Health Insurers Falsely Claim Rising Costs Justify Soaring Premiums

Growth of provider payments falls well short of health plan rate hikes; Private insurers spent $716 billion on profits, overhead from 2000 to 2008

MARCH 2010

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Health Care for America Now gratefully acknowledges the assistance of Diane Archer, Peter Harbage, Andrew Kurz, Wendell Potter, Dennis Osorio, Sonal Shah and Deepika Mehta.

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Rising medical costs do not justify double-digit premium hikes health insurers are proposing in California, Iowa, Connecticut, Michigan, Indiana, Oregon, Maine, Rhode Island and many other states. The health insurance industry, dominated by a handful of big for-profit companies answerable to Wall Street investors, raised premiums at a much faster rate from 2000 to 2008 than the industry's aggregate spending on health care services. The industry's trade group, America's Health Insurance Plans (AHIP), has consistently blamed skyrocketing health costs for all the growth in premiums. On Feb. 28, 2010, AHIP spokesman Robert Zirkelbach, was quoted in the Washington Post as saying, "We're working really hard to set the record straight on what's driving health-care prices in this country, which is underlying medical costs and not health plans."[1] But the insurance industry's actual medical costs have grown far more slowly than premiums. An analysis of data covering the period 2000 to 2008 shows that:

- Premiums for families enrolled in employer-sponsored health plans increased 97 percent,[2] while premiums for individuals enrolled in employer-sponsored health plans climbed 90 percent.[3]
- Private insurers' payments to health care providers rose 72 percent.[4]
- Medical inflation increased 39 percent.[5]
- Family premiums grew more than three times faster than wages, nearly five times faster than general inflation and more than twice as fast as medical inflation. (Figure 1)
- Profits and administrative costs consumed $716.4 billion of the premiums insurers collected, a sum nearly equal to the entire 10-year cost of health reform.[6]

Insurance industry executives possessing virtual monopoly power continue to pursue breathtaking rate hikes under cover of lax state regulation and the complete absence of transparency and accountability in the private health insurance marketplace. Americans are left to pay more while they get less and less. As premiums have skyrocketed, insurers have cut health benefits, increased out-of-pocket costs for workers and shed millions of enrollees who can't afford the premiums. For many who don't have enough money for private insurance and aren't eligible for government-sponsored coverage, there are only two options: purchase coverage that leaves them burdened with soaring out-of-pocket costs, or go without coverage, which usually means forgoing needed care.

Insurers have continued to reduce their share of premium dollars spent on actual medical care while using the money for marketing, underwriting, overhead, administration and huge CEO salaries.[7] In 1993, the leading insurers used about 95 cents of every premium dollar on medical benefits (an indicator known as the medical loss ratio, or MLR), according to the consulting firm PricewaterhouseCoopers.[8] Ever since, health insurance executives have pursued mergers, acquisitions and initial public offerings that turned much of the health insurance industry into a profit-generating machine designed to serve Wall Street.[9] Many non-profit insurers decided that if they couldn't beat the for-profits, they had to adopt the same philosophy to ensure their own survival. As a result, conversions to for-profit status by non-profit insurers were frequent in the 1990s. By 2007 investor-owned health insurers had reduced spending on actual medical care to less than 83 percent of premiums collected. The unweighted average medical loss ratio of the five biggest for-profit companies for 2009 was 82.8 percent.[10] Some Wall Street analysts and investors consider the

MLRs of various companies to be too high, so the pressure is on to bring them down. The insurers are unlikely to encounter regulatory resistance as they pursue that goal. Historically, states have lacked the will to insist that health insurers spend a reasonable portion of premium dollars on medical care; many states have no requirements whatsoever.[11]

From 2000 to 2008, health insurers hiked total premiums in employer-sponsored group health plans by 97 percent for families and 90 percent for individuals, according to the Kaiser Family Foundation.[12] At the same time private insurance payments to health care providers grew by 72 percent, according to federal health spending data.[13] The gap between the growth in family and individual premiums and insurers' spending on health benefits is widening (Figures 1 and 2). The difference between premiums paid by families and the amount insurers spent on actual health care to a great extent represents unjustified profit, excessive spending and administrative waste—costs borne unwittingly by American employers and consumers. These non-medical costs include bloated executive pay; expensive financial maneuvers designed to pump up stock prices; aggressive "underwriting" activities that identify and exclude the sick; claims processing techniques designed to deny care and limit reimbursement; marketing; sales; and back-office operations.

If the industry had chosen instead to raise premiums at the same pace that it increased spending on health care from 2000 to 2008, insurers still would have made substantial profits. Furthermore, if insurers had used their market power to restrain rising provider rates rather than simply accepting those costs and passing them along to the public, they would have added significant value to the health system. Instead, Wall Street-driven financial imperatives to generate ever-greater returns to investors trumped the need of millions of Americans for good, affordable coverage and the health of the U.S. economy. From 2000 to 2008, the health insurance industry raised family premiums 2.5 times faster than medical inflation, 3.3 times faster than wages and 4.6 times faster than general inflation, according to the HCAN analysis. The data contradict industry claims that insurers are best situated to manage care and costs efficiently. The figures also demonstrate that the private insurers' primary purpose and fiduciary obligation is delivering strong returns to shareholders, not promoting value in the insurance marketplace. This dynamic leaves private insurers unable or unwilling to rein in medical costs and utilization.

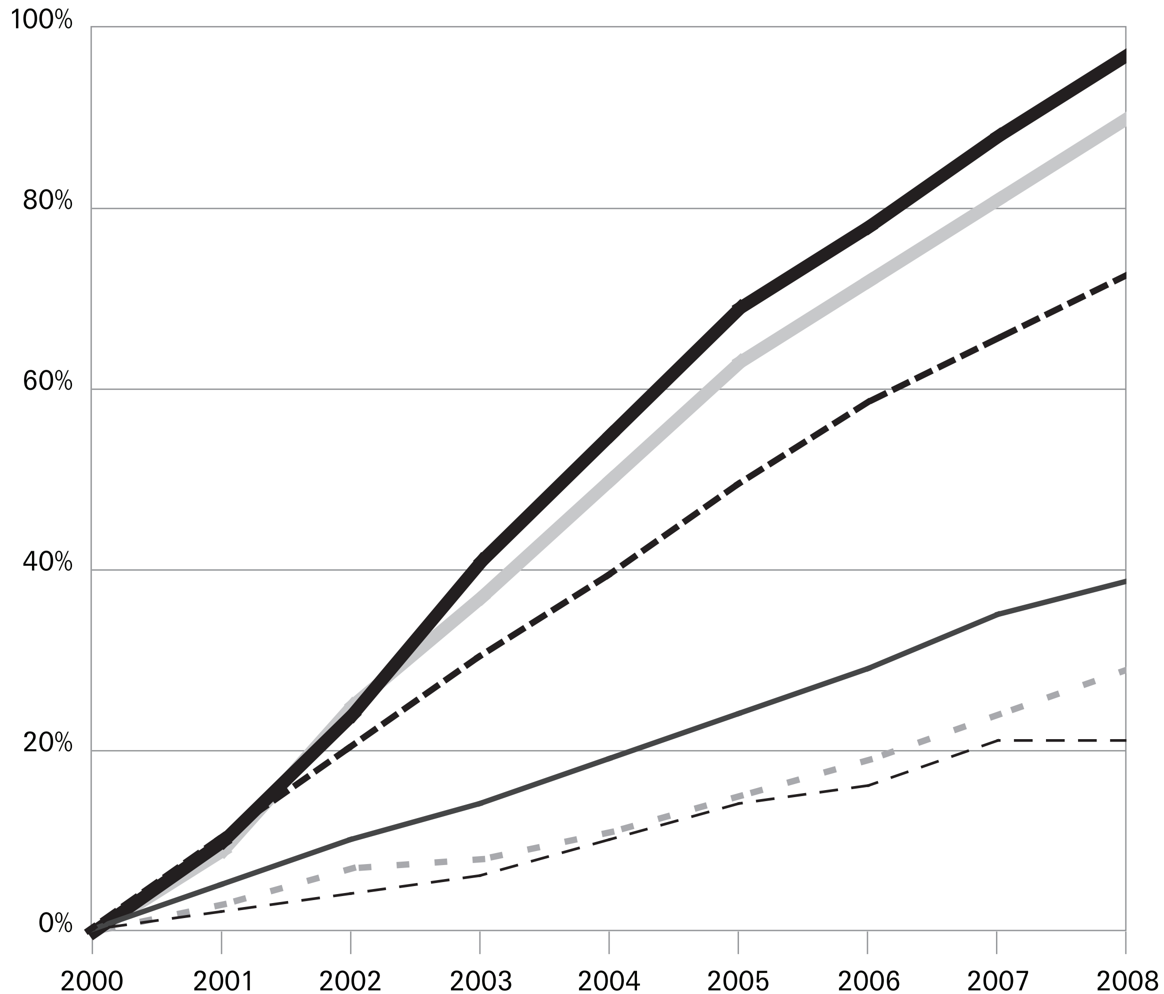
The lack of affordable, quality coverage means many Americans with medical needs are driven to financial ruin. Medical debt was a key reason that 62 percent of personal bankruptcy filers sought court protection in 2007.[14] In 2008, there were 1.07 million household bankruptcies filed nationwide.[15] For the estimated 52 million Americans without health insurance,[16] lack of coverage will contribute to the deaths of about 45,000 people this year, or 123 people every day, according to Harvard Medical School researchers.[17] Population data strongly suggest that the affordability crisis created by premium hikes is worsening. From 2000 to 2008, membership in private health plans declined by 4.3 million even though the number of Americans under 65 years old increased by 18.8 million.[18]

Last year the five largest for-profit companies breezed through the worst economic downturn since the Great Depression to set records for combined profits. WellPoint Inc., UnitedHealth Group Inc., Aetna Inc., Humana Inc., and Cigna Corp., reported total profit of $12.2 billion in 2009, up 56 percent from the previous year. It was the best year ever for Big Insurance. How did they do it? Not by insuring more people. In 2009, the five companies had 2.7 million fewer Americans in private health plans than in 2008. For policyholders who held onto their benefits last year, the insurers raised rates and cost-sharing and cut the percentage of premiums spent on medical care. The industry has been reducing the share of premiums spent on medical care for the last 15 years. In 1993 it hovered around 95 percent, while today it's around 82 or 83 percent.[19]

Top health insurance executives frequently argue that total industry profits equal only one penny of every dollar spent in the U.S. health care system.[20]

FIGURE 1

Cumulative Growth Rate of Health Insurance Premiums Dramatically Outstrips Inflation, Wages and Cost of Private Insurance Benefits, 2000–2008



- Premiums[1] (Average Annual Family Coverage, Employer-Sponsored Health Plans)
- Premiums[2] (Average Annual Single Coverage, Employer-Sponsored Health Plans)
- Spending on Health Benefits by Private Insurers[3]
- Medical Component of Consumer Price Index[4]
- Wages[5] (Non-Farm, Seasonally Adjusted)
- Overall Inflation[6] (Consumer Price Index, US City Average Annual Inflation)

[1]The Kaiser Family Foundation, "Average Annual Premiums for Single and Family Coverage, 1999-2009," Sept. 15, 2009. Accessed at http://ehbs.kff.org/?page=charts&id=2&sn=16&ch=1023.

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Under that formula, the health insurance industry collected $25 billion in profits last year. Over a 10-year period, that penny of profit would finance more than 25 percent of the pending $950 billion health reform proposal.

As valuable as that penny is, it doesn't begin to capture the extent of the health insurance industry's wasteful overhead that is being paid for through soaring premiums. For example, WellPoint employs 39 executives who each collected total compensation exceeding $1 million in 2009, according to documents released on Feb. 24, 2010, by Chairman Henry Waxman of the Energy and Commerce Committee.[21] WellPoint also spent more than $27 million on retreats for its staff at resorts in such destinations as Hawaii and Arizona in 2007 and 2008, the documents showed.[22] From 2000 to 2008, the 10 largest for-profit health insurers paid their CEOs a total of $690.7 million, according to corporate filings.[23] Because so many CEOs are major shareholders of their companies, they are doubly motivated to maintain profit growth and prop up share prices to increase their personal fortunes. Compare such lavish compensation to that of the chief of federal health programs that cover 103 million people. The salary of the administrator of the Center for Medicare and Medicaid Services tops out at $176,000 a year for financing the health care of 44 million elderly and disabled Americans with Medicare and about 59 million low-income and disabled Medicaid recipients.

HCAN's analysis of the disparity in growth rates for premiums and insurer spending on benefits ends at 2008 because more recent data are not available, but there is good reason to believe that the gap widened further in 2009 and 2010. In recent weeks, California's largest health insurer, the Anthem Blue Cross subsidiary of WellPoint Inc., sparked a backlash when it told 800,000 customers it was raising premiums as much as 39 percent in the individual market.[24] Customers also were outraged to learn that WellPoint for the first time is reserving the right to raise premiums at will in the middle of the policy year rather than following the established industry practice of doing so only once a year.[25] Anthem blamed skyrocketing medical costs, echoing arguments of the health insurance industry trade association, AHIP.

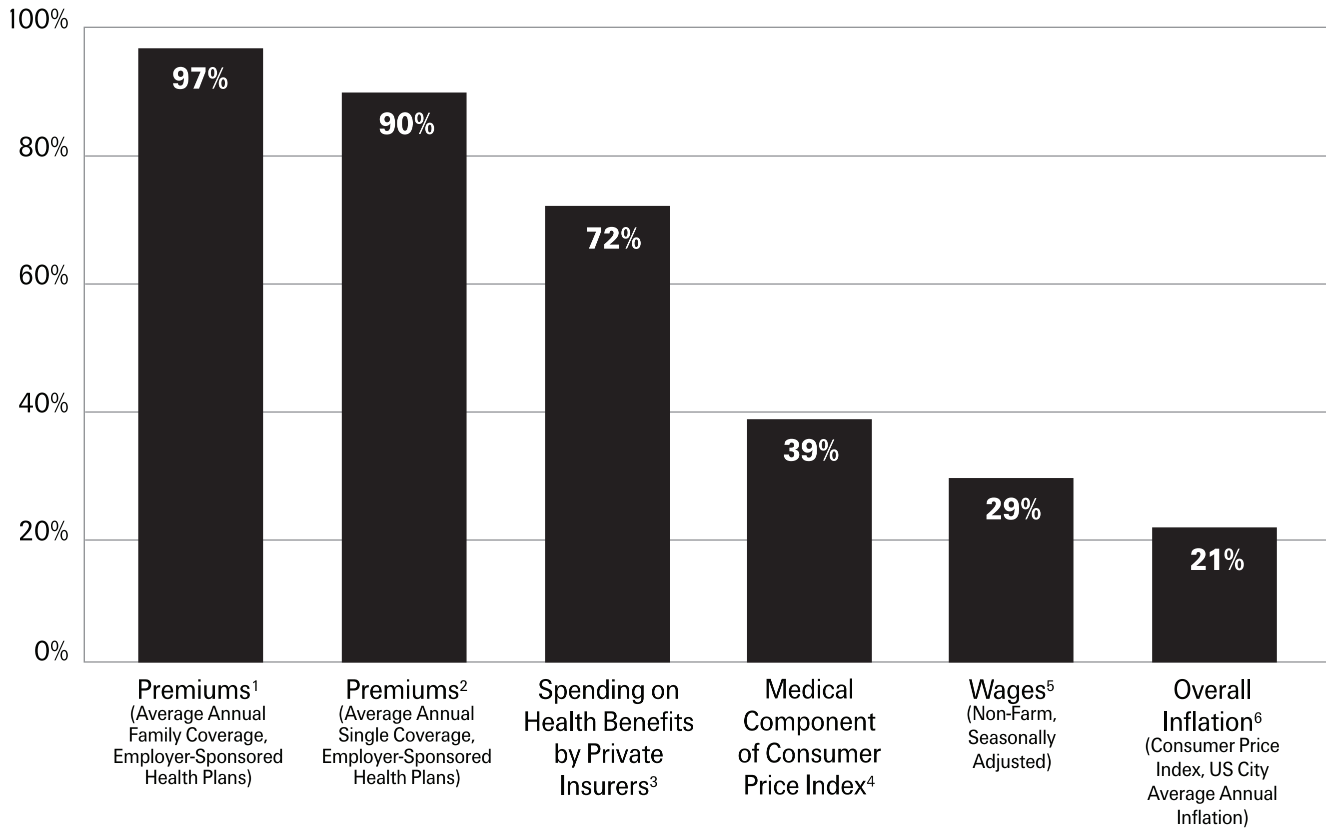
Such industry practices are designed to fuel profits and bolster stock prices. The Los Angeles Times reported that from 2004 through 2009 Anthem shipped $4.2 billion in profits from its California operations to its Indianapolis-based parent company while it was pursuing double-digit premium hikes.[26] Similar premium patterns have emerged across the country. According to a survey of state insurance departments by the Center for American Progress, double-digit rate hikes have been implemented or are pending in at least 11 of the 14 states where WellPoint operates Blue Cross-Blue Shield subsidiaries.[27] Those states are California, Colorado, Connecticut, Georgia, Indiana, Maine, Nevada, New Hampshire, New York, Virginia, and Wisconsin.

WellPoint Chief Executive Officer Angela Braly appeared before the U.S. House Subcommittee on Oversight and Investigations on Feb. 24, 2010, to defend the California premium increases. In her testimony, she attributed the increases to rising medical costs. Braly also made the traditional claim that hospitals charge private insurers more to make up for lower Medicare rates. Such assertions fit her industry's self-portrait as powerless to control hospital rates, despite the fact that collectively the large insurers have far more market clout than Medicare. WellPoint alone—with 30.7 million members—has nearly as much market clout as the public Medicare plan.

The non-partisan Medicare Payment Advisory Commission (MedPAC) refuted the industry's claims of an insidious "cost-shift" from Medicare to private payers, and government data on private insurance industry spending on health care fails to support Braly's argument. First, MedPAC rejected the "cost-shift" narrative last year, concluding that a hospital's relative market strength—not Medicare's payment schedule—determines what rates private insurers end up paying a hospital.[28] Hospitals with the greatest resources are less aggressive about containing costs and therefore have the highest Medicare 'losses' (the difference between Medicare rates and a hospital's average

FIGURE 2

Cumulative Growth Rates of Health Insurance Premiums Compared with Inflation, Wages and Private Insurers' Spending on Benefits, 2000–2008



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costs). If Medicare were to increase payment rates, hospitals with large market power and lower Medicare margins would be unlikely to voluntarily cut prices charged to insurers and reduce hospital revenue. Instead, the hospitals might spend some or all of that revenue, pushing costs higher still. The conclusions of MedPAC, the nation's pre-eminent panel of independent health economists, are more persuasive than the arguments of self-interested big wheels in the $800 billion-a-year health insurance industry. Second, government data indicate that the growth in private insurers' spending on health benefits falls well short of the growth in premiums (Figures 1 and 2).

Moreover, it should be remembered that little competition exists among the leading insurers, which dominate their local markets. The American Medical Association recently released new data showing that the concentration of health insurance market power continues to intensify.[29] Of 313 metropolitan areas studied by the AMA, 99 percent now have health insurance markets that exceed Justice Department competition guidelines, up from 94 percent a year ago. At least one insurer had a market share of 50 percent or greater in 54 percent of metropolitan areas, compared with 40 percent of markets the year before. In a rare display of bipartisanship, the House voted 406-19 on Feb. 24, 2010, to revoke the industry's 65-year-old exemption from antitrust regulation. If the Senate follows suit and the antitrust exemption is repealed, federal officials can finally investigate this trend and intercede where appropriate.

But more needs to be done. Unless Congress passes comprehensive national health care reform that constrains the ability of insurers to continually raise premiums as much as they want, the insurers will continue to put the short-term interests of Wall Street before the needs of millions of patients. Congress must rein in health insurers, increase their accountability and force them to offer greater—not less—value for the premium dollar. The alternative is unabated insurance industry consolidation, lower medical loss ratios, greater out-of-pocket costs for the insured, and a larger share of premiums going to overhead and profits for health plans. Congress needs to change this trajectory and protect American families and the American economy.

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