurers in each market as well as varying market shares among insurers within each market.

Insurers' assumed impact of COVID-19 may vary by state due to several factors, including the spread of the pandemic within the state. Figure 2 compares the insurer-assumed premium impact for COVID-19 against the state's COVID-19 cumulative confirmed infection rate one week before the market's filing deadline, reflecting insurers' latest view of the pandemic

FIGURE 2: COVID-19 2021 REPORTED PREMIUM IMPACT AND CUMULATIVE CONFIRMED INFECTION RATE BY STATE AND MARKET

STATE	MARKET	AVERAGE PREMIUM IMPACT *	COVID-19 INFECTION RATE**	DATE OF INFECTION RATE**
DC	Ind. / S.G.	0.0%	0.5%	4/24/2020
MD	Ind. / S.G.	0.0%	0.3%	4/24/2020
MI	Ind.	0.9%	0.6%	6/3/2020
MI	S.G.	0.03%	0.5%	5/6/2020
NY	Ind. / S.G.	1.9%	1.7%	5/11/2020
OR	Ind. / S.G.	0.5%	0.1%	5/11/2020
VT	Merged	0.8%	0.1%	5/1/2020
WA	Ind. / S.G.	0.4%	0.3%	5/14/2020

* Average impact based on the insurer-assumed premium impact of COVID-19 weighted on 2020 enrollment by health insurer, excluding new insurers and insurers that did not publicly quantify a rate impact due to COVID-19 in their rate filing materials.

** Infection rates are cumulative confirmed infection rates as of one week before the filing deadline for the state and market. For Michigan, the filing deadline varied between the individual and small group markets.

FIGURE 3: DISTRIBUTION OF FILINGS BY PRELIMINARY COVID-19 PREMIUM IMPACT IN 2021

COVID-19 RATE IMPACT	COUNT OF FILINGS	% OF FILINGS
N/A*	21	17%
0%	71	56%
0.1% - 1.0%	9	7%
1.1% - 2.0%	10	8%
2.1% - 3.0%	7	6%
3.1% - 5.0%	3	2%
Greater than 5.0%	5	4%

* Includes rate filings that did not publicly quantify a rate impact due to COVID-19.

during rate development.⁵ Of the states that have released preliminary filings, New York had the highest COVID-19 confirmed infection rate one week prior to the state's filing deadline. Of the 29 filings for 2021 coverage in the New York ACA individual and small group markets, 19 have assumed an increase to 2021 premiums due to COVID-19, with an enrollment-weighted average increase of 1.9% across the individual and small group markets. Among the other states, there is no clear relationship between confirmed infection rate and reported premium adjustment.

COVID-19 pricing approaches

Given the high degree of uncertainty surrounding the costs related to COVID-19 in 2021, there are several approaches for pricing 2021 premium rates to reflect the impact of COVID-19.

“WAIT AND SEE” APPROACH

This was a common approach among health insurers in the markets that have released preliminary rate filings. Figure 3 shows that over half of filings included in our study assumed no overt impact for COVID-19 on their 2021 premium rates. Of these, many insurers stated in their actuarial memorandums that they intend to update their assumptions as new information becomes available during the rate review process.

Some state regulators, including the Colorado Division of Insurance, have indicated that an amended filing will be permitted to reflect changes in COVID-19 assumptions later in the rate review process.⁶ Rate review timelines vary by state, and the extent to which changes in preliminary assumptions are allowed by state regulators differ, but the final deadline for issuers participating in federally facilitated exchanges to revise their Qualified Health Plan (QHP) applications is August 26, 2020.⁷

BEST ESTIMATE APPROACH

Other insurers incorporated their best estimates of projected costs related to COVID-19 in 2021 into their rates. Insurers that included a best estimate related to COVID-19 often included qualitative and quantitative development of several factors, such as the anticipated cost of services

⁵ Cumulative positive COVID-19 cases as of one week before each state's filing deadline retrieved June 24, 2020, from <https://covidtracking.com/>. State populations retrieved June 24, 2020, from <https://www.census.gov/quickfacts/>.

⁶ Colorado Division of Insurance. (May 18, 2020). 2021 ACA Rate Filing Procedures for Colorado. Retrieved June 18, 2020, from https://drive.google.com/file/d/1OfPFihQzoiBINnVCy0Y6qqd8OPwpXR9_/view?usp=sharing.

⁷ Centers for Medicare and Medicaid Services. (May 7, 2020). Final 2021 Letter to Issuers in the Federally-facilitated Exchanges, Table 1.1. Retrieved June 15, 2020, from <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Final-2021-Letter-to-Issuers-in-the-Federally-facilitated-Marketplaces.pdf>.

deferred from 2020 to 2021 and estimates of vaccination and testing costs and utilization. Some insurers chose this approach at their own discretion, but those filing in New York, for example, were required to populate state-required exhibits explicitly stating their assumed impact of COVID-19 on 2021 projected costs.

ASSUME NO IMPACT GIVEN DEGREE OF UNCERTAINTY

Several insurers also rationalized no impact of COVID-19 on 2021 premiums due to such a high degree of uncertainty and potential offsetting factors. The pricing considerations surrounding COVID-19 may increase or decrease 2021 costs.⁸ For these reasons, numerous insurers have justified attributing no impact to 2021 premiums for COVID-19.

STATE REGULATOR PRESCRIBES COVID-19 ADJUSTMENT

Finally, state regulators may also play a role in prescribing the adjustment insurers build into their 2021 premium rates for COVID-19. For example, the Michigan Department of Insurance and Financial Services (DIFS) released a bulletin specifying that it will review preliminary rate filings and determine whether any insurers' COVID-19 impacts are outliers.⁹ According to DIFS, outlying impacts "could result in enrollment shifts among issuers which could negatively impact the market" and the DIFS's focus is on maintaining a competitive market with actuarially sound rates.

Although not publicly stated, it is also possible that some state insurance regulators may have instructed insurers that they do not expect filings for ACA coverage to include significant rate increases due to COVID-19.

Methodology and data sources

We reviewed publicly available preliminary rate filings for ACA market coverage effective January 1, 2021, that were released as of June 15, 2020, including actuarial memorandums, Unified Rate Review templates (URRTs), regulator press releases, and other materials. This included

filings for D.C. and the following states: Maryland, Michigan, New York, Oregon, Vermont, and Washington. For each filing, we recorded the insurer's assumed impact of COVID-19 on proposed premium rates, as well as the justification for the impact provided in the actuarial memorandum, for health insurers that explicitly included an impact for COVID-19. We also recorded each insurer's current 2020 enrollment from Worksheet 2 of the URRT.

Caveats and limitations

In preparing this report, we relied on publicly available preliminary rate filing materials for 2021 released by state regulators. This data represents a limited subset of states with ACA markets, and our findings and conclusions will change as more states release rate filing materials. Final approved rate filing materials, including the impact of COVID-19 on final premiums, may vary from preliminary filings due to actions by state regulators and/or health insurers to change premium rates. The impact of COVID-19 on 2021 premiums represents insurers' current expectations for the ACA market. New data on the spread of COVID-19 in the United States is still emerging and actions taken by governmental authorities, the healthcare system, and patients related to the COVID-19 pandemic are rapidly changing. Consequently, insurers' expectations of the impact of COVID-19 on 2021 premiums will evolve as new information becomes available and new actions are taken by the authorities and other stakeholders.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Dane Hansen and Andrew Bochner are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report and rendering the actuarial opinions contained herein.



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CONTACT

Dane Hansen
dane.hansen@milliman.com

Andrew Bochner
andrew.bochner@milliman.com

Emily DeAngelis
emily.deangelis@milliman.com

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⁸ Milton-Hall, J., Murawski, T., & Norris, D., op cit.

⁹ State of Michigan Department of Insurance and Financial Services. (May 7, 2020). Bulletin 2020-24-INS. Retrieved June 15, 2020, from https://www.michigan.gov/documents/difs/Bulletin_2020-24-INS_689766_7.pdf.