Americans Will Not Profit from Medical Loss Rules
By Janet Trautwein

With Sunday's historic vote, Congress seems poised to expand access to health coverage. Unfortunately, by failing to address the health care system's skyrocketing costs, the reform package could actually increase the number of Americans who are forced to go without insurance.

The bill pins most of its hopes for trimming costs on ill-defined mechanisms to eliminate "waste" from the health care system. One such mechanism would require insurance companies to spend a certain percentage of the money they collect from customers on medical claims. Called a "minimum loss ratio," this rule has already been implemented in more than 15 states.

Supporters argue that insurance companies' profits and administrative costs are responsible for the rising price tag of health care. By requiring insurers to spend a certain amount of their revenues on claims, lawmakers seem to think that they can bring down insurance costs *and* help consumers get their money's worth.

But the facts speak to the contrary. Not only do minimum medical loss ratios raise insurance prices, they also undermine the ability of insurers to provide patients with many of the benefits they've come to expect.

For starters, consider the actual data on insurers' profits. According to *Fortune* magazine, health insurers claim about 6 cents in profit for every dollar in revenue -- good enough for 35th place on the Fortune 500 list of top industries. By contrast, cigarette and beer companies make about 16 cents on every dollar of revenue they bring in the door.

Further, insurance firms' administrative costs are far lower than many critics claim. According to the Centers for Medicare and Medicaid Services, fully 88 cents out of every premium dollar goes directly to medical care. A significant portion of the remaining 12 cents covers important services that benefit patients and help decrease long-term health costs, like prevention programs and investments in health information technology.

Indeed, a great deal of research shows that administrative costs have nothing to do with rising health insurance premiums. A 2008 Rand Corporation study of California's medical loss ratios determined that "administrative costs and profits are not driving premium growth in California or nationwide." The same report found that states without loss ratios spend the exact same percentage of premium dollars on medical care as those with such controls.

Perversely, people in states with minimum loss ratios suffer from fewer insurance choices, less competition, and higher premiums than their counterparts in states without them, according to a 2006 study from PricewaterhouseCoopers.

New Jersey, for instance, maintains minimum loss rules for both individual and small-group carriers. Yet the Garden State's premiums are among the highest in the country. The average annual premium for a relatively skimpy policy for a 35-year old man is an astounding $4,460.

Extending minimum loss ratios nationwide -- as the congressional health reform effort threatens to do -- could cause health costs to spiral even further out of control. Fraud-prevention and disease-management initiatives help trim health costs in the long run but are generally classified as administrative expenses. If insurers are forced to scrap money-saving programs like these, overall health costs will grow even faster.

The simple truth is that we can't lower insurance costs until we first bring down the cost of health care. Reformers must focus their attention on money-saving initiatives that actually work -- not seductive shortcuts like minimum medical loss ratios.

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