

Year-end health actuarial work

Five things to consider in light of COVID-19

DECEMBER 10, 2020



Welcome

- Introduction
- Presenters
- COVID-19 and health system impact
- Five things to consider in light of COVID-19
- Putting it all together
- Q&A
- Data reliance and limitations

Introduction



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Presenters



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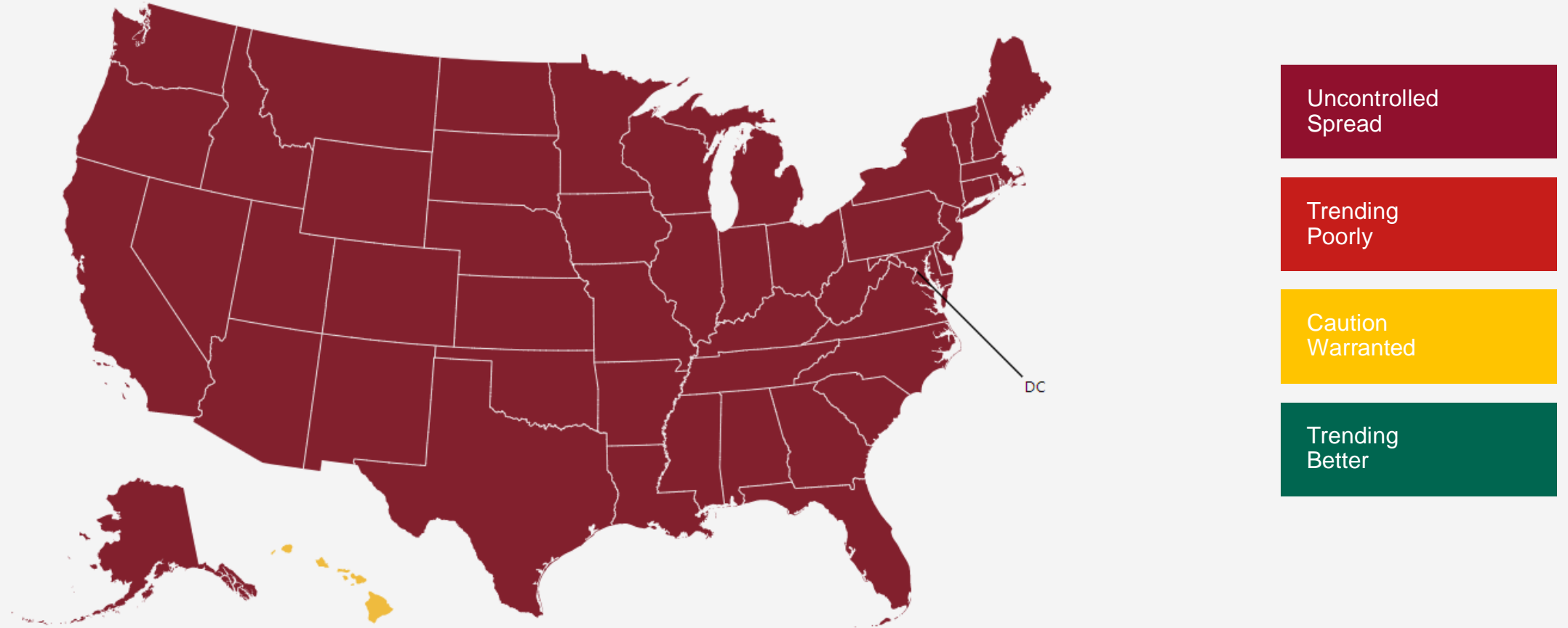


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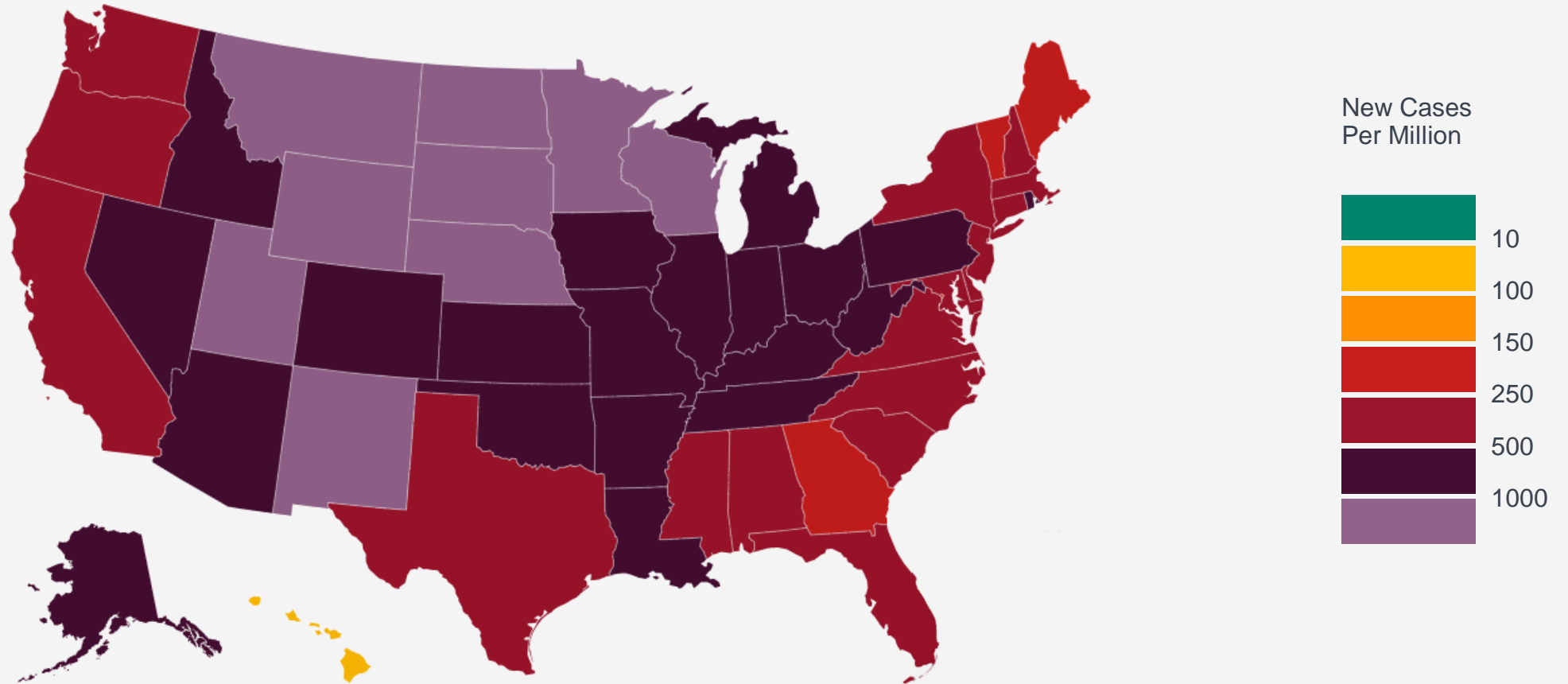
COVID-19 and health system impact

Uncontrolled spread



SOURCE: <http://covidexitstrategy.org>, retrieved November 25, 2020

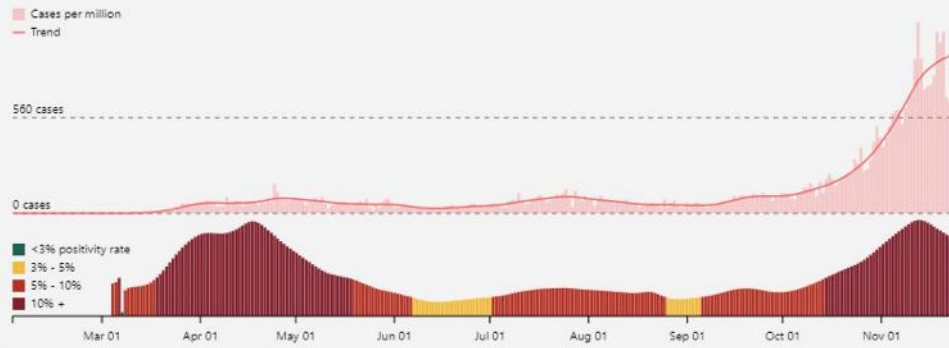
Uncontrolled spread worsens



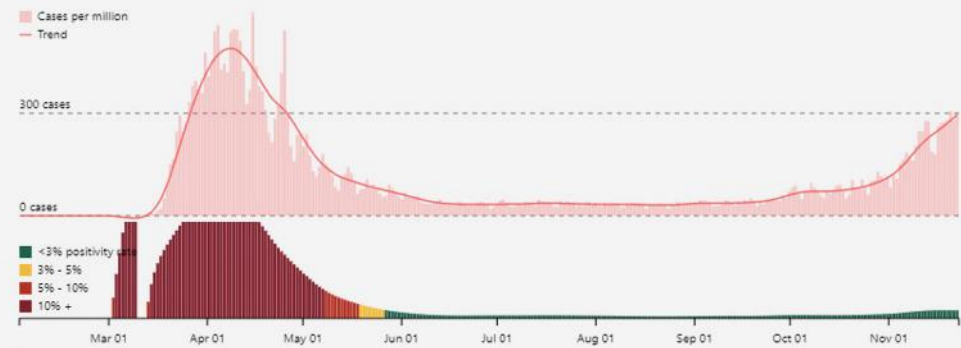
SOURCE: <http://covidexitstrategy.org>, retrieved November 25, 2020

History of cases

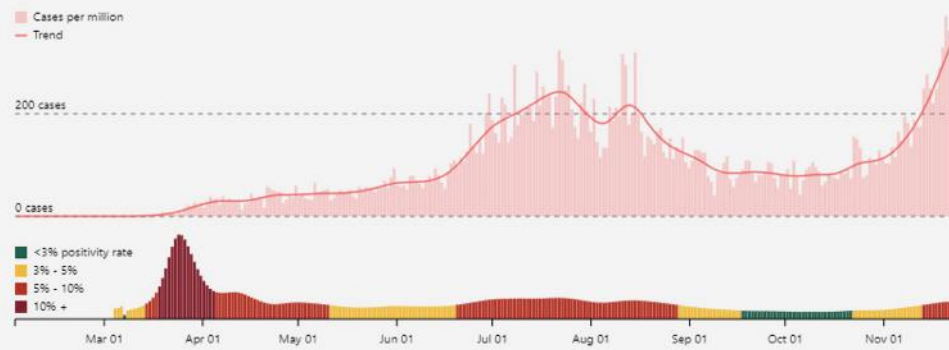
History of cases in Colorado



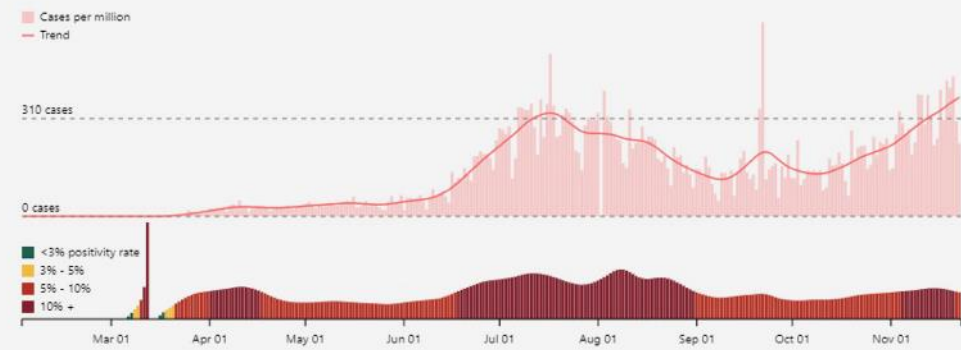
History of cases in New York



History of cases in California



History of cases in Texas



SOURCE: <http://covidexitstrategy.org>, retrieved November 25, 2020.

Forgone care

Immunization



“The stock market is not the economy.”

— Kai Ryssdal



Five things to consider in light of COVID-19

Five things to consider in light of COVID-19

1.

Premium
Deficiency
Reserves –
necessary?

2.

Financial
solvency of
providers

3.

Incurred
But Not
Reported
(IBNR)
estimates

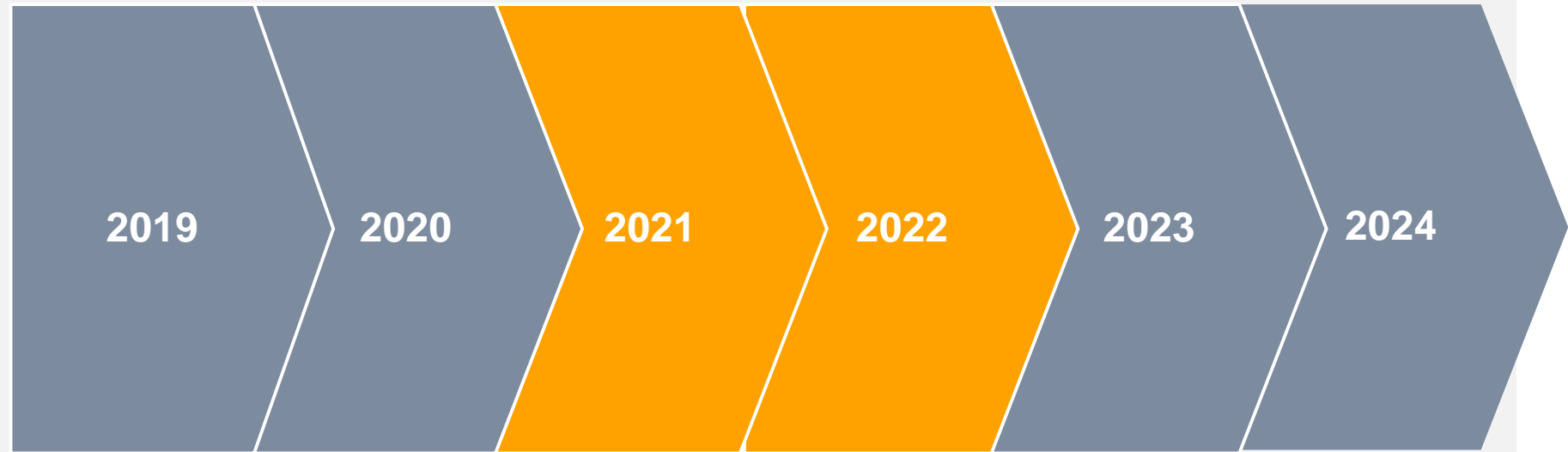
4.

Risk
adjustment

5.

Documentation
of work

1. Premium Deficiency Reserves



2. Financial solvency of providers

SOURCE:

<https://www.nbcnews.com/health/health-news/primary-care-offices-struggling-survive-during-covid-19-n1249017>

<https://www.fiercehealthcare.com/hospitals/kaufman-hall-hospital-operating-margins-down-nearly-20-since-start-year-due-to-covid-19>

<https://www.beckershospitalreview.com/finance/thousands-of-medical-practices-close-under-stress-from-pandemic.html>

https://www.sec.gov/ix?doc=/Archives/edgar/data/860730/000119312520281070/d56785d10q.htm#x56785_7

retrieved November 30, 2020

 NEWS

CORONAVIRUS

Primary care offices struggling to survive during Covid-19

The financial fallout of the pandemic is reducing access to health care, especially in rural areas already short on doctors.

Nov. 30, 2020

By Laura U...

Cormay Ca
round trip
Minnesota

Caine is on
new locati
Many coul
months.

"I was kind

 FIERCE
Healthcare

HOSPITALS

Virtual Event

Hospitals

Hospital operating margins down nearly 20% since start of year due to COVID-19, report says

by Robert King | Nov 30, 2020 11:37am



U.S. SECURITIES AND
EXCHANGE COMMISSION

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues for most of our services were significantly impacted during the latter portion of the first quarter and the first half of the second quarter and have continued to be impacted into the third quarter of 2020 as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that have caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities. While many of these restrictions have been eased across the U.S. and most states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and we are unable to predict the future impact of the pandemic on our operations.

During the nine months ended September 30, 2020, we received \$4.449 billion of accelerated Medicare payments and \$1.674 billion in general and targeted distributions from the Provider Relief Fund (net of amounts returned), both as provided for and established under the CARES Act. The Provider Relief Fund distributions were accounted for as government grants, and recognized on a systematic and rational basis as other income, once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on our analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on our operating results from the beginning of the pandemic in March through June 30, 2020, we recognized \$822 million related to the general distribution funds during the quarter ended June 30, 2020.

During the quarter ended September 30, 2020, we continued to evaluate our operating results and gave consideration to the updated reporting guidelines issued in September by the U.S. Department of Health and Human Services that significantly changed the measurement of Provider Relief Fund distributions provided to us. We have recognized the impact of these changes on our operating results for the quarter ended June 30, 2020. Our operating results for the quarter ended June 30, 2020, are unaudited.

BECKER'S Hospital CFO Report

Financial Management



Thousands of medical practices close under stress from pandemic

3. Incurred But Not Reported (IBNR) estimates



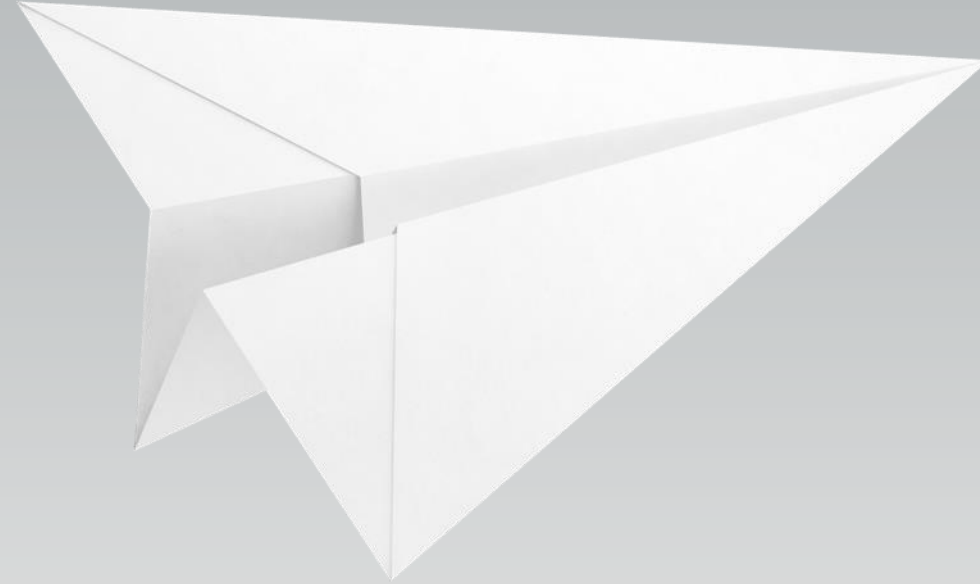
4. Risk adjustment

$$T_i = \left[\frac{PLRS_i \cdot IDF_i \cdot GCF_i}{\sum_i (s_i \cdot PLRS_i \cdot IDF_i \cdot GCF_i)} - \frac{AV_i \cdot ARF_i \cdot IDF_i \cdot GCF_i}{\sum_i (s_i \cdot AV_i \cdot ARF_i \cdot IDF_i \cdot GCF_i)} \right] \bar{P}_s$$



SOURCE:
<https://www.cms.gov/files/document/cms-9914-p.pdf>
 Retrieved November 30, 2020

5. Documentation – how to communicate



What is the degree of uncertainty?

What is reasonable?



How do different statement items interact with one another?



How did you arrive at your margin?



How did you use your data?



**When was the work done?
(COVID-19 moves fast)**

Putting it all together

Conclusions and next steps



Q&A

Data reliance and limitations

- This presentation is intended to provide an educational overview of how the COVID-19 pandemic could impact health carriers' financial statements.
- The opinions expressed here are the views of the presenters and not of Milliman as a whole.
- The pandemic's impact on health care is still evolving quickly, and those responsible for completing financial statement work should carefully monitor relevant items subsequent to this presentation.
- Catherine Murphy-Barron, Dan Perlman and Doug Norris are members of the American Academy of Actuaries, and meet its qualification standards to provide this presentation.