



# **AHT INSURANCE – UPDATED COVID-19 ESTIMATES WHITEPAPER**

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Two weeks ago, AHT published a whitepaper identifying blind spots and pitfalls associated with COVID-19 as it relates to both self-funded plans specifically and healthcare costs in general. Fortunately, based on both the blind spots concerning layoffs and the potential exposure around Minimum Attachment Factor provisions, we have not seen a significant impact on our clients. In cases where clients may have exposure, we have been able to negotiate with reinsurance carriers to mitigate liability to the plan sponsor. This flexibility only applies to administrative services only (ASO) contracts, not partially self-funded arrangements.

## Updated AHT Perspective on COVID-19 Cost Impact

In addition to the above self-funded plan considerations, we forecasted some future costs based on the case and fatality rate at the time of the report. While the current case rate appears to be averaging circa **31,000 per day**, the fatality rate has increased to an average of **4.47% in the past 7 days** and **5.03% in the past 3 days**.

It would appear social distancing is controlling new case count; however, the mortality rate of the existing and new cases appears more significant than reported two weeks ago. Even still, at a mortality rate of **4% to 5%** with a flattening case curve, it does appear total fatalities will remain well below the original estimate of 100,000 to 250,000 US fatalities reported by the administration in early April. Newer estimates now range between **66,000 to 95,000** fatalities, with an upper estimate of **145,000**.

The most recent data going back to April 5, 2020 shows the cases **doubled over 11.5 days** versus the original estimate of every **6 days**, and with the rate of flattening, the cases could take another **18 to 24 days** to double once again. As of April 17, 2020, there were 671,331 cases. By **May 5, 2020**, we would estimate between **1,400,000 and 1,900,000 cases**. At the current case curve and mortality rates, the above projection of cases and fatalities seems plausible.

- Our estimates only contemplate the impact to commercial insurance; therefore, our hospitalization and critical care estimates make downward adjustments for public healthcare, such as Medicare and Medicaid;
- Based on more recent hospitalization data and higher mortality rates, we have updated our hospitalization rates from **19% to 20%** of cases to **23% to 28%**. ICU rates being reported are now between **7% and 11.5%**. Using these metrics, we estimate hospitalizations for those under 65 could be **268,191 to 383,514**, and with ICU rates at 9%, **53,638 to 76,702** critical care admissions for those under 65 could be projected;
- Using estimated per COVID-19 hospitalization per-case cost for private insurance, as reported by FAIRHealth, of **\$34,221**, the above estimates could range **\$14.57B** correlated to **1.4M cases** and **\$20.83B** correlated to **1.9M cases**;
- If the upper limit of fatalities correlates to **145,000** and cases reach **2.4M** by mid-summer, we would estimate costs to range from **\$25B to \$30B**. At this point, we would anticipate COVID-19 has diminished to minimal case and fatality rates.

- As a percent of commercial health insurance premium, these costs would range between **1.2% and 1.5%** of total annual commercial healthcare spend;
- We would reiterate that the total cost impact as the result of COVID-19 should be well below the reserves of most insurer's, assuming there is not an extended period of ongoing cases, new outbreak or uptick related to re-infections;
- While both hospitalization and ICU rates appear to have increased since our last report, the case rate appears to have flattened considerably. It now appears the total impact of COVID-19 should be well below previous estimates that were based on upper limit cases ranging up to **10M** and upper limit fatalities of **305,000**. At these previous upper limit levels, we were estimating costs could reach **\$78.4B to \$85.8B**.

### Summary of AHT Estimated Cost Impact

- We still believe COVID-19 will have a significant impact on healthcare costs, and while our most recent projections are lower, we still believe the costs could exceed **\$14B to \$30B** by the time the curve has flattened, and the case and fatality rates have subsided to minimal levels;
- If COVID-19 related fatalities reach the currently projected levels of **66,000 to 95,000**, we believe healthcare costs related to hospitalization and critical care could range between **\$14.5B and \$20.8B**;
- Assuming **\$1,200 of additional professional and prescription services**, these expenses could range between **\$15.5B and \$22.2B**;
- If cases and fatalities reach the upper limits, overall costs of **\$25B to \$30B** should remain well below early projections of Covered California, as well as our initial upper range estimates of **\$78.4B to \$85.8B**;
- As a percentage of total annual healthcare spend for employer sponsored healthcare, we would project these costs could represent **1.2% to 1.5%** of total annual spend;
- Assuming COVID-19 eventually subsides, and there is no expected re-occurrence into 2021, insurance companies should be adequately reserved for these projected levels of additional expenses related to COVID-19.

*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.*



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