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Health Care for America Now is a national grassroots coalition of more than 1,000 organizations in 46 states representing 30 million people. HCAN spent \$51 million over the past two years in the fight to win passage of health reform and to keep Congress from being steamrolled by corporate special interests.

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THE INSURANCE INDUSTRY USED every tool at its disposal in its unsuccessful bid to defeat the historic Patient Protection and Affordable Care Act, which was signed into law by President Barack Obama on March 23, 2010. The health insurers laundered millions of dollars through front groups¹ and deployed an army of lobbyists² to pressure members of Congress to oppose any law that would interfere with their ability to continue imposing excessive premium increases and denying consumers needed care. America's Health Insurance Plans (AHIP), the industry trade group devoted to preserving its members' profits, used scare tactics to make its case. For example, in October 2009, on the eve of a key vote in the Senate Finance Committee, AHIP warned that insurance premiums would soar if the health care legislation passed.³ Their threat was rejected by policy experts as a transparent effort to blame planned rate increases on Congress.⁴ AHIP's claims set off a political firestorm, damaging the industry's standing in Congress because it relied on a data presentation so dishonest that the consultants who prepared it promptly distanced themselves from the findings.⁵ Undaunted by the reaction to the report, the Blue Cross and Blue Shield Association a few days later released a report echoing the AHIP fear mongering.⁶

The insurance industry soon imposed double-digit premium increases on customers in the individual and small-group markets nationwide. These premiums were filed with state regulators well before legislation was enacted in March 2010 and long before anyone knew whether reform would pass and what it would require, making it appear that the health insurers always planned to

gouge the public and blame it on reform. While the legislative debate was still raging, leading health insurance companies pursued rate hikes in state after state: as much as 39 percent in California; 60 percent in Illinois; 72 percent in Georgia; 21 percent in Indiana; 50 percent in New Jersey; 29 percent in New York; 40 percent in Virginia; and so on. This is part of a long-term pattern of behavior by an industry whose roots in nonprofit public service are being abandoned as it consolidates into a for-profit juggernaut. The anti-consumer behavior of nonprofit insurers is often indistinguishable from that of companies owned by Wall Street investors. Insurers of both types have built monopoly power in nearly every market,⁷ and they have been unwilling to restrain growth in medical costs.⁸ They have a long history of abusing the public, denying needed patient care and providing dubious explanations for their pricing actions.⁹

Insurers typically lock in their rates in the fall of each year, but the health reform debate had not concluded by then. Yet insurers are trying to claim that the rate hikes are associated with the Patient Protection and Affordable Care Act rather than their own greed. Despite numerous investigations of unjustified rate increases that have exposed the truth, health insurers and their allies continue to blame higher premiums on the new health care law. A few samples:

- AHIP Chief Executive Karen Ignagni: "This legislation will exacerbate the healthcare costs crisis facing many working families and small businesses."¹⁰

- Blue Cross-Blue Shield of Arizona: “There are many worrisome provisions in the bill that will increase the costs of health care for many people.”¹¹
- John Price, president of Aetna Inc.’s Georgia subsidiary: Health reform “changes could drive up individual insurance rates.”¹²
- Senator Lamar Alexander of Tennessee: “For millions of Americans, premiums will go up.”¹³
- Nancy Pfothner, Republican strategist and an adviser to John McCain’s presidential campaign: The president’s health care proposals will cause “most Americans to have their premiums increased, not decreased, and hundreds of millions of people to lose their current insurance coverage.”

Pfothner’s comment during a national television interview was so wrong that it was singled out by the St. Petersburg Times’ Pulitzer Prize-winning PolitiFact.com: “These are Republican talking points that have repeatedly been proven false, but they keep coming back. Pfothner’s statement is not just false, it’s ridiculously so. Pants on Fire!”¹⁴

Here are the facts: The Congressional Budget Office (CBO) estimated that premiums in the large-group and small-group markets will not increase because of the new law.¹⁵ CBO also estimated that premiums paid by a majority of people insured on the individual market would decrease when factoring in federal subsidies that are included in the law.¹⁶ Even PricewaterhouseCoopers, a regular consultant to AHIP and health insurance companies, now says reform is likely to slow the growth in medical costs and simplify the intimidating process by which consumers choose health plans. “Health reform delivers only a minor impact on the underlying medical cost trends in 2011 and introduces hundreds of changes in the healthcare system designed to reduce costs and improve efficiencies in the long-term,” said Kelly A. Barnes, U.S. health industries leader at PricewaterhouseCoopers. “These changes could bring significant new cost savings opportunities for

employers and payers as well as new choices and transparency for workers buying insurance.”¹⁷

Yet the nation’s health plans have not given up hope that they can blunt the impact of the new law and preserve the profitable status quo. The \$800 billion-a-year industry will not voluntarily give up its legendary price-gouging, abusive treatment of consumers and anti-competitive practices. Health insurance companies have for decades been exempt from federal antitrust regulation and most other forms of federal oversight. The new health care law is the country’s first significant attempt to rein in out-of-control health insurance premiums. Federal regulators are working quickly to create regulations to ensure that the nation’s most important social legislation since Medicare and Medicaid achieves its promise of quality, affordable health care for America’s families and businesses.¹⁸

Insurance Rates, Profits Skyrocketed— Before the Bill Passed

The first quarter of 2010, which ended one week after the health care law passed, demonstrates that the industry’s surging profit growth is not slowing down. The five largest for-profit health insurance companies, cashing in on their usual double-digit rate hikes, recorded huge profit gains in the first three months of 2010 compared with a year earlier. WellPoint Inc., UnitedHealth Group Inc., Aetna Inc., Humana Inc. and CIGNA Corp. reported combined net income of \$3.2 billion, a 31 percent leap from the same period in 2009.¹⁹ Premiums grew faster than medical costs, while most insurers lowered the share of premium dollars spent on actual health services.²⁰ The five insurers together set a full-year profit record in 2009 despite the worst economic downturn since the Great Depression.

Wall Street analysts marveled at the first quarter of 2010. Consumers, on the other hand, had nothing to celebrate. In the first quarter WellPoint, the nation’s largest health insurer, rang up impressive profits with hefty rate hikes imposed in Colorado, Connecticut, Georgia, Indiana, Maine, Nevada, New Hampshire, New York, Virginia, Wisconsin, and other states.²¹ In a tough economy, families

First Quarter Shows Big Insurance on Pace to Break Profit Records Again in 2010

| | First Quarter 2009 Profit (in millions) | First Quarter 2010 Profit (in millions) | First Quarter 2009-2010 Year-Over-Year Change in Profit (in millions) | Percentage Increase in First Quarter Net Income, 2009-2010 | First Quarter 2009 Earnings Per Share | First Quarter 2010 Earnings Per Share | First Quarter 2009-2010 Year-Over-Year Percentage Change in Earnings Per Share |
|--------------|---|---|---|--|---------------------------------------|---------------------------------------|--|
| WellPoint | \$580.4 | \$876.8 | \$296.4 | 51% | \$1.16 | \$1.96 | 69% |
| Humana | \$205.7 | \$258.8 | \$53.1 | 26% | \$1.22 | \$1.52 | 25% |
| Aetna | \$437.8 | \$562.6 | \$124.8 | 29% | \$0.95 | \$1.28 | 35% |
| UnitedHealth | \$984.0 | \$1,191.0 | \$207.0 | 21% | \$0.81 | \$1.03 | 27% |
| Cigna | \$208.0 | \$283.0 | \$75.0 | 36% | \$0.76 | \$1.02 | 34% |
| Total | \$2,415.9 | \$3,172.2 | \$756.3 | 31% | | | |

Source: Corporate earnings reports

Big Insurance Broke Records With 2009 Profits

| | Full Year 2008 Profit (in millions) | Full Year 2009 Profit (in millions) | Full Year 2008-2009 Change in Profit | 2008-2009 Change in Profit | 2008 Earnings Per Share | 2009 Earnings Per Share | 2009-2010 Year-Over-Year Percentage Change in Earnings Per Share |
|--------------|-------------------------------------|-------------------------------------|--------------------------------------|----------------------------|-------------------------|-------------------------|--|
| WellPoint | \$2,491 | \$4,746 | \$2,255 | 91% | \$4.76 | \$9.88 | 108% |
| Humana | \$647 | \$1,040 | \$393 | 61% | \$1.03 | \$1.48 | 44% |
| Aetna | \$1,384 | \$1,277 | \$(107) | -8% | \$2.83 | \$2.84 | 0.4% |
| UnitedHealth | \$2,977 | \$3,822 | \$845 | 28% | \$2.40 | \$3.24 | 35% |
| Cigna | \$292 | \$1,302 | \$1,010 | 346% | \$1.05 | \$4.73 | 350% |
| Total | \$7,791 | \$12,187 | \$4,396 | 56% | | | |

Source: U.S. Securities and Exchange Commission Filings

Coverage of Americans in Employer-Sponsored, Individual Plans Declined as Profits Rose*

| | Medical Enrollment in Employer-Sponsored and Individual Health Plans on Dec. 31, 2008 (in thousands of members) | Medical Enrollment in Employer-Sponsored and Individual Health Plans on March 31, 2010 (in thousands of members) | Change in Medical Enrollment in Employer-Sponsored and Individual Health Plans from 12-31-08 to 3-31-10 (in thousands of members) | % Change in Medical Enrollment in Employer-Sponsored and Individual Health Plans, 12-31-08 to 3-31-10 |
|--------------|---|--|---|---|
| WellPoint | 30,360 | 29,391 | (969) | -3.2% |
| Humana | 3,601 | 3,298 | (303) | -8.4% |
| Aetna | 16,488 | 17,176 | 688 | 4.2% |
| UnitedHealth | 26,345 | 24,520 | (1,825) | -6.9% |
| Cigna | 11,644 | 11,208 | (436) | -3.7% |
| Total | 88,438 | 85,593 | (2,845) | -3.2% |

*Enrollment figures include only commercial medical care plans and exclude vision, dental, specialty, Medicaid, Medicare supplemental, Medicare Advantage and Medicare prescription drug plans.

Source: Company earnings reports

Medical Loss Ratios Decreased at Most Insurers

| | 2008 Consolidated Medical Loss Ratio | 2009 Consolidated Medical Loss Ratio | Full Year Change in Consolidated Medical Loss Ratio (in % Points) | First Quarter 2009 Medical Loss Ratio | First Quarter 2010 Medical Loss Ratio | First Quarter Year-Over-Year Change in Medical Loss Ratio (in % Points) | First Quarter Medical Loss Ratio Type |
|--------------|--------------------------------------|--------------------------------------|---|---------------------------------------|---------------------------------------|---|---------------------------------------|
| WellPoint | 83.6% | 82.6% | -1.0% | 82.5% | 81.8% | -0.7% | Consolidated |
| UnitedHealth | 82.0% | 82.3% | 0.3% | 82.4% | 81.3% | -1.1% | Consolidated |
| Humana | 84.5% | 82.8% | -1.7% | 74.7% | 74.1% | -0.6% | Commercial Only |
| Cigna | 81.6% | 81.2% | -0.4% | 81.4% | 84.9% | 3.5%* | Consolidated |
| Aetna | 81.5% | 85.2% | 3.7% | 81.7% | 81.1% | -0.6% | Commercial Only |

*Includes tripling of enrollment in Medicare Advantage, which has a higher medical loss ratio than commercial plans.

Source: Company earnings reports

and employers can't afford to keep paying these exorbitant premiums. From Dec. 31, 2008, to March 31, 2010, the combined commercial enrollment of the five companies fell by a staggering 2.8 million Americans. While 86 million consumers still receive commercial health benefits from the five insurers, many millions of them were saddled with higher premiums and out-of-pocket costs.²²

Health insurance executives and their shareholders are benefiting from membership reductions and benefit cuts in employer-sponsored health plans, or "buy-downs," as they are known in the industry. On April 20, UnitedHealth CEO Stephen Hemsley (total compensation in 2009: \$102 million²³) used insurance-industry code to tell Wall Street the good news about this trend:

Consumer-value products featuring consumer responsibility and accountability designs have grown 80 percent year-over-year to 600,000 people. Our leaner benefit offerings that feature variations in network designs, such as premium-designated network incentives, grew more than 30 percent to 900,000 people.²⁴

Translation: A lot of people needing health care can't afford anything other than our lower-priced health plans, and they will have to pay dearly out of their own pockets to see a doctor or fill a prescription. But these plans are profitable and they are spreading like wildfire.

The health insurance industry argues that rising medical costs are to blame for runaway premiums, but it's clear that they are constantly looking for excuses to raise rates and expand their cash flows. As UnitedHealth said in a formal statement to its investors and analysts, "We run our businesses to produce cash."²⁵ The industry's latest campaign against the new law continues its effort to preserve the status quo and expand profits on the backs of average Americans. Premium hikes have surpassed the growth of medical costs, wages and overall inflation (Figures 1 and 2). From 2000 to 2008, premiums for families enrolled in employer-sponsored health plans increased 97 percent, while rates for individuals in workplace health plans climbed 90 percent.²⁶ During that same period, private insurers' payments to health care providers

rose only 72 percent,²⁷ medical inflation increased 39 percent,²⁸ wages grew 29 percent²⁹ and overall inflation climbed 21 percent.³⁰ Health insurers are basing increases on something other than medical inflation, wages or general inflation.

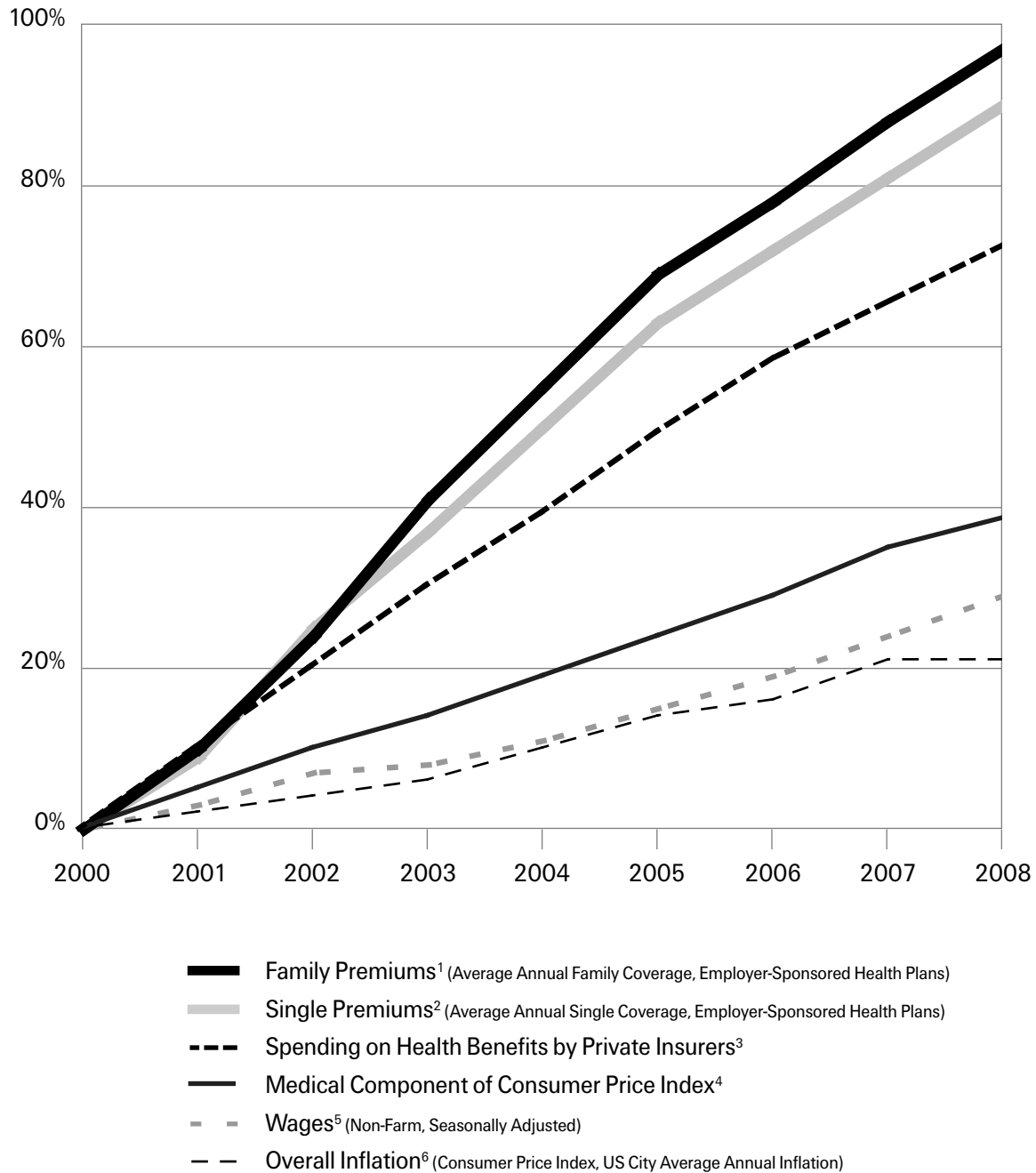
Share of Premiums Spent on Care Declined

While premiums have been rising faster than inflation, insurers have decreased the portion of premium dollars spent on actual health care services. This is measured by a closely watched indicator known on Wall Street as the medical loss ratio (MLR), and it has been falling as the share devoted to profits, executive pay, marketing, administration, denial of claims and exclusion of sick people has climbed. In 1993, the leading health insurers used about 95 cents of every premium dollar on health care.³¹ After years of mergers and acquisitions that put much of the U.S. population under the control of a handful of insurers whose shares are traded on Wall Street, that indicator dropped. Investor-owned health insurers have cut spending on actual medical care to around 81 percent.³² For the five largest health insurers, the difference between 81 and 95 percent of premiums in 2009 would equal about \$25 billion.³³

Health insurance companies are adept at manipulating the public to generate more profit for themselves. There have been a few instances where they have been caught in compromising situations. The insurers paid huge sums last year to settle charges by the New York Attorney General that they manipulated claims data on a systematic, industry-wide basis for years, resulting in under-payments to doctors, hospitals and consumers for out-of-network care.³⁴ In early 2007, WellPoint announced it would spend \$30 million over a three-year period on initiatives to help the uninsured, but by the end of 2009 the company had spent no more than \$6.2 million on such projects. Former WellPoint executives said the company quietly abandoned the entire program. The insurer asserted that it spent all of the money as promised, but it would not provide substantiation to the Los Angeles Times.³⁵ Health plans have systematically dumped patients, including women diagnosed with breast cancer, after they became ill and began filing expensive claims.³⁶

FIGURE 1

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



¹The 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>.

²The 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>.

³U.S. Department of Health and Human Services, "Personal Health Care Expenditures Aggregate, Per Capita Amounts, and Percent Distribution, by Source of Funds: Selected Calendar Years 1960–2008." Accessed at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>; The State Health Access Data Assistance Center, "Health Insurance Coverage Estimates, CPS (SHADAC-enhanced), 0-64 Years, All Poverty Levels, United States: Calendar Year 2000," 2000-2009. Accessed at <http://www.shadac.org/datacenter/tables/tables/id/aedee76f-1b1f-405fb0eb-ecdb2c7d4336>.

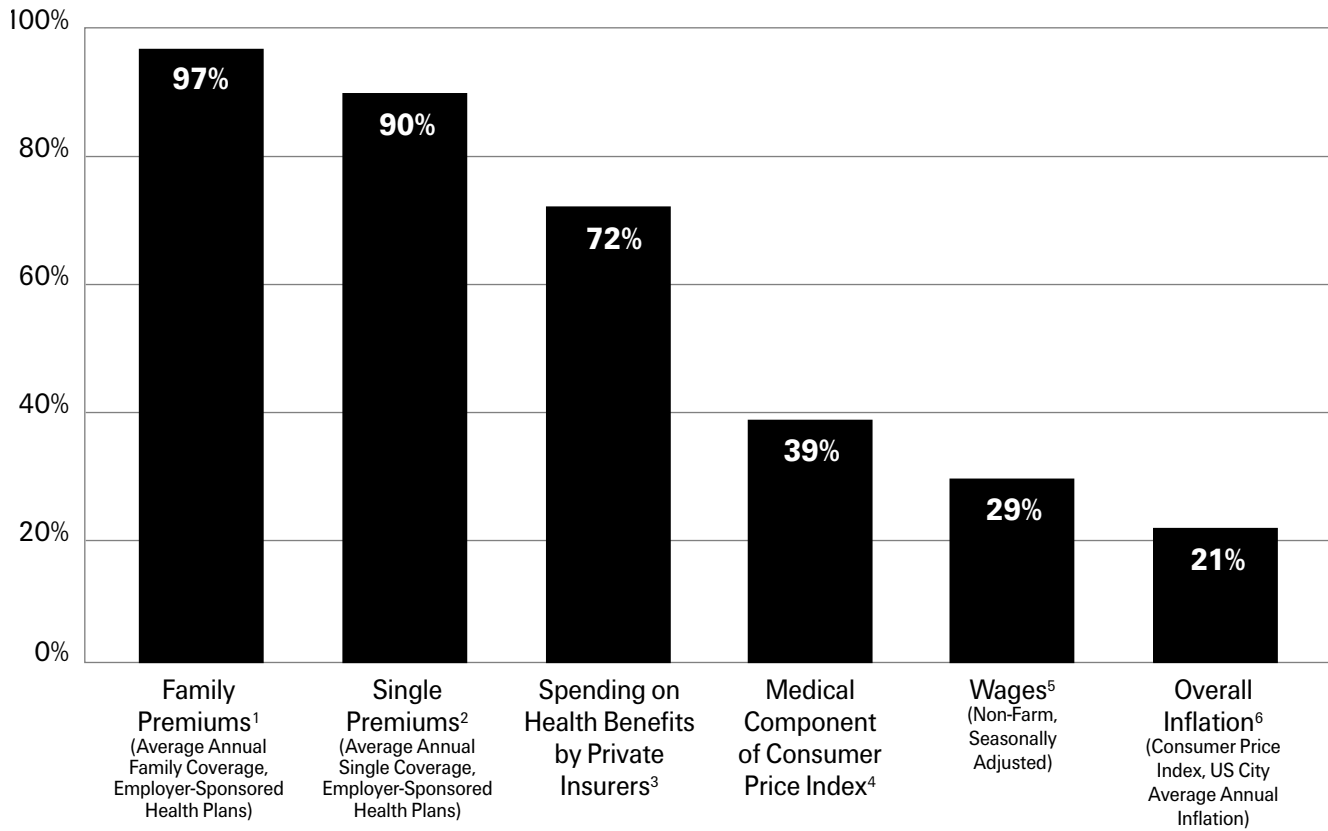
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FIGURE 2

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



¹The 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>.

²The 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>.

³U.S. Department of Health and Human Services, "Personal Health Care Expenditures Aggregate, Per Capita Amounts, and Percent Distribution, by Source of Funds: Selected Calendar Years 1960–2008." Accessed at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>; The State Health Access Data Assistance Center, "Health Insurance Coverage Estimates, CPS (SHADAC-enhanced), 0-64 Years, All Poverty Levels, United States: Calendar Year 2000," 2000-2009. Accessed at <http://www.shadac.org/datacenter/tables/tables/id/aedee76f-1b1f-405f-b0eb-ecdb2c7d4336>.

⁴U.S. Bureau of Labor Statistics, EconStats, "CPI (SA) Yearly Data." Accessed at <http://www.econstats.com/bls/blsnea9.htm>.

⁵Bureau of Labor Statistics, The National Compensation Survey, July 31, 2009. Accessed at <ftp://ftp.bls.gov/pub/suppl/empstcompbes.txt>.

⁶U.S. Bureau of Labor Statistics, EconStats, "CPI (SA) Yearly Data." Accessed at <http://www.econstats.com/bls/blsnea9.htm>.

There are many other examples of the industry's broken faith with consumers and their own communities,³⁷ and they include non-profit insurers as well. "One week after the nation's health insurance lobby pledged to President Obama to do what it can to constrain rising health costs, Blue Cross-Blue Shield of North Carolina is putting the finishing touches on a public message campaign aimed at killing a key plank in Obama's reform platform," the Washington Post reported in May 2009.³⁸ The company was the first insurer out of the gate to openly oppose health reform. More recently, Blue Cross-Blue Shield of North Carolina hired a firm that sends information technology work to India, a first step toward outsourcing the insurer's jobs to other countries.³⁹

New Law Delivers Market Reforms

One of the strongest recent examples of the need to curb insurance industry power was the unmasking of inaccurate evidence submitted to regulators by WellPoint to justify proposed increases in individual and family premiums for health plans. In February 2010, WellPoint's California subsidiary Anthem Blue Cross disclosed plans to raise rates up to 39 percent in the individual market, through which people buy health plans directly from the insurer rather than through an employer. The company initially said it was justified in imposing average increases of 25 percent, with some customers seeing hikes as high as 39 percent, because of rising health costs. The decision sparked a nationwide outcry. California officials delayed the hikes so they could explore whether the increases met the state's 70 percent minimum medical loss ratio. On April 28, an independent expert hired by California regulators documented "unreasonable" assumptions, miscalculations and double-counting of health costs, and said the company could not justify raising average rates more than 15 percent—a monumental difference.^{40,41}

Bad Math May Turn Up Elsewhere

It's likely that faulty numbers have been used in other states. On May 5, U.S. Health and Human Services Secretary Kathleen Sebelius urged states to review WellPoint's rates to make sure insurers aren't "using faulty assumptions and loopholes" to manipulate the system and inflict "one bad

deal after another" on consumers.⁴² In response, WellPoint said it planned to arrange for "third-party reviews" of its 2010 rates nationwide to find out how such "mistakes" could possibly happen. "We have to be sure that the processes we use and the work we produce are reliable and accurate, so they do not in any way distract from the real challenges facing us—the unrelenting increase in the cost of health care in America," said the company's CEO, Angela Braly.⁴³ On May 10, HCAN urged state officials not to allow WellPoint-arranged analyses to influence their reviews.

WellPoint has engineered dubious rate hikes in other states, and some regulators have intervened to help the public. Maine officials rejected a proposed rate hike by WellPoint's Anthem subsidiary that would have forced consumers to pay higher premiums to guarantee Anthem's profits and limit its financial risks. A Maine court upheld the decision by Mila Kofman, the state insurance superintendent, to reduce the rates.⁴⁴ In the wake of the California inaccuracies, Connecticut officials have voiced renewed skepticism about WellPoint's rate justifications and called for an immediate audit of Anthem's price hikes there.⁴⁵ Connecticut Attorney General Richard Blumenthal and Healthcare Advocate Kevin Lembo joined to seek review of a recent 16.5 percent rate increase for Anthem health plans granted by the state insurance commissioner. Insurance regulators in Ohio, Georgia and Kentucky are also reviewing Anthem rate filings to determine if rate filings were inaccurate.⁴⁶

The public does not trust the health insurance industry and its sophisticated tricks. Insurers are adept at manipulating and outgunning state regulators and have no concern about threatening the financial security of millions of Americans for whom health insurance is a matter of life and death.

After more than a century of political combat the Patient Protection and Affordable Care Act represents an historic step toward ending the insurance industry's stranglehold on our health care and defining the United States as a society in which quality, affordable health care should be placed within the reach of everyone, not kept in the private preserve of the privileged.

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