FACT CHECK: Put health plan profits in perspective

- Ezra Klein, Washington Post:"*... it's hard to see how [health plan profit margins] are a primary driver of health-care spending, much less the growth in health-care spending."*
- Henry Aaron, Brookings Institute: *"Insurance company profits in the large picture have very little to do with the overall rising cost of health care."*
- Kaiser Health:*"With the nation's health care spending estimated at $2.5 trillion this year, even the elimination of insurers' profits and executive compensation would lower health care spending by just 0.5 percent."*

FACT CHECK CHECKED: Granted, the insurers cut is a miniscule piece of total costs. But it is still billions of dollars of non medical costs. Where are they spending them? It should be in two areas: to responsibly manage insurance and contain costs. If insurers were managing just fine, reforms would not include rule after rule after rule to rein in unsavory practices that occur now.

Cost containment has two faces: price and volume. You can control one or both. Insurers can control volume by denying claims, and here they have been successful. In the price area, they have utterly failed to contain prices from providers. But Wall Street is indifferent in how one generates earnings, only that one does. Clearly, insurers' focus is Wall Street and not Main Street.

Insurers claim they add value by negotiating discounts with providers. But by insurers' own admission, those providers simply raise their rates resulting in no actual cost reductions. Insurers are adding virtually no value, but draw compensation as if they were saving billions.

All large companies pay cost control experts to contain costs. If they fail, the experts are fired or the companies go out of business. Yet insurers exert every conceivable pressure to maintain the status quo which they admit has been a failure in containing healthcare costs.

FACT CHECK: Provider Consolidation Driving Up Costs

- *Massachusetts Attorney General issued a report that: "points to the market clout of the best-paid providers as a main driver of the state's spiraling health care costs" and "found no evidence that the higher pay was a reward for better quality work or for treating sicker patients".*
- *According to a new report in Health Affairs, Paul Ginsburg and Robert Berenson found that "providers' growing market power to negotiate higher payment rates from private insurers is the 'elephant in the room' that is rarely mentioned."*
- *According to a brief from the National Institute for Health Care Management: "With only a few exceptions, results consistently demonstrate that hospital consolidations result in higher prices for hospital services."*
- *The Federal Trade Commission and the Department of Justice noted: "Most studies of the relationship between competition and hospital prices have found that high hospital concentration is associated with increased prices, regardless of whether the hospitals are for-profit or nonprofit."*

FACT CHECK CHECKED: The above are arguments that AHIP included in their response to advocates of reform. What AHIP may not recognize is it has set forth some of the most compelling arguments for a "public option".

AHIP freely admits that insurers are powerless on their own to control provider costs. Even with anti-trust exemptions, they have failed to combine forces and confront providers. Short of a government takeover, the only long term solution is more clout. The only entity with more clout is the government itself being an insurer, which, by the way, it already is – Medicare.

Medicare doesn't so much "ask" providers what they charge. Medicare almost "tells" providers what it will pay. Republicans were so concerned with Medicare's clout that they wrote into law "prohibiting" negotiated drug discounts. But discounts will become necessary.

For many Americans, a drastically reformed healthcare system was a non-starter. The administration politically tried to blend features of the current into the proposed system to reduce upheaval to such a large part of the economy. Any change can be unsettling, and how you view it is very important. Is the glass half full or half empty? At some point, radical cost control will occur, and private insurers will not be leading the charge.

Insurers can look on government as an unreasonable competitor or they can look on government as the only insurer who finally has enough clout to contain provider costs. It may be that insurers eventually withdraw from the market for "essential medical benefits" and focus their efforts on supplemental policies that go beyond basic. If they did, they would look a lot like health insurers in Europe and other industrialized countries. Diminished compared to today but not destroyed.

