

## HEALTH INSURANCE PROFITS (AND OTHER INSURANCE STUFF)

Stephen L. Bakke – December 8, 2009

I have had several questions posed to me about new arguments and issues which are surfacing as the debate continues in the House and Senate. In this and future reports I will attempt to address several of those while trying not to make too many redundant opinions or comments which I have presented in earlier reports.

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### Health Insurance Companies

Health insurance companies have received the brunt of tough language as the health care debate as developed and now starting a dramatic crescendo. We've heard words like "greedy", "criminal profit levels", "dishonest", "immoral", "letting the bodies pile up", and worse. As in any demagogic movement, there must be an evil culprit for the masses to rally against – and the democrats in Washington have chosen the insurance industry.

The health insurance industry is deserving of their share of criticism. And there have been instances, mostly isolated, of top executive compensation being way out of line. I have had issues with health insurers over the years but I try to remember that no system eliminates all errors, bad experiences, and poor outcomes.

I agree that more competition is needed, and as I've written previously, that can be accomplished by permitting competition across state lines. A public option is not even in the mix as a possible provider of competition because it will eventually eliminate competition. I agree we need to fix the problems with "pre-existing conditions", but this can be done with a few regulations – 110 (or whatever) new bureaucracies aren't needed.

### Changing Debate

Health *care* reform started as a project for saving money and insuring more individuals. It has developed into health *insurance* transformation and reform. The proposals in both houses of congress are over 2000 pages of incomprehensible and vague legalese. The proposals set up many dozens of new federal bureaucracies – hence job creation can be claimed. It has developed into a huge power grab in which we move a long way toward government managed health care. It's sad and very unfortunate.

### Just the Facts Please

So, as we listen to this debate and try to draw our own conclusions on whatever develops, I want to provide some facts about the insurance industry. In setting this up, I quote Harry "the Reed": "...they make more money than any other business in America today."

- FOXNews.com reminded us that the largest insurer in virtually every state is a nonprofit – generally not guilty of the compensation abuses which have occurred.

Blue Cross and Blue Shield is a prime example of these nonprofits. Each of these units is independent within each state – not one large national nonprofit.

- About 55% of insured employees receive coverage through their employer’s “self-insured” plan. What implications does this have in predicting wholesale movement into a public option? Guess! These employer plans will disappear in favor of the subsidized public option. In the state of Alabama the percentage insured by one company is 36%, not 90% as cited by Obama in a recent speech. Obama’s error was caused by his staff by not including the self insured in the denominator. This discovery (and a couple others in this report) was by Michael Arnold Glueck who writes “The Medicine Man” syndicated column.
- From DownsizeDC.com: Health plans are the 86<sup>th</sup> most profitable industry with a profit margin of 3.3%; hospitals are 77<sup>th</sup> at 3.6%; brewers are at 25.9%; major drug manufacturers are at 16.5%. This was for a recent quarter in 2009.
- From the AP: “health insurance profit margins typically run about 6% of revenues, a return “that’s anemic compared with other forms of insurance and a broad array of industries.” The difference from the statistics in the prior item results from each source using a different year or time frame. In the case of the AP statistic, it appears to cover a span of years. In the prior item the statistic is from a recent quarter in 2009. In any case, the conclusion remains unchanged.
- On the Fortune 500 list of top industries, health insurance companies ranked 35<sup>th</sup> in profitability in 2008 – a margin which shows recent reductions – only 2.2% industry wide. According to AP, the best health care performer had an overall profit margin of 5.4% in 2008 (which is down from historical levels). The AP reporter added: “That’s a less profitable margin than was achieved by the makers of Tupperware, Clorox bleach, and Molson and Coors beers.”

## **Exorbitant Salaries**

We have all heard of examples of huge compensation levels for a few health insurers. I agree that is unfortunate and should be criticized, but if you “run the numbers” on the total industry sales and profits, and if you eliminate a “few billion” in salaries and bonuses, the resulting number will get lost in the “rounding.” The industry should be more diligent in this area, if for no other reason than public image. But going after that money won’t solve our problem of rising costs.

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I extend thanks, as always, to the many writers, commentators, researchers, and others, from all political extremes, whose hard work helps me greatly. They gather details and present much information. About all I do is gather, organize, summarize, and attempt to fill in with comments – commonly referred to as my frequent “RANTS”.

More comments will follow on important topics and personal thoughts as our President battles through tough territory. I want to join other conservatives in recognizing and respecting our new President – and supporting him when we should. But when we oppose our President’s policies, we should act in accordance with values of decency – but that doesn’t preclude a healthy dose of sarcasm and satire, which are valuable tools for political commentary.