Predicting benefit costs and risks in a post-COVID-19 world

Participants in our discussions included:

Ann Asbaty, CEO, the Americas – International Markets, Cigna

Philip A. Austin, Head of Strategy and Global Business Development, Cigna

Kerrie Rowland, International Pension & Benefits COE Leader, GE

Christopher de Wolfe, Global Director of Risk Management, Mars Incorporated

Ian Langer, Global Benefits Director, Mars Incorporated

Wendy Liu, Global Head of Corporate Life & Pensions, Zurich Insurance Company Ltd

Paolo Marini, Global Head, Customer and Distribution Management, Corporate Life & Pensions, Zurich Insurance Company Ltd

Fergus Cardiff, Global Partnership Director, Corporate Life & Pensions, Zurich Insurance Company Ltd

This article, which is one in a series, resulted from discussions with senior leaders from Cigna, GE, Mars and Zurich Insurance on the impact of the pandemic on the global benefit landscape, and the urgent need for organizations to anticipate and address potential benefit cost increases.

In preparing for post-crisis operations, companies face the challenge of predicting, planning for and managing the future cost of benefits. While participants in our discussions expressed diverse views on this subject, one takeaway was clear: It's critical that organizations take the time to consider the range of variables and risks that will influence employee benefit costs going forward.

Limited short-term impact

As long as the virus continues to impact daily lives, the direct and indirect costs of COVID-19 testing and treatment are expected to increase. In many countries these direct costs are borne by public health systems, but this is not the case in countries where public systems don't exist or are inadequate. In these situations, we can see employers stepping in where required.

Similarly, participants did not report any significant impact on disability and life insurance programs during this initial period.

The Willis Towers Watson perspective: We expect medical premiums to be depressed or reduced in the short term with decreased utilization of routine medical services. The deviation from anticipated costs at the beginning of the year will really test the ability of employers and the insurance market to underwrite sustainable premiums at upcoming renewals. Employer life and disability costs will likely be unchanged.

A varied outlook on the mid to long term

Participants expressed nuanced and diverse perspectives on benefit costs beyond the short term.

- **Monitoring provider capacity, prioritization and consumer comfort.** According to Cigna's Asbaty, the global health services company expects to start seeing the impact of COVID-19 on utilization and pricing in the third and fourth quarters of this year with the largest increases in claims in the areas of mental health, chronic conditions and musculoskeletal elective procedures. As deferred elective procedures are rescheduled, Cigna is monitoring several factors: health care provider capacity (i.e., the volume of cases doctors and dentists can take on safely); prioritization of procedures (Cigna expects oncology and cardiology cases will be prioritized); and the health care consumer's comfort in undergoing these procedures.

  In addition, Cigna will be closely watching how the current environment will affect providers' rates and price points because as Asbaty noted "by definition these are for-profit institutions that need to stay alive and well to support our communities."

- **Facing rising claims and a lack of investment income.** Echoing a sentiment shared by other participants, Mars' Christopher de Wolfe anticipates that costs will rise in the medium to longer term due to greater demand.

  DeWolfe also highlights how a lack of investment income combined with rising claims can fuel price increases from insurance vendors. "If you've got claims and are not able to generate enough income from premiums, you need investment income. But insurance companies are not able to make as much investment income as they used to – so we anticipate some resultant increase in pricing."

- **Factoring in capacity for future COVID-19 waves.** GE expects an uptick in medical trend and life insurance premiums. But given treatment and witnessed recovery, it doesn't anticipate significant direct impact on disability plans. GE's Kerrie Rowland explains, "In most countries if you've had COVID-19 and come through it, you will be covered by short-term sickness policies." It was, however, acknowledged by the participants that there are potential indirect consequences of the pandemic that could lead to increased absenteeism but also consequently draw on disability benefits.

  While GE anticipates a potential increase in health care claims as treatments ramp up, it also recognizes the unprecedented nature of the current situation and the continuing need to have some capacity for COVID-19 treatment. "The virus is not going away, and therefore health care systems will potentially have to leave capacity for COVID-19," adds Rowland.

- **Assessing the economic impact and sector-specific differences.** For Zurich Insurance, understanding COVID-19's impact on the economy is also critical as this will drive claims and potential pricing changes. Zurich's Wendy Liu explains, "The big unknown is how claims behavior may change as economic conditions change; some countries may come out of a bad economic situation faster than others."

  It's also important to account for sector-specific differences. For example, Zurich's Paolo Marini points out that the pandemic's impact on disability insurance will vary by sector. "Sectors that were more heavily hit – energy, travel, aviation, oil and gas – had more people furloughed or unemployed, and so for the disability component, the sector will matter more than anything else."

The variables and risks in a changed environment

A number of factors influencing benefit costs in the post-crisis environment were cited by discussion participants:

- **Delayed care.** As many people have not been getting the care they need during lockdown, the potential exists for health deterioration, in particular in the case of chronic conditions such as diabetes and heart disease. Cigna's Asbaty notes, "There will be a deterioration of chronic conditions and wellbeing that will need to be addressed and will show up in utilization."
- **New ways of working.** Discussion participants highlighted the increased risk of mental health issues due to isolation that may accompany working remotely. They also recognize that people working remotely have a greater propensity to suffer musculoskeletal injuries as the ergonomics taken for granted in the office environment are often lacking in a home-based work environment. In addition, remote workers run the risk of developing a sedentary lifestyle, which can increase the risk of obesity, diabetes and heart disease.
- **COVID-19's long-term impact.** While there is still much to learn about COVID-19, participants noted that some of COVID-19's long-term effects on survivors, including heart and lung damage, are starting to be identified.

The Willis Towers Watson perspective: In the medium to long term, we expect medical environments to harden and premiums to rise beyond typical inflation levels due to the "catch up" on postponed medical procedures, health deterioration due to delayed preventive care and the long-term impacts of the virus on patients.

In addition, cost increases are anticipated at the health provider level to recover income losses due to the COVID-19 lockdowns and potentially due to reduced provider capacity and competition. Disability costs are also expected to rise owing to delayed care as well as increased mental health and musculoskeletal risks resulting from the new remote work environment.

In balancing the short-term and medium-to-long-term impacts, we're working with our clients and insurance partners to engage in early-stage discussions on how to maintain sustainable premiums.

Predicting and managing benefit costs going forward

It's critical to understand the diverse range of factors influencing benefit costs and risks given the reset of the work environment due to the pandemic. Employers looking to mitigate or manage potential benefit cost increases can start by:

- Accelerating the move to telehealth for outpatient services and helping employees navigate the health system to ensure they access the most appropriate services
- Executing on wellbeing strategies and programs
- Reassessing the risk profile of the workforce for disability and life coverages as the frequency of working from home increases so risk and premiums can be reduced

Future articles based on our series of discussions will explore employee engagement in benefits, the implications of COVID-19 for benefit design and delivery, and the changing landscape for insurers.

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