Consumer Watchdog and
The Center for Media and Democracy

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NEWS RELEASE

Consumer Advocates Ask for White House/HHS Probe of Health Insurers' Reduced Medical Care Spending, Even As Premiums Spike

Insurers' Actions Mirror Credit Card Companies' Interest Rate Increases Ahead of New Consumer Rights

(Washington, DC)—Consumer Watchdog and the Center for Media and Democracy today asked the Obama administration to investigate how the major for-profit health insurance companies are reducing their proportion of spending on health care in advance of health reform, even as premiums spike upward. In a letter to Health and Human Services chief Kathleen Sebelius, the groups compared insurers' actions to those of credit card companies, which spiked annual interest rates in advance of new federal regulations last year and this year to protect cardholders.

"Insurance companies appear to be making sure that when new federal rules for spending on health care kick in next year, they can keep their administrative bloat and profits intact," said Judy Dugan, research director of Consumer Watchdog.

The groups noted in the letter that insurance companies are lobbying intensely to distort new rules meant to require increased medical spending—80% of premium dollars for individual and small group policies and 85% for large group policies. The insurers seek to redefine billions of dollars in overhead and administration expenses as health care. By cutting their medical ratio now, they can make room for the redefined overhead expenses next year and meet but not exceed the 80% to 85% minimums.

Co-signer Wendell Potter of the Center for Media and Democracy said that red flags went up when Cigna, the last major insurer to report 2nd quarter results, showed a startling 6.4% drop in its medical spending ratio (also called medical loss ratio, or MLR) to 78.8%, a cut that appears unprecedented for a large insurer.

Read the full letter at
http://www.consumerwatchdog.org/resources/sebeliusletterCWDCMD081110.pdf

The letter said:

"We write jointly as advocates for consumer rights and transparency to urge you to examine health insurers' reports of reductions in their proportion of medical spending in recent quarters, even as premiums have risen substantially in advance of the new health reform law. The major insurance companies' behavior looks suspiciously like that of credit card companies, which spiked annual interest rates in advance of consumer protection laws intended to restrict the conditions under which rates could go up.

"Like the credit card companies, health insurers assume that they can get away with what amounts to bilking their customers now to set up higher profits in the future. The health insurers appear to be cutting the proportion of premium dollars spent on medical care, in the case of CIGNA by likely record proportions, in advance of regulations intended to make them spend a higher proportion on care, and less on administrative bloat.

"Unlike with credit card companies, you have the power to curb their gaming of the system. The regulations that you put in place to enforce the new health law requirement that they spend 80% to 85% of customers' premium on health care will decide whether the companies cater to Wall Street or to their patients.

"The outcome of the regulations that are now being written will depend on your resistance to a massive lobbying effort by the insurance industry.
…

"As you know, insurers already expect that changes in the [medical loss ratio] calculation specified in the Patient Protection and Affordable Care Act will allow more insurer activities to be defined as "health quality improvements" and counted as health care. At least some and possibly all of their state and federal taxes will also be deducted from premium revenue. The combined effect, depending on vagueness or laxness in final regulations, could amount to a 5% or larger insurer "bonus" in calculating the MLR.

See Consumer Watchdog comment on tax deduction regulation at
http://www.naic.org/committees_lhatf_ahwg.htm

"The result of this bonus is that it pays for an insurer to suppress MLR as much as possible now, to keep future MLR at--but not above--80% for individual and small business policies, and 85% for large groups. It is not possible for the public to accurately determine how the company's drastic reduction in MLR--which increases its value to Wall Street--was accomplished.
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"The Center for Media and Democracy and Consumer Watchdog ask that HHS demand much more detail about the nature of the MLR reductions from CIGNA and lesser reductions by other insurers, and make the results public. The examination should seek to determine if financial coercion of employers and individuals (through unaffordable and unjustifiable spikes in the rates of less profitable plans, or the targeted closure of some plans) was part of any shift to higher-deductible and lower benefit plans.

"HHS should also seek to tighten new definitions of what can be included in the medical loss ratio. The National Association of Insurance Commissioners, which is finalizing proposed regulations to decide how medical loss ratios are defined, is being lobbied by insurers and their lawyers with an intensity that makes the lobbying of Congress pale by comparison. As the proposed regulations are being finalized, they risk being further weakened. It will be up to HHS to right the balance.

"Presumably the MLR reductions at CIGNA and other companies involved what insurers call "aggressive medical management" to reduce the amount of care provided enrollees. However, it likely also involved the movement of more enrollees into plans that require greater cost sharing and provide less care, through marketing or price coercion."

Insurers and their lobbyists count on the technical detail of financial reports and regulatory actions to mask their intent, said Consumer

Watchdog and the Center for Media and Democracy.
Consumers don't notice until their premiums shoot through the roof and their health benefit are reduced. Regulators must resist corporate lobbies and act to protect ordinary citizens, the groups said.

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Consumer Watchdog and the Center for Media and Democracy are nonprofit, nonpartisan consumer advocates. For more information, see www.consumerwatchdog.org and www.prwatch.org