

Addressing some of the misinformation in the national health care debate

By Dan Lucas

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I am an IT worker for a nonprofit health insurer¹ who is tired of hearing highly inaccurate and highly politicized information in the national health care debate. In this article I want to take on four of the bigger myths that are clouding the national health care debate.



HCAN protesters at the Rep. Wu Town Hall in Portland, OR on Aug 11, 2009

1. **Myth: “Insurance companies care more about profits than people.”** *Not true.* The three largest health insurance companies in Oregon are nonprofit: BlueCross BlueShield, Kaiser Permanente and Providence² – there are no shareholders. Nationwide, more than 60% of health insurance companies are nonprofit.³ As an industry, even the health insurance companies that are for-profit only make an average profit of 2.2%⁴ – a far cry from the anti-insurance hyperbole that cite profits of 35%.⁵

from slide show on <http://healthcareforamericanow.org/>



2. **Myth: “The excessive salaries & bonuses that are paid to health insurance CEOs are a major factor in the cost of health insurance.”** *Not true.* If we stopped paying all health insurer CEO salaries and bonuses (*nonprofit and for-profit*), stopped paying them completely, it only would reduce the average monthly premium by about 6 cents for someone with single coverage, and about 17 cents for a family.⁶ I doubt many people would even notice that kind of reduction, let alone consider the health care problems “solved” by those reductions.

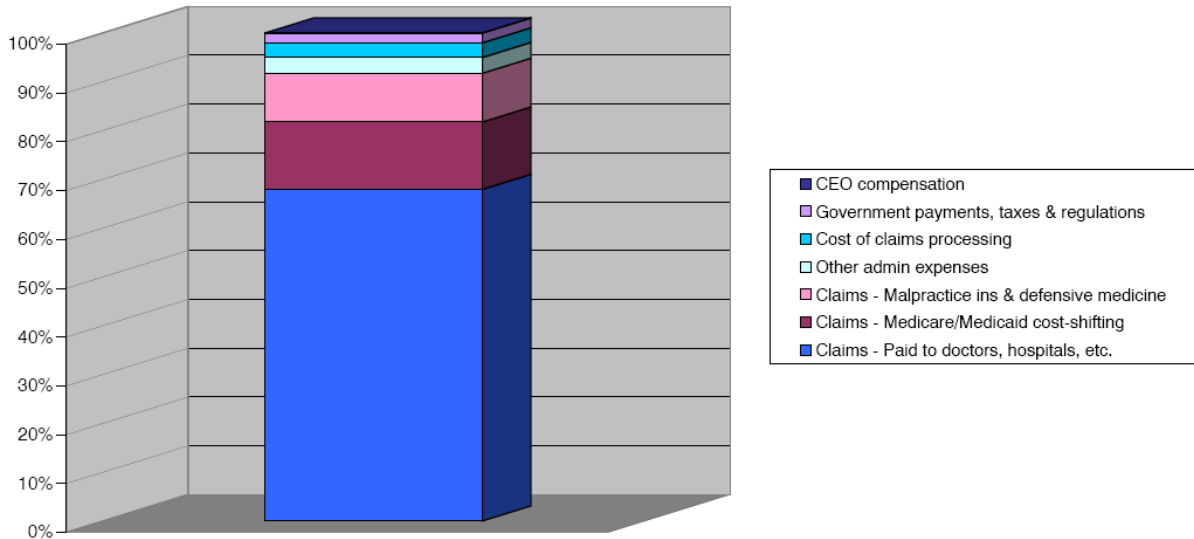
Where do your health insurance premium dollars go?	Single Coverage	Family Coverage	
	What you pay	What you pay	
AVG Monthly Premium	\$141.00	\$388.00	
Claims - Paid to doctors, clinics, hospitals, labs, pharmacies, etc.	-\$95.79	-\$262.64	67.7%
Claims - Medicare/Medicaid Cost-Shifting	-\$19.45	-\$53.34	13.7%
Claims - Cost of Malpractice Insurance & Defensive Medicine	-\$14.10	-\$38.80	10.0%
Admin - Other admin expenses (prevention, care coordination, profits, etc.)	-\$4.55	-\$13.65	3.5%
Admin - Cost of claims processing	-\$4.23	-\$11.64	3.0%
Admin - Government Payments/Taxes & Regulatory Compliance	-\$2.82	-\$7.76	2.0%
Admin - CEO compensation	-\$0.06	-\$0.17	0.0%
			99.9%

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Average monthly premiums are a combination of employer-provided insurance and insurance you buy on your own.

If you have employer-provided insurance, you probably pay less than the average shown under "What you pay" (because the employer pays for much of the premium and they are able to negotiate better rates), and you probably pay more than the average shown under "What you pay" if you buy your own.

Where do your health insurance premium dollars go?



Large salaries are a tempting target for those looking to politicize and polarize the debate; but health insurance companies need to attract and retain the best leadership they can, just like any other industry. Here in Oregon, nonprofit Providence Health Plans had 2008 revenues very close to the nonprofit University of Chicago Medical Center’s 2005 revenues – both were in the \$870M-\$895M range. Executives, other than the top two, at Providence earned between \$156K and \$272K in 2008. In 2005, now-First-Lady Michelle Obama was paid \$317K as one of 17 vice presidents at nonprofit UCMC.⁷ Top executives like Michelle Obama are paid a great deal because of their expertise, the responsibilities they have, and the vision and decisiveness that are required.



4:35 PM
Vice President Michelle Obama speed-walks down the long, empty hallway that leads to the Legal Affairs Office. She’s on her way to one of many daily meetings that will help shape the Medical Center’s community presence.

photo of First Lady Michelle Obama from the 2006 University of Chicago Medical Center - Annual Report (she was the VP for Community and External Affairs)

3. **Myth: “This is a health insurance crisis.”** *Not true.* Health insurance is not the problem; it’s the soaring cost of health care that is the problem. Nationwide, U.S. health insurance companies only spend roughly 13 cents of every dollar on administrative costs.⁸ My company, nonprofit Regence BlueCross BlueShield is even lower, at 8.3 cents of every premium dollar.⁹ The government, on the other hand, spends roughly 26 cents of every dollar on administrative costs when the government administers its own health care programs.¹⁰ That’s twice as much as private health insurance companies, and more than three times as expensive as the nonprofit health insurance company that I work for. That translates into a \$50 monthly premium increase for the average family switching to a public plan, or a \$69 monthly premium increase for the average family switching from Regence to a public plan.

Eliminating Medicare/Medicaid cost-shifting, government overhead and the costs of malpractice insurance and defensive medicine (*through tort reform*), on the other hand, would save the average individual up to \$36 a month and the average family up to \$100 a month.¹¹ The place to make the most significant impact on health care costs, though, is in reducing the actual costs of the medical care: the hospitals, doctors, pharmacies, etc., which make up 68% of the health insurance premiums you pay, or about \$263 a month for an average family.¹²

4. **Myth: “A public option is needed to keep health insurance companies honest and because the government is more efficient than private insurers at administering health care.”** *Not true.* The health insurance industry is already extremely heavily regulated (*see chart below*). If all of these government agencies and regulations aren’t working, if they are not already “keeping health insurance companies honest,” then let’s get rid of them and save taxpayers and everyone making insurance payments the unnecessary costs! Getting rid of government overhead, which includes taxes,¹³ would save the average individual about \$3 a month and the average family about \$8 a month just in premium payments.

The theme of needing even more government to “keep health insurance companies honest” came up again several times during President Obama’s September 9, 2009, address on health care to the Joint Session of Congress.¹⁴ How can anyone make a serious call for adding more government entities and regulations into the mix while at the same time inferring that all the existing government entities and regulations are failing in their mission to “keep health insurance companies honest”?

Government inefficiency in providing health care has been conceded by President Obama on more than one occasion. He conceded it when he noted that “UPS and FedEx are doing just fine,” “[i]t’s the Post Office that’s always having problems,”¹⁷ when discussing the public option. He conceded it when explaining where the money would come from to help finance coverage for the uninsured: President Obama said the savings would come from measures to “eliminate waste and inefficiency in Medicare,” which were estimated to be in the neighborhood of \$40 billion a year,¹⁸ or just under 10% of Medicare spending.¹⁹ President Obama hit on the waste and fraud in Medicare again in his September 9, 2009 address on health care to the Joint Session of Congress. He identified the waste and fraud as being in the hundreds of billions of dollars.²⁰ Most likely he was talking about a ten-year time frame, as total annual Medicare spending is \$454 billion.²¹

Finally, regarding how the public option would be paid for, the House Committees on Ways And Means, Energy and Commerce, and Education and Labor say that a public health insurance option “[i]nitially utilizes rates similar to those used in Medicare.”²² This means that the funding for the public option would further increase private health insurance rates through cost-shifting (*underpaying doctors, hospitals, clinics & pharmacies who then have to make up those costs by what they charge private health insurers*). Current Medicare and Medicaid cost-shifting costs the average family \$53 a month,²³ buried in their share of the health insurance premium. Under the guise of holding down costs, this is one of many ways a public plan would hold an unfair advantage over private health insurers. They would have the ability to literally lower rates for their own members by forcing the costs onto people with private health insurance, through cost-shifting. There is no way for there to be a level playing field when one of the teams is also the referee and sets the league rules.

There is a serious need for health care reform in our country. The problems in our current system are real, and they are they affecting real people; but a rush towards a solution that just changes who pays won’t fix the problem. We need to fix the underlying problem of health care costs. This far into the national debate, it is unfortunate to hear that the president still is operating with fundamental misunderstandings about health care issues. This statement from his September 9, 2009 address on health care to the Joint Session of Congress: “But by avoiding some of the overhead that gets eaten up at private companies by profits and excessive administrative costs and executive salaries, it could provide a good deal for consumers...”²⁴ reveals that the president is still making major policy decisions based on myths. Rather than vilifying health insurance companies or doctors, the president and lawmakers should reach out and draw on the expertise and ideas of everyone in the debate.

¹ I am the Database Operations Manager at Regence BlueCross BlueShield, a nonprofit health insurer. “Regence is incorporated as a taxable 501(m) nonprofit, a special category designated by Congress in 1987 to tax the Blue Cross and Blue Shield plans. That makes us different from competitors, who are either charitable nonprofits or for-profits. Company-wide, we paid nearly \$84 million in state and federal taxes last year.”

² From a report I got at work, titled “Health Plans Table part 2 – Q1 2009,” showing 151 health plan carriers in Oregon and their Total Lives & Market Share. I am assuming this data came from the Oregon Insurance Division.

³ More than 99% of all Americans are insured by 138 major health insurers. Of those 138 insurers, more than 60% are nonprofit. <http://www.nonprofithealthcare.org/resources/BasicFactsAndFigures-NonprofitHealthPlans9.9.08.pdf>

⁴ <http://money.cnn.com/magazines/fortune/fortune500/2009/performers/industries/profits/>

⁵ I heard this mentioned twice at the August 11, 2009 Rep. David Wu Town Hall in Portland, once outside in line (35%) and once by one of the people asking questions (30% – his question is available on the raw KGW feed, 3rd speaker on video 4: <http://www.kgw.com/video/index.html?nvid=388284>), the 35% is also mentioned in an AFL-CIO blog: <http://blog.aflcio.org/2009/03/09/health-insurance-ceos-pocket-average-142-million/>

⁶ Sources for the data in the "Where do your health insurance premium dollars go?" table and chart are contained in my separate spreadsheets: 1) **Effects of factors on avg monthly premiums.xls**, and 2) **Exec pay for health insurers.xls**, which will be provided with this article.

⁷ Ibid.

⁸ <http://www.ahip.org/content/default.aspx?docid=25123>,
<http://www.ahip.org/content/default.aspx?docid=25127>

⁹ <http://www.regence.com/industry/where-does-the-money-go.jsp>

¹⁰ <http://www.freemarkethealthcare.com/images/AdminHO.pdf>

¹¹ Sources for the data in the "Where do your health insurance premium dollars go?" table and chart are contained in my separate spreadsheets: 1) **Effects of factors on avg monthly premiums.xls**, and 2) **Exec pay for health insurers.xls**, which will be provided with this article.

¹² Ibid.

¹³ Even nonprofit "Blues" insurers pay taxes – Regence paid \$84M in taxes last year.
<http://www.regence.com/industry/regence-is-nonprofit.jsp>

¹⁴ President Obama's address on health care to the Joint Session of Congress on September 9, 2009,
http://www.huffingtonpost.com/2009/09/09/obama-health-care-speech_n_281265.html

¹⁵ www.bcbs.com/blueresources/mcrg/MCRG.pdf (pp. 8, 10, 11, 19)

¹⁶ Ibid.

¹⁷ <http://www.youtube.com/watch?v=0AIHc5ckGVo>

¹⁸ <http://prescriptions.blogs.nytimes.com/faq-health-care/>

¹⁹ http://www.heritage.org/research/healthcare/upload/wm_1344.pdf

²⁰ President Obama's address on health care to the Joint Session of Congress on September 9, 2009, http://www.huffingtonpost.com/2009/09/09/obama-health-care-speech_n_281265.html

²¹ http://www.heritage.org/research/healthcare/upload/wm_1344.pdf

²² <http://edlabor.house.gov/documents/111/pdf/publications/AAHCA-PUBLICOPTION-071409.pdf>

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²⁴ President Obama's address on health care to the Joint Session of Congress on September 9, 2009, http://www.huffingtonpost.com/2009/09/09/obama-health-care-speech_n_281265.html