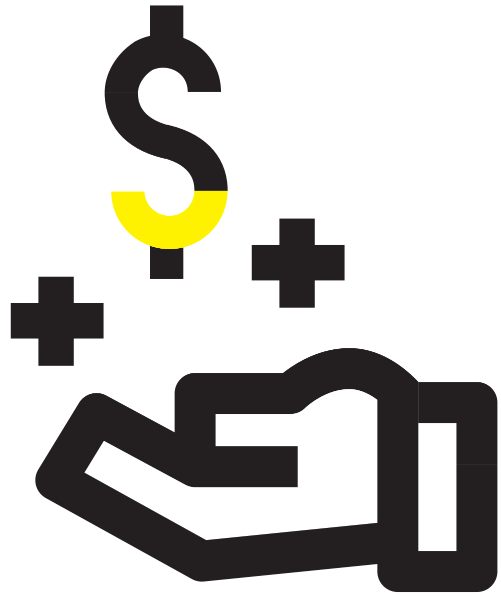


August 2020

The ongoing impact of COVID-19 on employer healthcare budgeting

alight

Executive summary

Three months ago, we looked at data to get an idea of the potential cost trajectories COVID-19 could create for future healthcare budgets. At the time, we questioned how long the pandemic would last, how severely it would hit and what the aftereffects would be. Now that we have seen things unfold, the situation remains powerfully obtrusive as surging coronavirus cases force states to reinstate shutdowns and shift timelines for reopening businesses and institutions.

The initial decrease in people avoiding preventative care and treatments out of fear was a cost that had to be made up immediately — something that did not and will continue to not happen as more reopenings are halted or even reversed.

> After monopolizing the lives of millions for over six months, COVID-19 continues to alter the extent to which Americans are able to receive the care they need, has impacted their ability to access and pay for prescriptions and will drive patients into more expensive care settings as care becomes available.

These realities will significantly impact 2021 budgets and the savings from 2020 will not be enough to offset these upcoming cost increases. For 2021 and 2022, the healthcare trend will likely reset at a higher level with higher slope for the foreseeable future. Employers must consider strategies to directly address impacts on healthcare cost and access to care to mitigate long-term effects of the pandemic.

Original expectations for 2020

In fall 2019, a variety of healthcare analysts projected cost increases in 2020 to once again exceed the rate of inflation. According to a National Business Group on Health (NBGH) survey, large employers expected an approximate 5% increase in healthcare costs for 2020.[1] Large employers also expected a 5% increase in 2019, yet the actual percentage landed around 3.8%.[2] That same survey projected that the average healthcare cost per employee would reach a staggering $15,375 in 2020. The Society for Human Resources Management (SHRM) echoed these sentiments in portraying projections from the major healthcare actuarial and consulting groups — across those entities, costs were expected to rise between 3.9% and 6.5%.[3]

How COVID-19 has altered the 2020 healthcare landscape

By late March 2020, many American businesses and institutions had largely shut their doors. Procedures and surgeries deemed as nonessential were generally stopped overnight to focus on preserving hospital space and supplies to treat virus patients, and major organizations, like the American Dental Association and the Centers for Medicare and Medicaid Services (CMS), closed or limited accessibility to their offices for all but the most urgent needs to help slow the spread of the virus.[4]

With massive furloughs in the healthcare industry, fear of exposure and thousands of treatment cancellations, Americans have received substantially less care in the second quarter anyone could have ever imagined. Milliman projected that in the first half of 2020, the country would see an unprecedented $140B to $375B decrease in care costs — even including the costs of COVID-19 treatment. Data revealed that not only were those numbers shockingly high, but they would be surpassed.

The closures of these healthcare services and businesses during the pandemic have already had a substantial impact on the economy. Current projections — along with the uncertainty of how long the economy will remain closed — only indicate that it will continue to get worse.

The single biggest source of the GDP decline in Q2 came from healthcare, which decreased by an annualized **$595B**.[5]

1 https://www.businessgrouphealth.org/who-we-are/newsroom/press-releases/large-employers-double-down-on-efforts-to-stem-rising-us
2 http://assets.milliman.com/ektron/2019-milliman-medical-index.pdf
3 https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/average-family-premiums-top-$20,000.aspx
4 https://www.cms.gov/files/document/cms-non-emergent-elective-medical-recommendations.pdf
5 https://www.bea.gov/news/2020/gross-domestic-product-2nd-quarter-2020-advance-estimate-and-annual-update

Four reasons employers should be concerned about these immediate changes to healthcare costs

Elective and voluntary procedures continue to slow, in some cases simply delaying care to a later date without cost. Though maybe not an immediate cost concern now, these four categories will have correspondingly higher costs in the months and years ahead.

1. **Post COVID-19 treatment will be more expensive.**
   The pandemic has delayed countless procedures and office visits. When healthcare providers reopen, this surge in demand will hit the system quickly and inefficiently. For simple procedures, surgery centers, endoscopy centers and imaging centers are the most cost-effective options for getting treatment, and in many cases, the highest quality. Unfortunately, these cost-efficient, high quality care settings will also be the first ones to be filled, leaving care to be delivered in hospital settings where costs are substantially higher. Alight maintains a dataset of provider data representing 10 billion claims across 100 million patients. This data indicates that many **procedures double to quadruple in cost as they transition from boutique facilities to the largest hospital facilities**. As the pandemic winds down, these inefficiencies will send substantially more care to those treatment locations where cost is the highest.
2. **Access to prescriptions that impact chronic care have been diminished.**
   Alight Navigation interactions indicate that many individuals on long-term maintenance medications only have access to 30-day supplies. Many of those individuals are at heightened risk for COVID-19 due to pre-existing conditions and are less comfortable venturing out of their homes to get prescriptions refills or medication; **nearly one-third of Americans surveyed have avoided care in general out of fear.**[6] For patients who simply delay their refills, the costs can be staggering. Non-adhering diabetics cost an extra $5,000 per year. Individuals who forego mental health medications cost an extra $10,000-$15,000. Those with osteoporosis see net additional costs of more like $30,000.[7] With each week the stay-at-home order gets extended in hard-hit regions, future costs will start to accrue for employers.
3. **Delayed musculoskeletal (MSK) treatments for elective procedures risks increased opioid use.**
   Every single day, people across the country are scheduled for non-critical medical procedures ranging anywhere from dermatology care to knee surgery. Alight's provider data showed the most common category of those procedures were for MSK challenges; patient conversations revealed that individuals with chronic pain were among the more frustrated by the delays in their scheduled procedures. Under normal circumstances, these patients would be getting active physical therapy and/or scheduling procedures when needed. Data from Alight's Health Pro® conversations found that these individuals are increasingly turning to their providers and asking for pain medications. As an estimated $78.5 billion cost to the U.S. each year, employers have invested their own dollars to stop this crisis and limit prescription opioid addictions and misuse.[8] Conservative estimates suggest that opioid addiction costs $14,000 in direct claims costs per patient per year.[9] The sudden disruption in providing physical therapy treatments or nonprescription pain relief to patients will impact the progress made and further increase future healthcare costs post-COVID.
4. **Delayed preventive care creates risks for more serious conditions later.**
   Employers have invested in onsite biometric screenings and wellness programs that reward participants for taking better care of themselves.[10] While the direct return on investment for these programs remains somewhat unknown due to uncertainties that come with each patient or treatment method, cancer screenings have continued to increase and are generally recommended by providers.[10] With the most treatable cancers (notably breast cancer and colon cancer), early detection is by far the best strategy to avoiding serious complications. These tests have almost universally halted during the pandemic. Research shows that **delayed screenings of 6 to 12 months result in substantially more serious diagnoses that are harder to treat and more expensive**.

6 https://www.modernhealthcare.com/patient-care/nearly-third-americans-have-put-healthcare-during-covid-19
7 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5780689/
8 https://www.cdc.gov
9 https://www.jmcp.org/doi/10.18553/jmcp.2017.16265
10 https://alight.com/research-insights/state-of-employee-wellbeing-2019

Predicted healthcare cost impact model

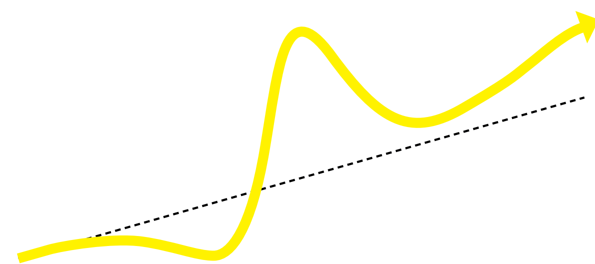
Historic lows in healthcare costs in Q1 and Q2 are now a reality as the latest GDP data shows healthcare spending decreased by an annualized $595B in Q2.[11] This cost trend is only expected to get worse as states attempt to reopen and are forced to shut down again, playing out the worst-case scenario cost projection model. These unprecedented disruptions will cause temporary decreases in healthcare costs, but expanded future costs are likely to be larger than the initial decrease currently being realized.

When we looked at the data three months ago, we identified three different cost projection models that were possible for COVID-19-induced healthcare spend trends. At the time, there were many unknowns: the length of shutdowns, the severity of the pandemic and the long-term consequences. Six months in, we can clearly see how things have developed and how healthcare cost trends have followed suit of the worst-case scenario projection.

The chart featured here predicts a high cost trend and new slope. While elective procedures have decreased, the pandemic costs will offset majority of this dip. Patients will manage their care poorly during the pandemic, leading to delayed care/treatment that will cause a larger surge, and limited access to cost effective care will cause alternative options to be more expensive.

Based on the level of disruption that has already occurred (and is likely to continue as re-openings occur and potentially retract), this scenario is the new base case against which planning and budgeting should be considered.

Subsequent bulge is larger than dip and new normal trend is set



Normal healthcare trend
Trend for employers

Learn how to directly address the long-term effects of COVID-19 on your benefits with the "5 Strategies to get ahead of healthcare cost increases" →

11 https://www.bea.gov/news/2020/gross-domestic-product-2nd-quarter-2020-advance-estimate-and-annual-update

Strategies that impact the healthcare cost problem

Employer healthcare costs are driven by a very simple equation. Healthcare Cost = Unit Price x Services x Patients. Simply put, cost is the function of the unit price of healthcare services, the number of services required and the number of people requiring service. **Changing the economics of healthcare requires organizations to deploy three strategies.**

1. **Change the unit cost of healthcare.**
   This first and most impactful strategy is to focus on impacting the unit cost of healthcare services with a specific focus on both transactional price and episodic price. One of the biggest drivers of healthcare costs for organizations is due to ineffective, uninformed healthcare decisions. Employees often lack the guidance, resources or information to aid them in making smarter healthcare choices, leading to higher costs of care and lower quality providers. Providing tools and solutions to help guide employees through the benefits selection process, help them choose the best healthcare providers for their situation or life stage or find a provider with the best outcomes at the lowest cost can support better healthcare decisions and lower overall healthcare services costs and change the healthcare cost curve for companies.
2. **Impact the number of services utilized.**
   Throughout the pandemic and in the immediate aftermath, it is critical that patients get access to the specific care they need, how and when they need it. Employees are becoming increasingly more comfortable in sharing personal health information with their employers in return for personalized guidance in managing their health. The comfort level has grown by 17 points since 2018, with Millennials as the most comfortable sharing personal information. Implementing solutions that cater to employees' unique situations or communication preferences can ensure they receive correct, accurate information that is relevant to them.[12] By providing employees with highly personalized content that guides them to get the preventative care they need, they're better able to proactively find care and identify opportunities to use other programs or offerings available to them, such as virtual care. Investing in solutions that remove barriers to care will be vital in your strategy.
3. **Manage the demand for care.**
   The final key strategy involves managing the population supported by employer-sponsored healthcare plans. Employers unknowingly spend millions of dollars each year on dependents who are not actually eligible for benefits the organization offers. By implementing strategies and solutions that eliminate ineligible users from the plan, organizations can save valuable healthcare dollars, better prioritize employees' offerings and keep benefits premiums affordable. An annual ineligibility audit can ensure that the appropriate population is managed in a transparent, straightforward manner to ensure equitable treatment of all employees and their families and to manage employer costs.

About Alight

Alight unlocks enterprise growth for the world's most influential companies with future ready human capital and business solutions. We combine industry leading data and insights with unmatched depth and operational expertise to improve the employee experience and optimize cloud-enabled business processes. Our 15,000 colleagues proudly serve thousands of clients and their more than 30 million employees and family members throughout 180 countries. Explore our story to learn how Alight helps organizations of all sizes, including over 70% of the Fortune 100, achieve next level transformation.

12 https://alight.com/research-insights/state-of-employee-wellbeing-2019