

California Health Care Debunking the Myths and Outlining the Facts

It's a fact, the cost of medical care continues to rise unabated. Here are some FACTS that you can equip yourself with as you read about the proposed solutions to this public dilemma.

Cost Facts



National health care costs continue to rise at a rate in excess of inflation. From 1990 to 2003 they grew at a rate of 5.8% and as of that year consumed \$5,670 per person in America. This year they are projected to reach \$6,423 per person! Kaiser reports that 1% of its patients represent over 70% of its total medical care costs!

The 86%-14% Rule

The standard 80%-20% rule in life is, in the health insurance industry, the 86%-14% rule! Industry wide, the fulcrum of the medical care costs to consumer ratio is in the neighborhood of 86:14. That is, 86% of overall medical costs are generated by a mere 14% of the public. Said another way, the vast majority (86%) only account for 14% of the medical care costs. This makes it difficult to address "global needs" against a backdrop of unique isolated needs.

Average Costs

The idea of *averages* in health care consumption is a difficult concept. Following are the average annual health care costs for the 86% . . . and the 14% from one large employer pool:

- ✓ Average annual health care cost of the healthy population (the 86%) = **\$879**
- ✓ Average annual health care cost of the sick/injured population (the 14%) = **\$33,171**

The Real Problem with Cost Containment . . . "Not When It's My Grandma!"

In the abstract, the concept of cost containment is easily embraceable. However the reality is that health care is NOT abstract. The reality is when it comes to providing healthcare for real loved ones, cost containment is simply not a priority!



Uninsured ≠ Uncared For!

While the uninsured population is a serious economic issue, the fact is few uninsureds are turned away from needed medical care. Hospitals statewide will cite significant cost write-offs for care of the uninsured; many exceeding 15% of the hospital's operating budget! All insured persons currently already pay a "premium" to care for the uninsured . . . it's like uninsured motorist coverage, only the cost is not explicit in healthcare policies.

The greater issues involve the socioeconomic barriers that limit use of available care under the existing systems that already cover the majority of at-risk low-income citizens.

Aren't the Carriers Making Excessive Profits and Gouging the Public?

As noted in the 2004 California HCF Survey, the top 7 State HMOs had gross profit margins that averaged 2.02%; the same study showed ALL HMOs averaging net income after taxes of a mere 1.6%! They also have an average of only 1.06 months of premium reserves! No reasonable person would consider this excessive, no matter what the type of business. (2002 data)



The increasing cost of Health Insurance is a direct result of the cost of medical care. In fact, unlike the actual cost of care, on a percentage basis, the administration component of the insurance delivery "cost" has not increased appreciably during the past two decades. In fact, if carriers are making so much money (as some will purport), why have so many of them left the health insurance market over the past decade? Do you remember these former prominent medical insurance carriers: Prudential, Metropolitan, Travelers, New England Life, Lincoln National, and New York Life? The California medical insurance market has fewer than a dozen carriers with insured populations of 250,000 or more!

My Insurance Premiums Keep Going Up!

Health insurance premiums don't just go up randomly! Health insurance premiums go up *in response* to the fact that the rate and frequency of consumers using health care and the underlying cost of providing that health care are increasing. Premiums only increase to the extent that the costs of paying health care professionals for the actual care provided is increasing first.



Is it true that Government Run Health Systems Deliver Lower Priced Care?

The state and federal governments have few examples of hands on administrative efficiency in actual health care plans. In fact, Medicare, and CalPERS, three examples of often quoted "government efficiency" ALL use the private sector to deliver their health care plans! The low cost administration is borne on the backs of existing claims and administration structures in the private sector! These facilities would not exist for the government plans without the private sector and the systems that are already in place to serve the remainder of the public.

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Won't the new Association Health Plan Concept Save Money?

Association Health Plans (AHP) incorporate a concept that lowers cost by two methods. First, they escape all state coverage and care mandates. Second, they also escape appropriate state government oversight. The unsavory history of MEWAs shows that AHPs are bad business for all consumers!

The state of Arkansas has allowed carriers to introduce a plan taking the good elements of AHPs yet not forsaking appropriate regulation. They allow carriers to offer fully insured plans that ARE NOT subject to state coverage and care mandates. These plans offer pricing reductions that approach 20%, yet maintain appropriate governmental regulation and oversight!

The argument that AHPs will create large pools to negotiate lower costs is easily dispelled when decision makers study the realities of other large groups, such as CalPERS and Pacific Business Group on Health. Despite their magnificent size (much larger than any hoped for AHP), both of these groups continue to struggle with the double digit increasing cost of medical care (CalPERS faced HMO cost increases of 16-18% in 2004)! Note again, the cost of care has little to do with the administrative system involved, but rather with the care that is required by the underlying plan and the population that it is covering!

Isn't a Solution Like CalPERS Good for Everyone?

Couldn't we just wrap everyone into the CalPERS plan, the nation's second largest group purchaser which covers over ONE MILLION people!? Not if the goal is competitive premiums!!!



Monthly CalPERS HMO premiums in 2006 will range from \$354 to \$385 for a single employee.

Families will range from \$920 to \$1,002. In 2006 CalPERS PPO premiums will range from \$400 to \$673 for a single employee. Families will range from \$1,041 to \$1,751. And these plans provide benefits that are not as rich as many private employer plans, most of which are offered at a substantially lower cost!

But how is it possible that the largest group would have a higher cost? Such a question illustrates the typical ignorance of the simple fact that medical claims ultimately drive the costs of all plans; there simply is no silver bullet until we are able to control the cost of medical care!

Are the Proclamations that Administration Costs are Approaching 1/3 of Health Care Costs True?



This area is argumentative at best as the delivery of any product or service typically involves a potentially large administrative component. The inference that the average insurance administration cost is anywhere near thirty percent is absurd. While some smaller medical plans do generate higher administration fees, we can refer to the recent California Healthcare Foundation survey to discover the realities. Their latest 2004 publication shows the facts: the administrative expense of the top seven HMOs (those representing the bulk of the market) averaged 10.6% of total revenue. This INCLUDES the cost of compensation, marketing, general office overhead, and corporate profit.

Important State Tax Revenue

Every dollar of medical insurance premium includes a state income tax component that sends 2.35% of the premium to the California State general fund. Many administrative figures that are quoted rarely recognize that this 2.35% is included in the insurance cost component. It is interesting to note that this 2.35% exceeds the net profit of most vendors in the health insurance sector! Thus making the government one of the biggest revenue beneficiaries in the escalating cost of medical care delivery!



Sources:

Information contained herein is a summary of data retrieved from publications of The Kaiser Family Foundation and Health Research and Educational Trust; The California HealthCare Foundation; Centers for Medicare and Medicaid Services, Office of the Actuary; CalPERS; Vita Insurance Associates, Inc. actual client claims experience.

This outline of health care facts is brought to you by the National Association of Insurance and Financial Advisors (NAIFA-California). Members of NAIFA-California work with individuals and employers every day to find health insurance solutions for businesses and families. The realities reported in this summary reflect the collective wisdom, experience, and observations of people who are "in the field" everyday finding solutions for individuals and employers who need health care.



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