

# Understanding Consumer Protections and Financial Uncertainty in the Era of Covid-19

## Ensuring a viable health care system now and in the future

### Important Consumer Protections in California

State and federal laws provide important protections for purchasers of health care coverage. Health plans in California are tightly regulated and must comply with extensive transparency requirements for how they set prices and spend taxpayers', employers', and consumers' health care dollars.

### Rate Review

Rates Must Be...

-  Certified by Actuaries
-  Reviewed by Regulators
-  Made Available for Public Comment
-  Cannot be Changed Mid-Year

### The Medical Loss Ratio Explained

State and federal law requires health plans to spend 80-85 percent of the premium dollars on medical services and quality improvement efforts. Medical services include the diagnosis, cure, mitigation, treatment, or prevention of disease, or amounts paid for the purpose of affecting any structure or function of the body.

California health plans routinely spend more on medical services every year than the medical loss ratio requires. Administrative costs may include employee costs, regulatory costs, technology and innovation, fraud prevention, office and marketing expenses, taxes, and other fees.

If a health plan does not spend 80-85 percent of premium dollars on medical care and quality improvement, then health plan policyholders can expect that a percentage of their premiums will be rebated by their health plan.



**\$ 80-85¢**  
out of every dollar must  
be spent on medical care

If health plans don't meet these requirements, they are required to issue rebates to policy-holders under state and federal law.

## The full costs of treating COVID-19 patients have yet to materialize.

Health plans must be able to plan financially for the increase in care that the COVID-19 pandemic may bring. Treating COVID-19 patients will be expensive for private and public payers alike. We have yet to fully see the costs of treating this pandemic but several reports point to significant costs to our health care system:

### According to Covered California:

One-year projected costs in the national commercial market range from **\$34 billion to \$251 billion for testing, treatment and care specifically related to COVID-19** — with the potential that costs could be higher than the high end of the range.

Potential COVID-19 costs for 2020 could range from about **2 percent to over 21 percent** of premium if the full first-year costs of the epidemic had been priced into the premium.

### Preparing for Pent-Up Medical Demand

Due to elective surgeries temporarily being placed on hiatus and the recent reduction in non-COVID 19 medical care during shelter-in-place orders, health plans must be prepared for an influx of pent-up medical demand once the shelter-in-place orders are lifted. This increase in medical demand will eventually lead to a resumption of heavy use of non COVID-19 medical care, including elective surgeries.

### Uncertainty For 2020 and 2021

It is too early to tell if 2020 premiums will ultimately be sufficient to cover the costs of anticipated medical services with the additional costs for covering services for COVID 19. The costs of emerging treatments, a potential Fall resurgence of cases, funding the rapid expansion of testing, and the timing and cost of an eventual vaccine, are all unknown. While we are working through this uncertainty in 2020, health plans are already required to start planning ahead for 2021 premiums. The more information health plans can receive on 2020 actual health care costs the more accurate we can be in setting premiums for 2021.

**Premiums that are paid today are crucial for maintaining a viable health care system now and in the future.**