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Unexpected Health Insurance Profits and the COVID-19 Crisis

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The coronavirus disease 2019 (COVID-19) pandemic has placed unprecedented financial stress on most of the US health care system, including physician practices, emergency medical service systems, and hospitals. But there is one notable exception: health insurance companies. Sharp declines in elective care during the pandemic have reduced health care expenditures and contributed to earnings that are twice as large as those earned last year. For example, the UnitedHealth Group's net income during the second quarter grew from $3.4 billion in 2019 to $6.7 billion in 2020 and Anthem Inc's net income increased from $1.1 billion to $2.3 billion.

Under the law, insurers must return a large portion of these excess revenues back to individuals, families, and employers. Insurers can keep only 15% or 20% of premiums for administration and profit; if they fail to spend the remainder on health services and efforts to improve quality, they must rebate the difference.

This process, however, was designed to account for modest annual variation and not precipitous drops in expenditures, and it moves slowly. Funds returned to families and employers this year are based off unspent funds from 2017 to 2019. Accordingly, reductions in medical spending from 2020 will not be fully rebated until 2023.

A Better Option

There is a better option for this unprecedented situation. Amid a national crisis, the unspent premiums generating these windfalls represent an opportunity to urgently fight the pandemic, as well as buffer the economic shock of the recession today.

Thus far, insurers have handled their financial good fortune in a variety of ways. Some have advanced funding or loaned money to health care organizations. Others have pursued stock buybacks, which can create wealth for shareholders. A few are following the lead of auto insurance companies and are offering early rebates to enrollees, with encouragement by the US Department of Health and Human Services.

Current rules require little short-term disclosure. The amount of extra revenue sitting with many insurers is not easily accessible. Nor is it clear how much funding is being advanced to hospitals and physicians, and under what terms. Insurers may be planning to use funds to increase reserves or even provide their own employees with bonuses associated with record earnings; public understanding of such uses may come months later, if at all.

The times call for more than business as usual. The federal government and state insurance commissioners (and, if necessary, state legislatures) can take a number of steps to ensure that insurance industry premiums are used as intended to treat illness and save lives or are returned to those who paid the bills.

First, regulators can demand greater transparency around how the excess premiums are spent. Regular reports can include premium revenues, average health care expenditures per policyholder during the pandemic, expenditures during the same period in 2019, and how much was spent in key categories of health care and other expenses.

Second, insurers could be permitted to offer support to underfunded state public health departments to assess COVID-19 response needs, including the need for personnel, contact tracing, testing, essential clinical care and hospital preparedness, action to address disparities, and public communication.

Third, the government can permit or even require insurers to spend a share of the excess profits on these urgent public health needs. Insurance companies are in the unique institutional and financial situation to fill essential gaps in the pandemic response. Doing so would further the stated mission of many insurance companies, including the mission declared by UnitedHealthcare ("to help people live healthier lives and make the health system work better for everyone") and Anthem Inc ("Improving lives and communities. Simplifying healthcare. Expecting more."). These contributions should be permitted to count alongside medical expenditures in calculations of insurer spending during the year under federal rules.

The remaining funds should be rebated this year, helping to put liquidity in the hands of insured individuals and groups.

Remaining Uncertainty

To be sure, there remains much uncertainty around the course of the pandemic, and

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what this means for insurance rates for next year. On the one hand, lower rates of spending may persist as the COVID-19 pandemic continues. On the other, there may be a rise in demand for covered services as patients return for elective care.

It is hard to imagine, however, that patients will be able to return in numbers that substantially exceed the prepandemic era—both because of capacity limits within the health care system and because some patients may opt for fewer procedures to manage their conditions. Not all missed services need be rescheduled; for example, someone who missed an annual screening visit or test does not need 2 tests performed during the following year.

Even in the worst-case scenario, an unanticipated future surge in spending, insurance commissioners would continue to apply solvency requirements to make sure that insurance rates are sufficient moving forward. Although patterns of consumption of health care services are difficult to predict, insurance companies are still expected to remain profitable. Further, public health efforts generally have an excellent return on investment, which could very well provide insurance companies and their policyholders further savings in the long-term.

At a time of growing fiscal strain, budget deficits, and layoffs, health insurers are well positioned to be a critical source of support for their communities. Now is not the time to be cautiously holding onto extra revenues for a rainy day. Now is the rainy day. ■

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