The Impact of COVID-19 on the Health Insurance Industry

Dan Mendelson, Founder

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Healthcare Affordability Was Primary Consumer Concern as of January 2020

#1

67%
of consumers filing bankruptcy cited healthcare as primary reason

84%
of consumers believe drug prices are unreasonable

90%
of consumers support Medicare price negotiation

40%
of Americans have saved enough to cover a $1,000 emergency

102M
Americans have a pre-existing condition

57%
of employees are offered a high deductible plan

$13K
Average employee health benefit cost
## COVID-19 Dramatically Alters Consumer Priorities

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipating Recession</td>
<td>85% of Democrats &amp; 75% of Republicans anticipate a recession</td>
</tr>
<tr>
<td>Job Losses</td>
<td>39% of Americans report job loss or lost income from COVID-19</td>
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<tr>
<td>Disruption of COVID-19</td>
<td>72% of Americans say their lives have been disrupted by COVID-19; 82% of Americans who say they have been sheltering in place</td>
</tr>
<tr>
<td>Mental Health</td>
<td>45% of Americans report negative mental health impacts due to COVID-19</td>
</tr>
<tr>
<td>Response &amp; Treatment</td>
<td>78% of consumers worry local hospital will lack resources to treat patients; 53% of Americans worry they will not be able to afford COVID-19 testing and treatment</td>
</tr>
<tr>
<td>National Priority</td>
<td>45% of Americans cite COVID-19 as most important problem facing country</td>
</tr>
</tbody>
</table>
Focus on Healthcare Security Accelerated by COVID-19

The Uninsured Rate, Non-Elderly Adults, 2008–2020

At 25% unemployment, projections range up to 40M uninsured

COVID-19 Spike Range
Uninsured Rate Rises
ACA Becomes Law
Individual Mandate Takes Effect

14.6% 16.1% 13.4% 13.7%
## Coverage Debate Will Focus on Center-Left Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
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<tbody>
<tr>
<td>Repeal ACA</td>
<td>Continued interest from Republican caucus and support of Texas vs. Azar will keep issue in spotlight, accompanied by market reform (liability in light of COVID-19)</td>
</tr>
<tr>
<td>Public Option</td>
<td>Establishes a government-sponsored option that would be sold alongside commercial insurance, possibly with subsidy for low-income</td>
</tr>
<tr>
<td>Coverage Expansions</td>
<td>Allows selective expansion of Medicare, Medicaid, ACA programs to reach full coverage for all Americans with private insurance in place</td>
</tr>
<tr>
<td>Coverage Flexibilities</td>
<td>Variety of proposals around expanding short term plans, AHPs, HRA flexibility, and potential direct funding of reimbursement accounts for individuals to purchase coverage</td>
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<tr>
<td>Medicare Expansion</td>
<td>Expand coverage to individuals aged 60+, even those with other offers of health insurance</td>
</tr>
<tr>
<td>COBRA Subsidy</td>
<td>Subsidize COBRA coverage for a set period of time to help individuals who have lost employment due to COVID-19 maintain insurance</td>
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Under Biden’s Medicare Expansion Proposal, Nearly 23M Individuals Would Be Newly Eligible for Medicare

Composition of Individuals Newly Eligible for Medicare Under Proposal, Ages 60-64 (2018)

- Employer-Sponsored: 600K (3%)
- Medicaid: 1.7M (7%)
- Individual Market: 3.2M (14%)
- Uninsured: 3.8M (17%)
- Other Government: 13.4M (59%)
- Newly Eligible Beneficiaries by State, Ages 60-64 (2018)

- Over 1 Million
- 500,000 to 1 Million
- 100,000 to 499,000
- Less than 100,000
COVID-19 Dramatically Accelerates Government Presence in Managed Care

### Enrollment by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment Percentage</th>
<th>2013</th>
<th>2018</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(n=293 million lives*)</td>
<td>39%</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>(n=298 million lives*)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(n=316 million lives*)</td>
<td></td>
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</tbody>
</table>

- **Government Enrollment**
- **Medicare and Other Government**
- **Medicaid**
- **On-Exchange**
- **Other Payers**
Capitation Is Becoming the Dominant Form of Medicare

Medicare Advantage Growth Projections /

Recent Earnings Confirm Growth Projections; Show Robust 2019 to 2020 Enrollment Growth:
- Anthem 17%
- Cigna: 15%
- Humana: 12%
- CVS Health: 11%
- United: 8%

An increase in early retirement due to economic downturn may bolster MA enrollment further, especially in areas of the country with high MA penetration.

MA as a % of Total Medicare Enrollment
- (Actual)
- (CBO Projection)
- (Avalere Projection)
Managed Care Also Playing a Larger Role in Medicaid

Proportion Medicaid LTSS
Institutional vs HCBS

<table>
<thead>
<tr>
<th>Year</th>
<th>Institutional</th>
<th>HCBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>2016</td>
<td>43%</td>
<td>57%</td>
</tr>
</tbody>
</table>

In 2016, Medicaid spent $167m on LTSS, 30% of total Medicaid spending.

Medicaid Managed LTSS Expenditures
In Billion Of Dollars, FY 2008 – 2016

... Although States are carving out the drug benefit to access rebates and standardize benefits.
COVID-19 is Generating Rapid Medicaid Growth and Unprecedented Pressure on State Budgets

<table>
<thead>
<tr>
<th>Medicaid Growth</th>
<th>Stable Reimbursement</th>
<th>Durable Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Medicaid growth averaged 10% and 7% annually in the past two recessions</td>
<td>• Rate pressure mitigated by temporary FMAP increase in COVID-19 legislation</td>
<td>• Higher Medicaid enrollment will likely persist, given the “long tail” of recovery</td>
</tr>
<tr>
<td>• More generous safety net (ACA’s Medicaid expansion) today will funnel more</td>
<td>• States will recoup revenues from lost utilization and control of Rx spend</td>
<td>• Economic rebound will not erase all Medicaid enrollment growth</td>
</tr>
<tr>
<td>patients into Medicaid than prior recessions</td>
<td>• Long term, states will face budget challenges</td>
<td></td>
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Commercial Book Profoundly Affected by COVID-19

- Positive balance of reduced medical utilization and COVID cost (clinical care, testing, vaccine, PPE); very low MLRs
- Response on copay reduction, telemedicine, SDOH, prescribing, givebacks
- Complicates quality agenda, homecare substitution, value-based care
- Disruption of commercial book, growth in federal programs; deferred services adds uncertainty about 2021 costs, complicates bid submission
- Small Group segment may further deteriorate after PPP and other stimulus
## Providers Profoundly Affected by COVID-19

- Reduction in surgeries, visits (30-79% drop), revenues; concentrated among ophthalmology (79%), dermatology (73%), and pulmonology (63%)
- Variable load of ID, inadequate supplies to treat, extreme stress for staff
- Need to control expenses despite federal support; possible solvency issues
- Long-term effects on IT infrastructure, labor mix, capacity perceptions, post-acute care (including mix of institutional vs. home) other
- Largest reduction in utilization among school-age children (71% drop) and older adults (65% drop)
COVID-19 Has Impacted CMMI’s Ongoing Delivery System Efforts; 2020 Election May Alter Its Course

CMMI Direction and Focus

Before COVID-19

- CMMI increased focus on oncology and kidney care
- Voluntary MA & Part D models play larger role
- IPI remains on hold

During

- Some CMMI models delayed due to COVID-19
- ACO payment altered; could signal broader changes to other models
- Bundled payment demos impacted by deferred services

2021 & Beyond

- Trump would likely could prioritize cost savings to Medicare and patient engagement/risk sharing
- Biden could use CMMI to advance Medicare policies that cannot be passed via Congress (e.g., Medicare negotiation in Part D)
COVID-19 Creates Golden Moment for Health IT

Cohort Evaluation
Identify patients with gaps in care

Predictive Analytics
Stratify patients into risk levels

Targeted Intervention
Leverage risk profile to develop interventions

Impact Assessment and Process Improvement
Evaluate return on investment
# Pharma Profoundly Affected by COVID-19

| Focus on vaccine, anti-virals, and potential to change the dialogue |
| Reduced demand for specialty drugs, particularly in hospital and physician office settings – patients may seek home administration or pharmacy alternative |
| Interruptions in clinical trials as a result of disruption in clinical care |
| Adaptations, including RN prescribing, FDA focus, supply chain scrutiny, need to connect virtually to customers |
| Effects of recession on coverage, consumer demand and affordability |
Cell and Gene Therapy Market at Financial Risk

800+ Currently active INDs on file for cell and gene therapies

50 Newly-hired FDA clinical reviewers to the Cell and Gene Therapy group

20 Companies with over 8 gene therapies in the active clinical pipeline

11 Expected FDA approvals for gene therapies by 2021*

US Cell and Gene Therapy Approvals Expected Through End of 2022

US Cell and Gene Therapy Pipeline by Clinical Trial Stage

Oncology
High Prevalence
Ultra Orphan
Orphan Disrupters
Phase I
Phase II
Phase III
Phase I
Phase II
Phase III
COVID-19 Also Creating Trans-National Challenges for the Pharmaceutical Industry

Several concerns have emerged relating to various aspects of the global supply chain

- **Supply Chain**: Concerns around supply and demand for materials
- **Pricing**: Risks of comparisons to international COVID-19 product pricing
- **Trade**: Disturbances to trade regulations related to sourcing and access
## Stock Performance Will Drive Narrative

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<tbody>
<tr>
<td>Payors</td>
<td>1%</td>
<td>(39%)</td>
<td>59%</td>
<td>(3%)</td>
</tr>
<tr>
<td>Pharma / Generics</td>
<td>2%</td>
<td>(15%)</td>
<td>13%</td>
<td>(4%)</td>
</tr>
<tr>
<td>Pharma CRO / CMO</td>
<td>4%</td>
<td>(27%)</td>
<td>31%</td>
<td>(4%)</td>
</tr>
<tr>
<td>HCIT</td>
<td>9%</td>
<td>(22%)</td>
<td>21%</td>
<td>(5%)</td>
</tr>
<tr>
<td>MedTech / Dx Services</td>
<td>(3%)</td>
<td>(31%)</td>
<td>34%</td>
<td>(7%)</td>
</tr>
<tr>
<td>Labs</td>
<td>(1%)</td>
<td>(41%)</td>
<td>53%</td>
<td>(9%)</td>
</tr>
<tr>
<td>Providers - Outpatient</td>
<td>(2%)</td>
<td>(32%)</td>
<td>28%</td>
<td>(13%)</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>(10%)</td>
<td>(34%)</td>
<td>30%</td>
<td>(14%)</td>
</tr>
<tr>
<td>Distribution</td>
<td>(2%)</td>
<td>(31%)</td>
<td>23%</td>
<td>(15%)</td>
</tr>
<tr>
<td>Providers - Post-Acute</td>
<td>(8%)</td>
<td>(32%)</td>
<td>18%</td>
<td>(19%)</td>
</tr>
<tr>
<td>Providers - Behavioral Health</td>
<td>(27%)</td>
<td>(52%)</td>
<td>55%</td>
<td>(25%)</td>
</tr>
<tr>
<td>Payor Services</td>
<td>(26%)</td>
<td>(40%)</td>
<td>20%</td>
<td>(28%)</td>
</tr>
<tr>
<td>Providers - Acute</td>
<td>(29%)</td>
<td>(49%)</td>
<td>39%</td>
<td>(29%)</td>
</tr>
<tr>
<td>Providers - Physician Svcs / Staffing</td>
<td>(34%)</td>
<td>(32%)</td>
<td>(4%)</td>
<td>(34%)</td>
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No Sector Can Be Perceived as Profiting from COVID-19

- Providers hard hit and will have strong support of policy makers at federal and state levels
- Plans returning funds to members and states to position positively
- Questions regarding pricing and distribution of vaccines and other relevant products

Stock Performance Will Drive Narrative
# COVID-19 Will Shape Environment for Next Decade

Recession and COVID-19 are re-shaping the healthcare environment heading into the 2020 election – for consumers and commercial stakeholders.

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<th>Government payers increasingly favor health plans and integrated systems as shift to value accelerates through COVID-19</th>
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<tr>
<td>Telehealth, HCIT, payer services, SDOH, provider consolidation, labor flexibilities, capacity maintenance, supply chain control are durable changes</td>
</tr>
<tr>
<td>Political agendas of both parties will help stakeholders adapt but will also expect participation and monitor profitability of COVID-19 offerings</td>
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Contact: dmendelson@avalere.com

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