

The truth about health insurance premiums and profits

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On a recent Fox News debate about health insurance, Democratic political strategist Bob Beckel explained that, "The president needed an enemy, and the insurance companies are it."

Proving that point in a Pennsylvania stump speech, President Obama asked, "How much higher do premiums have to go before we do something about it? We can't have a system that works better for the insurance companies than it does for the American people."

On February 20, President Obama used his weekly radio show to express outrage that a fraction of Californians buying *individual* Anthem Blue Cross Blue Shield (BCBS) plans "are likely (sic) to see their rates go up anywhere from 35 to 39 percent." He used those figures to justify preempting state regulation "by ensuring that, if a rate increase is unreasonable and unjustified, health insurers must lower premiums, provide rebates, or take other actions to make premiums affordable."

There was always something peculiar about this desperate effort to demonize certain health insurers. Individual plans account for only [4 percent of the insurance market](#) ^[1]. So why do they account for 100percent of the president's fulminations about insurance premiums? Could it be because insurance premiums for the other 96percent have not been rising much?

Nonprofit BCBS plans account for a third of the private health insurance market. Michigan's nonprofit asked for 56 percent premium hike without the national media taking that Hail Mary pass too seriously. But even Obama finds it difficult to accuse nonprofits of being too profitable, so he needed to pin his enemy badge on a for-profit firm – one of [Wellpoint](#) ^[2]'s "Anthem" BCBS plans.

Anthem of California's *requested* rate increase on *individual* policies was [actually 20-35 percent](#) ^[3]. The only way it could get to 39percent would be if a policyholder insisted on a gold-plated Cadillac plan and also happened to move up into a higher age group. Besides, *requesting* a rate hike means nothing. Even Obama's radio address mentioned two requests that had been cut in half. Many are denied.

So, how many Californians have actually been faced with a 39 percent increase in their premiums? Exactly zero.

How many are really "likely" to be faced with even a 35 percent increase after state insurance regulators have their say? My forecast: Zero.

The president highlighted the "likely" increases of "35 to 39 percent" to suggest insurance companies in general were asking for huge premium increases just to boost their lavish profits. He complained that in the \$1.2 trillion health insurance industry, "the five largest insurers made record profits of over \$12 billion." But that puny sum includes WellPoint's sale of its pharmacy benefits management company NextRX to Express Scripts for \$4.7 billion last April. Adding that \$4.7 billion to WellPoint profits is like saying a family's income rose by \$1 million because they sold a million-dollar home.

University of Michigan economist [Mark Perry](#) ^[4] calculated that without the sale of NextRX, "WellPoint's profit margin would have been only 3.9 percent, the industry average profit margin would have been closer to 3percent" — \$100 per policy. Yet Obama concluded that, "The bottom line is that the status quo is good for the insurance industry and bad for America."

The media echoed the president words endlessly, and wrote as though one company's hypothetical request for increases of 35 percent-39 percent were a nationwide threat—even to those with group insurance—rather than an unique and highly unlikely request that might (if magically approved) touch a miniscule number in a hostile state for health insurers.

"It doesn't take too many 39 percent increases, like the recent one proposed in California that has garnished so much attention, to put insurance out of reach," exclaimed a *New York Times* report. That same paper's editorial added, "The recently announced plan by Anthem Blue Cross in California to raise annual premiums by 35 to 39 percent for nearly a quarter of its individual subscribers is a chilling harbinger of what is to come if reform fails." Really?

Grasping for confirmation of the 39 percent figure, some reporters cited a [Feb. 24 memo](#) ^[5]

about Wellpoint written by journalist Scott Paltrow for The Center for American Progress Action Fund. Paltrow gathered news clippings suggesting premiums are “expected to” increase by “up to” some scary number in various states. For California, however, Paltrow’s source was the president’s speech. This Action Fund is a is no “liberal think tank,” as the Wall Street Journal put it, but a 501(c)4 lobby which can participate in campaigns and elections. Founded by Bill Clinton’s former chief of staff John Podesta, it’s a propaganda arm of the Democratic Party.

A *Wall Street Journal* story about Wellpoint’s wish list for higher premiums cites the Department of Health and Human Services as its source. That means a shoddy four-page polemic at HealthReform.gov, “[Insurance Companies Prosper, Families Suffer](#)”^[6]. That pamphlet, like another from the Commonwealth Fund, cites Duke Helfand, an L.A. Times reporter who wrote on Feb. 4 that, “brokers who sell these policies say they are fielding numerous calls from customers incensed over premium increases of 30percent to 39 percent.”

So, the president’s 39 percent figure came from Duke Helfand, who heard it from insurance brokers who, in turn, said they heard it from customers. The 39 percent figure referred to one person named Mary. After rounding Helfand’s 30 percent up to 35 percent, however, that was good enough for the president’s purposes.

Like Obama, the “Insurance Companies Prosper” pamphlet repeatedly confuses asking with getting. “Anthem Blue Cross isn’t alone in insisting on premium hikes,” it says; “Anthem of Connecticut requested an increase of 24 percent last year, which was rejected by the state.” So what? If you went to your boss and insisted on a 24 percent raise, would that constitute proof that wages are rising too fast?

If Obama has been reduced to basing the [redistribution of health care](#)^[7] on the cost of health insurance premiums, he will need much better facts. Fortunately, credible statistics on health insurance premiums are readily available from the [Centers for Medicare and Medicaid Services](#)^[8] (CMS) and Bureau of Labor Statistics.

CMS statistics (Table 12) reveal that the *net cost* of private health insurance – premiums minus benefits – *fell* by 2.8percent in 2008. Furthermore, CMS Health Spending Projections predict that spending on private health insurance will rise 2.5percent in 2010, while prices of medical goods and services rise by 2.8percent.

Consumers’ cost of health premiums is also part of the detailed consumer price index. After all the overheated rhetoric about “requested” or “expected” increases of “up to” 39 percent, who would have imagined that the average consumer cost of health insurance premiums fell by 3.5 percent in 2008 and fell by another [3.2 percent](#)^[9] in 2009?

The president’s health insurance proposals hoped to use stern command-and-control techniques to run the health insurance system. It was all about minimizing free choice and maximizing brute force—forcing people to buy certain kinds of politically-designed insurance, forcing insurers to cover services many consumers do not want to pay for, and forcing insurers to curb or roll back premiums even as medical costs go up. The whole shaky apparatus was built upon even shakier statistics—including the purely hypothetical 39 percent increase in premiums that Mary’s insurance agent reported to Duke Helfand.

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URLs in this post:

[1] 4 percent of the insurance market:

http://www.meps.ahrq.gov/mepsweb/data_files/publications/st267/stat267.shtml

[2] Wellpoint:

http://www.wellpoint.com/pdf/TestimonypresentedbeforetheCommitteeonEnergyandCommerce_02242010.pdf

[3] actually 20-35 percent: <http://www.wellpoint.com/pdf/SebeliusLetter02112010.pdf>

[4] Mark Perry: <http://mjperry.blogspot.com/2010/02/health-insurance-companies-rank-88-by.html>

[5] Feb. 24 memo:

<http://www.americanprogressaction.org/issues/2010/02/pdf/wellpoint.pdf>

[6] Insurance Companies Prosper, Families Suffer:

<http://www.healthreform.gov/reports/insuranceprospers/insuranceprofits.pdf>

[7] redistribution of health care: http://www.cato.org/pub_display.php?pub_id=10623

[8] Centers for Medicare and Medicaid Services:

<http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

[9] 3.2 percent: <http://www.bls.gov/cpi/cpid09av.pdf>

[10] Income and Wealth: http://www.amazon.com/Income-Wealth-Greenwood-Business-Economics/dp/0313336881/ref=sr_1_1?ie=UTF8&s=books&qid=1268342150&sr=8-1

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