AHT INSURANCE – DOWNSTREAM IMPACT OF COVID-19 WHITEPAPER

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Downstream Considerations – Post COVID-19

While there has been considerable focus on costs associated with COVID-19, such as viral testing/lab cost, provider/emergency room care and hospitalization/critical care, we would like to focus on considerations for employer-sponsored health plans and more long-term considerations associated with post COVID-19 healthcare. **These considerations include:**

- Postponed elective and non-essential procedures;
- The eventual cost of COVID-19 vaccinations;
- Pharmaceutical reform;
- Non-health plan employer related cost of workplace testing and safety

Each of these issues will affect the cost to employers and employer-sponsored health plans, both directly and indirectly.

Elective and Non-Essential Procedures

21% to 25% of healthcare spending is related to elective and non-essential treatment and procedures. Estimated costs to employer-sponsored plans for elective and non-essential treatment range from $400B to $435B. Assuming the majority of these expenses are being delayed until the post COVID-19 epidemic has subsided, most of these procedures will not be incurred and paid by employer-sponsored plans until later in 2020 or 2021. At this point, a spike in claims will be expected, however, certain externalities influence the cost of claims post COVID-19 versus these same claims today.

Let's assume COVID-19 did not occur in 2020. Elective and non-essential treatments and procedures would have been incurred, or at least contemplated, during February through the current point in time. As it stands now, with rare exceptions, these procedures and treatments are not occurring. However, if they had occurred, and they represent 21% to 25% of the health plan expenses, there is good reason to believe these same services could or will cost more by delaying them until later in the year or until 2021.

Consider the Following:

- The medical price index is increasing at a rate of at least 0.5% per month, therefore, the cost of procedures and associated goods will be incrementally more expensive 8-12 months from today's current cost;
- Nearly 49% of bed days and operations performed inpatient is due to scheduled non-emergent conditions. The loss of revenue due to COVID-19 will place considerable pressure on hospitals to recover these losses;
- In a study by the AMA, nearly 65% of physicians surveyed deemed up to 30% of elective surgeries unnecessary, however, given the pressure on the healthcare system to recover lost revenue, providers, hospitals and hospital/physician-owned outpatient surgical centers may create more pressure to have these procedures performed;
- Financial loss and incentives to recover these lost revenues could represent the most significant increase in both volume and cost of elective and non-essential treatment and procedures that have been delayed until later in the year or 2021;
- Companies providing medical goods and services related to elective procedures have seen significant revenue losses during the COVID-19 crisis, thus there will be more pressure and potentially higher prices due to increased demand for medical supplies, like implants, equipment, materials, etc. One of the largest suppliers in the elective medical space, Stryker Corporation, lost $36B in market capitalization as it went from its all-time share price high on February 19, 2020 to a 3-year low on March 22, 2020;

- As an example, if the delay of these procedures results in 10% to15% more spend, this could represent $19 - $28 per employee, per month or $114,000 to $168,000 in an additional cost to a 500 employee self-funded plan.

Eventual Cost of COVID-19 Vaccination

It is difficult to predict the eventual cost of the vaccination developed by the pharmaceutical company or entity that discovers and distributes the COVID-19 vaccination. In determining these costs, one must understand the enormous research and development cost being invested by nearly 70 pharmaceutical companies, collaborations and joint ventures recognized by the World Health Organization as landscape COVID-19 vaccine development entities. In the race to create the vaccine, these organizations are spending billions in research, development, clinical trials and eventually production and distribution.

In terms of potential costs, Moderna, a Cambridge, MA pharmaceutical company that will soon enter Phase I human clinical trials, has indicated the charge for an existing preventative pneumonia vaccine (Prevnar 13) costs around $800 for a four-injection around vaccination. Moderna has indicated a COVID-19 drug could be similarly or slightly less priced.

We do see some level of purchasing and procurement by the federal government as a backstop to those uninsured or underinsured, and while it is certainly possible the government will pay for the entire cost of the COVID-19 vaccination, it is also possible, as cost mitigation, the government will shift some of the cost onto employer-sponsored plans.

Let's assume Moderna creates the COVID-19 vaccination and, through insurance/PBM discounts, the cost per vaccination is approximately 40% of the Prevnar 13 vaccination or $320 per vaccination. Given the gravity of COVID-19, assume 75%-80% of the 153M people currently covered under an employer-sponsored plan receive the vaccination. The cost to the employer-sponsored healthcare system could be $35B to $40B. Most of this cost will be borne by insurers and self-funded plans at 100%, as the vaccination will be prophylaxis treatment and considered preventive care.

Again, using the example of the 500 employee self-funded plans, depending on the number of dependents on the plan, (let's assume 1,200 total members), the cost would represent $288,000 to $307,000 to the plan.

Pharmaceutical Reform in a Post COVID-19 World

Before COVID-19, pharmaceutical reform was one of the more pressing issues in attempting to stem the ever-increasing cost of healthcare. In recent years, our clients have been focused on the rapidly increasing cost of prescription drug spending as a percentage of the overall cost. While the cost of legacy generic and brand drugs has remained stable or decreased over time, the annual cost increase of expensive, but life-changing specialty drugs, like Humira, Ibrance and Cosentyx, can average between $50,000 and $150,000 per year. These specialty drugs can increase in cost at a rate of 15% to 20% year over year. Additionally, as genomic drugs and rare disease drugs come onto the market, prices per year for one member could range from $500,000 to $5M. These drugs are altering the landscape of healthcare affordability.

The COVID-19 situation is changing hour by hour and we recognize these observations are very fluid. The intent of this document is to provide insight into current plan considerations and how the current COVID-19 case trajectory could impact the larger healthcare and health insurer market.

The most recent debate around legislation was aimed at establishing transparency, identifying unethical trade practices and creating fair competition and pricing in the industry.

The argument against legislative regulation toward the pharmaceutical industry was that it would stifle innovation and ingenuity. Given the race of so many innovative and robust pharmaceutical companies in the United States to develop treatment and vaccinations for COVID-19, any legislative reform of the pharmaceutical industry could be postponed or dropped.

Non-Health Plan Employer-Related Cost of Workplace Testing and Safety

There is much discussion around getting employees back to work, however, the logistics are still unclear. From a work environment perspective, beyond social distancing and minimal contact practices, for low-risk work environments, there has been little guidance upon returning to work.

Because COVID-19 has been deemed a "direct threat" by the CDC, the rules around ADA and workplace accommodation, federal, state and local governments, along with employers, may require different standards with regards to employees returning to work.

One consideration that has been contemplated is the requirement to have employees tested for the COVID-19 antibody before returning to work. The serology test will identify if an individual either had COVID-19 or has been exposed to COVID-19. While specifics about how, when and where these tests could be administered, it is not unreasonable to believe employers could require employees to receive a test, nor is it unreasonable that employees would even want to return to work unless these tests are being required. The initial estimates of these tests would indicate a cost of $100 to $150 per test.

There is more to come about the specifics of serology testing, however, AHT will be able to provide clients with a solution if an employer would like to conduct testing of its employees.

The initial testing program will be initiated in Seattle but can scale across the country. Our partner will be able to provide the following in the next 2-3 weeks.

- Clients would coordinate employee eligibility with AHT;
- Employees would register online or through a mobile application;
- Employees would drive to a specific participating pharmacy location (currently Bartell's will be the first participating pharmacy). The testing sites will be drive-through, therefore the employee will not need to leave their vehicle;
- Employees will receive a lancet blood finger prick (like the glucose test) administered by a pharmacist;
- Within 30 minutes, the employee will receive, via the application and/or text message, a QR code by which the results can be obtained;
- The results of the test will indicate if the employee has the antibody and, therefore, presumed higher level of immunity to COVID-19;
- For clients located in the Puget Sound region and interested in more information, please contact AHT.

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Summary of Downstream Impact of COVID-19

- We believe there are significant post COVID-19 implications to the employer-sponsored healthcare system;
- While the delay of elective and non-essential procedures and treatment will reflect a lower claim cost in the near term, if these procedures and treatments are received later in 2020 or 2021, the relative cost could be higher 8-12 months from now;
- Indications from some of the leading pharmaceutical companies, such as J&J and Moderna, are that we could soon see Phase I human clinical trials. Once the vaccine is discovered, the cost of R&D, production and distribution will impact the total cost to the healthcare system. Additionally, we would expect a high vaccination rate and, if the government chooses to not pay for all vaccinations and shift some of the cost onto employer-sponsored healthcare plans, the costs to insured and self-funded plans could be more than trivial;
- It is unlikely much movement on pharmaceutical industry reform and subsequent attempt to control the escalating cost of prescription drugs will occur post COVID-19;
- Post COVID-19 return-to-work guidance should be forthcoming in the next week or two. Routine social distancing and potentially workplace accommodations should be anticipated, however, serology testing could also be recommended, or mandated into the guidance. AHT will be able to assist employers with return-to-work serology testing, if desired.

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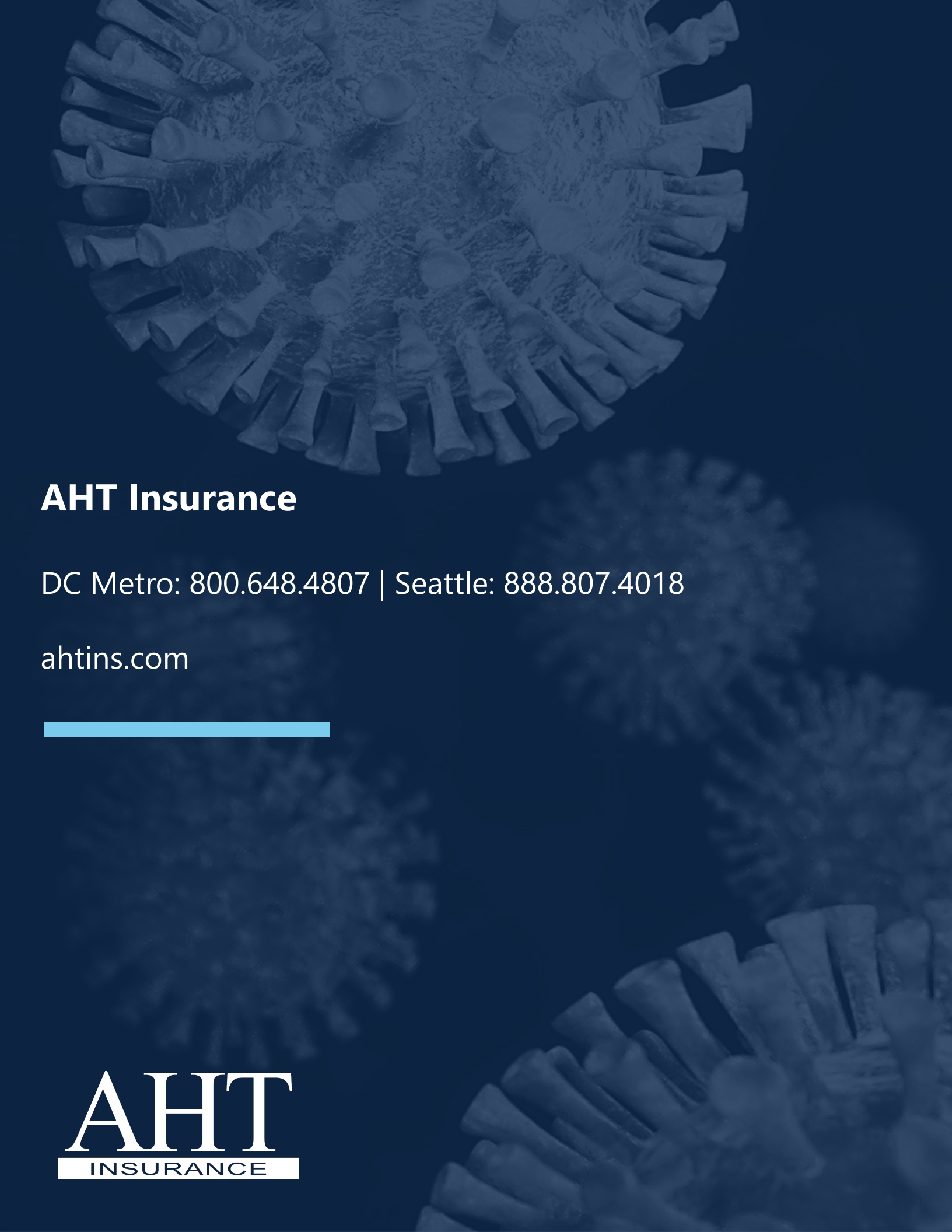

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