

## IBD Editorials

### ObamaCare Hidden Price Controls Will Hammer Insurers

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The federal government is cranking up its effort to control health care costs by imposing backdoor price controls on health insurers, or as the Government Accountability Office euphemistically puts it, so Americans "receive value for their (health insurance) premium dollars."

A provision in the Patient Protection and Affordable Care Act referred to as the medical loss ratio (MLR) requires health insurers selling to large groups to spend 85% of their premiums on health care claims. Insurers selling to small firms and individuals must spend 80%.

That means insurers' administrative costs, including profits and sales commissions, can't exceed 15% for large company policies or 20% for policies sold to individuals or small companies. Insurers spending more must rebate to policyholders the excess.

Health insurers must inform the Department of Health and Human Services (HHS) by June of this year whether they met their MLR for 2011, the first year it is being applied.

Texas estimates that health insurers will have to rebate \$160 million. Michigan says its insurers exceeded the MLR by \$89 million. Other state tallies will be forthcoming, but HHS has estimated the total rebate for the 2011 could hit \$1.4 billion.

The goal is to make health insurers more efficient. Setting aside the irony that the federal government is trying to improve private-sector efficiency, insurers are looking for ways to lower administrative costs.

Health insurance brokers will likely take the biggest hit. A recent survey from the National Association of Insurance and Financial Advisors found that 80% of health insurance agents have had a commission cut, in many cases significant cuts. Some health insurers are dropping out of the individual market completely, while others are cutting back.

A health insurance CEO tells me that Empire Blue Cross of New York has cut its small group commissions to near zero. And Crain's New York adds that some "20,000 small groups, representing as many as 200,000 members" will lose their coverage.

So much for President Obama's claim that ObamaCare would increase competition.

Health insurers are investing in technology, such as sophisticated anti-fraud software, as a way to control admin costs. That's why Humana recently acquired Anvita Health, which specializes in health care analytics.

But fighting fraud is a two-edged sword: Anti-fraud software investment is added to admin costs. If the software successfully reduces fraud, claim spending will go down. Since the MLR is a ratio, increasing admin costs to reduce claims costs could trigger the rebate, thus penalizing an insurer for going the extra mile.

When the government gets involved, inefficiency is often more profitable. Maybe that's why one economist recently called the MLR an ad valorem tax on innovation.

Insurers are also looking for ways to improve administrative efficiency, since they process an estimated 5 billion claims annually.

In 2008 PricewaterhouseCoopers estimated there was between \$21 billion and \$210 billion of waste in claims processing. Claims that can be electronically adjudicated cost a health insurer around 85 cents to process.

Those that need personal attention can easily hit \$2.05 or more, according to America's Health Insurance Plans.

Many health insurers are able to process about 80% of their claims electronically, but some have hit 90% or more. That's a big difference when it costs two to three times more for each claim that must be handled manually.

Ed Peters, CEO of software company Open Connect, points out: "Everyone knows there are significant inefficiencies in the claims payment process. The problem has been finding them and eliminating them in a sustainable way. Fortunately, the best practice leaders are aggressively adopting analytics and automation technologies that are finding and eliminating those inefficiencies."

And there is another cost problem imposed by ObamaCare: Wisconsin Insurance Commissioner Ted Nickel says that just processing those rebate checks could cost a small fortune for companies with thousands of policyholders — and makes no economic sense if the rebate checks are small.

Mr. Obama's effort to make health insurance more efficient and affordable has become a joke in the health insurance world — and even in his own party. Recently, bipartisan legislation was introduced to remove agent commissions from MLR calculations.

It's a good start. Health insurance can be more efficient, but adopting new technologies, not putting thousands of agents out of work, is the way.

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